Setanta Income Opportunities Fund

Q4 2021

Fund Description

The **Income Opportunities Fund** ('the Fund') is an actively managed portfolio primarily comprising global equities but with the flexibility to invest in assets which offer attractive income and reasonable value. These assets include fixed income, property (including REITs) and cash. The Fund is not constrained by limitations on the level of any given asset. In practice, the Fund has had its greatest weight in equities, reflecting the breadth of that market, Setanta's expertise in that area, and the option writing strategy employed by the Fund. Nevertheless, property, fixed income and cash have all played meaningful roles in past returns of the Fund, at times, comprising up to 50% of the Fund's assets. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good assets for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile. The Fund is managed by three portfolio managers, who also look to leverage off the experience and knowledge of their colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis.

The Fund employs an option writing strategy. This entails the sale of both call and put options in return for a cash premium, representing an income stream that boosts the underlying income yield of the Fund. This strategy is employed in a conservative fashion, as all options written are fully covered.

The Income Opportunities Fund has two investment objectives:

1. To generate an annual income yield at a target rate. This is declared at the start of each financial year.

2. To achieve capital appreciation over the long term.

Portfolio Managers

Richard Doyle, CFA; David Pastor, CFA; Caroline White, CFA



Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

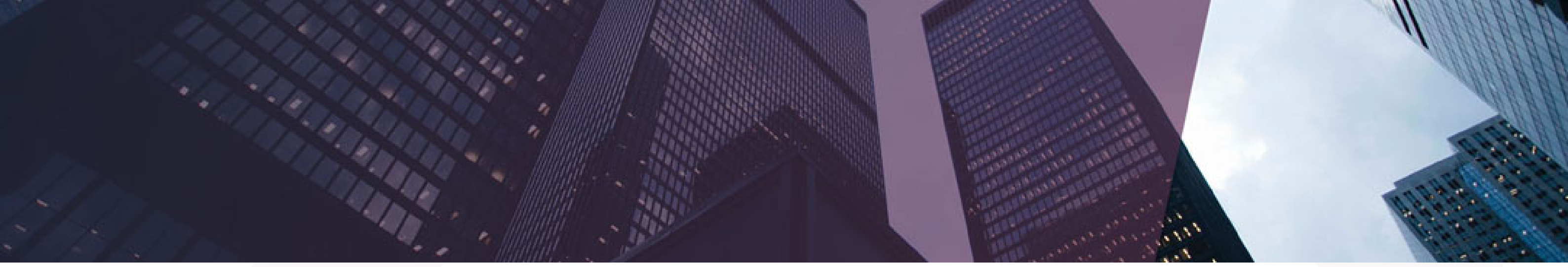
We are not afraid to swim against the tide

We consider scenarios rather than making forecasts

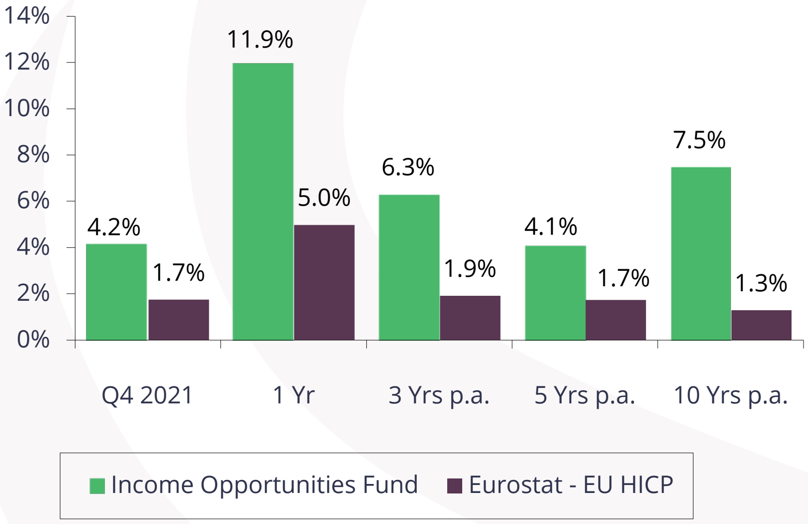
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

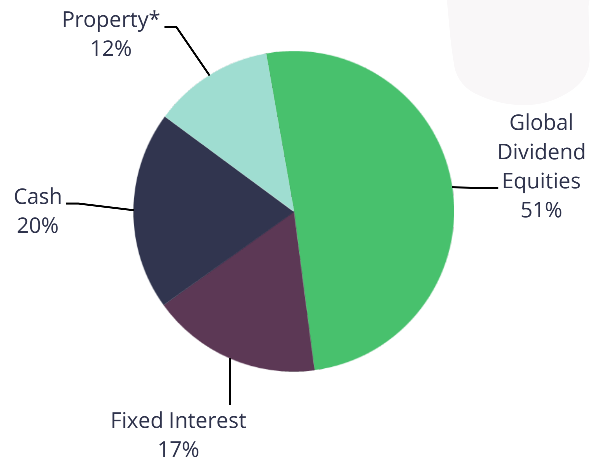
We will act with integrity in everything we do



Fund Performance – 31.12.2021 (EUR)



Asset Distribution



*includes 1.6% in IRES REIT

Yearly Performance

Year %	2017	2018	2019	2020	2021
Fund	2.9	-1.2	13.7	-5.6	11.9
Benchmark	1.4	1.6	1.1	-0.3	5.0

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI Income Opportunities Fund [P-INC1] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** Eurostat Harmonised Index of Consumer Prices (EUR). Inception as at 30.09.11 **Holdings Source:** Setanta.

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
SAMPO OYJ	FINANCIALS	2.4%
SVENSKA HANDELSBANKEN	FINANCIALS	2.2%
PROCTER & GAMBLE	CONSUMER STAPLES	2.2%
ZARDOYA-OTIS	INDUSTRIALS	2.1%
GLAXOSMITHKLINE	HEALTHCARE	1.9%
NWS HOLDINGS LTD	INDUSTRIALS	1.8%
JOHNSON & JOHNSON	HEALTHCARE	1.8%
DCC PLC	INDUSTRIALS	1.7%
SANOFI S.A.	HEALTHCARE	1.7%
AIR LIQUIDE	ENERGY & MATERIALS	1.7%

Historic Income

	Income Earned % of Fund Value
2011	6.2%
2012	5.6%
2013	5.5%
2014	4.8%
2015	5.5%
2016	4.7%
2017	4.1%
2018	3.9%
2019	4.2%
2020	3.9%
2021	4.1%

Commentary

Overview

2021 was a year characterised by a number of unusual developments in the world, most of which strengthened equity markets, such that many of the main global equity indices reached lifetime highs. At the same time, bond yields in the major markets globally remained at historic lows. Most governments around the world have responded to the volatile course of COVID-19 by giving affected workers, and businesses, substantial financial supports, providing stimulus to the global economy. At the corporate level, much of the debt issued as a precaution during the early days of the pandemic was not repaid despite the materialisation of a less adverse environment than expected. Instead, those funds have been used for capital investment, share repurchases and corporate transactions, developments received positively by equity markets, while not perturbing bond markets. We noted in the first quarter how retail investors are playing an increasing role in financial markets, leading to greater volatility, as well, we suspect, to greater upward momentum. We reported in the third quarter on how the abundance of money in the global financial system, combined with pandemic-induced shortages and frustrated demand, was leading to increased costs for companies, in turn leading to substantially increased prices for many products and, in some cases, pushing profit margins higher. In the background, the world's central banks, despite declarations about increasing interest rates, continue to have, in historical terms, an extraordinarily accommodative stance.

The Income Opportunities Fund ('the Fund') achieved a total return of 12% during 2021, a strong return, albeit against a backdrop of a sharp increase in inflation, 5%, as measured by the Fund's Eurozone inflation benchmark). Over the last ten years, the Fund has achieved an annual total return of 7.5%, substantially in excess of its benchmark over that period (1.3% per annum). The median holding in the Fund's equity portfolio has net debt of less than 30% of its book value, while the 5-year average Return on Equity of this portfolio is 15%, respectively indicating financial prudence and a consistent ability to create value. Similarly, the Fund's bond portfolio is of good quality being a mix, on the one part, of bonds with high credit ratings, and on the other part, being bonds with lower credit ratings acquired on the basis of favourable valuation and carefully underwritten credit risk. The Fund's property assets are characterised by their prime locations and high-quality tenants. The ability of the Fund's investments to pay material, and sustainable, income streams is, in our view, robust.

Major Factors in Fund Performance

The Fund's equity portfolio reported an exceptionally strong performance, rising more than 20%. All but a few of this portfolio's holdings reported positive total returns. Richemont and Cisco were among the largest individual contributors to the Fund's performance. **Richemont**, maker of Cartier watches and jewellery, was initially one of the companies that was most exposed to pandemic lockdowns in 2020, given its reliance on sales through retail and travel channels, as well as a high exposure to China. As economies re-opened in 2021, Richemont benefitted more than most. In the six months to September of the year, Richemont reported sales increasing by 20% over the comparable period in 2019 (and much more over the lockdown-stricken 2020 year), as well as a huge increase in profits, due to a much higher profit margin. Having conservatively halved its dividend payment in 2020, its full re-instatement last year was received well by the market. Towards the end of the year, the stock was further boosted from an investment by an activist investor, sparking speculation that Richemont could be acquired in a corporate transaction.

While **Cisco**, the routing and networking giant, is increasingly seen as 'old tech' it has been having success in migrating customers to a subscription model. Much of Cisco's business is the provision of routing and networking solutions to enterprises. As these enterprises move their activities to public clouds Cisco's market shrinks a little. Research suggests however that enterprises are likely to utilise a combination of on-premise and public clouds for years to come. While public cloud providers are capable of putting their own networks together using unbranded hardware, Cisco is seeing triple digit order growth from this customer group courtesy of its redesigned offering. Cisco also operates in a number of growing related markets, enabling the smooth integration of on-premise and off-premise clouds and the provision of security and seamless interfaces across various clouds. It has been experiencing historically high and accelerating demand throughout last year culminating in order growth of at least 30% over the previous year in each of its geographic regions as of the end of October 2021. While future growth will certainly be lower than Cisco has been accustomed to, we are happy to own Cisco, not least because of its solid net cash balance sheet, its ability to generate high return on investment and its dividend consistency.

The Fund's bonds and property assets also contributed positively, albeit modestly in the latter's case, as pandemic-induced disruptions continue. On the bond front, the Fund's holdings performed well, rising 5% overall, very much driven by its 'value' holdings, which benefitted from improving credit fundamentals as well as some favourable currency moves.

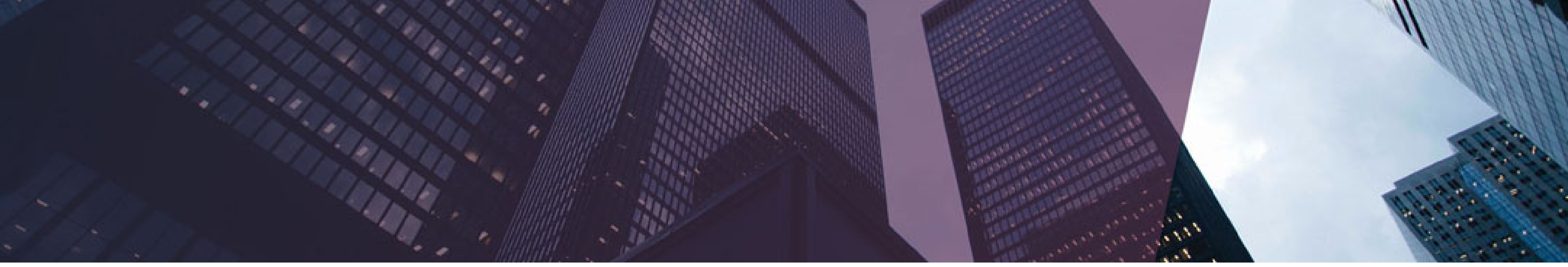
Major Changes to the Fund

At year end, 50% of the Fund's assets were held in equities; 17% in bonds; 13% in property (including REITs); and 20% in cash. In its key asset class, that of equities, the Fund held positions in 39 stocks in 11 sectors (as designated by MSCI) and in 17 countries across Europe, North America, and Asia. During the year, we added new positions in **Nestle**, the Swiss-based food and (non-alcoholic) beverage company, **Swedish Match**, the Swedish smokeless tobacco company, and **Terna**, Italian electricity grid company, while **SK Square** became a new holding after being 'spun' out of existing holding, SK Telecom. We sold the Fund's position in **Coca-Cola Amatil**, as noted in the Q2 Commentary, through the completion of a corporate transaction; **Proximus**, the Belgian-based communications company through an exercised call option; and **Saga**, the UK insurer and travel company. During the year, seven of the Fund's bond investments were redeemed at par, including sovereign and supranational bonds, such as the European Investment Bank, as well as corporate bonds issued by Ryanair and Schneider Electric.

Income Generation

The Fund generated total income of 4.1% over the course of 2021, thus exceeding its target (4.0%). Of this, just over half came from equities, the vast majority from ordinary dividends. The Fund also benefitted from excess distributions from three companies: Samsung, Sandvik, and Svenska Handelsbanken. In the cases of Svenska Handelsbanken and Sandvik, this was welcome compensation after their dividends were curtailed in the previous year by regulatory, and societal, pressure. Bonds, Options, and Property all made meaningful contributions, 0.5% to 0.8% each, to the Fund's total income; in the case of options, this was despite materially lower volatility in 2021, compared to 2020.

**All figures relating to stock and index performance are in Euro terms, unless otherwise stated; those relating to fund performance are also gross of fees, unless otherwise stated. This commentary relates to P-INC1.*



Contact Details:

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The Income Opportunities Fund is managed by Setanta Asset Management Limited and is a representative account of the Income Opportunities strategy. The performance shown is the performance of a representative account (ILA/CLI Income Opportunities Fund [P-INC1]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is also available on a segregated basis or a UCITS mutual Fund via Beresford Funds ICAV. Current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. See 'WARNING' and IMPORTANT INFORMATION' below.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance.