Setanta Managed Fund
Q2 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 -7.2% over the second quarter, bringing the year to date return to -9.5%.

Similar to quarter one, both bonds (Governments & Corporate) and equities fell in value.

High quality bonds tend to rally when stocks are falling and volatility is rising, however positive correlations (movement in the same direction) tend to occur during periods of stagflation (rising inflation and weakening economic growth), an economic environment we are currently experiencing.

(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

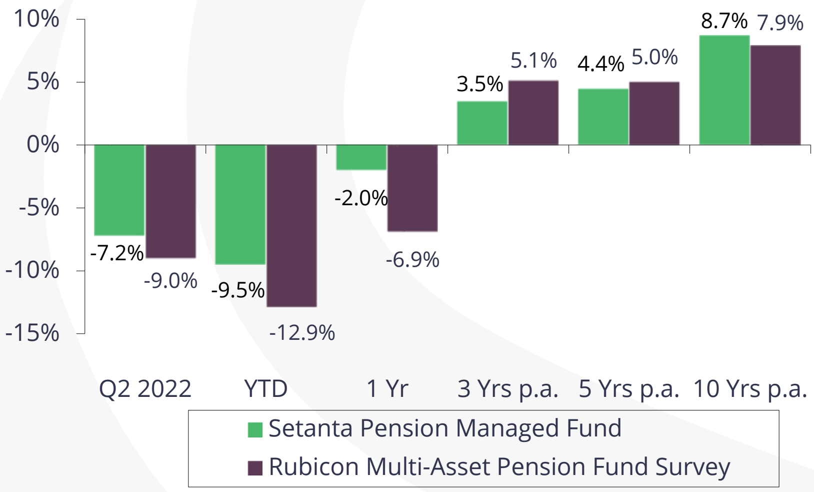
We consider scenarios rather than making forecasts

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 – 30.06.22 (EUR)

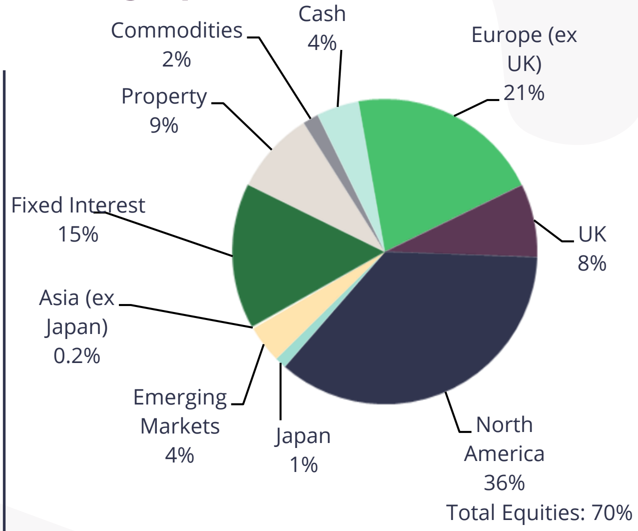


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings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

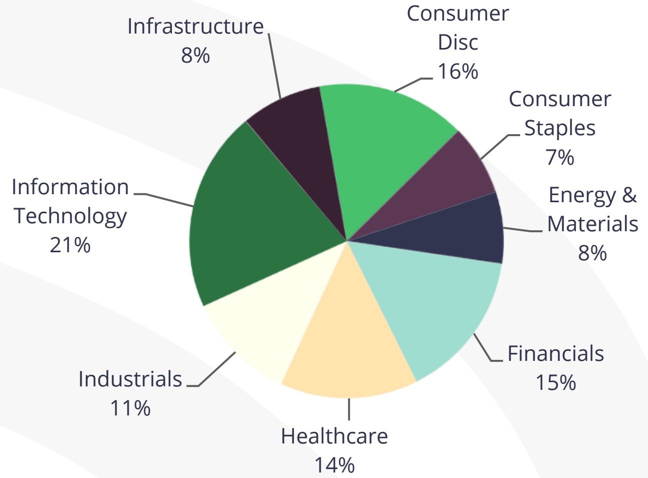
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	3.0%
BERKSHIRE HATHAWAY	FINANCIALS	2.3%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	2.1%
ALPHABET INC	CONSUMER DISCRETIONARY	2.1%
JOHNSON & JOHNSON	HEALTHCARE	1.9%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	1.9%
ORACLE CORP	INFORMATION TECHNOLOGY	1.8%
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	1.5%
DCC PLC	INDUSTRIALS	1.4%
SEI INVEST	FINANCIALS	1.3%

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	21.3%	23.2%
AA	54.1%	37.9%
A	10.7%	16.1%
BBB	13.9%	22.8%
	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

Commentary

These rising correlations can occur just at the wrong time, offering reduced diversification benefit across assets.

Property was the only asset class to post positive returns, somewhat protected by a portion of cashflows linked to inflation, and ongoing demand.

Global equities, while negative, outperformed strongly versus their benchmark, as value stocks benefitted from depressed valuations and robust cashflows.

Within our bond holdings, emerging market debt outperformed corporate bonds which outperformed longer dated European sovereign bonds, though all posted negative returns.

Emerging market and corporate bonds benefitted from lower duration and higher coupons than government debt, with some currency appreciation versus the Euro.

Corporate bonds while suffering wider credit spreads benefitted from reduced issuance and relative cheapness to government bonds, as yields drifted higher.

While the derating of equity multiples has been considerable year to date, the concern is the market still expects positive earnings per share growth this year and next (though analysts' upgrade/downgrade ratios are starting to roll over). This growth could prove difficult with rising material and wage costs.

Bond yields, while positive, at current inflation levels offer negative real returns. Though could be argued offer some alternative to equities in certain jurisdictions, where they are at higher yield levels than local dividend yields.

Growing pressure for fiscal spending to help economies will likely bring focus back to sovereign debt dynamics, which could prove troublesome for some (Italy). While political "windfall taxes" to finance the increased spending, could prove troublesome for others (Energy & Banks).

There are some tailwinds, China may be emerging from its lockdown, with the PBOC one of the few central banks loosening policy (benchmark five-year Loan Prime Rate was cut). This could help raise optimism of stronger global growth in the second half of the year and a slackening in supply chain issues.

Key Contributors

- Irish Property
- Healthcare Sector

Key Detractors

- Consumer Discretionary Sector
- I.T. Sector
- US Dollar Hedge

Portfolio Allocation

There was no major asset allocation change over the quarter. The fund did maintain a small US dollar hedge, which was a detractor to performance over the period, but which we believe will add value over time.

Commentary

"The Governing Council considers that price stability is best maintained by aiming for two per cent inflation over the medium term. "

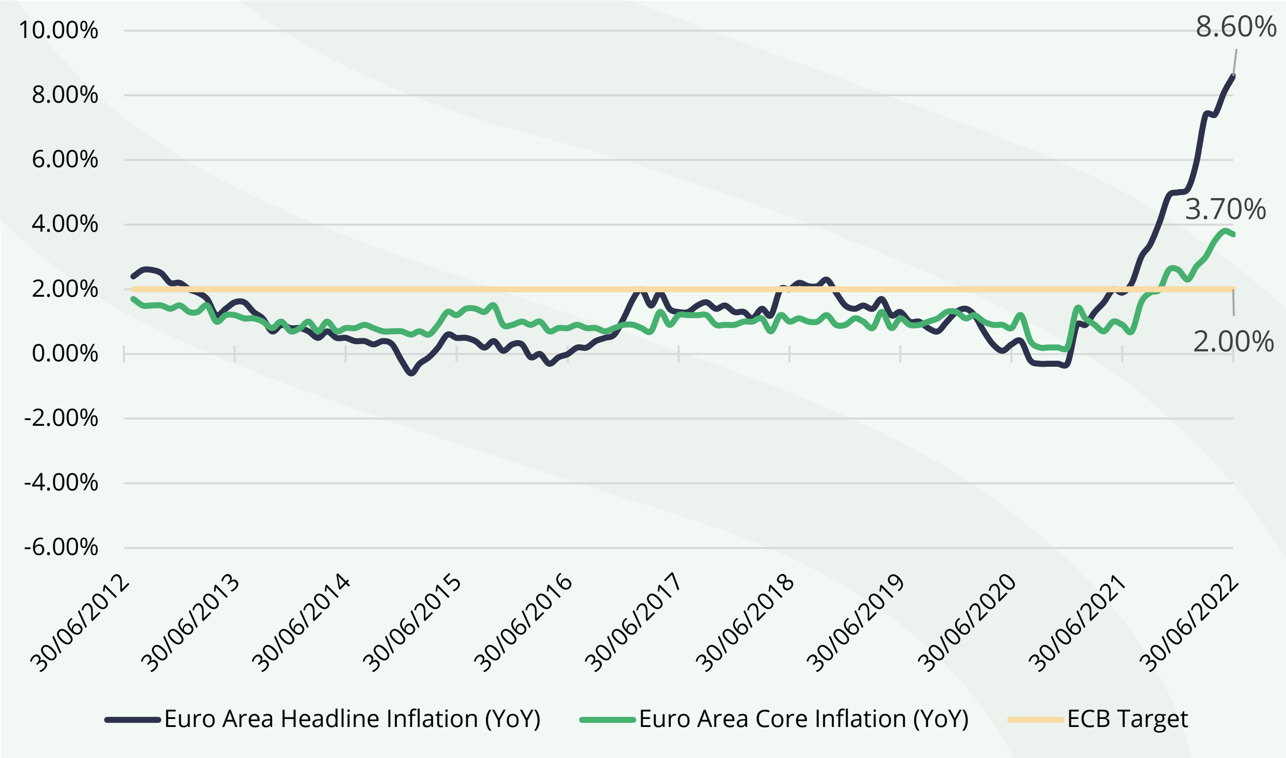
The ECB's monetary policy strategy statement, 2021

Inflation remains a concern for markets, with the Euro Area May print of 8.1% and an expected 8.6% for June, versus the 2% medium term target of the ECB.

Inflation has broadened across different categories, suggesting bigger problems than temporary disruptions from supply chain bottlenecks or effects of the war in Ukraine.

While Core inflation fell from 3.8% to 3.7%, offering some respite, this was mainly due to German government intervention in public transport services prices, so likely just a temporary effect.

European Inflation – Headline & Core

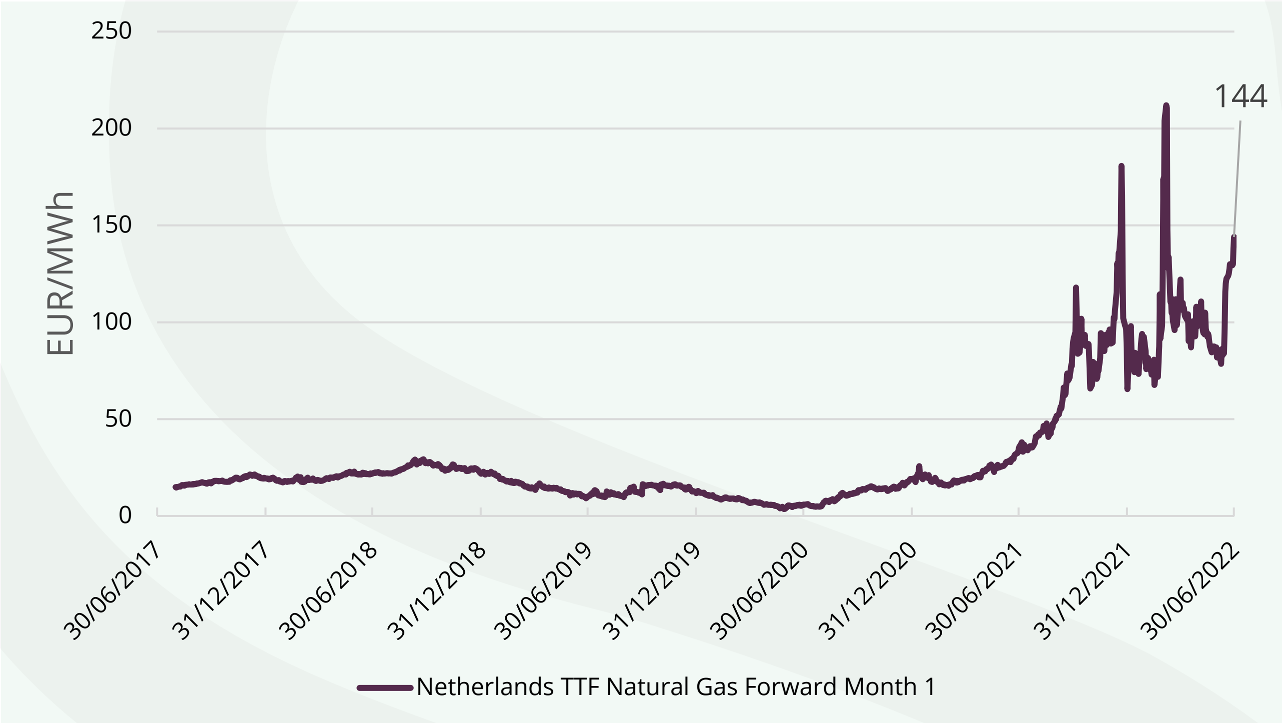


Source: Setanta / Bloomberg

The march higher in prices has dampened both consumer and business confidence. Though higher personal savings and strong corporate balance sheets over recent quarters coupled with increased fiscal support should help offset some of the negative effects.

A major tail risk currently is gas prices, with further disruptions expected. Gas for delivery next month at the Netherlands Title Transfer Facility has continued to be volatile at high levels.

European Gas Prices



Source: Setanta / Bloomberg

Some European governments may have to activate emergency gas rationing plans if Russian supplies are halted post maintenance of the main pipeline (Nord Stream 1).

Without a reduction in demand, inventories will drop to levels where households could struggle to heat homes this winter. With further adverse effects to food and core prices, wage expectations and growth, likely tipping various economies into a recession.

Inflation remains a headwind for markets, but may be close to peaking with slower growth and falling commodity prices.

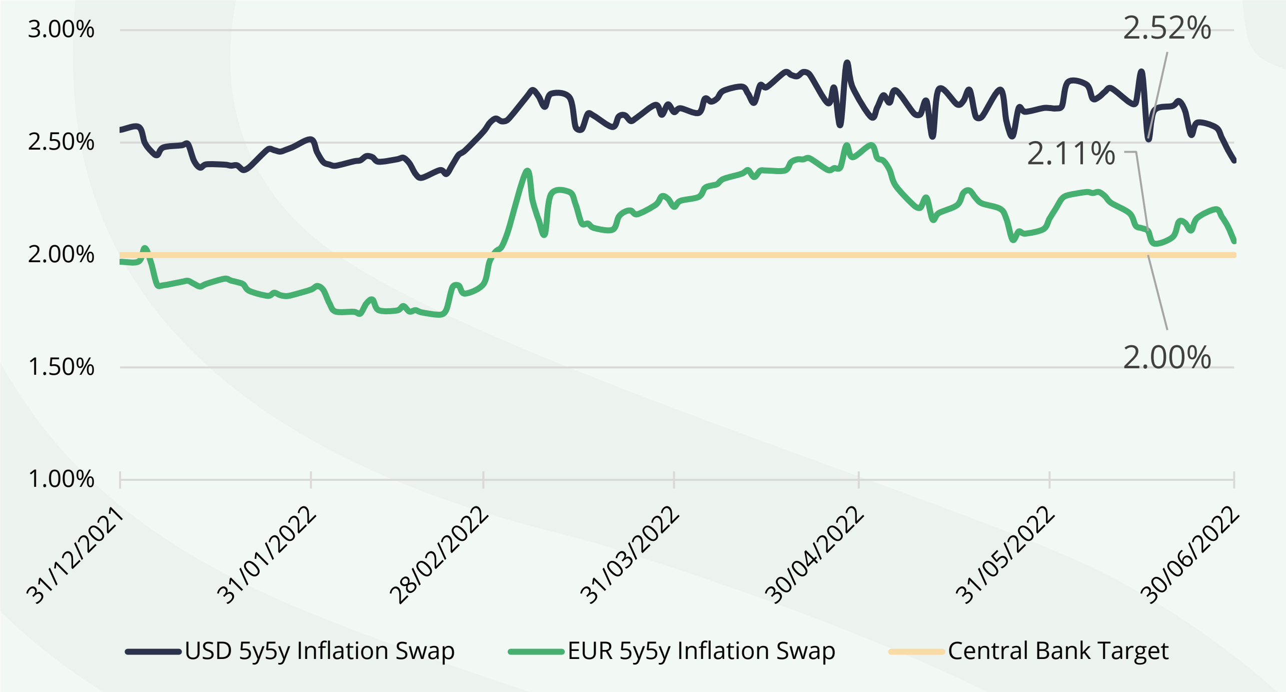
"We intend to raise rates by 0.25% at our meeting on 21 July. For September, we can consider a bigger increase, if the inflation outlook persists or deteriorates. Our future decisions will be data-driven."

Luis de Guindos, Vice-President of the ECB, 16 June 2022

Central banks are clearly concerned about the spike in current inflation and high future inflation expectations, and how that will feed into wage expectations and economic planning. It is noteworthy that future inflation expectations (5 year 5 years forward) peaked in April, offering some hope of stabilisation in expectations.

Commentary

Inflation / Forward Market Expectations



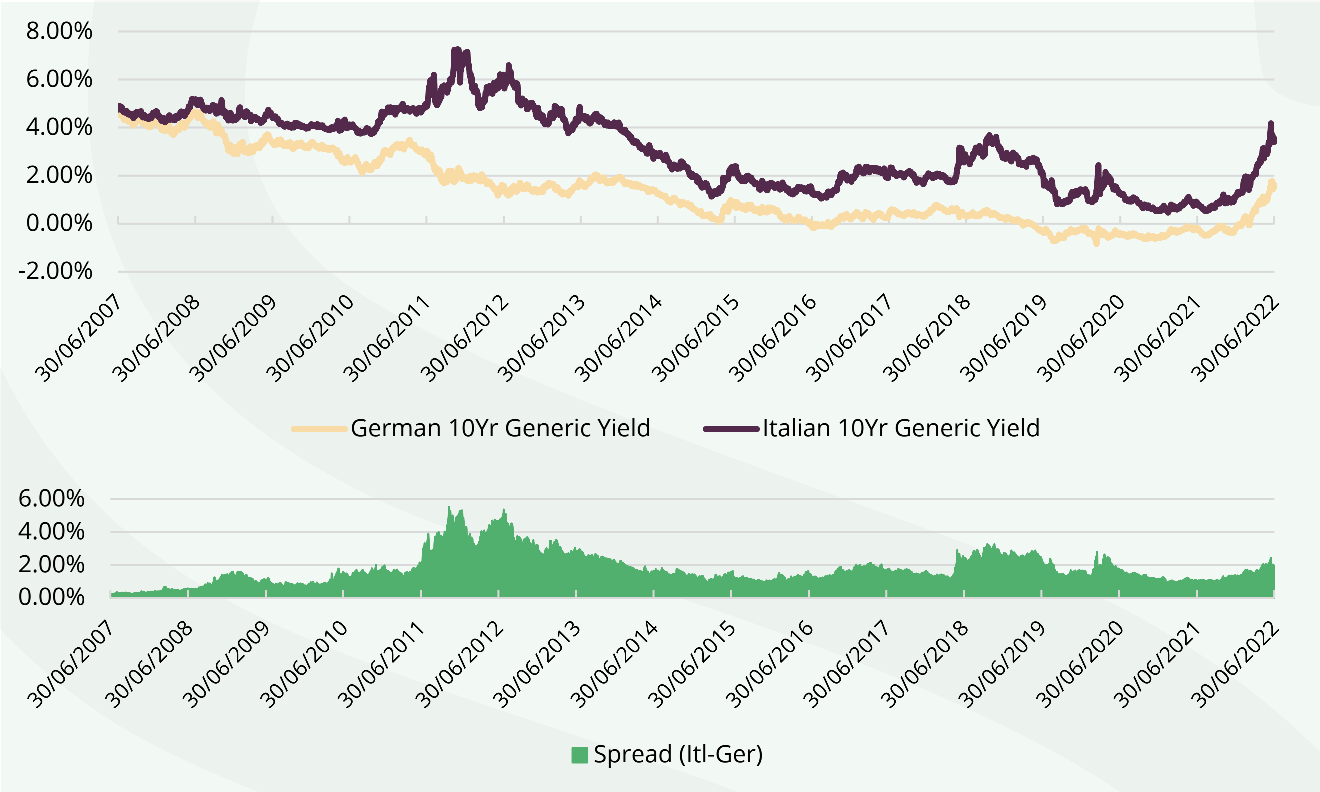
Source: Setanta / Bloomberg

As inflation has stayed persistently high, most Central Banks are looking to raise interest rates and reduce balance sheets, unwinding the quantitative easing of the last number of years. In Europe, with talk of rate increases and slowing growth, a sense of Déjà vu in European bond markets prevails.

Ironically, a decade on from his "whatever it takes" speech as ECB head, Mario Draghi is now heading the country most prone to causing another crisis.

When the ECB announced the end its bond-buying programme and plans on raising interest rates, Italian 10-year government bond yields increased. The spread to German Bund yields, a measure of stress, started to widen.

Peripheral Bond Spreads



Source: Setanta / Bloomberg

And like times of old, a crisis meeting was called by the ECB, and a new mechanism was rolled out. An "Anti-fragmentation tool", hopefully soon followed with details of how and when it will work.

Thankfully the ECB have distanced themselves from previous comments on the matter.

"We are not here to close spreads, this is not the function or the mission of the ECB. There are other tools for that and there are other actors to actually deal with those issues."

March 2020, ECB president Christine Lagarde

Central bank hawkishness remains a near term risk in major markets, though ongoing dovishness by the Peoples bank of China (PBOC) and Bank of Japan (BOJ) as neither currently fight inflation, could support global growth in the second half of the year.

"We're not trying to provoke — and don't think that we will need to provoke — a recession,"

Federal Reserve chairman Jerome Powell, Senate Banking Committee

With rising rates into slowing growth to combat inflation there are growing concerns of recession, as central bank policy seems to follow a "***Heads I win, tails you lose***" mantra.

The US may well already be in one already if real time forecasting estimates prove correct. Stamping out rampant inflation at the risk of lower growth is a price central banks are willing to pay.

Commentary

According to the US National Bureau of Economic Research (NBER) there has been nearly 40 recessions in the US since 1857, so common and unpleasant, but life and markets go on.

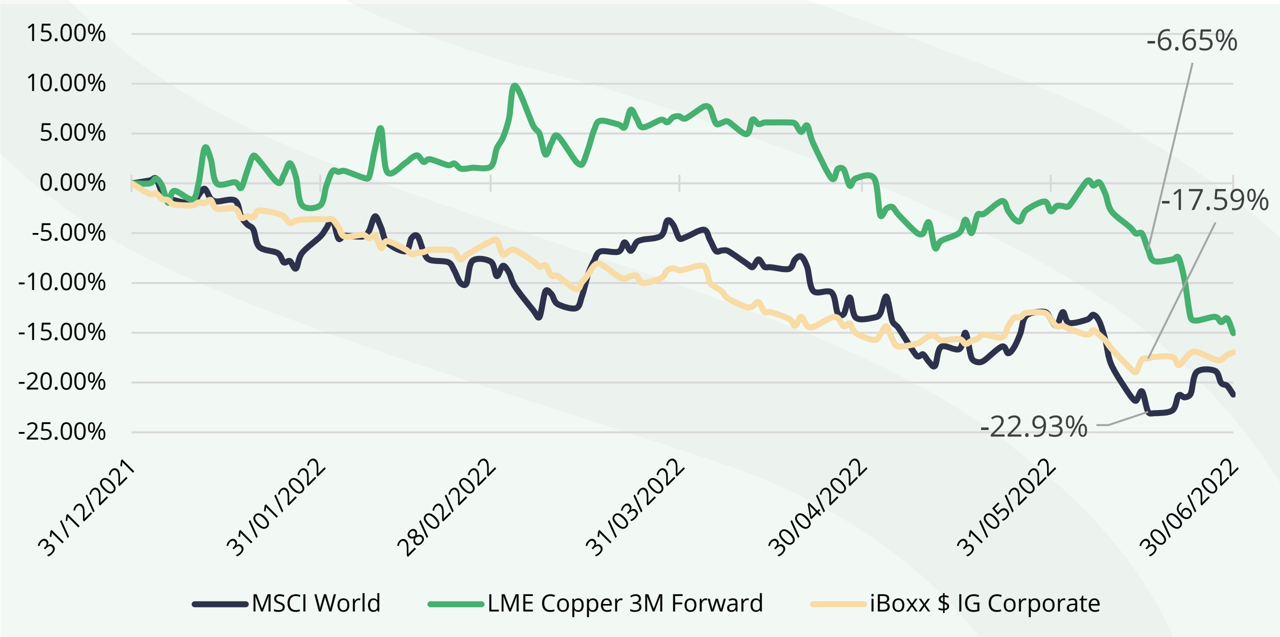
Various forecasting tools/indicator are always rolled out at this point (yield curve inversions, falling leading indicators, animal bones and entrails), some more robust than others in predicting an actual recession.

The fact is it could be "priced" into markets already, given the widespread coverage and near consensus expectations.

Financial markets are starting to reflect this increasing risk, evident through falling equity and commodity prices and rising credit spreads.

Debate centres around will it be a normal recession or deep and prolonged. Could assets fall more, yes, will they fall forever, unlikely.

Recession getting priced? – Equities, Commodities & Credit



Source: Setanta / Bloomberg

Either way, investing during recessions, will likely lead to acquiring assets at good values. Which will increase expected returns.

Recessions should be expected as part of the normal business cycle, and where possible taken advantage of, with a long term investing horizon in mind.

David Ryan, CFA, Head of Multi-Asset Funds

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 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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