Setanta Managed Fund
Q1 2022

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 managed fund fell -2.5% over the first quarter.

Notably both Bonds (-4.5%) and Equities (-2.2%) fell, detracting from performance, while property (+1.9%) contributed positively to fund return.

Rising bond yields mechanically forced bond prices lower and led to already shaky earning expectations being discounted at higher levels, reducing overall equity valuations.

Within our bond holdings, European government bonds (-7.0%) were the worst performing, as longer duration higher quality assets suffered.

(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

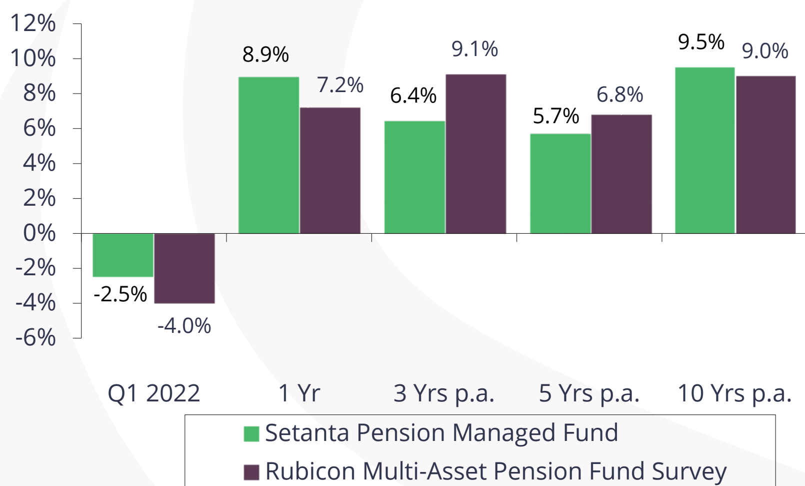
We consider scenarios rather than making forecasts

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 – 31.03.22 (EUR)

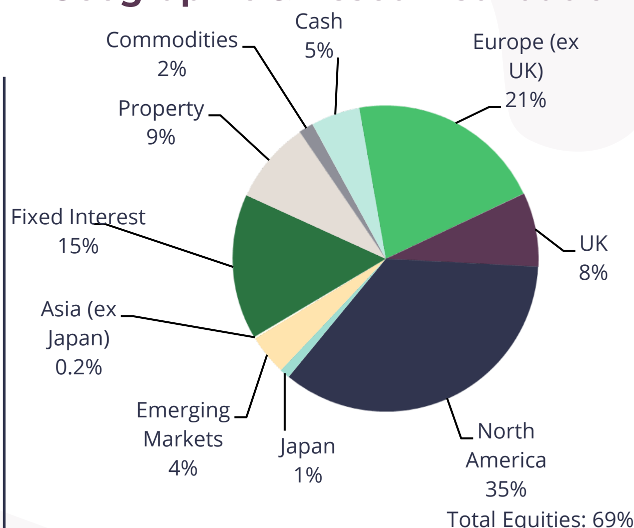


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings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

Top 10 Equity Holdings

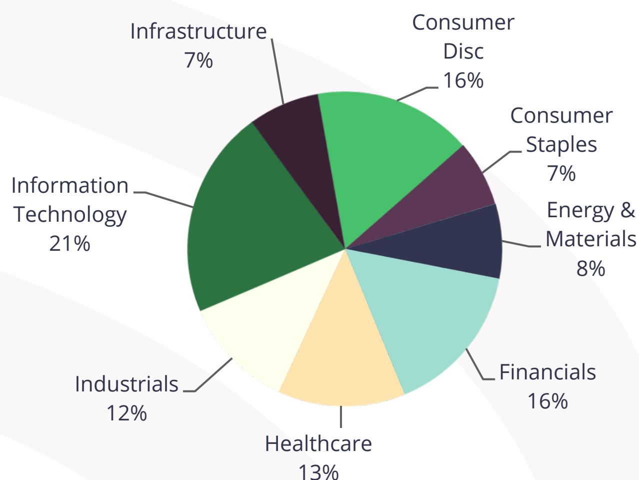
COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	3.1%
BERKSHIRE HATHAWAY	FINANCIALS	2.6%
ALPHABET INC	CONSUMER DISCRETIONARY	2.3%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	1.9%
ORACLE CORP	INFORMATION TECHNOLOGY	1.9%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.8%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.8%
JOHNSON & JOHNSON	HEALTHCARE	1.6%
DCC PLC	INDUSTRIALS	1.6%
BOOKING HOLDINGS	CONSUMER DISCRETIONARY	1.5%

Geographic & Asset Distribution



Total Equities: 69%

Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	19.5%	22.5%
AA	47.4%	36.4%
A	12.8%	18.2%
BBB	20.3%	22.9%
	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

Emerging market bonds (-4.6%), were shaken by a strengthening dollar, capital outflows and the uncertainty of the war. However, a combination of lower duration and higher coupons helped buffer performance versus developed market bonds.

Our credit exposure (-0.6%), while negative performed well under the circumstances, as a large cash buffer, very short duration and decent balance sheets helped limit any significant drawdown.

Within equities, the energy sector (+7.8%) was the top performer, with I.T. lagging (-8.5%). Energy rallied on further supply demand constraints exacerbated by concerns around supply from Russia, while Technology stocks in general given their longer duration nature were susceptible to rising bond yields, and some holding specific risk to failing corporate actions.

Drilling down to individual holdings, commodity performance was particularly strong, across both direct commodity exposures (+28.4%) and stock holdings, Sandstrom Gold (+33.5%).

Fund Allocation

Over the quarter we used the weakness and volatility in both equity markets and global bond markets to allocate out of cash into both global equities, local currency emerging market debt and corporate bonds.

“The intelligent investor is a realist who sells to optimists and buys from pessimists.”

Benjamin Graham (1894-1976)

Fund Positioning

The fund remains broadly positioned for growth. Bonds and cash make up less than 20% of the fund with Equities, Property and Commodities the remainder.

Key Themes

War Russia & Ukraine

It doesn’t seem that long ago that trade wars concerned investors, not actual wars. It goes without saying that this devastating war will hopefully come to a quick and peaceful end.

The invasion has resulted in global coordinated policy actions culminating in volatile moves across global financial markets. The Russian currency collapsed, their equity markets shut and oil and other commodities surged as widespread sanctions were enacted.

Global equity markets fell initially, having already suffered a drawdown on concerns about transitioning quantitative easing to tightening, not as much as would be expected. Historical safe havens performed, with capital flowing to the usual suspects (Gold +5.9%).

Russia’s invasion will likely slow global growth and raise inflation in the near term, with the macroeconomic impact mainly felt through the commodity markets initially. Follow on negative effects to confidence and profit margins are inevitable within some industries and regions.

Financial linkages between Russia and the rest of the world are relatively small. Though, the conflict highlighted European energy security and the reliance on a primary energy supplier. The scale of disruption was evident in European gas prices over the quarter (Dutch Natural gas 1M Forward, +86.4%), even while gas supplies were still flowing.

Commentary

Financial markets in general have recovered somewhat into quarter end, with global equities having been off just over -10% at one point finishing close to -2%. Even as inflation and yields moved higher, as central banks showed little interest in rowing back on hawkish rhetoric.

Markets are forward looking, discounting future paths, and as horrifying as war is, developed markets have had a history of delivering positive returns during them. Proximity is crucial, European markets markedly underperformed the US for example, but in general the assumption is in line with the adage “this too shall pass”.

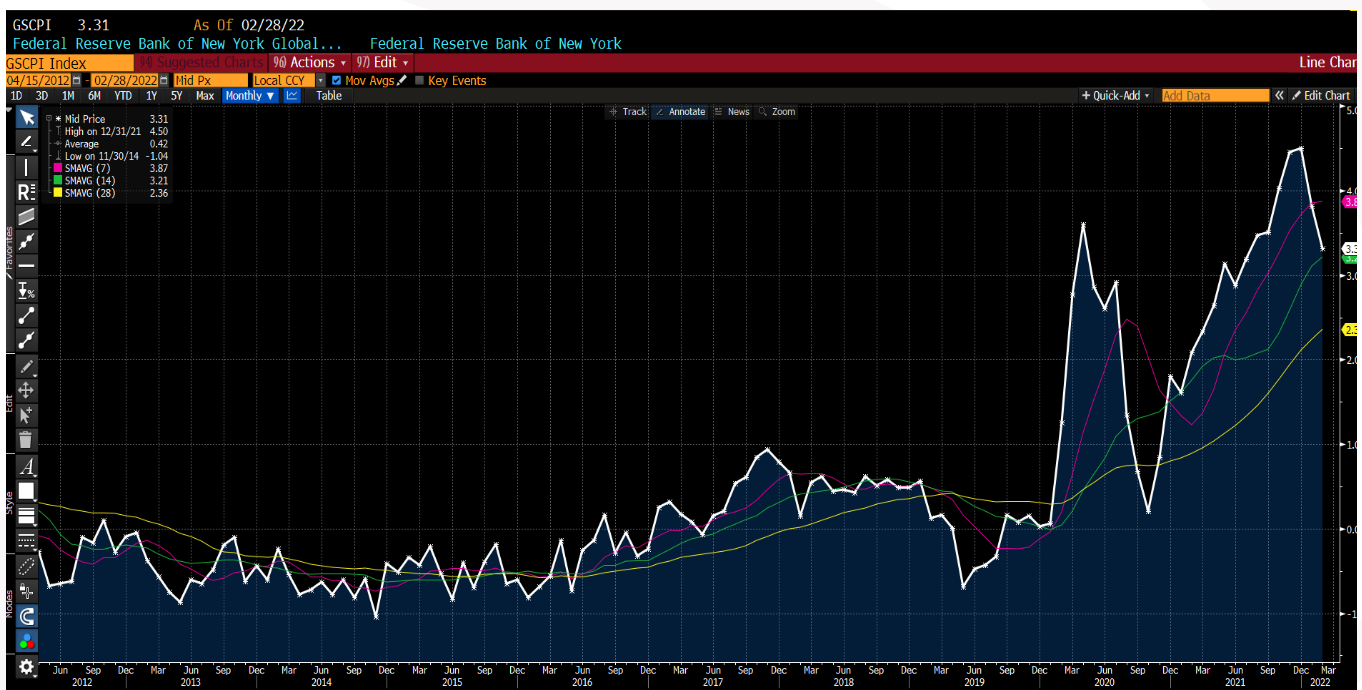
Supply chain

Deliberation on supply chain disruption and how it may be feed into lower growth and higher inflationary pressure is ongoing. While there is a myriad of variables, the New York Federal reserve have tried to capture the main drivers in a new index, aptly named the “Global Supply Chain Pressure Index” (GSCI index).

It aggregates 27 indicators into a standard deviation from an average, hoping to **provide “a more comprehensive summary of potential disruptions affecting global supply chains.”** There are two shipping indices (the Baltic Dry index, essentially dry bulk commodities and the Harpex Index, think forty foot containers), and four airfreight transportation inputs, based on costs between US, Asia and Europe.

Other components are Purchasing Managers Index (PMI) surveys subcomponents, delivery times, backlogs and purchased stocks, for seven economies (euro area, China, Japan, South Korea, Taiwan, U.K., U.S.).

Global Supply Chain Pressure Index



Source: Bloomberg

Commentary

The index peaked at the end of 2021, with the last two months showing a drop (less pressure), albeit at 3 standard deviations from the norm (still a lot of pressure!).

COVID, led to the first notable jump in the index, brought on by lockdowns across regions and the mayhem that then created. The more recent spike was on the surge in pent up consumer demand as markets reopened.

Post the recent prints the Fed opined **“more recently, the GSCPI seems to suggest that the global supply chain pressures, while still historically high, have peaked and might start to moderate somewhat going forward.”**

Time will tell, but we would like to see this trend lower, reducing pressure across economies and industries, and leading to some level of normality.

$ Value of Negative yielding Global Bonds

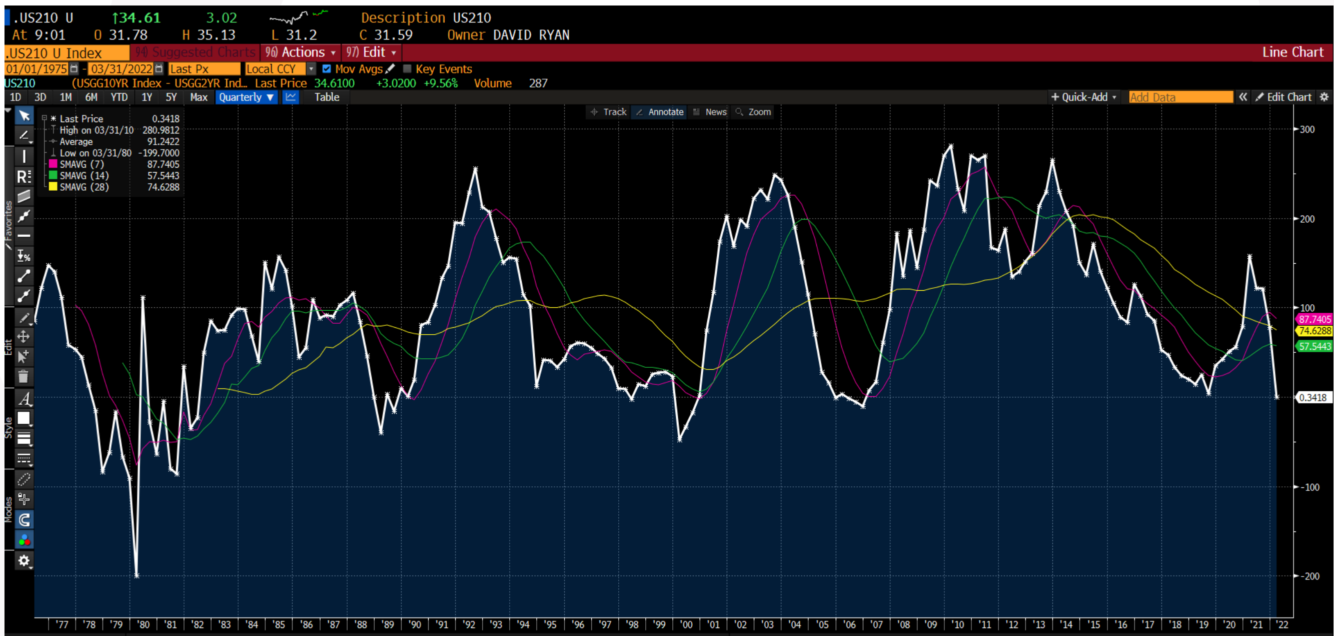
Source: Bloomberg

While rampant uncontrolled inflation is not a good thing, and the narrative would seem to have moved from less transitory to more persistent, the move has brought about more hawkish central banks, through higher base rates and a faster removal of quantitative easing.

This has led to a repricing of global bonds, evident in the reduction of negative yielding bonds from a peak of $18 Trillion to $3 Trillion most recently (Bloomberg Global Aggregate index used).

While there is arguably more value than before, when adjusted for inflation (Nominal yield minus inflation = real yield), expected returns are still not great and most bonds still suffer from offering negative yield.

Yield Curves: US 2-10s Yield curve



Source: Bloomberg

Another topic raising concerns is the US yield curve. Which for the most part is just looking at what is the difference the 10 Year (2.33%) and the 2 Year (2.33%) Treasury bond yields. The eagle eyed amongst you will have spotted they are currently the same as at quarter end, which in market parlance means the yield curve is “flat”.

Where markets tend to get excited is when it is “inverted” or simply goes negative, with the 2 Year yielding more than the Ten year, as it has been a good leading indicator of a recessionary environment (preceded all six recessions since 1978, and even signalled one that didn’t occur 1998!).

Without getting too complicated, forward prices of the various components of the yield curve would point to this very likely happening in the near term. On that basis, should we run to the hills?

Not necessarily, research has shown that since the late 1980s the time lag between inversion and recession has been on average twenty months, while closer to a year over the last six recessions. It can imply various things, and may be just signalling a lower terminal rate and a earlier change of course than normal. Time will tell.

David Ryan

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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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