Setanta Active Multi-Asset Fund Range

Q4 2023

SETANTA
Asset Management

Contents

Fund description

The Setanta Active Multi-Asset Fund Range is made up of three actively managed portfolios that hold a combination of equities, bonds, property, cash and alternatives.

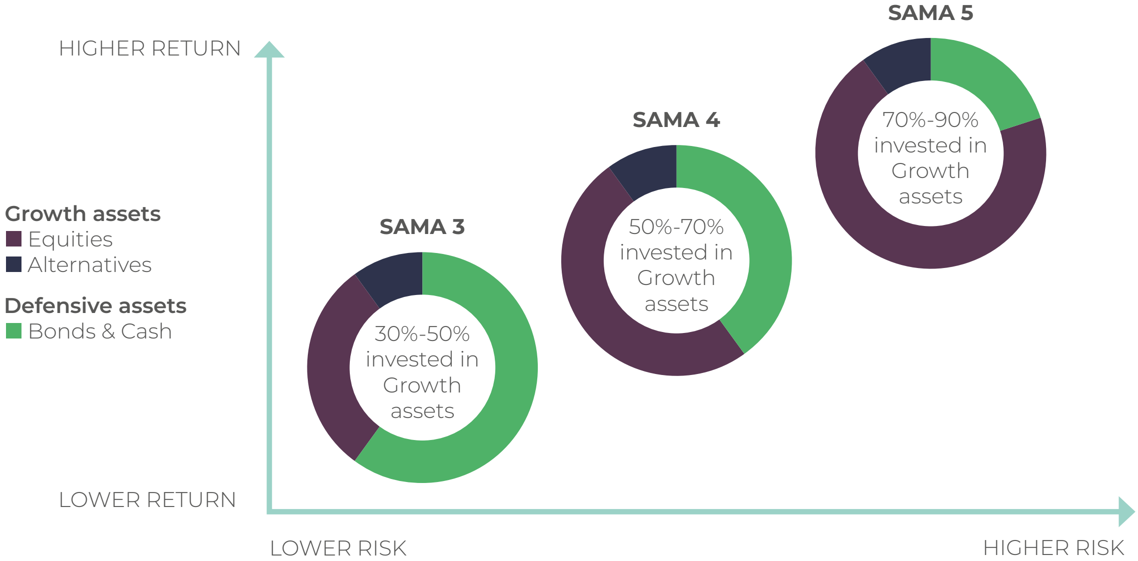
The funds are managed in line with the following core principles:

- **An asset mix that reflects the investment objectives**
  The funds' exposures across different asset types have been designed to meet specific risk and return requirements. These exposures may vary over time in line with the manager's views.
- **Consistent decision making**
  The design of each fund reflects a particular investment objective and attitude to risk. The funds are managed in a consistent manner, with investment decision making implemented consistently across the fund range.
- **Broad diversification**
  The funds are broadly diversified across a range of growth assets like equities and alternatives, and defensive assets like bonds and cash. Excess returns are driven by superior stock selection and active asset allocation.

Three funds, three risk-return profiles

Each of the three Setanta Active Multi-Asset (SAMA) Funds has a different risk and return profile based on its differing exposures across asset classes. Each fund aims to grow your investment over the medium to long term by varying the exposure to growth assets.

Varied exposure to growth assets

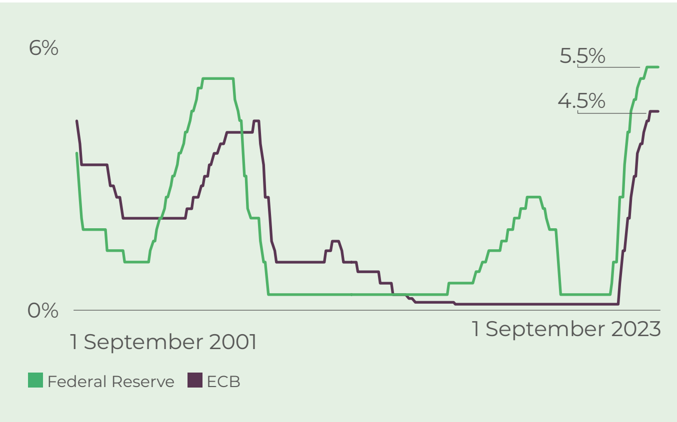


Market commentary

The final quarter of 2023 delivered strong returns across the major asset classes, following a weak third quarter, turning a seemingly lacklustre year for balanced funds into something more respectable.

It really was a two-month rally from early November. The Federal Reserve (Fed) holding interest rates steady for a second meeting in November, while signalling financial conditions were helping do some of the work for them, boosted investor sentiment.

Base rates – ECB & Federal Reserve



Source: Bloomberg/Setanta

It now looks like base rates have topped out just above the highs from 2007, with the market expecting close to six interest rate cuts (-1.5%) by year end 2024, up from just two heading into the quarter.

US rate cuts implied by short-term interest rates by end 2024

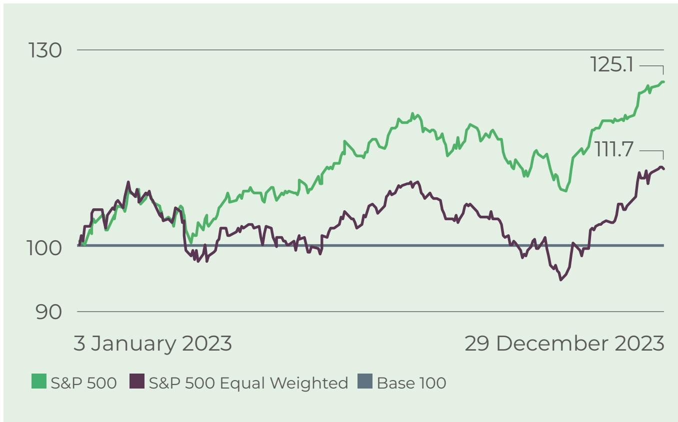
Source: Bloomberg/Setanta

Equities

Belief in the 'immaculate disinflation' – inflation continuing to fall with US growth remaining resilient – drove markets into year end, and this was exp ected to lead to central banks aggressively cutting interest rates, and an element of short covering.

Within equities, the US 'Magnificent Seven' tech stocks drove returns for most of the year, but the rally broadened out in the fourth quarter, with more equity sectors, regions and styles participating. Looking at an equal-weighted S&P 500, it was negative on the year running into the fourth quarter, but marginally outperformed the market-capitalisation weighted index into year end.

S&P market cap & equal cap weighted (rebased to 100)



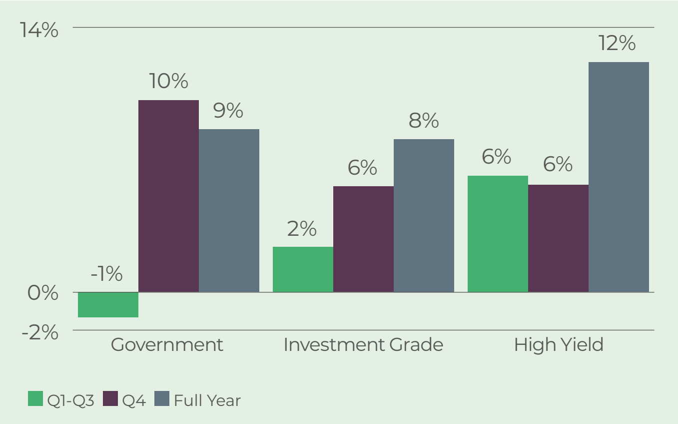
Source: Bloomberg/Setanta

Parts of the market that had lagged significantly – real estate investment trusts (REITs) for example, given more structurally leveraged balance sheets – rallied aggressively. Value stocks, which had lagged, were able to rally along with Growth, although remaining considerably behind on the year.

Bonds

Bonds were positive across the yield curve and credit spectrum. Early central bank easing expectations, tightening credit spreads and resilient economic growth supported returns in both government bonds and credit.

European bond returns – government, investment grade & high yield



Source: Bloomberg/Merrill Lynch/Setanta

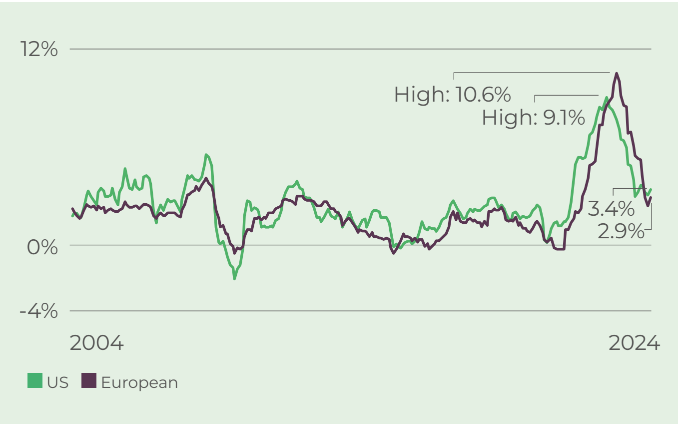
With the pivot from 'higher for longer' rates to the likely end of the rate tightening cycle underpinning returns, European government bonds swung from a -1% year-to-date return at the end of September to delivering +9% over the full year.

Bonds are now delivering reasonable income, have lower duration risk and offer greater stability compared to in recent years. It seems we are back to the old days, where they offered protection if we were to fall into a low-growth environment or saw a marked equity drawdown.

Property

Direct property prices have fallen over the year and have been slow to turn. Valuations look attractive, in both absolute and relative terms, but lingering concerns on balance sheet debt, vacancy rates and the future of work remain. The rally in REITs may point to an early recovery in sentiment and put a floor under valuations.

Headline inflation



Source: Bloomberg / Setanta

Inflation

Inflation has trended lower recently, well off the highs, although the main driver of this, falling goods prices, is waning. Services inflation could prove troublesome, given a relatively tight labour market feeding into higher wages. Geopolitics, and the recent launching of missiles by Houthi rebels in the Red Sea has led to a rerouting of boats away from the Suez Canal, increasing freight rates (~+30%), which could raise concerns of a supply shock.

WCI Freight Rate

Source: Bloomberg / Setanta / (WCI Composite Container Freight Benchmark Rate per 40 ft Box Drewry)

Final thoughts

Markets have started to price in interest rate cuts sooner than previously expected, with close to six cuts priced into developed markets in 2024.

Vulnerabilities do, however, remain. Potentially lower economic growth, fewer rate cuts than implied, and less attractive fundamental valuations, coupled with tighter fiscal constraints, could prove headwinds for financial markets in the near term. The recession, that was expected all last year but failed to appear, could arrive this year.

While mindful of our limited ability to predict, we can try to prepare, ensuring the portfolios are positioned for various scenarios through sensible diversification across various risk and defensive assets.

Fund commentary

The SAMA Fund Range rose by 5.0% to 5.2% over the quarter and by 8.1% to 9.8% for 2023.

Bonds performed strongly as market sentiment improved due to the pause in rate hikes and solid economic backdrop, with focus instead shifting to when the first rate cuts would occur. Short-dated government bonds (+3.3%), long-dated government bonds (+7.1%), investment grade (+5.6%), high yield (+6.3%) and emerging market debt (+4.1%) all gained over the quarter.

Equities also benefitted from this sentiment as the global equity portfolio gained +4.8% and the emerging market equities holdings gained +3.3%. Industrials was our best performing sector for the quarter, followed by consumer discretionary, while energy was the worst performer as oil prices retreated.

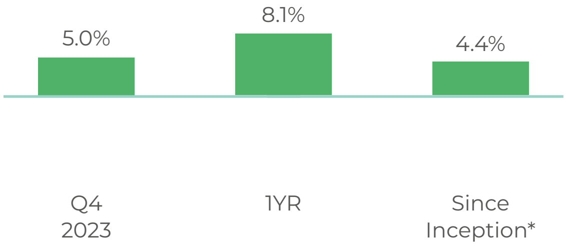
Listed private equity (+13.3%), Global REITs (+10.9%) and listed infrastructure (+7.6%) all contributed to fund performance as well, with listed private equity the top performer for the year, rising +36.1%. Irish property was the only detractor for the quarter, at -2.6%, and at -13.3% for the year, as concerns remained around vacancy rates and the future of work, but the rally in REITs may point to signs of recovery.

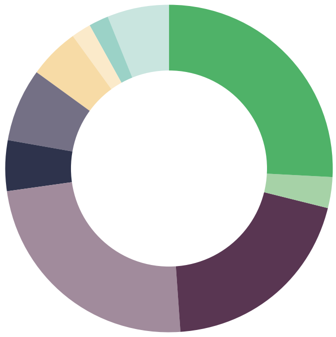
Note: all returns in euros

Fund performance and asset mix

SAMA 3

The SAMA 3 Fund offers diversified exposure, including equities, bonds, property, alternatives and cash, with a bias towards bond investments. This fund seeks to provide a lower level of risk and return when compared to the other funds in the SAMA fund range.

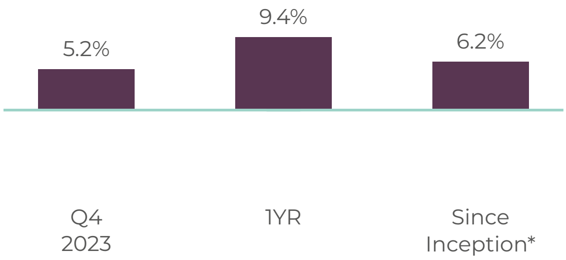


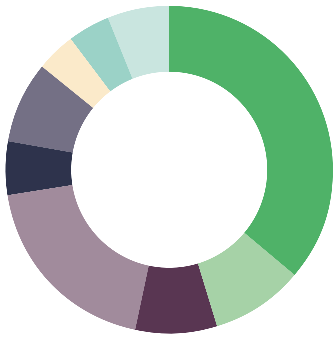


Global Equity	26%
Emerging markets	3%
Total Equities	**29%**
Euro Government Bonds	20%
Euro Corporate Bonds	24%
Emerging Market Debt	5%
Global High Yield Bonds	7%
Cash	5%
Total Bonds & Cash	**61%**
Infrastructure	2%
Private Equity	2%
Property	6%
Total Alternatives	**10%**

SAMA 4

The SAMA 4 Fund offers balanced exposure between equities and bonds. This fund seeks to provide a medium level of risk and return.

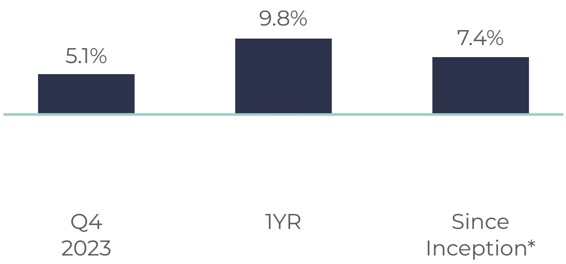


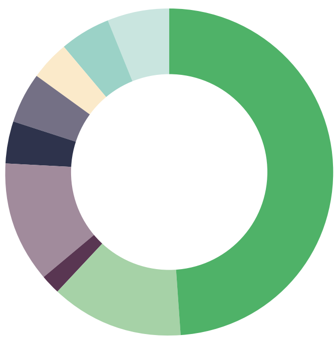


Global Equity	36%
Emerging markets	9%
Total Equities	**45%**
Euro Government Bonds	8%
Euro Corporate Bonds	19%
Emerging Market Debt	5%
Global High Yield Bonds	8%
Cash	0%
Total Bonds & Cash	**41%**
Infrastructure	4%
Private Equity	4%
Property	6%
Total Alternatives	**14%**

SAMA 5

The SAMA 5 Fund offers exposure weighted towards equity investments. This fund seeks to provide a higher level of capital growth.





Global Equity	49%
Emerging markets	13%
Total Equities	**62%**
Euro Government Bonds	2%
Euro Corporate Bonds	12%
Emerging Market Debt	4%
Global High Yield Bonds	5%
Cash	0%
Total Bonds & Cash	**23%**
Infrastructure	4%
Private Equity	5%
Property	6%
Total Alternatives	**15%**

Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of the Fund and are gross of management fees.

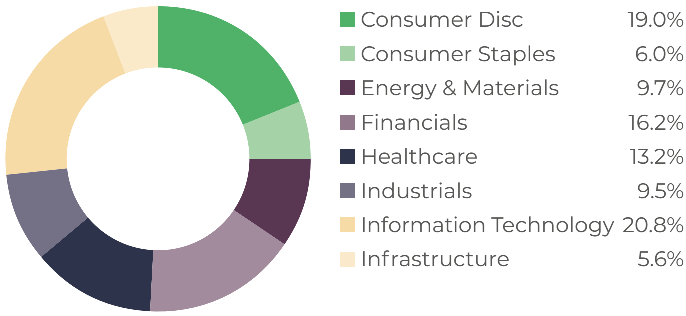
*Fund launch date 24 May 2022. Asset class weightings as at 31 December 2023.

Setanta Global Equity Strategy – the growth engine

The Setanta Global Equity portfolio is the growth engine of our multi-asset funds. The portfolio provides capital growth, as the businesses it is invested in compound in value over time.

The Setanta Global Equity strategy is the flagship equity strategy of the firm, with a strong 20+ year track record. It is managed by eight portfolio managers, who work as a team and challenge each investment idea as a core part of their investment process.

Sector distribution

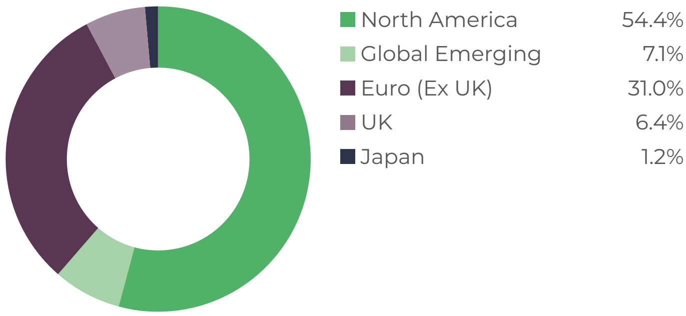


Top 10 equity holdings

Company	Sector	% Of Fund
Microsoft	Information Technology	**4.8%**
Berkshire Hathaway	Financials	**4.1%**
Oracle	Information Technology	**3.3%**
Alphabet	Consumer Discretionary	**3.3%**
Costco Wholesale	Consumer Discretionary	**3.3%**
Booking Hldgs	Consumer Discretionary	**3.3%**
Samsung Electronic	Information Technology	**3.1%**
S&P Global	Financials	**2.3%**
DCC	Industrials	**2.2%**
Nike	Consumer Discretionary	**2.2%**

Source: Setanta Asset Management, as at 31 December 2023.

Geographic distribution



The Global Equity strategy:

Highly selective

We look for good-quality, durable businesses that are out of favour for one reason or another.

Risk averse

We buy conservatively financed companies, which are run by trustworthy management and have a shareholder focus.

Compounding in value

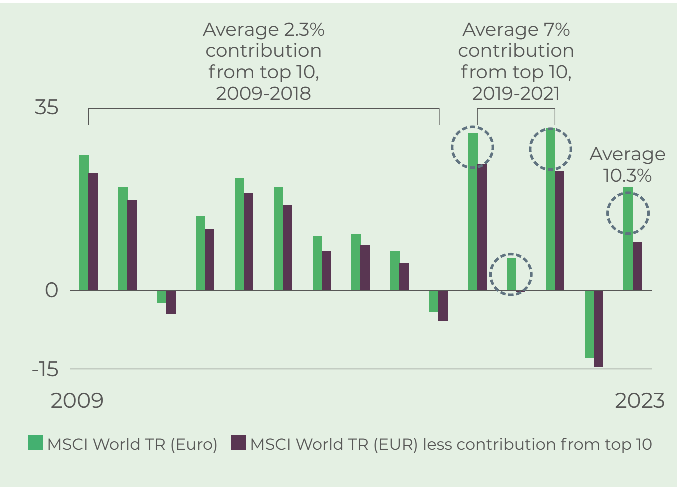
We are diligent and patient investors, expecting the long-term results of the equity portfolio to mirror the growth of the companies within it.

Global Equity Strategy commentary

The MSCI World Net Total Return Euro Index was up an outsized 19.6% in 2023. In addition to bullishness around the potential for AI, the global economy remained in good shape despite interest rate rises put through over the preceding 18 months. Towards the end of the year, and with inflation moderating, investors began pricing in interest rate cuts in 2024, providing a boost to equity markets generally.

The headline stock market return for 2023 was far from broad based. Indeed over 10% of the index's return (more than 50%) came from just 10 stocks – similar to the 2019-2021 period, but far greater than the previous 10 years that we examine below.

MSCI World, with and without top 10 performance contributors

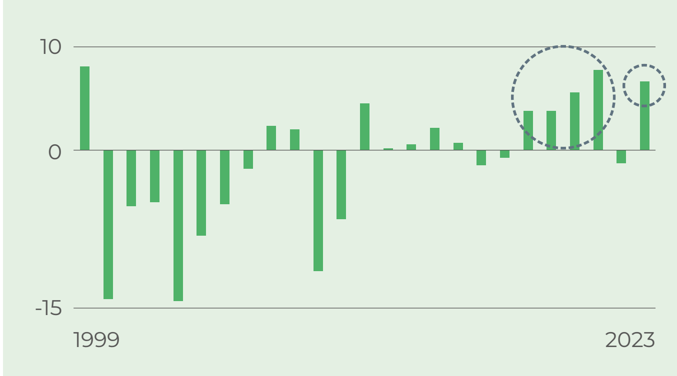


Source: MSCI / Setanta

The MSCI World Equal Weighted Net Total Return Index (Euro) – a proxy for the 'average' stock – chalked up nice return of +13% in 2023, but nevertheless substantially lagged the headline benchmark (also similar to the 2019-2021 period). In a historical context, this is anomalous. In fact, the equal-weighted index has outperformed the vastly more popular market-cap weighted index by 1.1% p.a. over the last 25 years, despite lagging by 4.2% p.a. in the last five years. Big companies certainly have advantages (scale, brands, patents etc.), but historically their size has worked against them (law of large numbers, mistakes, hubris). Meanwhile smaller companies succeed out of necessity and some of these end up as the largest companies of the future.

Indeed it is very rare for the largest companies to outpace the market for long periods of time.

MSCI World market cap weighted less equal weight indices



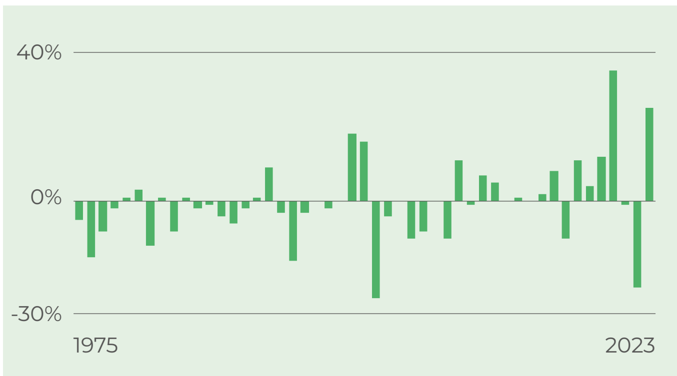
Source: MSCI / Setanta

Of the current top 10 crop, only Microsoft was there in 2000. IBM and AT&T were the tech champions of the 1980s and 1990s, but today are a shadow of their former selves – similarly the big oil companies in the 1980s, the conglomerate Japanese companies in the late 1980s, the dot-coms in the late 1990s and the giant banks in the mid-2000s. This is not a forecast for the largest companies today, but it is certainly a cautionary observation.

Yet another striking feature of 2023 was that growth stocks outpaced value stocks. Now, we are not the biggest fans of such stock classifications – indeed, Setanta's tagline, *Value is more than a number*, embodies our belief that it is wrong to choose stocks based solely on quantitative growth or valuation metrics. Nevertheless, performance extremes can be a signal that something is amiss. In 2023, the MSCI World Growth Index outperformed its Value counterpart by 25% , comfortably the second largest annual differential (after 2020) since these benchmarks were created in 1975 (albeit this reversed Value's large outperformance of growth by 23% in 2022).

As these charts demonstrate, the last five years have been extreme from a market structure point

Annual performance difference: MSCI World Growth and Value



Source: MSCI / Setanta

of view, not to mention from a performance stand point: the MSCI World's +13.6% per annum in euros is high in a historic context, especially so given the global pandemic that hit economic output and supply chains, geopolitical tensions that included a couple of regional wars, and the stoking of inflation for the first time in a decade or more, that necessitated a rise in interest rates from zero.

Portfolio activity

As is customary, a summary of new stocks and complete sales is included in the table below (stock weights in Global Equity portfolio).

BUYS	Stock	Sector	End of year weight
Q1	Ryanair	Industrials	0.9%
Q2	Ferguson	Industrials	1.7%
	NextEra	Infrastructure	1.5%
	Sonova	Healthcare	0.7%
	PayPal	Financials	0.6%
Q3	-	-	-
Q4	Home Depot	Discretionary	1.1%

SELLS	Stock	Sector	Start of year weight
Q1	Close Brothers	Financials	0.5%
Q2	Constellation Energy	Infrastructure	0.5%
	Tesco	Staples	0.5%
Q3	GBL	Financials	1.3%
	Sandstorm	Industrials	0.6%
	Vodafone	Infrastructure	0.3%
Q4	Lowe's	Discretionary	1.1%

In Q4, we report just the purchase of **Home Depot** and sale of **Lowe's**. You may wonder why we have decided to switch from one excellent US home improvement store to another. Both Lowe's and Home Depot are dominant in the US big-box home-improvement market. Both have managed to increase sales over the last couple of decades with only a very limited increase in floor space. Both are very profitable and have used this cash to buy back a whopping 63% and 55% respectively of their shares outstanding over the last 20 years. And both stocks have performed well, up 13% and 15% per annum over 20 years. However, there are some differences. Lowe's store footprint is more suburban focused, while Home Depot's is more urban. Also, Home Depot has a greater exposure to professional tradespeople. Both of these factors help Home Depot's store economics: professional customers buy more volume, allowing Home Depot to turn their inventories faster, which enables them to have a greater range of SKUs at competitive prices, which draws in more professional customers.

The pandemic period improved Lowe's positioning as suburban dwellers spent their COVID cheques and higher savings on home office equipment, white goods and other home improvements. As a result, Lowes outperformed Home Depot by 25% between 2019 and 2023. We are concerned that this could reverse. Not only that, but the Lowe's balance sheet is more indebted than Home Depot, so any revenue retrenchment would take a higher toll on profits. Lowe's was first purchased for the fund in 2010. We say goodbye to it now but will continue to closely follow this quality, advantaged company.

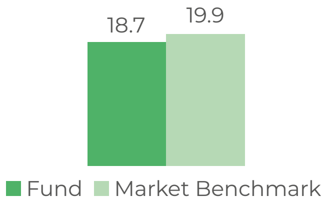
Environmental, social and governance

Setanta believes it is its responsibility as an investment manager to consider the environmental, social and governance (ESG) impacts of the companies it invests in. Companies that are actively engaged in addressing ESG challenges are more likely to make a greater contribution to society, which can, in turn, create opportunities for investors. By the same token, those that lag behind can present risks. Setanta integrates ESG factors into its fundamental research process. When it believes there are ESG factors material to its investment decisions, it addresses them in its research reviews and engagements with companies. Setanta is a signatory to the UN-supported Principles for Responsible Investment (UNPRI).

Overall ESG Risk Rating

The Environmental, Social & Governance (ESG) Risk Rating measures the degrees to which a company's economic value is at risk due to not considering ESG factors using a calculation of the company's unmanaged ESG risks.

Overall ESG Rating Score*



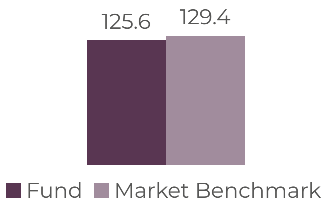
Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managagng those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. Sustainalytics identifies five categories of ESG risk severity that could impact a company's enterprise value.

Negligible	Low	Medium	High	Severe
0 – 10	10 – 20	20 – 30	30 – 40	40+

Carbon intensity

Carbon intensity is a metric used to compare company emissions across industries. The absolute emissions is divided by total earnings with the figure expressed in tonnes of carbon dioxide equivalent per million USD of total earnings.

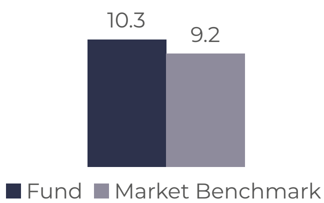
tCO_2/US$m



Fossil fuel

Fossil fuel involvement measures the percentage of earnings that companies get from thermal coal extraction, coal-based power generation, oil and gas production, oil and gas based power generation and oil and gas related products and services.

Weighted average %



ESG Metrics based on P-SAMA4 Fund. *A lower score indicates a lower level of unmanaged ESG risk and potential risk to the economic value. Note: ESG Risk Scores and Carbon Metrics are currently calculated for Shares and Corporate Bonds only Information correct as of 31 December 2023.

Key advantages of the fund range

Actively managed

Clear and consistent investment philosophy, high-conviction approach

Value approach

Discipline and patience allow us to take advantage of mispriced opportunities.

ESG built-in

Article 8 Multi-Asset fund range

Global Equity engine

Level of exposure consistent with risk rating of each fund

Investment expertise

Highly experienced, stable and award-winning investment team

Risk rated

Generate long-term capital growth within the appropriate risk parameters

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Signatory of:

PRI Principles for Responsible Investment

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES