Setanta Income Opportunities Fund

Q4 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

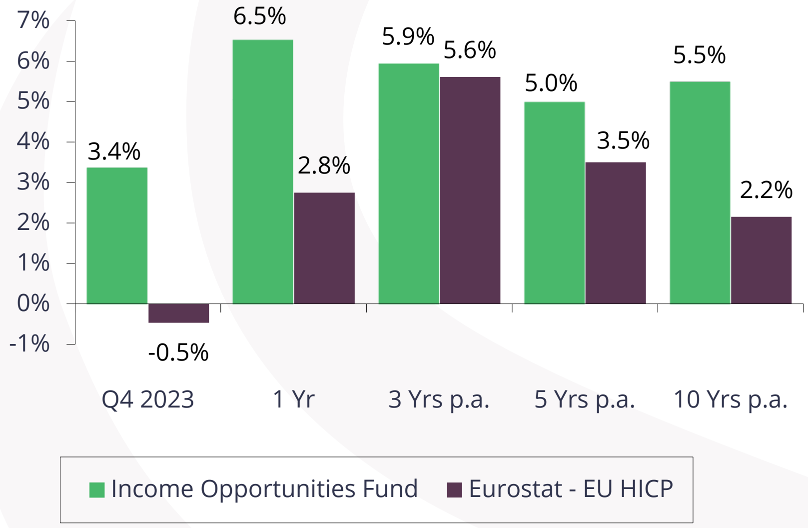
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

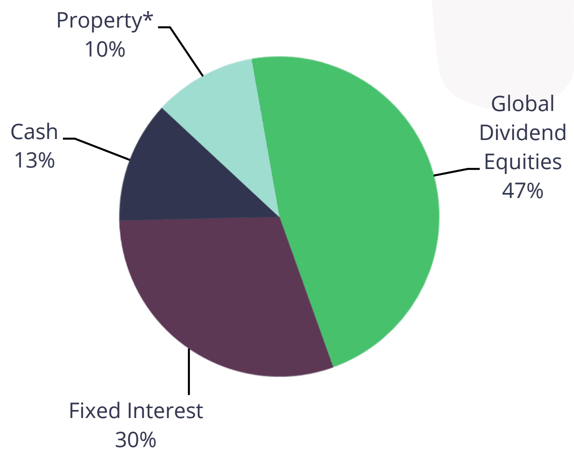
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Fund Performance – 31.12.2023 (EUR)



Asset Distribution



*includes 1.6% in IRES REIT

Yearly Performance

Year %	2019	2020	2021	2022	2023
Fund	13.7	-5.6	11.9	-0.3	6.5
Benchmark	1.1	-0.3	5.0	9.6	2.8

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.

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	4.3%
2023	4.3%

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
RICHEMONT(CIE FIN)	CONSUMER DISCRETIONARY	2.2%
AIR LIQUIDE(L')	ENERGY & MATERIALS	2.1%
CRH PLC	INDUSTRIALS	2.1%
PROCTER & GAMBLE	CONSUMER STAPLES	1.9%
SANOFI	HEALTH CARE	1.8%
MEDTRONIC PLC	HEALTH CARE	1.7%
SAMPO	FINANCIALS	1.7%
DCC	INDUSTRIALS	1.7%
BOLIDEN	ENERGY & MATERIALS	1.7%
NOVARTIS AG	HEALTH CARE	1.7%

Commentary

Charlie Munger, Vice-Chairman of Berkshire Hathaway and legendary value investor, died late last year at the age of 99 years. In a personal tribute in the Wall Street Journal, Jason Zweig wrote that:

> *"Those who knew him well consider him a moral exemplar—someone who showed how to think clearly, deal fairly and live fully. He took nothing for granted."*

Warren Buffett, his long-time friend and business partner at Berkshire-Hathaway, credited Munger with much of the company's success, particularly in how he exhorted Buffett to

> *"Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."*[1]

As managers of the Setanta Income Opportunities ('The Fund'), we endeavour to follow this 'Munger Maxim' in seeking high-quality companies for its equity portfolio , those that will provide high, and growing, dividend income, creating long-term value for unitholders in the Fund. We do this in a volatile world in which armed conflict is, regrettably an often-notable feature. Last year, the war in Ukraine continued, while in the long-simmering Middle East, violence again erupted. Notwithstanding a constructive engagement between President Biden and President Xi, bilateral relations between the USA and China remained frosty. Climate change was very much to the fore, its symptoms all-too-apparent, whether Canada's record-breaking wildfires, unprecedented flooding in Libya, or the extreme drought conditions experienced in some parts of Europe. Towards the year end, at a gathering of the Conference of the Parties on climate change (COP 28), global leaders agreed for the first time to phase out fossil fuels in energy usage.

Central banks continued to increase interest rates throughout the year. They reached 5.5% and 4.5% in the USA and Eurozone respectively, achieving some success as inflation fell to levels closer to the targets of the central banks, helped by moderating electricity and fuel prices. As the year was coming to an end, the European Central Bank retained a 'hawkish' tone, but commentary from the Federal Reserve suggested that it might be shifting to a 'dovish' stance. Whatever the case, to date, the world economy, has broadly remained resilient, notably in terms of low unemployment. However, earlier in the year, it felt that the steep adjustment in interest rates could cause a financial crisis; a number of US regional banks failed, while Credit Suisse, a centenarian Swiss banking institution, had to be rescued in an operation orchestrated by the central bank of Switzerland.

Key Factors in Fund Performance

The Fund reported a total return of 6.7%. in 2023, exceeding Eurozone inflation, its benchmark, by a comfortable margin. Following a few years of high inflation, and despite very weak equity and bond markets in 2022, the Fund has outperformed its benchmark over the last three five, and ten, year periods.

The Fund's equity portfolio performed particularly well, considering the performance of equity indices of comparable style, such as the MSCI World High Dividend Index. With each recording a total return of at least 30%, CRH, the Irish-domiciled, but US-oriented provider of building products and supplies; DCC, a business focused on the delivery of fuel oil and liquid petroleum gas today, while investing in providing renewable fuels tomorrow; and Air Liquide, a global leader in industrial gases, made the largest contributions to the Fund's absolute performance last year. TSM and NWS were also material contributors to the Fund's performance, while Fortescue had the single-best stock performance. Johnson and Johnson, the US-based healthcare giant; Boliden, a Nordic integrated miner; and Exelon, provider of electricity in a number of US states; were the largest detractors from Fund performance last year.

Commentary

The Fund's bond portfolio performed strongly, rising 8%. As noted above, interest rates rose during the year, but despite this, the portfolio performed well, benefitting from its low duration and high average coupon rate. The Fund's directly-held investment in Irish property, mainly prime office and prime retail, fell 11%, as higher interest rates reduced valuations. While disappointing, this is, excepting the first year of the pandemic (2020), its first decline in more than a decade .

Major Changes to the Fund

At year end, 47% of the Fund's assets were held in equities; 30% in bonds; 11% in cash and 12% in property (including REITs). We further increased the Fund's bond weighting during the year, adding new positions in a number of, in our view, low-risk bonds, including an issue of, **Heineken**, the eponymous alcoholic drinks producer, that is held as an equity on other Setanta funds. These bonds were acquired at yields-to-maturity between 3% and 5%. On the equity side, we added **Sonova**, a globally-leading producer of hearing aids; **Kone**, a Finnish-based company focused on elevator assembly and maintenance; **Kenvue**, a consumer healthcare company 'spun' out of Fund holding, Johnson and Johnson; and **Diageo**, maker of alcoholic beverages, such as Johnny Walker whiskey; Guinness stout; and Smirnoff vodka.

During the year we decided to sell four stocks, which had underperformed our long-term expectations These were: **BASF**, a global chemicals producer; GBL, an investment holding company based in Europe; **GSK,** a global healthcare provider; and Telia, a Nordic provider of mobile and broadband communications. In addition, we tendered the Fund's shares in **NWS,** a Hong Kong conglomerate, following an offer from its majority shareholder, New World Development. The Fund also received, through spin-offs from Sampo and Novartis respectively, shares in Mandatum, a Finnish life assurance company, and Sandoz, a producer of generic pharmaceuticals. As these companies were peripheral to our rationales for investing in Sampo and Novartis, we sold both of them. During the year, a number of the Fund's smaller bond holdings were fully redeemed upon maturity, as well as a larger position in Mersin, an operator of ports in Turkey.

Income Generation

The Fund achieved an income yield of 4.3% in 2023, exceeding its stated target of 4.0%; this was its highest level in more than five years. Dividend income, roughly half of the total income generated, benefitted from ordinary dividends in the Fund growing at around 4%, as well as special dividends from three holdings: Svenska Handelsbanken; Boliden; and Lancashire. The Fund's income-generating ability continues to profit from the increase in its bond weight in recent years; income from bonds came to 1%. Implied volatility in equity markets was much lower in 2023 than in 2022 (VIX: 26% vs. 17 %), making option income generation more challenging; nevertheless, it contributed 0.5% to overall income. The Fund's broad range of income sources provides flexibility in our endeavour to achieve the Fund's dual objective of material income generation and capital preservation and growth over the long-term.

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. 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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