# Setanta Managed Fund

Q1 2023

## 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 delivered positive returns over the period (+2.8%), as Global equities (+4.1%), and Emerging Market debt (+3.8%) benefitted from the upbeat start to the year.

Our global equites did lag the benchmark return (+5.8%) however, underperforming by -1.7%. Value stocks faltered, as banking contagion didn't permanently harm other markets, supporting a risk on environment.

*(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

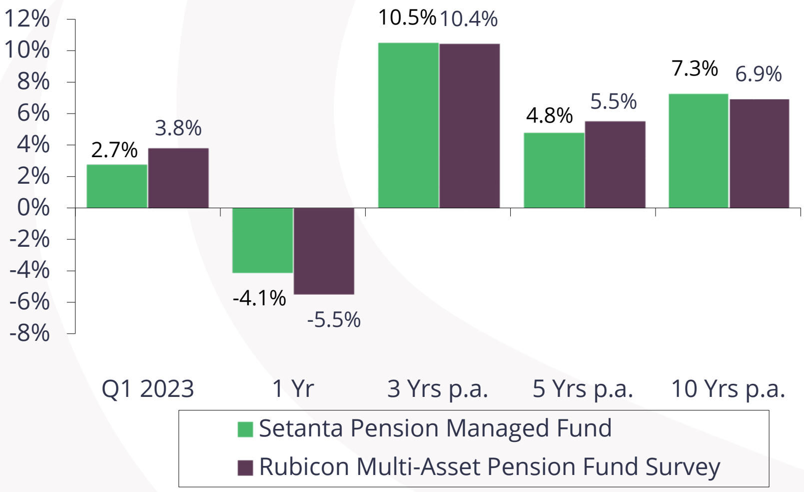
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

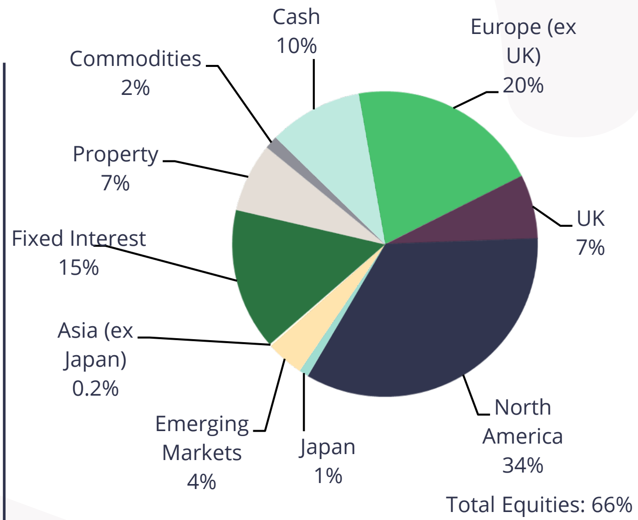
We will act with integrity in everything we do

## Fund Performance – 31.03.2023 (EUR)

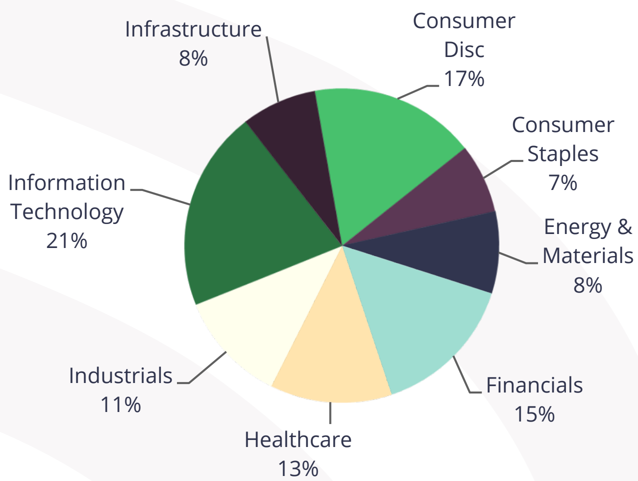



**Performance Source:** Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings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

## Geographic & Asset Distribution




## Equity Sector Distribution




## Top 10 Equity Holdings

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| MICROSOFT CORP | INFORMATION TECHNOLOGY | 3.0% |
| BERKSHIRE HATHAWAY | FINANCIALS | 2.3% |
| ORACLE CORP | INFORMATION TECHNOLOGY | 2.2% |
| MCDONALD'S CORP | CONSUMER DISCRETIONARY | 1.8% |
| BOOKING HLDGS | CONSUMER DISCRETIONARY | 1.8% |
| COSTCO WHOLESALE | CONSUMER DISCRETIONARY | 1.7% |
| ALPHABET INC | CONSUMER DISCRETIONARY | 1.7% |
| NIKE INC | CONSUMER DISCRETIONARY | 1.6% |
| SAMSUNG ELECTRONIC | INFORMATION TECHNOLOGY | 1.6% |
| JOHNSON & JOHNSON | HEALTH CARE | 1.5% |

## Fixed Interest Portfolio

| CREDIT RATING WEIGHTING | | |
|---|---|---|
| **CREDIT RATING TYPE** | **ASSET TYPE WEIGHTING** | **BENCHMARK WEIGHTING** |
| AAA | 22.8% | 22.7% |
| AA | 43.5% | 38.2% |
| A | 10.2% | 16.1% |
| BBB | 23.5% | 23.0% |
| | **100.0%** | **100.0%** |

## Yearly Performance

| Year % | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** | -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 | -9.0 |
| **Benchmark** | -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 | -12.8 |

SETANTA Asset Management

# Commentary

The Industrial and Materials sectors performed strongly (+10.2%), along with Consumer Discretionary (+9.8%), as the global economy remains resilient to the lagged effect of interest rate moves.

While Financials (-3.2%) and Healthcare (-3.2%) sectors lagged, due to concerns around US regional banks after the largest bank failure since the Global financial crisis and a risk on environment potentially benefitting from negative positioning.

Property, direct local commercial (-2.0%) fell. Headwinds mounted with higher capitalization rates (pushing prices down), higher interest costs (squeezing operating margins) and uncertainty around the future use of real estate (increased vacancies), with few tailwinds evident for now.

European government bonds (+2.9%) and credit (+0.9%) delivered low single digit returns, as yields and spreads were well behaved, contributing to the overall positive returns.

Equities were reduced by 5% mid quarter, as valuations look stretched. With monies allocated to cash for now, but likely being allocated to bonds, both Government and Credit over the near term as yields and credit spreads widen.

## Market Commentary

Over the quarter global growth surprised positively, with strong US and European business survey data, falling energy prices and a rapid rebound in China post reopening from zero-Covid.

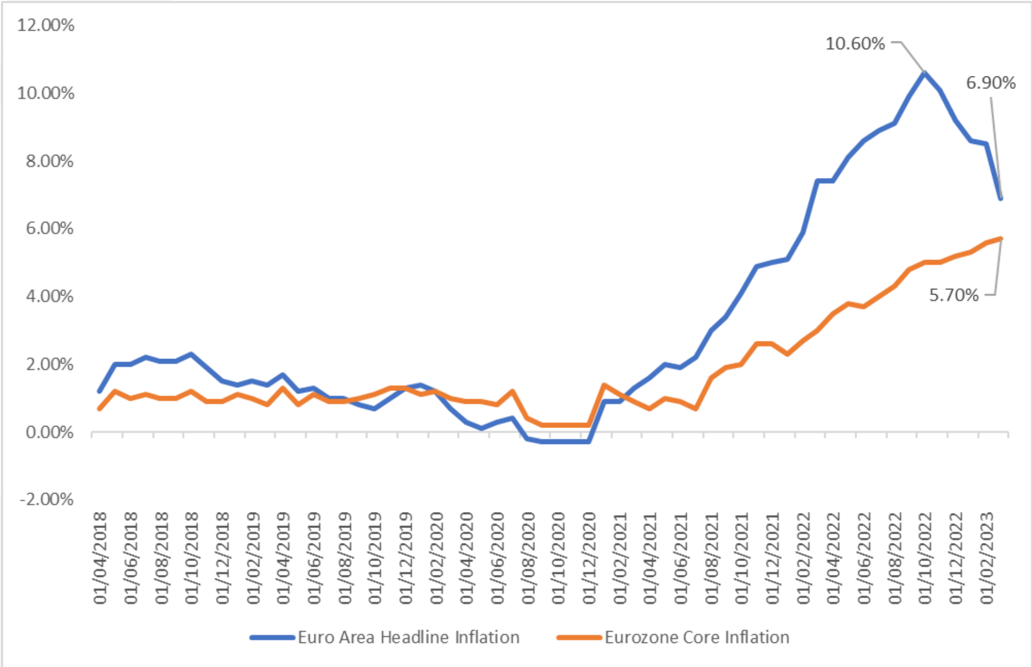
However, geopolitics remain challenging, with the war in Ukraine and ongoing trade tensions between the US and China.

Markets started strong, rallying in January, as headline inflation declined, increasing prospects of easier monetary policy.

Both subsequently fell on strong economic data, which coupled with sticky core inflation forced a reassessment of interest rate expectations, pivoting towards higher rates for longer.

Underlying inflation remains high, driven by domestic factors such as expensive services, with concerns wage recent growth remains inconsistent with the ECB's 2% inflation target.

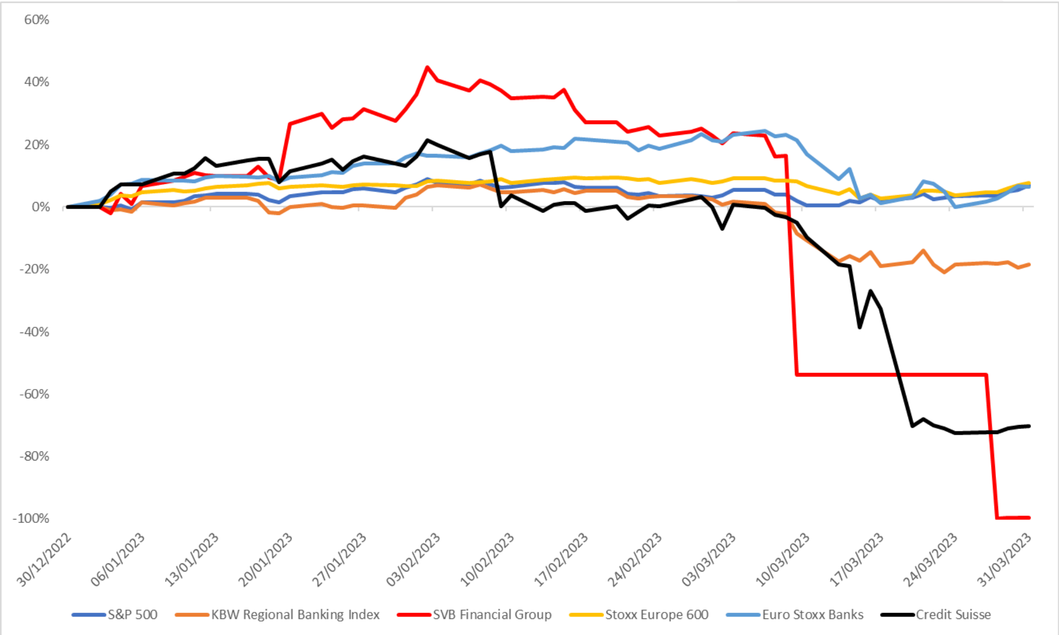
## Underlying Inflation "Sticky"




*Source: Setanta / Bloomberg*

The collapse of Silicon Valley Bank and broader concerns around the financial sector towards the end of the quarter hit bank shares hard, leading to government bonds rallying, especially those most sensitive to central bank moves. The US 2 Year yield collapsed, with moves not seen since the global financial crisis.

## Banking contagion contained

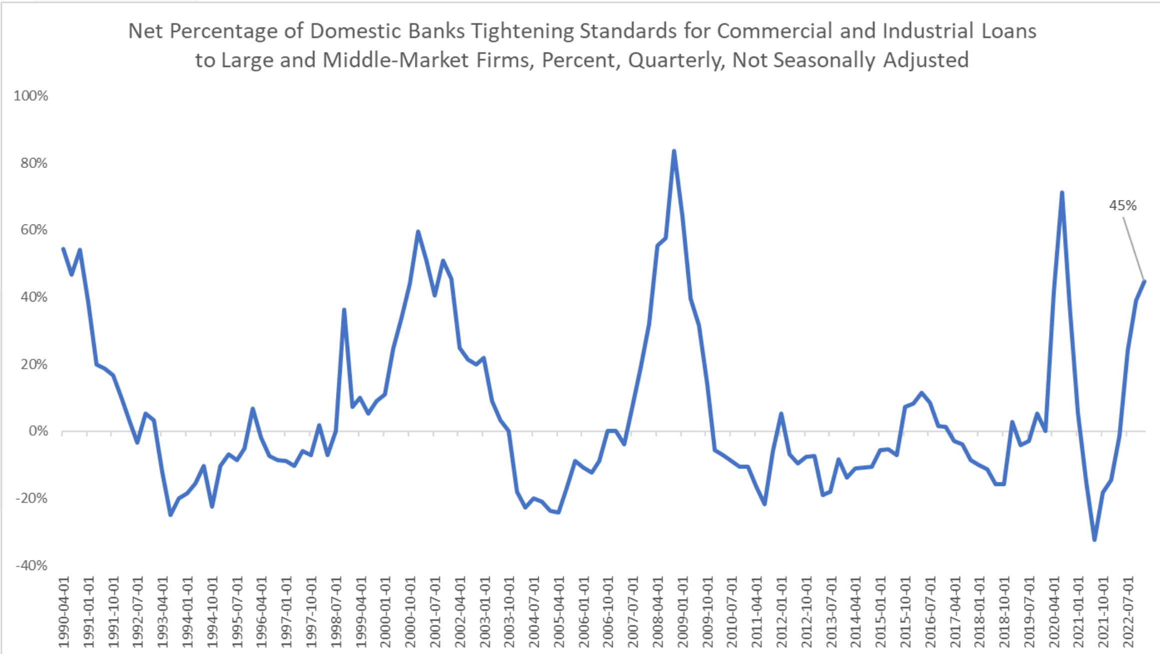



*Source: Setanta / Bloomberg - % Price Returns*

# Commentary

Though concern proved short lived in the broader markets, as indices manged to post positive returns for the quarter. With only specific names, and specific elements of the financial sector suffering the brunt of the selloff.

**US Banks were already nervous!**



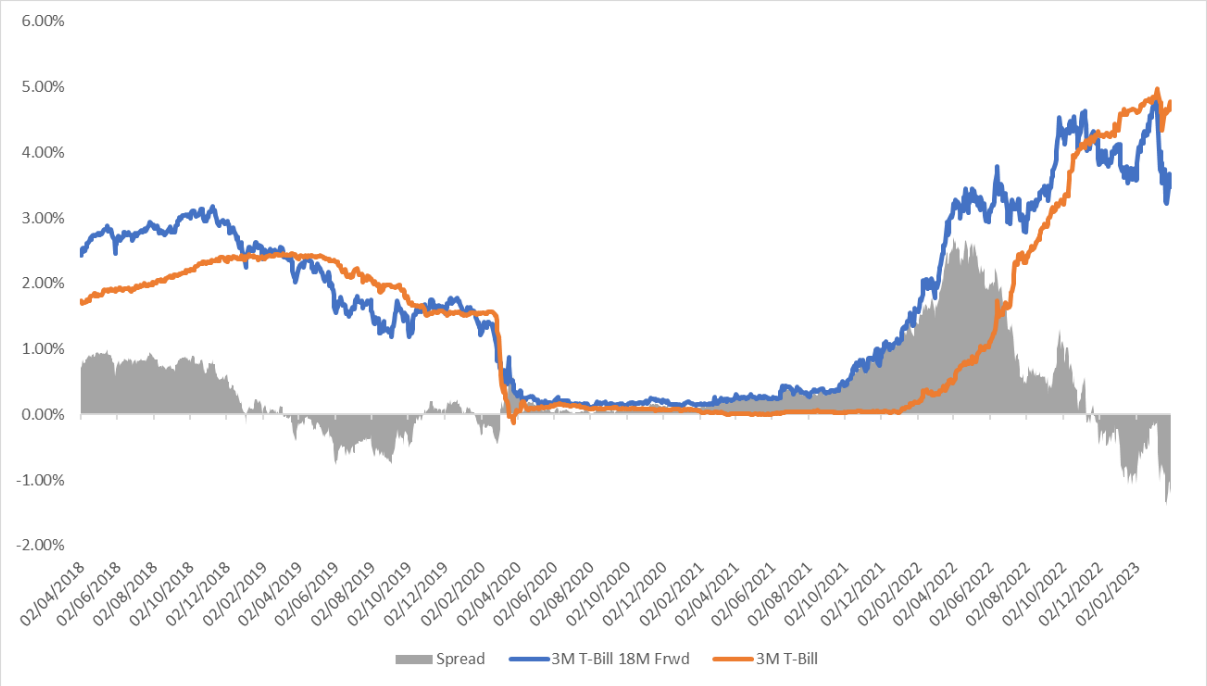

*Source: Setanta / Bloomberg*

That said, US banks had already started to tighten credit standards. Given the recent turmoil conditions should tighten further on higher costs of funds and greater regulatory scrutiny post the bank failures.

A deterioration in the availability of funding to the economy could make Central banks think twice about the magnitude of further interest rate hikes.

*"Frankly, there's good research by staff in the Federal Reserve system that really says to look at the short — the first 18 months — of the yield curve. That's really what has 100% of the explanatory power of the yield curve. It makes sense. Because if it's inverted, that means the Fed's going to cut, which means the economy is weak."* — Fed Chair Powell on March 21, 2022

Taking Powell at his word, there is already a steep inversion in the short end of the US Yield curve, possibly signalling a recession and rate cuts within the next year.

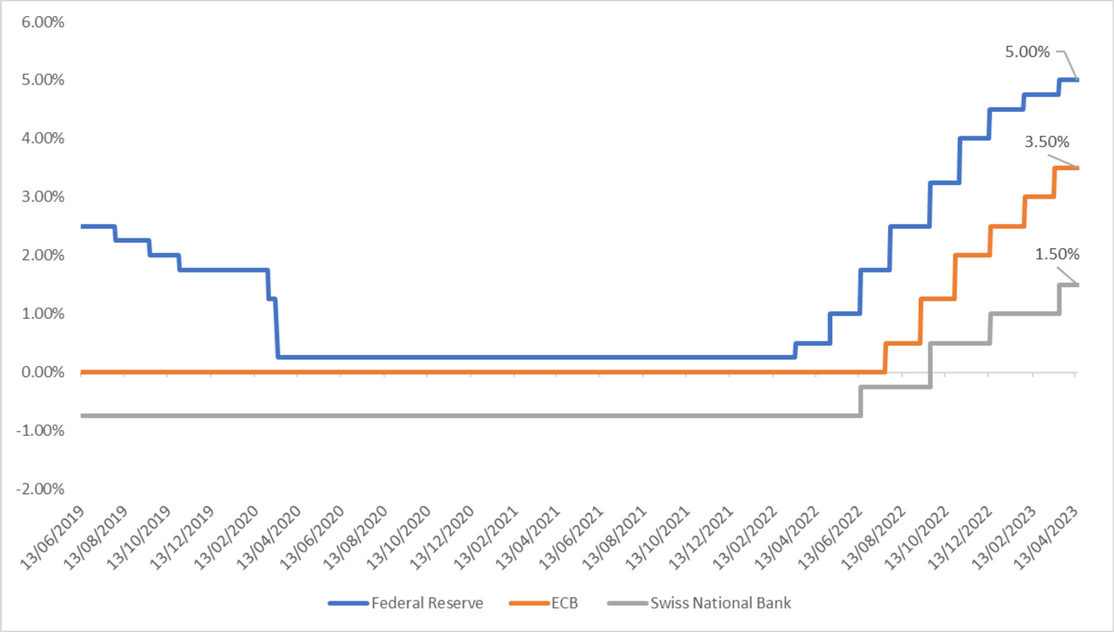



*Source: Setanta / Bloomberg*

The fall in bond yields boosted long duration growth stocks, with the hit to bank shares weighing on the performance of value stocks in general.

With growth resilient and core inflation high, the European Central Bank (ECB) increased rates despite the banking turmoil in the US and the collapse of Credit Suisse in Switzerland, with both the US and Swiss central bank following suit.

**<u>Inflation Mandate prevails!</u>**




*Source: Setanta / Bloomberg*

# Commentary

There was ample liquidity provided by the various central banks while remaining committed to their hiking schedules, highlighting the ability to be lenders of last resort while still combating inflation.

The fund remains well diversified, with a bias towards allocating to assets where valuations look attractive.

***David Ryan, CFA***

***Head of Multi-Asset Funds***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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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