Setanta Managed Fund
Q3 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 fund fell -2.2% over the quarter.

The markets susceptible to rising rates struggled. As yields rose, our government bonds (-4.6%) and Emerging market debt fund (-0.7%) fell, though increased income through reinvestment should help to reduce the falling price effect over time. Our corporate bonds rose (+2.5%), as high relative income and short duration helped shield performance.

(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

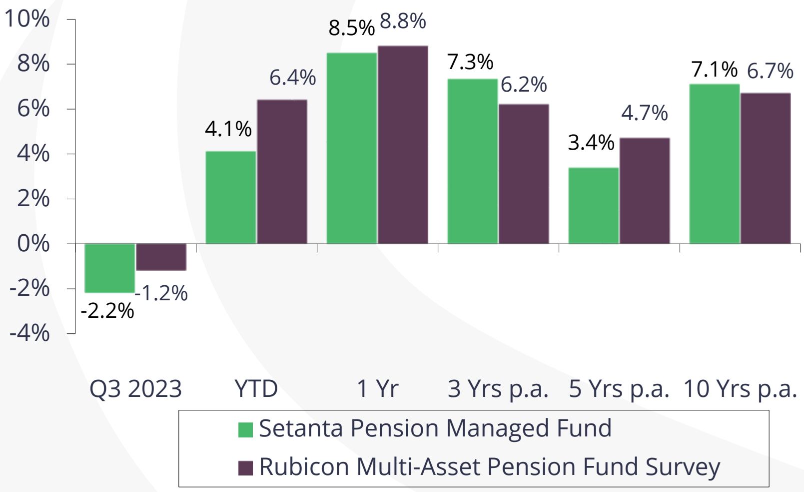
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

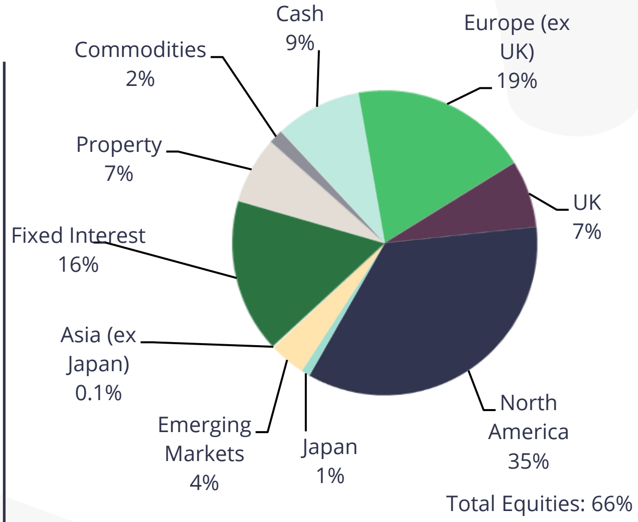
We will act with integrity in everything we do

Fund Performance – 30.09.2023 (EUR)

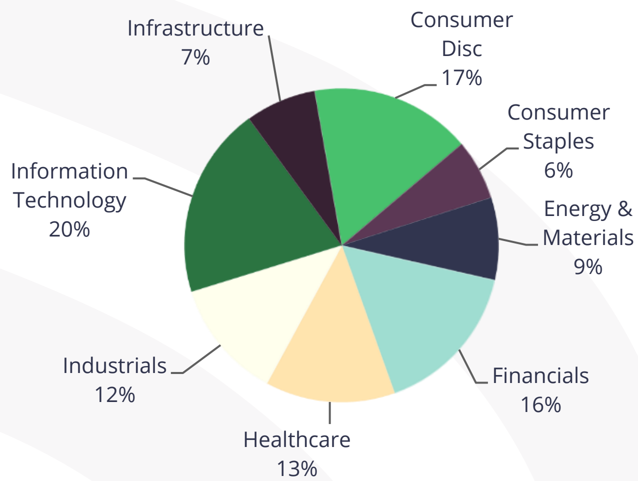


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings 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	3.1%
BERKSHIRE HATHAWAY	FINANCIALS	2.7%
ORACLE CORP	INFORMATION TECHNOLOGY	2.2%
ALPHABET INC COM	CONSUMER DISCRETIONARY	2.0%
BOOKING HLDGS	CONSUMER DISCRETIONARY	2.0%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	1.9%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.6%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.6%
S&P GLOBAL	FINANCIALS	1.3%
NIKE INC	CONSUMER DISCRETIONARY	1.2%

Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	22.5%	23.1%
AA	43.0%	38.2%
A	10.0%	16.0%
BBB	24.5%	22.7%
	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

Equities fell (-2.3%) as concerns grew that rising interest rates could force price multiples lower, increase the cost of capital hurting margins, and economic growth could soften.

Elsewhere our general underweight to some of the larger technology names and some poor stock selection detracted from performance over the quarter.

Over the quarter, within equities I.T. (-9.2%) and Consumer Staples (-9.6%) were hard hit, while Energy (+5.3%) and Financials (+2.5%) fared better. Energy benefitted from a rising oil price, and financials look to benefit from a rising yield curve, which should help net interest margins.

Asset Allocation

Over the quarter, we allocated from global equities into European government bonds and from cash in Emerging market Local government bonds.

The move higher in government bond yields in developed and developing markets has made them a reasonable alternative at current yield levels.

We have seen real yields rise (Nominal yields minus inflation) from extremely depressed levels and yield curves bear steepen (longer duration bond yields rising more than short end duration bonds). This means the valuation level you are buying at is cheaper than previously.

Growth is likely to slow, and we have yet to really feel the effects from the aggressive hike in interest rates globally. On that basis taking some risk off in the portfolio seems prudent.

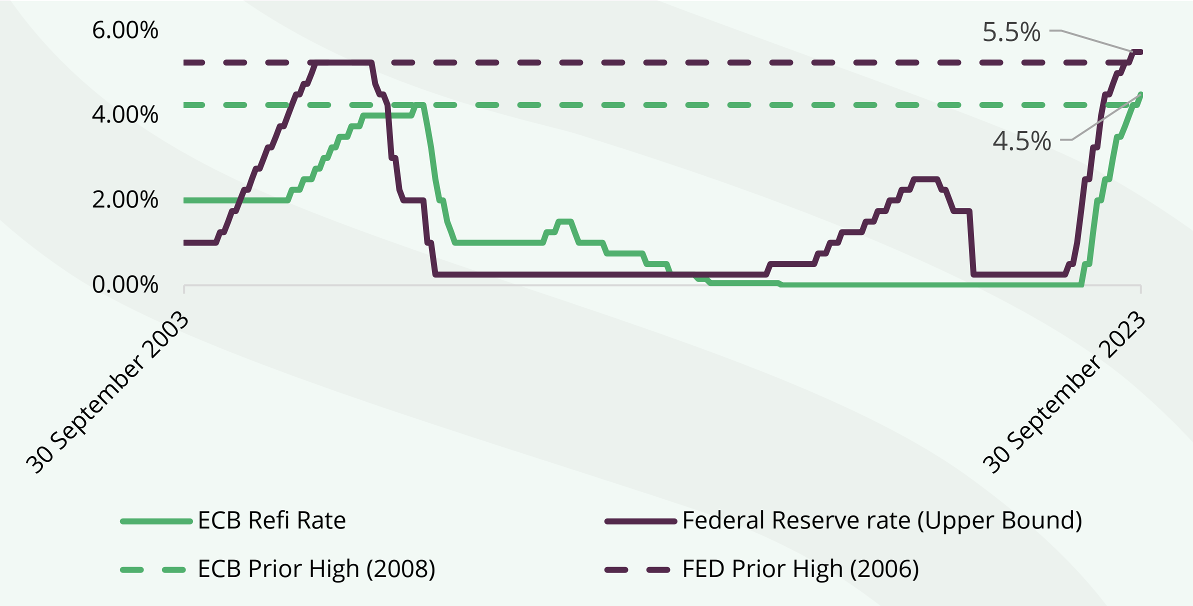
Market Commentary

Over the quarter, bond yields and interest rates reached new cycle highs both in the US and in Germany, with markets now potentially targeting a 5% yield in the US 10-year treasury and 3% in the German 10-year bund.

Central bank policy

Macro data and monetary policy reassessment drove the moves. Both the European Central Bank (ECB) and the Federal Reserve (Fed) hiked interest rates during the quarter. The Fed hiked the federal funds rate by 25 basis points (bps) to 5.50% and the ECB hiked twice, by 25bps each time, with its main refinancing rate ending the quarter at 4.50%.

ECB and Fed base interest rates



Source: Bloomberg/Setanta

The Federal Reserve delivered a ‘hawkish pause’ at the end of the quarter. Although they did not raise rates at the September meeting, they raised the bar for the prospect of interest rate cuts, and markets increasingly priced in the 'higher for longer' narrative.

The upside of the move higher in bond yields, especially longer dated bond yields, is that recent Fed comments indicate this may mean no further rate hikes are necessary – a notable pivot from what was said at Jackson Hole, their annual economic symposium.

The European Central Bank (ECB), through forward guidance, pointed to reliance on data dependency from here, with the door left well and truly ajar for further rate moves.

Good economic news is deemed bad news for rate cut expectations, and renewed fears of inflation remaining sticky are also expected to keep rates at high levels. Particularly concerning was crude oil staging a comeback over the quarter, rallying to over $90 per barrel and growing risks to food prices from El Niño affecting weather patterns and crop yields.

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"We have tightened policy significantly over the past year. Although inflation has moved down from its peak – a welcome development – it remains too high. We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective."

25 August 2023, 'Inflation: Progress and the Path Ahead', Chair Jerome H. Powell at 'Structural Shifts in the Global Economy', an economic policy symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming

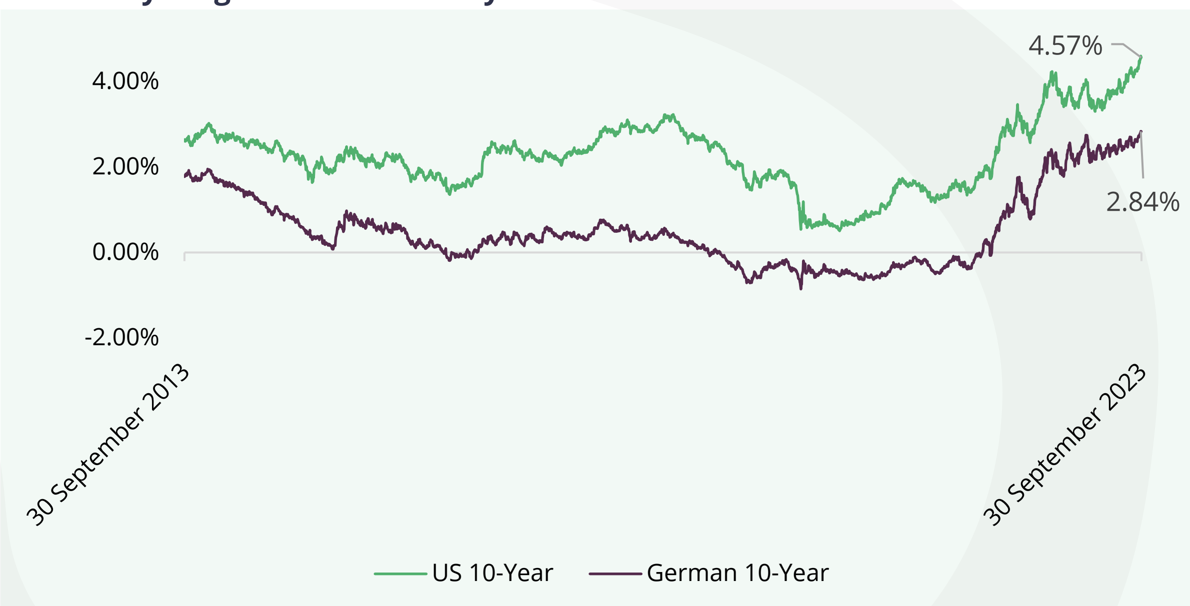
"...is the door open or is the door closed? You know, there was a beautiful theatre play by De Marivaux, who said that a door has to be either opened or closed. But this is theatre."

14 September 2023, monetary policy statement and press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt

Bonds

Longer duration bonds led the selloff in the US and Europe, resulting in a 'bear steepening' (the spread between short-term and long-term bonds widening due to rising long-term rates). Yields rose and prices fell across the yield curve, but with more of a move at the long end than at the short end. Markets finally priced in what central banks had been saying, that there will be no rate cuts in the near term.

German and US 10-year government bond yields



Source: Bloomberg/Setanta

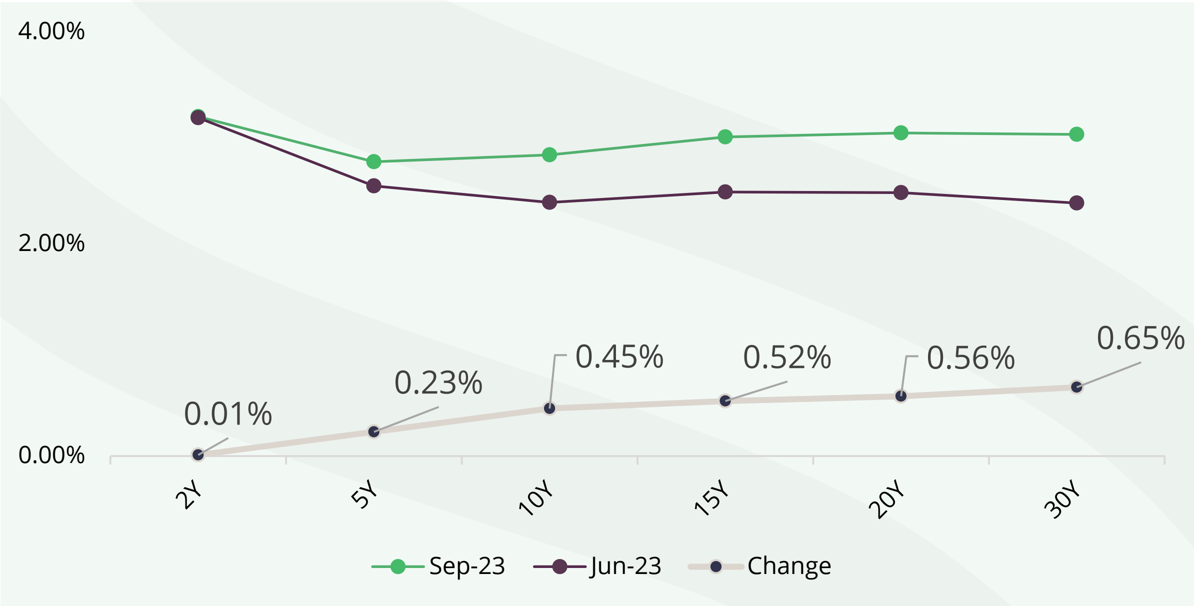
Commentary

The US yield curve steepened at one its fastest paces over the last 10 years, driven by a re-pricing higher of long-term real rates as markets lowered recession risk, with investors demanding more yield to lend for longer.

In Europe, widening sovereign spreads of peripheral debt led the steepening of the European yield curve.

Bond markets are also very aware of fiscal spending and large current deficits – the increased supply of bonds will help neither the supply/demand balance nor market sentiment. This has started to build 'term premium' back into the yield curve, where investors demand higher yields to compensate them for the risk that interest rates may rise over the life of a bond.

German Yield Curve

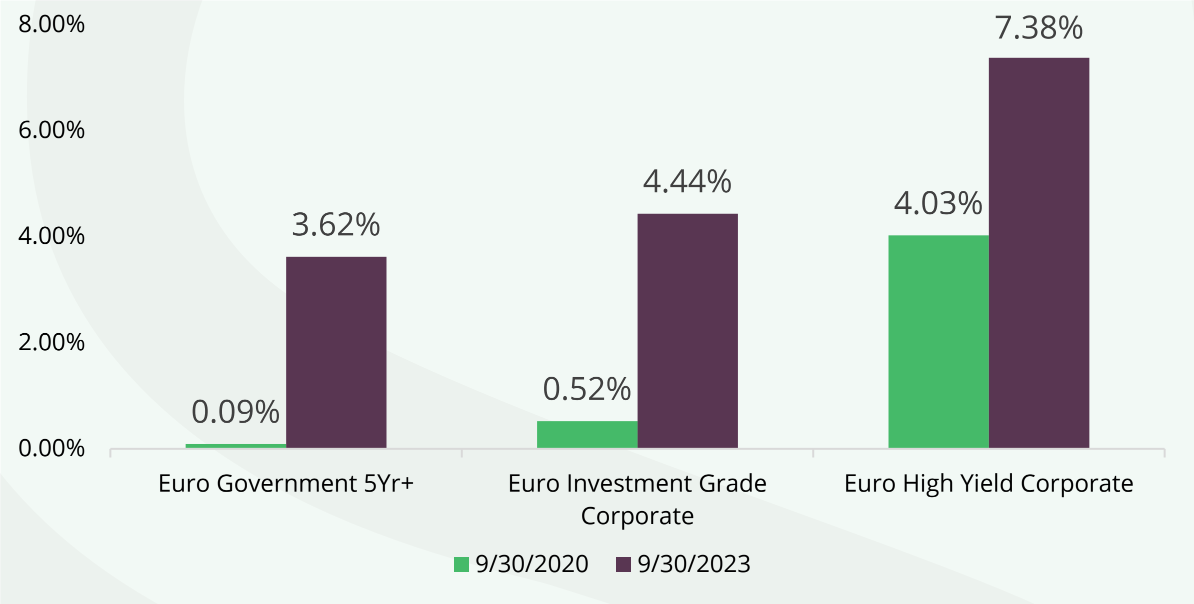


Source: Bloomberg/Setanta

Corporate bonds are looking attractive within a balanced portfolio. Credit spreads remained resilient despite the rise in real rates. Within investment grade bonds, interest rate coverage is high and leverage low, they offer reasonable expected returns at current starting yields.

Further down the credit spectrum, High yield bonds, while offering attractive yields of over 7%, they could see losses as defaults increase while recovery values trend lower.

European government, corporate investment grade and high yield bond yields



Source: Bloomberg/Setanta

Equities

Risky assets, especially long duration technology stocks, struggled with the rate increases, with the Nasdaq underperforming the S&P 500. The equity/bond correlation has turned positive once again with bonds selling off alongside equities, raising concerns of a repeat of last year where balanced portfolios suffered.

Falling recession risk has not boosted equity performance, as rate cuts are now less likely. Normally, a bear steepening of bonds has been 'risk-on' due to growth picking up. This seems less so currently, and, even if we do see growth go lower, there is little central banks will do given current inflation concerns.

When rates are thought to have peaked out, one may expect risk assets to rally. However, we have seen AI-driven optimism softening, with mega-cap stocks starting to underperform the rest of the market, despite robust earnings expectations.

Rising interest rates have tended to push equity multiples lower. This means earnings will have to work harder to drive stock returns going forward. This could prove difficult in an environment where margins are under pressure from higher funding and input costs. This should favor those stocks with low leverage and resilient pricing power.

Commentary

Market Positives

- Strong Job Market
- Inflation has likely peaked
- Productivity Gains from AI
- Bonds starting to offer value
- Rate hiking cycle possibly over

Market Negatives

- Lagged effect of higher interest rates
- Chinese property concerns
- High US Equity valuations
- Oil rallying
- El Nino effect on Food

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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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