Setanta Income Opportunities Fund

Q1 2022

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

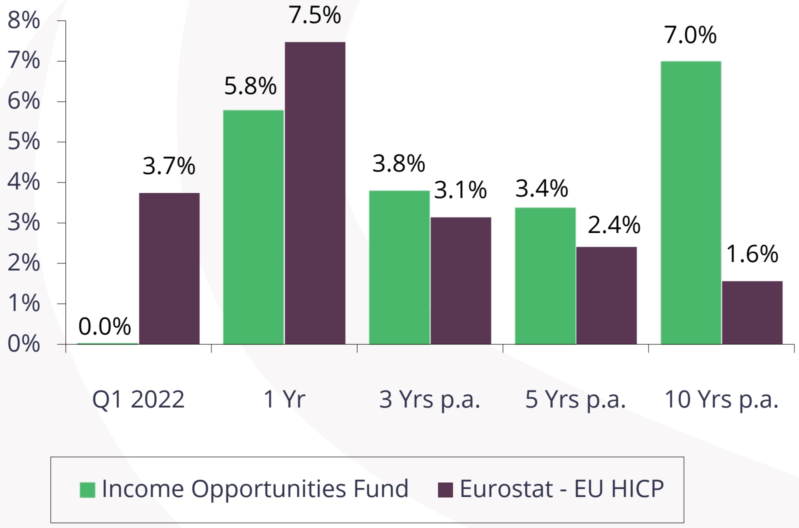
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

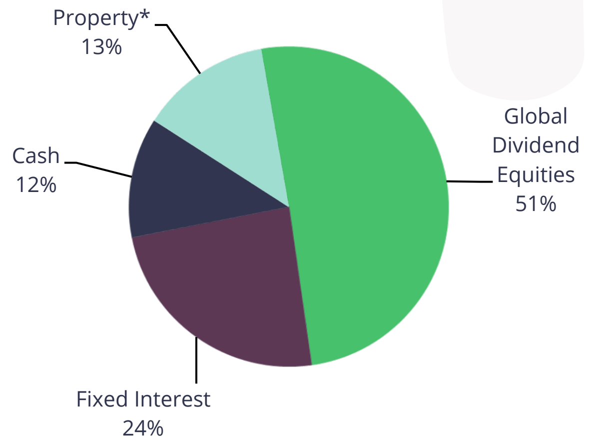
We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.03.2022 (EUR)



Asset Distribution



*includes 2.6% 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.

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%

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
PROCTER & GAMBLE	CONSUMER STAPLES	2.1%
ZARDOYA-OTIS	INDUSTRIALS	2.0%
SVENSKA HANDELSBANKEN	FINANCIALS	1.9%
GLAXOSMITHKLINE	HEALTHCARE	1.9%
JOHNSON & JOHNSON	HEALTHCARE	1.9%
NWS HOLDINGS LTD	INDUSTRIALS	1.8%
BANGKOK BANK	FINANCIALS	1.8%
SAMPO OYJ	FINANCIALS	1.8%
SK TELECOM	INFRASTRUCTURE	1.8%
UNILEVER PLC	CONSUMER STAPLES	1.8%

Commentary

Our first quarterly commentary of the year occurs as we watch in horror at the violence and atrocities of the war in Ukraine. Societies thrive in times of peace and mutual understanding, while markets prosper from freedom, fairness, and the rule of law. Our thoughts are with the innocent victims of the conflict. Although of a much different nature to the experiences of those in the conflict zone, much could be at stake for the global economy too as a world order built on years of economic integration is threatened and geopolitics and security take an increasingly central role. Supply chains, readjusting under the sudden jolt of economic reopening and changing consumption habits after two years of the pandemic, will now have to deal with further disruption from the destruction of production capacity and western sanctions, particularly impacting energy, agriculture, and metals markets.

Financial markets have been quick to reflect these developments as energy prices reaching highs not seen since 12 years ago, and some benchmarks of soft commodities such as winter and spring wheat, returning to 2007 levels (when the increase in food prices was widely credited for triggering social unrest and a decade of political instability in the Middle East). In developed economies, the "great moderation" dynamics of low inflation, low interest rates and job creation appear to be under threat, as inflation rises sharply, effectively tying the hands of Central Banks and their ability to come to the rescue of embattled economies. The Federal Reserve Bank raised interest rates in March, for the first time since 2018. It also signalled further increases through 2022 and 2023, while accelerating plans to reduce the size of its balance sheet, having ceased asset purchases in February this year.

Dividend-paying equities, the core asset allocation for the Fund, lived up to their defensive status, performing resiliently over the quarter. Energy, and mining, stocks rose sharply reflecting underlying commodity prices, while defensive sectors such as healthcare and utilities outperformed. Reflecting the proximity of the conflict, European stock markets materially underperformed stock markets elsewhere, notably those in the US.

Lancashire Re, Sandvik, and BASF, were among the main detractors from the Fund's overall performance. **Lancashire**, a specialty insurer that we know well, has a growing business and a strong underwriting culture. The market seems to be concerned about the company's exposure to aircraft lessors after the Russian government seized most of the leased airplanes in the country. We believe that whatever aviation losses Lancashire suffers, they are likely to be lower than that assumed by the market (which appears to be 'punishing' the stock after a few years of cyclically depressed earnings). **Sandvik's** share price also fell noticeably. A maker of high-technology tools and engineering solutions, its business is highly sensitive to projected economic trends, and therefore industrial production. We believe that the share price reaction is due to concerns about a cyclical downturn, rather than a structural change in its business (its exposure to Russia is limited to around 3% of its sales). BASF, the German-based global chemical company, has no revenues from Russia, but does have an investment in an oil and gas joint venture, which has operations there. BASF has been reducing its exposure to both oil and gas and Russia in recent years (indeed, it was due to sell its stake in the joint venture in 2020, as the pandemic intervened), but we now assume that the value of this interest is impaired, at least in the medium-term. Additionally, there are concerns about the consequences of an EU ban on imports of Russian natural gas and oil for Germany given the reliance of companies such as BASF on these imports. While such a ban would be challenging for BASF, we believe that its oil and gas activities are a small part of the company's value, in what is a global, and well-diversified business with end markets that reach beyond chemicals, to healthcare, automotive, consumer goods, and agriculture.

Commentary

Among the largest contributors to the Fund's performance, **Exxon** and **Fortescue** rose strongly, as prime beneficiaries of higher commodity prices in oil and natural gas, and iron ore, markets respectively. In the 2021 full year, Exxon generated around $50b in operating cashflow, which enabled it to pay a large dividend, growing it for the 39th consecutive year. It was also able to repay $20b in debt, largely drawn down during the pandemic, allaying fears that it would cut its dividend. In keeping with the performance of their sectors, as mentioned above, the Fund's regulated utilities and healthcare companies performed solidly, with good contributions from **Medtronic**, **Johnson & Johnson** or **National Grid**. The Fund's diversified portfolio of diversified bonds contributed positively to performance in the quarter, with good coupon income, and favourable currency moves offsetting pressure from rising levels of interest rates.

We took advantage of the turmoil in the markets to materially increase the Fund's bond weight. We added positions in a number of bonds, particularly in issues of companies that we believe that we understand well, including in **Ericsson**, **Fortum**, **Holcim**, and **Owens-Illinois**. Generally speaking, the prices of these bonds have fallen (and yields risen) on fears relating the war in Ukraine. While recognising challenges from the war and other idiosyncratic events, we believe that we have a clear line of sight to repayment of the principal, which should enable a good capital return in addition to a healthy stream of coupon payments. In a similarly opportunistic fashion, we acquired a position in **Allianz**, the German-based global life, and non-life, insurer.

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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.

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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