

Setanta Income Opportunities Fund

Q3 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

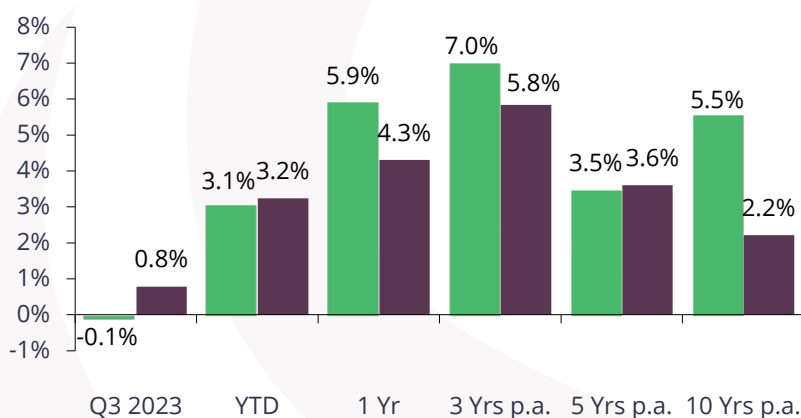
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

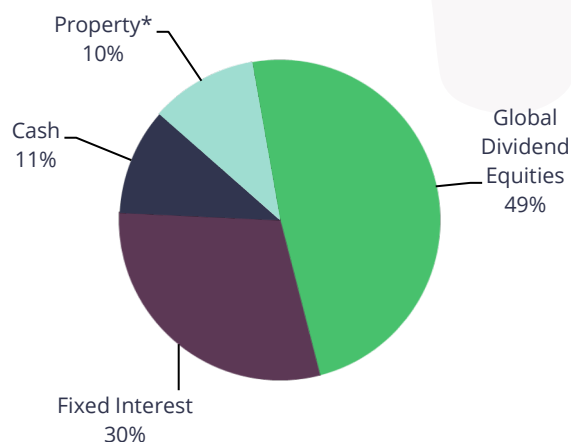
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Fund Performance – 30.09.2023 (EUR)



Asset Distribution



*includes 1.5% 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 COM | CONSUMER STAPLES | 2.1% |
| UNILEVER PLC | CONSUMER STAPLES | 2.1% |
| SANOFI | HEALTH CARE | 2.1% |
| AIR LIQUIDE(L') | ENERGY & MATERIALS | 1.9% |
| NWS HOLDINGS | INDUSTRIALS | 1.9% |
| CRH | INDUSTRIALS | 1.8% |
| SAMPO | FINANCIALS | 1.8% |
| MEDTRONIC | HEALTH CARE | 1.7% |
| NOVARTIS | HEALTH CARE | 1.7% |
| JOHNSON & JOHNSON | HEALTH CARE | 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

Income Opportunities Fund – Q3 2023 Commentary

During the quarter financial markets have encountered volatility as oil prices spiked over \$90 per barrel and interest rates continued to rise against a backdrop of inflation. As we meet with management teams and financial analysts, we are sensing uneasiness and uncertainty towards the near-term macroenvironment, underpinned by dampened industrial activity, a semiconductor slowdown and a likely deceleration in residential construction. While the outlook for financial markets and industrial activity over the short to medium-term remains mixed, we continue to manage the fund in a consistent and conservative manner. We focus not on predicting the macroeconomic picture but on understanding the fundamental credentials of our investments, taking a long-term approach.

When making equity investments, we prefer companies with strong balance sheets, believing that a solid financial foundation is a great starting point in withstanding whatever situation presents itself. We also tend to seek companies with a proven capacity and commitment to pay dividends as this tends to encourage a disciplined approach to cash and balance sheet management.

Oil major Exxon was one of the top equity performers over the period, buoyed by high oil prices and further supported by a substantial uplift in the medium-term outlook for its downstream operations. Following strong industry growth in recent years Exxon is generating substantial free cash flow, has reduced debt significantly and is returning cash to shareholders through a dividend which is more than 200% covered by earnings, in addition to a 3-year \$50b share buyback programme. Exxon boasts a rock-solid balance sheet, although we may see a temporary increase in leverage from current low levels if the recent rumours of a potential deal with Permian oil-producer Pioneer are confirmed.

During the quarter we acquired a position in Kone, an elevator manufacturer, based in Finland. We were already familiar with, and positively predisposed to, both Kone and the oligopolistic elevator industry in which it operates, through holding Zardoya Otis until it was acquired, and through prior knowledge within Setanta on Kone. In addition to equipment sales, where it enjoys negative working capital, Kone derives a substantial portion of revenues from lucrative maintenance contracts, and it has net cash on its balance sheet. Combined with its global scale these attributes enable Kone to be resilient regardless of the macroenvironment, to have good growth prospects and to deliver attractive return on capital employed (exceeding 20%). We took advantage of some weakness in the price to buy in at an ordinary dividend yield of over 4%. Since its demerger from Cargotec in 2005 Kone has not cut its dividend, and it has frequently also paid special dividends.

As a reminder, within our bond portfolio we hold a subset of bonds, chosen principally on the basis of their strong credit fundamentals and their income yields (these particular bonds are all rated as investment grade, analogous to a strong Balance Sheet for an equity). The bonds, issued by a mix of corporate, sovereign and government-linked entities, have maturity dates 'laddered' over the next eight years or so. Two of these corporate bonds matured during the period. We had owned a Bank of Ireland ('BOI') bond paying a 1.375% coupon which matured in August, and an ENI bond paying 3.25% coupon which matured in July. As with all of our corporate bond holdings, the issuers of these are well-known to us. In the case of these particular two issuers, we currently invest in their equity in other Setanta Funds. Taking advantage of a step up in rates we recycled the BOI bond into a 2028 BOI issue which bears a higher coupon rate of 4.875%



Commentary

In addition to a couple of small positions in REITs the Fund has property exposure through an investment in an Irish Property Fund. As interest rates have been rising and with sentiment increasingly negative towards the asset class, valuations have fallen. Property nevertheless continues to make an important contribution to the Fund's income generation.

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.*



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 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.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance