

# Setanta Income Opportunities Fund

Q2 2023

## 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

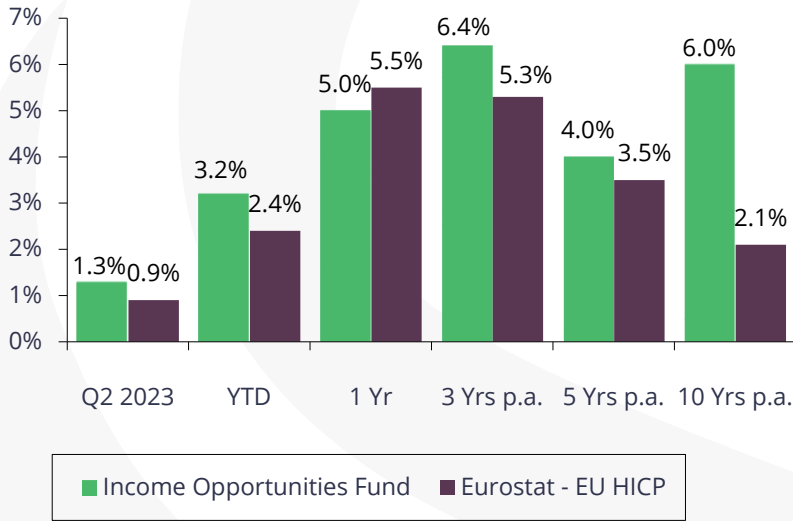
We consider scenarios rather than making forecasts

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 – 30.06.2023 (EUR)



## Yearly Performance

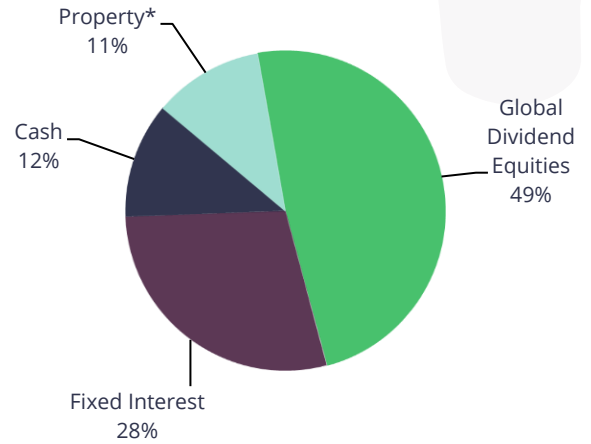
| Year %           | 2018 | 2019 | 2020 | 2021 | 2022 |
|------------------|------|------|------|------|------|
| <b>Fund</b>      | -1.2 | 13.7 | -5.6 | 11.9 | -0.3 |
| <b>Benchmark</b> | 1.6  | 1.1  | -0.3 | 5.0  | 9.6  |

**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 |
|----------------------|--------------------|-----------|
| NWS HOLDINGS         | INDUSTRIALS        | 2.2%      |
| PROCTER & GAMBLE COM | CONSUMER STAPLES   | 2.1%      |
| AIR LIQUIDE(L')      | ENERGY & MATERIALS | 2.0%      |
| UNILEVER PLC         | CONSUMER STAPLES   | 2.0%      |
| MEDTRONIC            | HEALTH CARE        | 1.9%      |
| SANOFI               | HEALTH CARE        | 1.9%      |
| CRH                  | INDUSTRIALS        | 1.8%      |
| JOHNSON & JOHNSON    | HEALTH CARE        | 1.8%      |
| SAMPO                | FINANCIALS         | 1.6%      |
| NOVARTIS             | HEALTH CARE        | 1.6%      |

## Asset Distribution



\*includes 1.4% in IRES REIT

## Historic Income

| Year | 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%                          |

## Income Opportunities Fund – Q2 2023 Commentary

During the quarter we acquired Sonova, a Swiss-based manufacturer of hearing aids and cochlear implants that supplies the wholesale and retail market globally. In most markets hearing aids are regulated as medical devices for which Sonova has earned a good reputation in clinical performance with audiological prescribers. Indeed, the top four players in the industry have retained over 80% of the global market for over a decade.

Technological advancements have facilitated superior sound performance, comfort and enhanced battery life in what are increasingly small devices. Nevertheless, a high touch service with significant aftersales support, facilitated by physical retail stores and qualified audiologists, has traditionally been, and for the most part continues to be, required by customers as they adjust to life with their new devices. It now also has a digital offering in place should the lines between physical and digital marketplaces blur.

Steady growth in the hearing aids market is supported by an ageing population, improvements in healthcare in emerging markets, and a broadening in training of those who can dispense hearing aids. The 4-5 year replacement cycle and quelling of negative stigma associated with their clunky ancestors through miniaturisation are also helping to increase demand.

Sonova generates pre-tax profits in the region of 20% of sales and double-digit return on invested capital. With a dividend, yielding 2% at purchase, that has grown in every year barring the global financial crisis and the COVID pandemic, we were pleased to add Sonova to the Fund.

The Fund increased in value by 1.3% during the quarter. The largest positive contributor to this performance was NWS, a Hong-Kong listed company with interests in Hong Kong and mainland China. Its main businesses are road concessions, construction, insurance, and logistics. NWS's ultimate controlling shareholder has made an offer for the entire company, equating to a 20% premium over its undisturbed share price. Boliden, an integrated miner, was the main detractor from the Fund's performance, its share price falling on the back of operational mishaps as well as weak zinc prices.

**Richard Doyle, CFA, David Pastor, CFA & Caroline White, CFA**  
**Co-Lead Portfolio Managers**

*\*All figures, unless stated otherwise, are in euro terms; all figures relating to performance are gross of fees, unless stated otherwise.*





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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](http://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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