

Setanta Managed Fund

Q3 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 was down -3.5% (net of fees) over the third quarter, bringing the year-to-date return to -12.7% (net of fees). This is now three quarters of negative returns.

Both main asset classes, Global equities and Government bonds continued their downward trajectory. As price multiples header lower and bond yields drifted higher.

(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

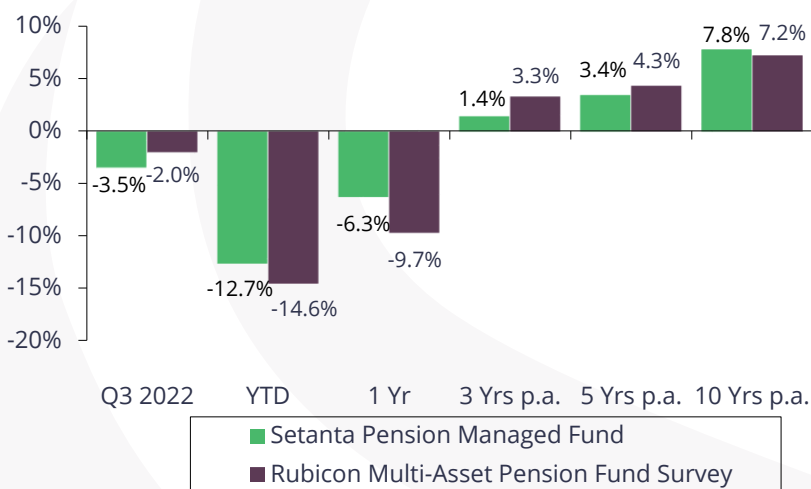
We consider scenarios rather than making forecasts

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 – 30.09.22 (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.

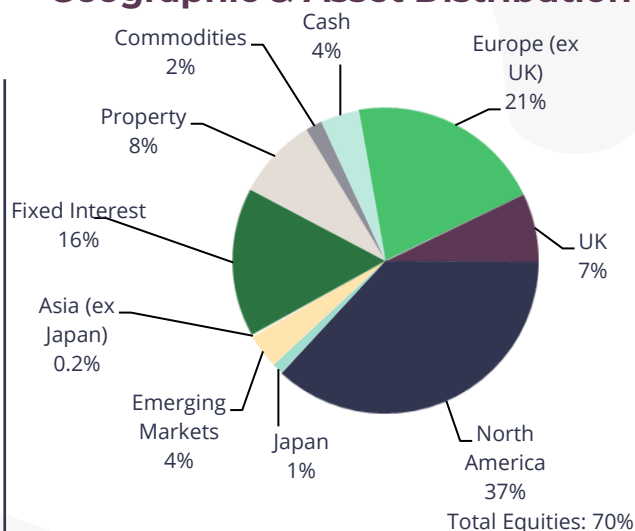
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	3.0%
BERKSHIRE HATHAWAY	FINANCIALS	2.5%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	2.1%
ALPHABET INC	CONSUMER DISCRETIONARY	2.1%
JOHNSON & JOHNSON	HEALTHCARE	2.0%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.9%
ORACLE CORP	INFORMATION TECHNOLOGY	1.8%
KEYSIGHT TECHNOLOGIES	INFORMATION TECHNOLOGY	1.6%
JOHNSON CONTROLS	INDUSTRIALS	1.5%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.4%

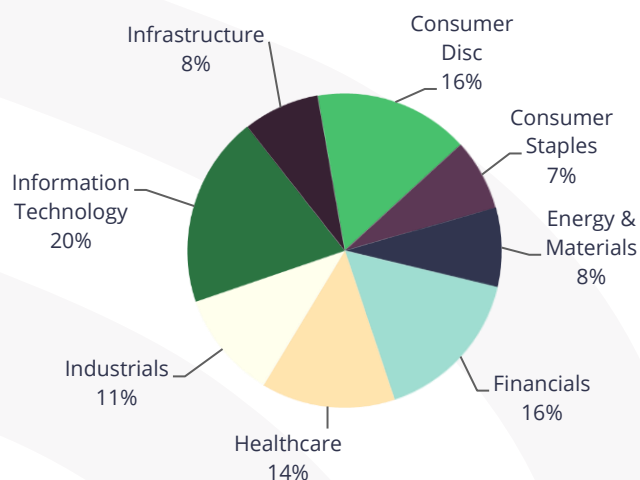
Yearly Performance

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

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	20.9%	22.7%
AA	50.5%	38.9%
A	10.6%	15.9%
BBB	18.0%	22.5%
	100.0%	100.0%

Commentary

Global equities were down by -2.90%, with the index marginally positive at +0.11%, underperforming by -3.01%. While European Government bonds were off even more at -6.72% versus an index return of -6.89%, outperforming by +0.17%.

Within our global equities, five of the eight sectors posted negative returns. Energy led with a return of +5.56%, with Telecoms & Utilities lagging at -9.06%.

Elsewhere in the portfolio, Emerging market debt and our credit exposure posted returns of +4.28% and +0.44% respectively, while Irish property was off marginally at -0.98%.

Key Contributors

- › Emerging Market Debt
- › Energy Sector

Key Detractors

- › Global Equities
- › Government bonds
- › Telecoms & Utilities Sector

Market Commentary

"I know you think you understand what you thought I said, but I'm not sure you realized that what you heard isn't what I meant"

Alan Greenspan, Former Chair of the Federal Reserve of the United States

"Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. While higher interest rates, slower growth, and softer labour market conditions will bring down inflation, they will also bring some pain to households and businesses."

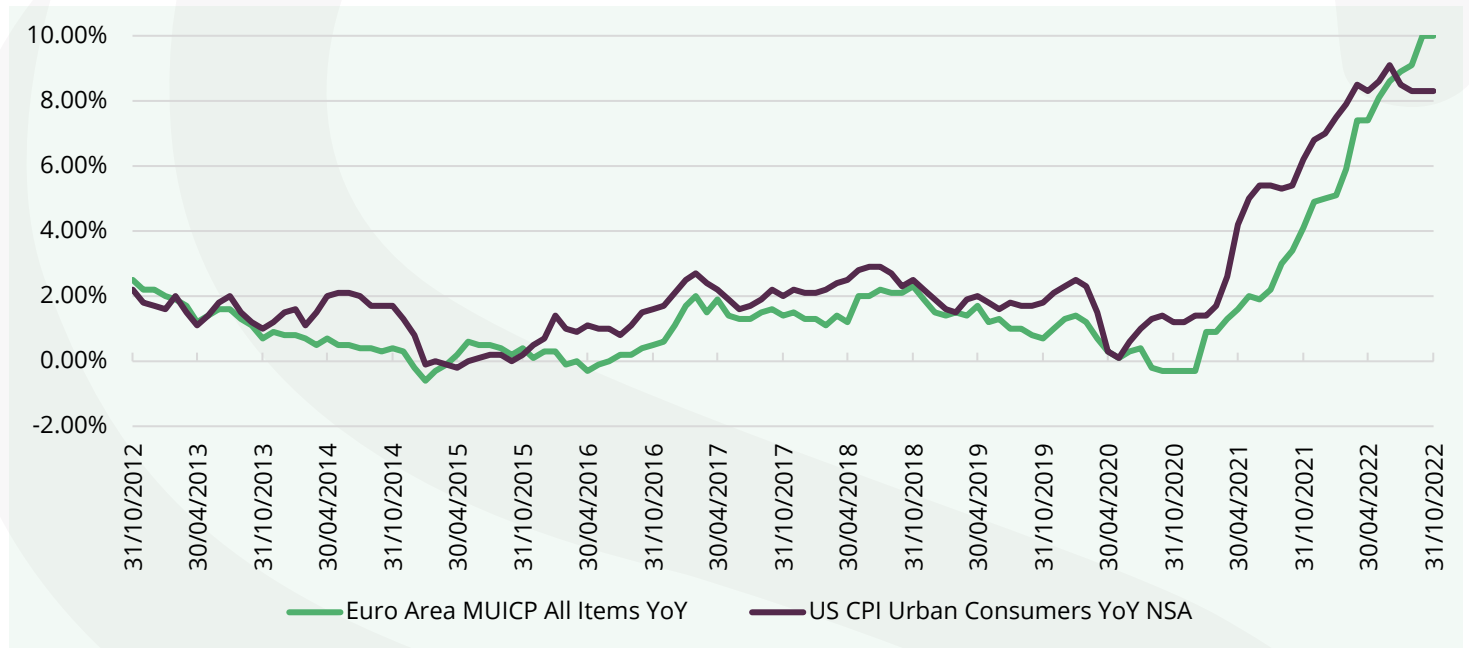
Jerome H. Powell, Chair of the Federal Reserve of the United States

Inflation, growth and central bank policy

It feels like a moderation in inflation, both headline and core, is needed for financial markets to post some positive returns. Investors remain fixated on the "Fed pivot" theory, moving between hope and despair, depending on expectations regarding when the Federal Reserve (Fed) will reverse course and start cutting rates.

Taking the quotations from the past and present Fed Chairs, you can see we have come a long way from the opaque comments from Greenspan – to the 'tell it as it is' doctrine from Powell. Given Powell's repeated explicit comments, a pivot would seem unlikely any time soon, failing a marked slowdown in inflation or elevated financial distress.

US and European inflation remains high



Source: Setanta / Bloomberg

On the growth front, the US housing market is slowing as higher mortgage rates reduce demand, while, in Europe, higher energy costs and inflation are continuing to dampen growth and negatively impact business and consumer confidence. These, along with other factors, have led to a rush to downgrade growth projections for next year.

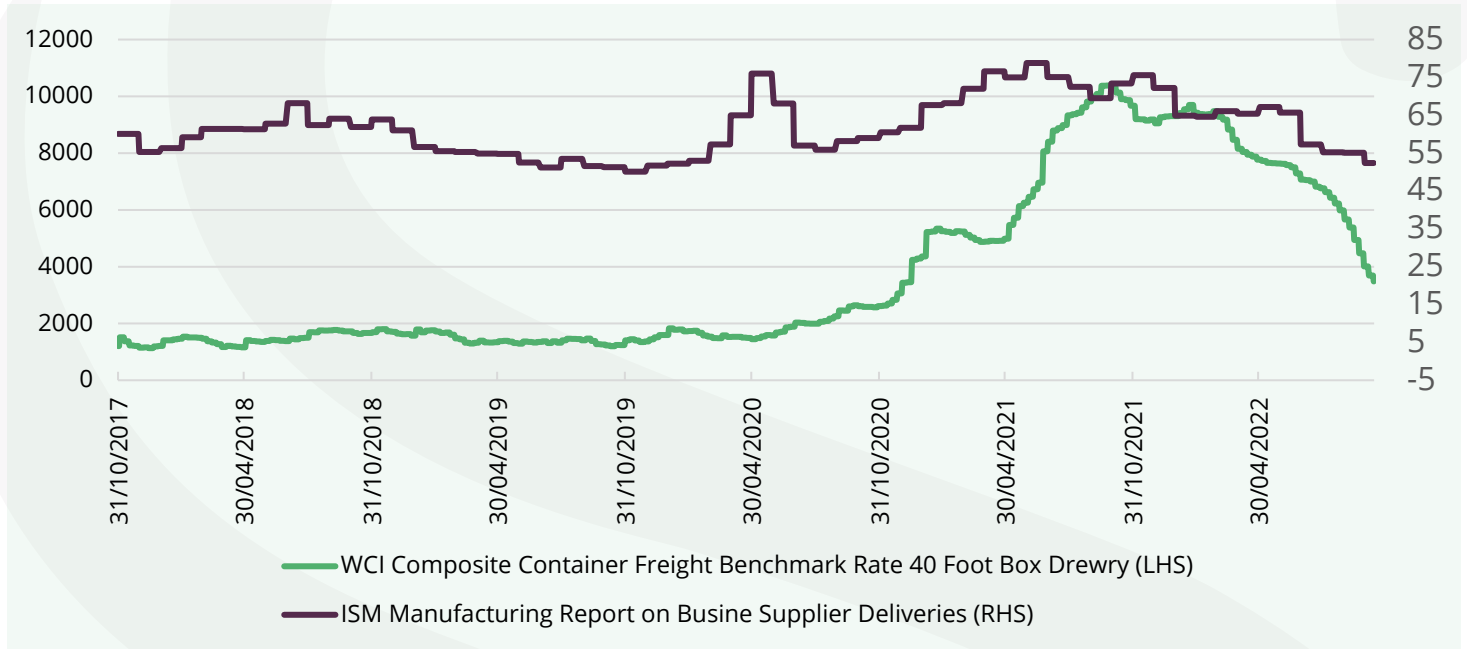
Central banks, nonetheless, are expected to raise interest rates further into year end, as already reflected in the various futures markets. While Powell's moves increase concerns of a looming recession as we enter 2023, they also help reduce frictions that were leading to higher prices.

Signs of inflation moderating

It is worth remembering that the effect of interest rate movements occur with a lag, so it is difficult in real time to judge the economic effects of the rate rises we have already seen. The underlying market hope is that inflation trends down and that the terminal interest rate will be lower than that currently priced.

There are already some encouraging signs, with evidence of supply chains starting to normalise, delivery times shortening and shipping costs returning to normal levels. Ongoing tightening of global monetary policy (higher interest rates and lower central bank balance sheets) and falling real incomes – which feed into lower consumption – should all help lower inflation over time.

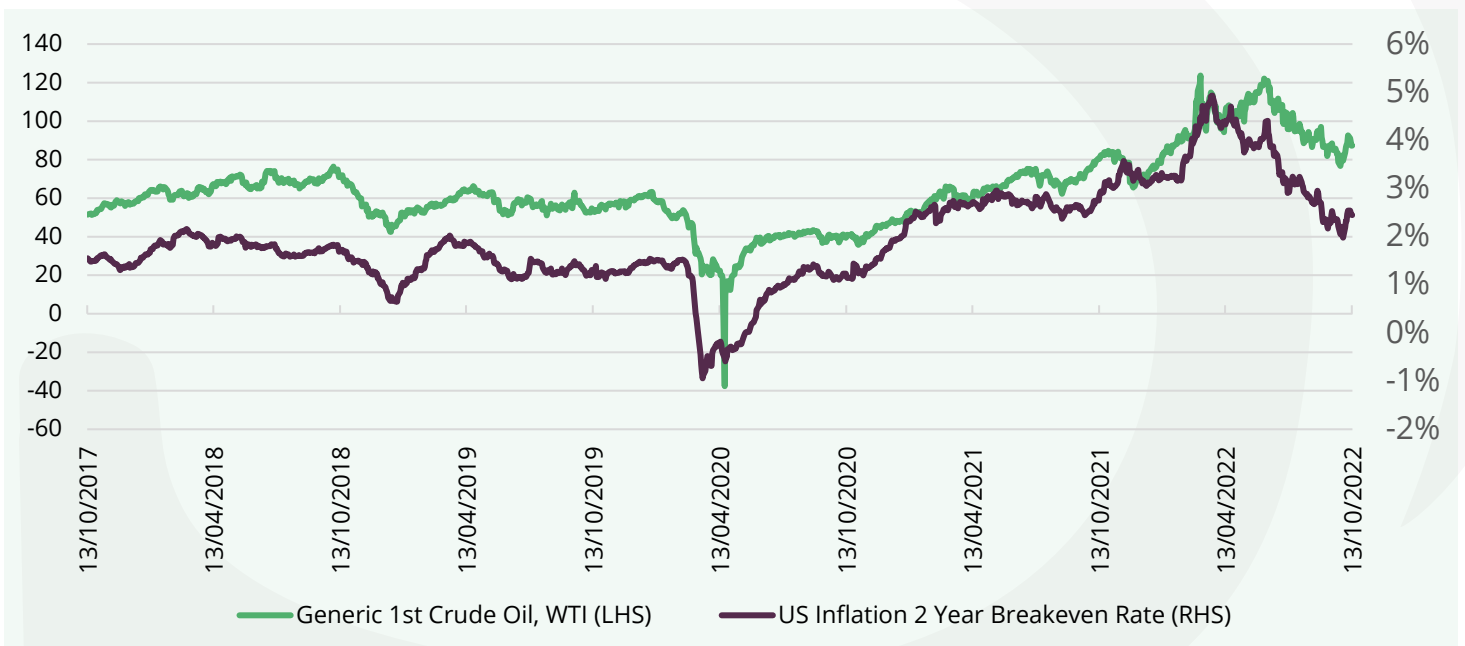
Supply chain issues moderating



Source: Setanta / Bloomberg

Nevertheless, a collapse to previous low inflation levels is unlikely in the near term. The recent move by OPEC+ alone – a large oil production cut leading to a jump in oil prices – will likely increase inflationary expectations in the near term, reducing positive base effects year-on-year.

Oil Price and short dated inflation expectations move in tandem

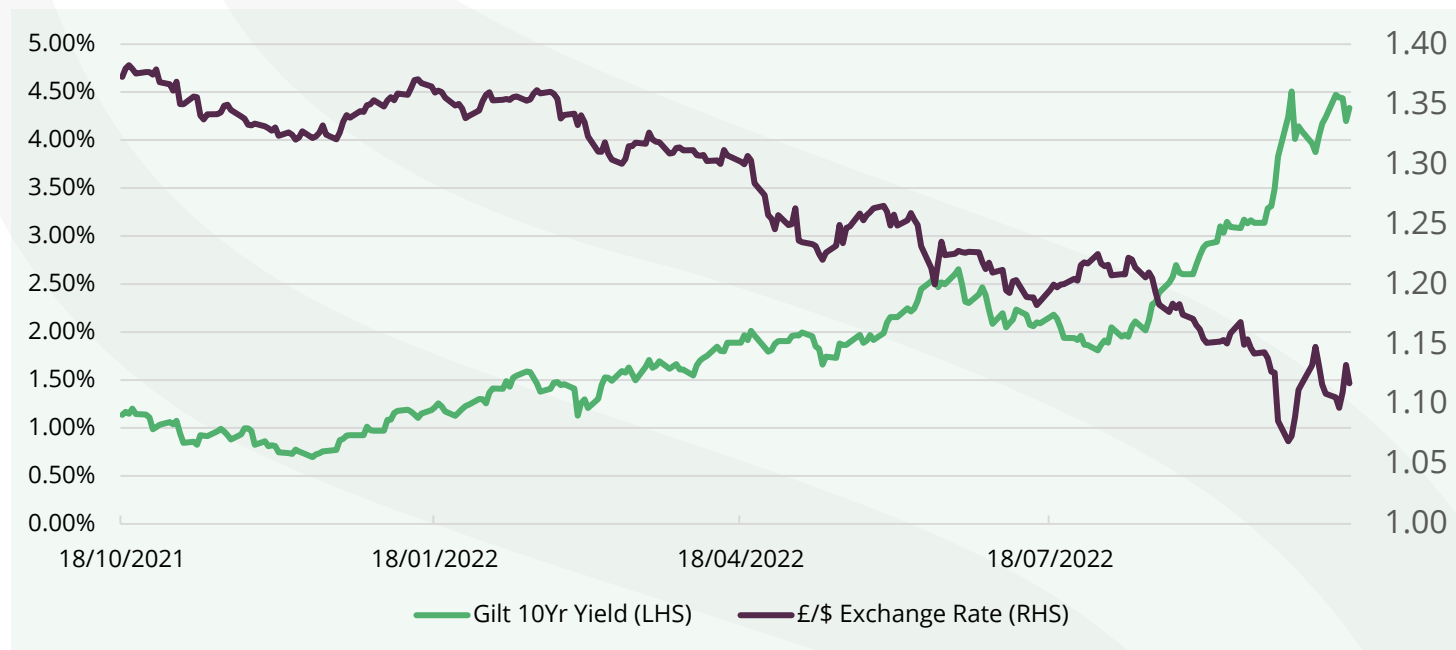


Source: Setanta / Bloomberg

Uncertainties loom over Europe

Volatility in the UK gilt market dominated government bond markets into quarter end. The 'mini-budget' proposed by the UK Government, with increased 'unfunded' spending, finally woke the 'bond vigilantes' from their slumber. Markets saw sharp selling of UK bonds and a loss of confidence in the currency, with volatility spilling over into other financial markets.

UK 10Yr Gilts and Cable (GBP/USD Exchange Rate)



Source: Setanta / Bloomberg

For some UK pension schemes, the abrupt rise in gilt yields was extremely worrying. Schemes came under immense pressure to put up cash to meet margin calls on derivatives used in their LDI portfolios, creating a negative feedback loop as assets were sold to generate collateral, thereby worsening the selloff. The Bank of England intervened, calming the bond market to some extent by announcing its intention to purchase gilts to manage the volatility.

This event highlights the level of risk and unpredictability not always obvious to the market, especially when you have sharp yield moves higher.

Continuing the theme of unpredictable situations, the European Gas Crisis looms large. The European gas price, despite remaining high, is significantly down from the peak in August amid the build-up in storage stocks – but markets may be too sanguine. The challenge remains more than filling storage or sporadically reducing consumption. A considerable change in energy supplies – diversifying suppliers and the mix of energy use – is needed, which may take several years.

Commentary

While there much uncertainty swirling around markets, history would suggest that uncertainty creates opportunities as well as risks in financial markets for investors. In the past, those willing to be patient, value sensitive and long term in nature have been able to take advantage of such challenging periods.

David Ryan, CFA

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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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