Setanta Income Opportunities Fund
Q4 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

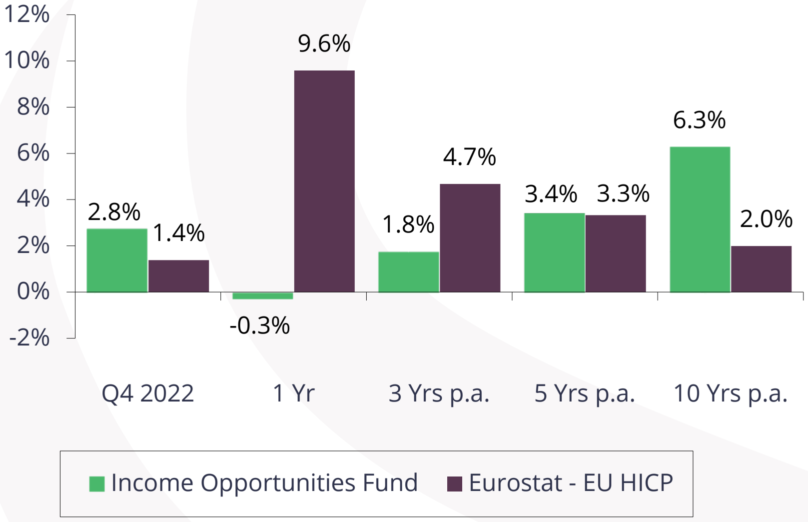
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

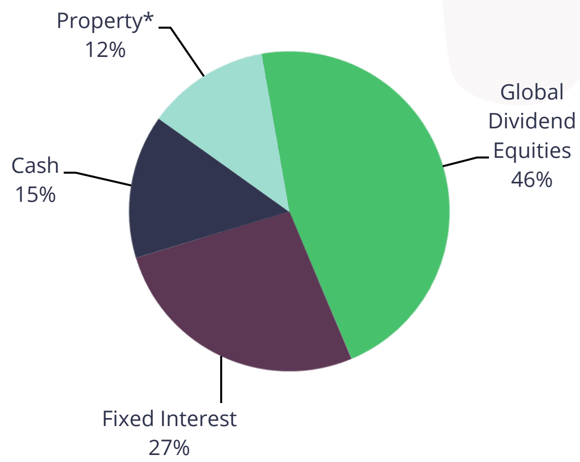
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Fund Performance – 31.12.2022 (EUR)



Asset Distribution



*includes 1.8% in IRES REIT

Yearly Performance

Year %	2018	2019	2020	2021	2022
Fund	-1.2	13.7	-5.6	11.9	-0.3
Benchmark	1.6	1.1	-0.3	5.0	9.6

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.

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
PROCTER & GAMBLE	CONSUMER STAPLES	2.1%
UNILEVER PLC	CONSUMER STAPLES	2.0%
SANOFI	HEALTHCARE	2.0%
SAMPO OYJ	FINANCIALS	2.0%
JOHNSON & JOHNSON	HEALTHCARE	1.9%
NWS HOLDINGS	INDUSTRIALS	1.8%
MEDTRONIC PLC	HEALTHCARE	1.7%
BANGKOK BANK	FINANCIALS	1.7%
AIR LIQUIDE	ENERGY & MATERIALS	1.7%
SK TELECOM	INFRASTRUCTURE	1.5%

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%
2022	4.4%

Commentary

After many years of generally rising financial markets, and accommodative monetary and fiscal policy, events truly took a turn in 2022. Amidst casualties estimated in the hundreds of thousands and the displacement of millions of people, Russia's invasion of Ukraine has reawakened thoughts of the last great conflict on the European continent as well as memories of the Cold War years when nuclear confrontation was an ongoing fear. In practical terms, it has added to strains in the global economy, not least in the form of a shock to energy, and other commodity, markets exacerbating prior supply chain issues and leading to a substantial rise in inflation, which neared 10% in many countries. As we have noted in previous commentaries, the world's monetary authorities have responded aggressively to the substantial rise in inflation. China's zero-COVID policy, entailing rolling and widespread lockdowns, persisted through most of the year, while its behaviour on the world stage became increasingly assertive, emboldened by the election of Xi Jinping to a third term as the country's leader. In response, the USA, and some other countries, have sought to reduce their manufacturing exposure to China, while Russia has become a pariah in the view of the vast majority of countries. This all adds to a sense that the 'western order' of the world, incorporating a settled post-Cold War geopolitical equilibrium; globalisation; and the great (inflation) moderation of the pre-pandemic 21st century has been upset.

To this backdrop, financial markets were weak. The broader equity market, as measured by the MSCI World Index, fell 13%, its worst calendar-year performance since the Great Financial Crisis. Bond markets, in many cases, recorded worse outcomes. European government bonds and European investment grade corporate bonds fell 17% and 14% respectively, as measured by broad bond indices.[1] These were, by some margin, the worst calendar-year outcomes for both indices in the past decade. A notable feature of 2022 was the correlation between equity and bond markets; having commenced the year with low yields, the bond market was unable to offer a safe haven in contrast to many previous periods of stock market declines. Whatever safety there was could be found in the U.S. dollar, which strengthened against most major currencies over the course of the year. While of no direct relevance to the Fund, the implosion of much of the crypto universe was perhaps unsurprising given the lack of cashflow support to many of its related assets (e.g. 'non-fungible tokens') and an absence of regulation, as evident from the collapse of some of the crypto-based alternative financial systems.

Key Factors in Fund Performance

The Income Opportunities Fund ('The Fund') posted a total return of -0.3%. While below Eurozone inflation (10% for the year, the highest level in 25 years, by some distance), this was substantially better than the key financial markets, as outlined above.

The Fund's equity portfolio maintained its value in 2022, illustrating the strength of income-oriented investments in a year in which the end of the 'easy money' era confronted the market. The Fund particularly benefitted from strong total returns posted by Swedish Match, a leading smokeless tobacco and oral nicotine company, which was acquired by Philip Morris International, and by Exxon Mobil, the oil and gas company. Exxon profited from higher commodity prices 'upstream' as well as increased refining margins 'downstream', driven by the substantial increase in prices of oil products, such as diesel and jet fuel, in the aftermath of Russia's invasion of Ukraine. The main detractors from the equity performance were DCC and IRES. DCC struggled in the face of market concerns in its ability to adapt its energy business from the distribution of fossil-fuel energy products, such as heating oil and liquid petroleum gas, to renewable energy businesses, such as the installation of solar panels and heat pumps. IRES, an Irish residential REIT, found itself facing ever increasing regulation, due to ongoing concerns about the cost of housing in Ireland.

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[1] ICE Bank of America All Maturity All Euro Government Index; ICE Bank of America Euro Corporate Index.

Commentary

The Fund's bond portfolio only fell 1%, representing a very strong performance in a poor year for bonds, as noted above. While facing a significant headwind in the form of rising interest rates, the bond portfolio gained from strong performances in its dollar-denominated bonds, above-average coupons, and short maturities. In addition, the portfolio benefitted, relative to the wider market, through the acquisition of bonds on an opportunistic basis during the first half of the year. The Fund's investment in Irish property, mainly prime office and prime retail, posted a small positive total return.

Major Changes to the Fund

At year end, 48% of the Fund's assets were held in equities; 27% in bonds; 14% in cash and 12% in property (including REITs). We materially increased the Fund's bond weighting during the year, taking advantage of the generally sharp rise in yields, to add a number of new issues, including those of **Ericsson**, the communications equipment company and **Owens-Illinois**, a globally-leading glass manufacturer. On the equity side, as previously noted, we added **SGS**, **Allianz**, and **Toronto Dominion** to the portfolio. In addition, we acquired **Boliden**, a Nordic miner and 'smelter' of metals; **CRH**, the Irish-based global provider of building products and services; **The Home Depot**, a leading home improvement provider in North America; **Exelon**, a provider of electricity transmission and distribution in USA; and needing no introduction, **McDonalds**, one of the strongest franchise businesses anywhere.

We sold a number of stocks from the fund, one of which was **Intel**, a designer and manufacturer of semiconductors, primarily for use in personal computers and servers. The remaining stock 'exits' from the Fund were all due to corporate actions, directly through two takeovers, and, indirectly through two 'spin-offs'. Both **Swedish Match** and **Zardoya Otis**, the Spanish based elevator company, were acquired by third parties. **Haleon** and **SK Square**, which were demerged from Fund holdings' GSK (Glaxosmithkline) and SK Telecom respectively, were sold after brief holding periods in both cases. During the year, a number of the Fund's smaller bond holdings were fully redeemed upon maturity, as well as a larger position in **Teva**, the Israeli pharmaceutical company.

Income Generation

The Fund achieved an income yield of 4.3% in 2022, exceeding its stated target. This was the best outcome in more than five years Dividend income, roughly half of the income generated, benefitted from strong ordinary dividend growth (we estimate this to be around 4%) as well as special dividends from three holdings: Sampo, Merlin and Richemont. The Fund's income-generating ability is particularly profiting from the increase in its bond weight in recent years. Its bonds contributed just under 1% to income, reflecting an average coupon yield of 3.8% in 2022. In addition, the Fund benefitted from higher implied volatility in the market, enabling a good level of option income. Indeed, the Fund received material contributions, all at least 0.5%, from each of bonds; options; and property. This broad range of income sources provides flexibility in the endeavour to achieve the Fund's dual objective of material income generation and capital preservation and growth over the long-term. Reflective of the changing times the interest rate on cash turned positive during the year following years of negative interest rates. For 2023, the Fund's income target is 4%.

**All figures relating to stock and index performance are in Euro terms, unless otherwise stated; those relating to fund performance are also gross of fees, unless otherwise stated. This commentary relates to the lead Setanta Income Opportunities Fund, IEC 7602.*

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Co-Lead Portfolio Managers

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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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