Setanta Managed Fund
Q4 2021

Fund Description

The **Managed Fund** ("the Fund"), managed by Setanta Asset Management Limited ("Setanta"), is a unit-linked offering of Irish Life Assurance.

The Managed Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities, cash and absolute value. The Fund holds between 50-80% of its assets in equities, reflecting the breadth of the market and Setanta's expertise in the area. 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 investment objective of the Fund is to outperform the median of competitor Managed Fund offerings over the long term.

Fund Commentary

The Setanta Managed Fund gained +7.3% over the fourth quarter, bringing performance year to date to +20.4%. Its strongest yearly performance in 15 years.

Returns within the fund were mixed across the various asset classes.

Global equities were strong (+10.6%), finishing the year (+32.5%) ahead of benchmark (+1.1%).

(Fund Commentary continued on Page 3)

Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

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

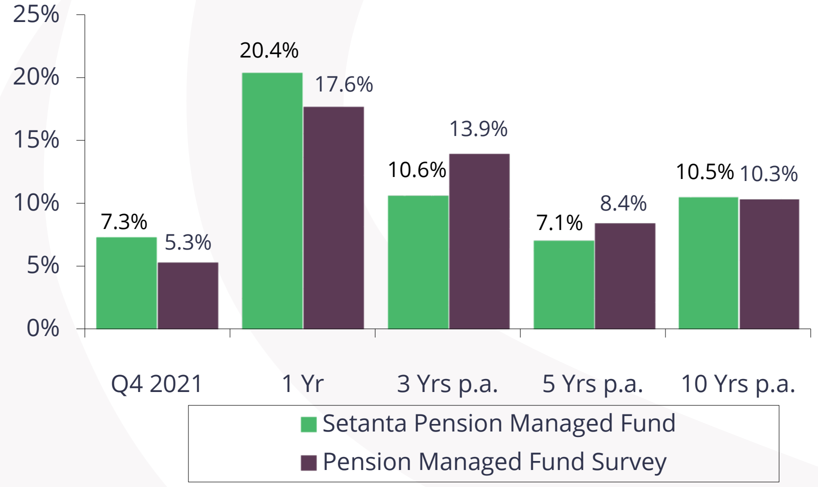
We consider scenarios rather than making forecasts

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 – 31.12.21 (EUR)

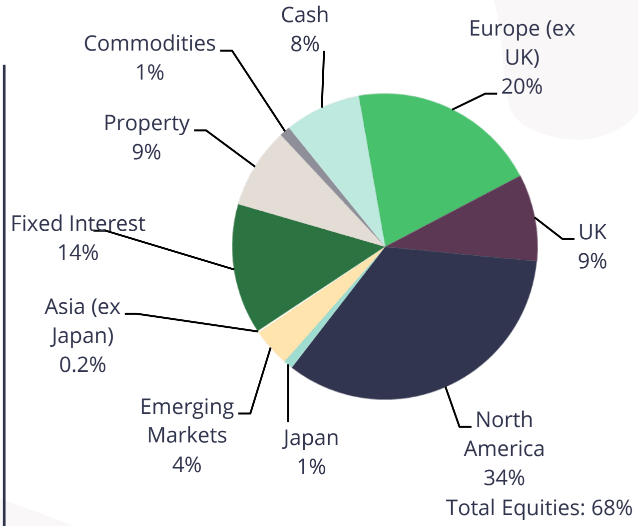


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Pension Managed Fund Survey. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Credit Rating Source:** S&P.

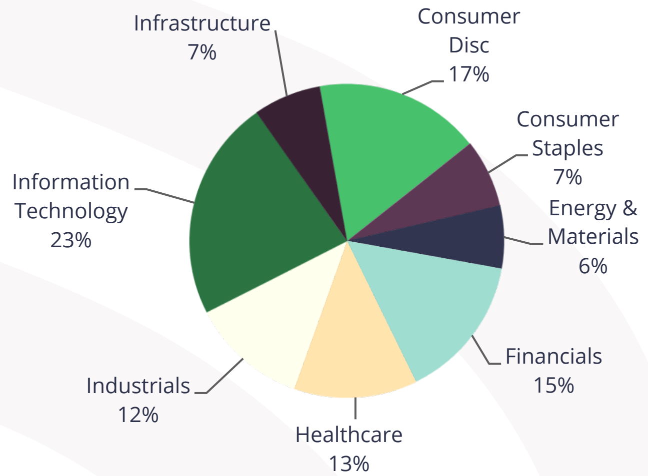
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT	INFORMATION TECHNOLOGY	3.2%
ALPHABET INC	CONSUMER DISCRETIONARY	2.2%
BERKSHIRE HATHAWAY	FINANCIALS	2.0%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.9%
JOHNSON CONTROLS	INDUSTRIALS	1.8%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.8%
ORACLE CORP	INFORMATION TECHNOLOGY	1.8%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	1.8%
NIKE INC	CONSUMER DISCRETIONARY	1.6%
DCC PLC	INDUSTRIALS	1.5%

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	18.6%	23.0%
AA	38.6%	35.9%
A	13.1%	17.9%
BBB	29.7%	23.2%
	100.0%	**100.0%**

Yearly Performance

Year %	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	7.9	12.2	6.8	-2.7	16.1	-3.1	20.4
Benchmark	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9	7.3	-5.2	20.6	6.2	17.6

SETANTA Asset Management

Commentary

Within global equities, all sectors posted positive returns for the period, with the I.T. (+14.7%) and Consumer discretionary (+14.4%) sectors leading the charge.

Bond markets returns had been trending lower in October, rallied in November on Omicron concerns, then gave up most of those gains into year-end.

Within bonds, our credit (-0.5%) exposure outperformed governments (-0.7%), which outperformed Emerging market debt (-0.9%), though all were slightly negative.

Property was up marginally (+0.7%), a positive end to a lacklustre year (+1.1%).

Allocation

The only allocation over the quarter was a small sale out of global equities (~1%) into cash, just prior to year end, reducing somewhat our pro-cyclical risk on positioning.

Commentary

Equity markets, despite concerns around omicron, finished out the year near all-time highs. As data revealed the new strain was more transmissible but less deadly than previous variants, markets rallied, as hopes of the pandemic becoming an endemic (virus is more manageable with greater population immunity) increased.

Even with the new variant, economies seem better equipped to deal with any disruption. Growth is expected to come in well above trend in 2021, with strong growth expected to roll into next year.

Consumers remain well underpinned by excess savings and an improving job market, and companies by robust balance sheets having pre-funded and delayed capex on initial uncertainty concerns.

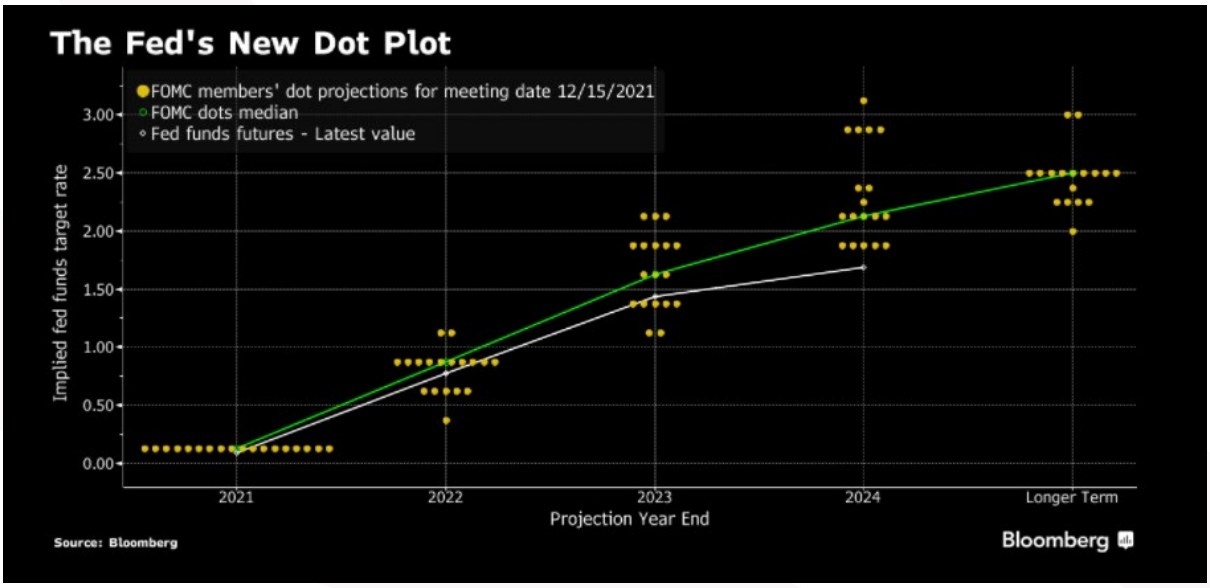
Over the quarter other key themes were, hawking central banks, increasing inflation and slowing Chinese growth.

While monetary policy had taken something of a backseat to Fiscal policy recently, this looks set to change. Central banks are back with a vengeance, a evident from recent moves.

Commentary

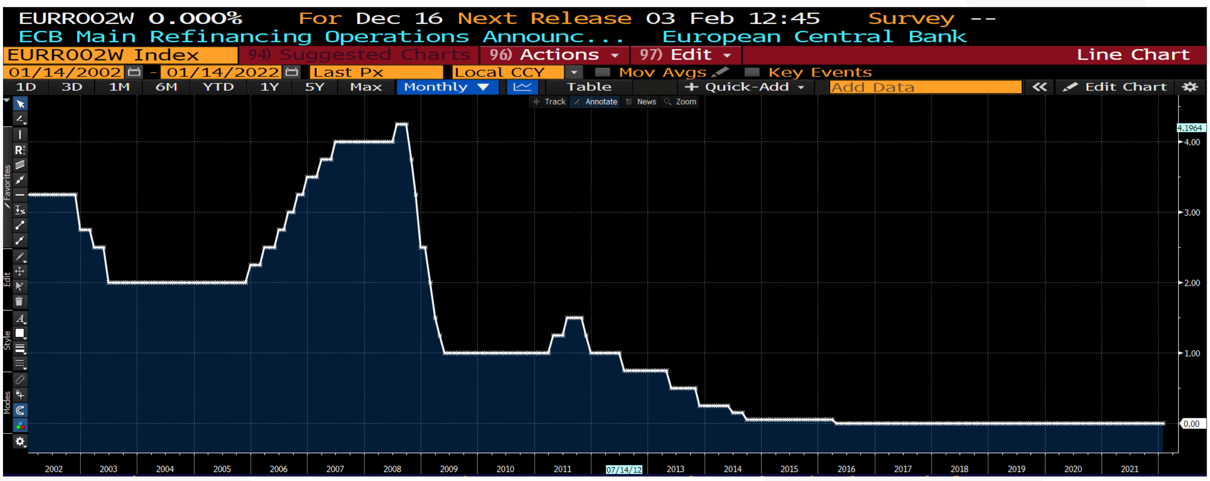
The Reserve Bank of Australian stepped back from its yield curve control (yields on three-year bonds recorded their biggest monthly increase since 1994), the Bank of Canada announced the end of bond purchases outright beginning November 1st, and the Bank of England hiked (8-1 in favour of +15 basis points) prior to year-end.

While in the US, the Federal reserve telegraphed an earlier and more aggressive tapering, with rates to follow soon after (dropped from the latest policy statement was any reference to inflation as "transitory," with the Fed instead referencing that price increases had exceeded its 2% target "for some time."). Markets moved swiftly to price in three hikes in 2022.



The ECB remain more sanguine (or behind the curve) on running loose policy. As far as they are concerned conditions for interest rate increases are not yet satisfied, and certainly not in the near future.

They will however end net asset purchases under its pandemic crisis program by the end of March, but not to worry, they will boost monthly purchases under its older program. Given the ECB made the end of net asset purchases a precondition for raising interest rates, nothing is happening with the main refinancing rate any time soon.

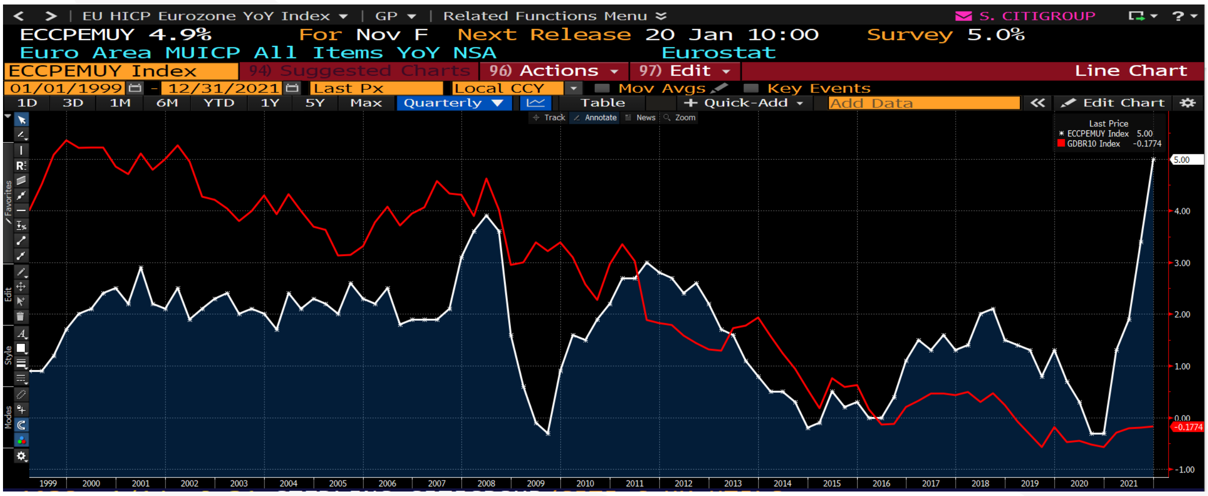


"Actually, we talked about inflation, inflation, inflation"

Christine Lagarde, President of the ECB, Frankfurt am Main, 28 October 2021

The ECB have spent most of their history trying to get inflation up towards their 2% target on a consistent basis, whereas now they may be on the point of trying to coerce it back down.

It finished the year at 5%, it's highest level since the creation of the Euro. At these levels based on history you would expect the ten-year bund to yielding at least 6%, it ended the year around -0.18%.



Suffice to say longer dated bond markets in Europe are not concerned and in agreement with the ECB in regards inflation trajectory.

The ECB expect inflation to rise near term, then decline during next year. A German VAT base effect falling out of the statistics, current supply bottlenecks gradually being resolved and energy prices falling or at least stabilising are all expected to help lower inflation going forward.

All of which sounds reasonable, the upward drift in inflation expectations have been slowing and market-based measures declining from their recent highs.

However, some recent developments bear watching. In the US, underlying measures of inflation, such as medians and trimmed means (kicking out the most volatile contributors), suggest increases have broadened beyond items related mostly to supply constraints and economic reopening, which accounted for the bulk of the initial rise in early 2021.

Also, US wages have been increasing, at rates above 4%. The risk is that these get embedded in inflationary expectations, feed into further wage hikes and become self-fulfilling. Other economies point to slack still evident in the labour forces, so this may be less of an issue outside of the US, but important to monitor nonetheless.

China, long a contributor to global growth is now viewed as a potential downside risk. While policymakers seem more comfortable around lower growth to achieve their long-term strategic goal of "common prosperity", recent negative stories around a collapsing property market forced the Peoples Bank of China (PBOC) hand.

Reserve requirements were lowered for banks and some policy tools were tweaked to allow for targeted lending to specific parts of the economy. While recent regulatory tightening on the property and technology sectors is unlikely to be reversed, there is room to increase policy easing if necessary.

It remains to be seen, but for now the property downturn doesn't look likely to feed into a systemic crisis. The onshore corporate bond market is improving for property companies and targeted loosening of property loans alongside increased spending on infrastructure could reduce risks feeding into markets.

Positioning

The fund remains positioned for strong growth. That said, it is unlikely we will see such outsized returns from equities again next year . It could be a period for stock picking rather than a broad beta driven rally driving returns.

While equities do look expensive to history (US particularly), valuations did improve over the year as earnings were very strong, this also helped in a certain amount of passive deleveraging in fixed income.
We should expect some further upward pressure on bond yields as central banks become less accommodative, and with inflation (even falling) at lofty levels.

Also, the equity/bond correlation could come into play, if correlations become less negative this will reduce the diversification benefit of bonds. Both assets could sell off together if we were to see a sharp rise in real yields into a falling growth scenario.

Bond positioning is broadly short with more emphasis on picking up excess return from credit (more HY than IG, shorter duration and higher carry) and some emerging market debt (though potential fiscal issues remain) as spreads have widened.

On a relative basis, equities look like generating better long-term return than bonds even with valuation constraints (equity earnings yields are still wide relative to bond yields).

To generate attractive real returns, a large equity allocation is necessary, which ultimately increases portfolio risk. Diversification will be important, with some real assets (Property / commodities) hopefully doing some of the heavy lifting.

Property has some in built protection as leases have inflation linkages and the underlying assets themselves should be revalued higher all else equal. Commodities could benefit from a recovery in demand meeting structural under investment as capex was cut back.

Inflation as yet hasn't proven a drag on equities or multi asset funds generally as bonds have not really bought into a bearish inflation scenario. A shift on market views here could see equity multiples heading lower and bond yields heading higher, a double loss for balanced portfolios.

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IMPORTANT INFORMATION

The Managed Fund is managed by Setanta Asset Management Limited and is a representative account of the Managed strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Managed Fund [H012]). 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 available on a separate account basis to institutional investors however 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.

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