Setanta Managed Fund
Q4 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.

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

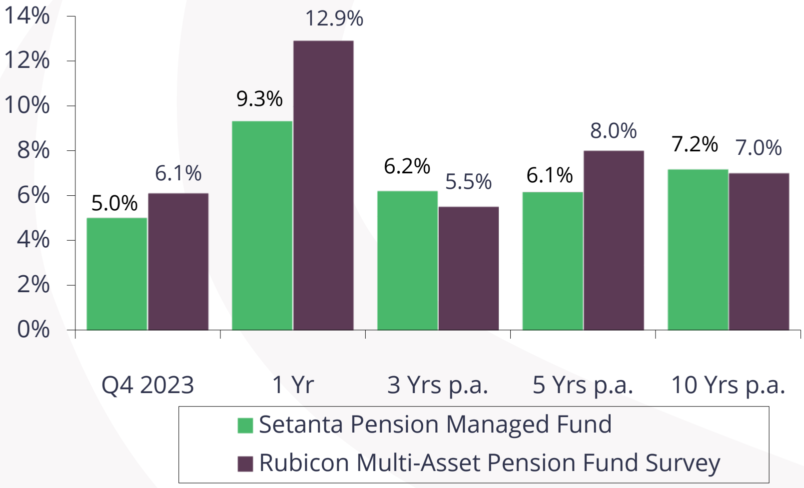
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

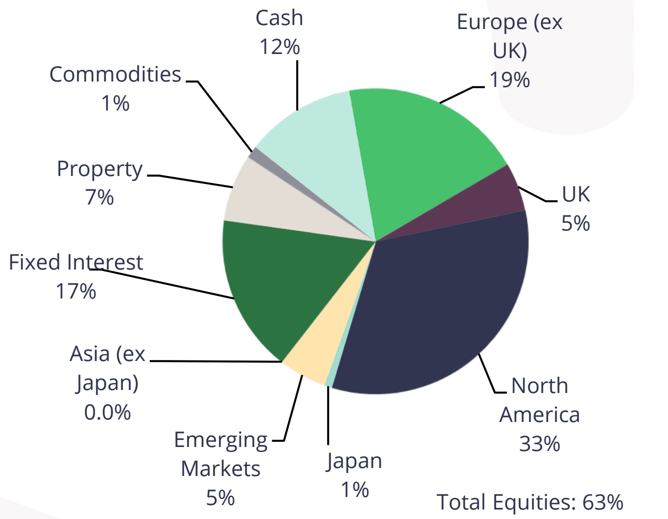
We will act with integrity in everything we do

Fund Performance – 31.12.2023 (EUR)

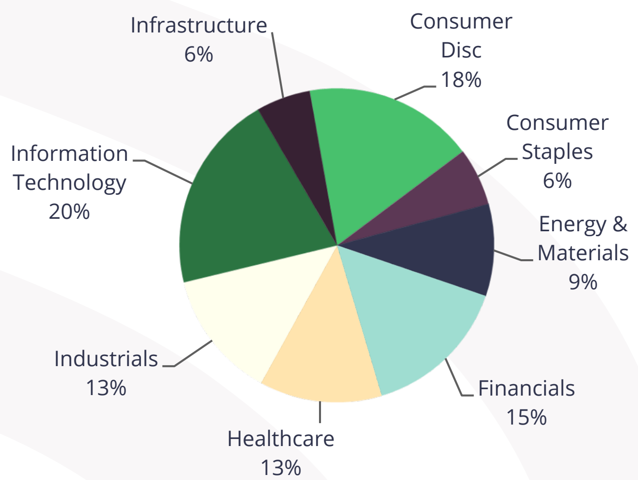


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings 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	2.9%
BERKSHIRE HATHAWAY	FINANCIALS	2.4%
BOOKING	CONSUMER DISCRETIONARY	2.0%
ORACLE	INFORMATION TECHNOLOGY	1.9%
COSTCO WHOLESALE	FINANCIALS	1.9%
ALPHABET INC	FINANCIALS	1.9%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.8%
S&P GLOBAL	FINANCIALS	1.4%
DCC	INDUSTRIALS	1.4%
MCDONALD'S	CONSUMER DISCRETIONARY	1.3%

Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	19.5%	22.5%
AA	42.8%	37.7%
A	11.2%	17.7%
BBB	26.4%	22.1%
	100.0%	**100.0%**

Yearly Performance

Year %	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	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	9.3
Benchmark	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	12.9

SETANTA Asset Management

Commentary

The Fund rose 5.1% over the quarter and 9.7% for 2023, gross of AMC. Bonds performed best over the quarter as market sentiment improved due to the pause in rate hikes and solid economic backdrop, with the focus instead shifting to when the first-rate cuts would occur. Government Bonds gained +10.7% for the quarter, while our corporate bonds holdings and emerging market debt exposure rose +4.2% and +4.1% respectively.

Equities also benefitted from this sentiment and rallied into year-end gaining +5.0% for the quarter and +12.6% for the year. Industrials was our best performing sector for the quarter followed by consumer discretionary, whilst the energy sector lagged as oil prices retreated.

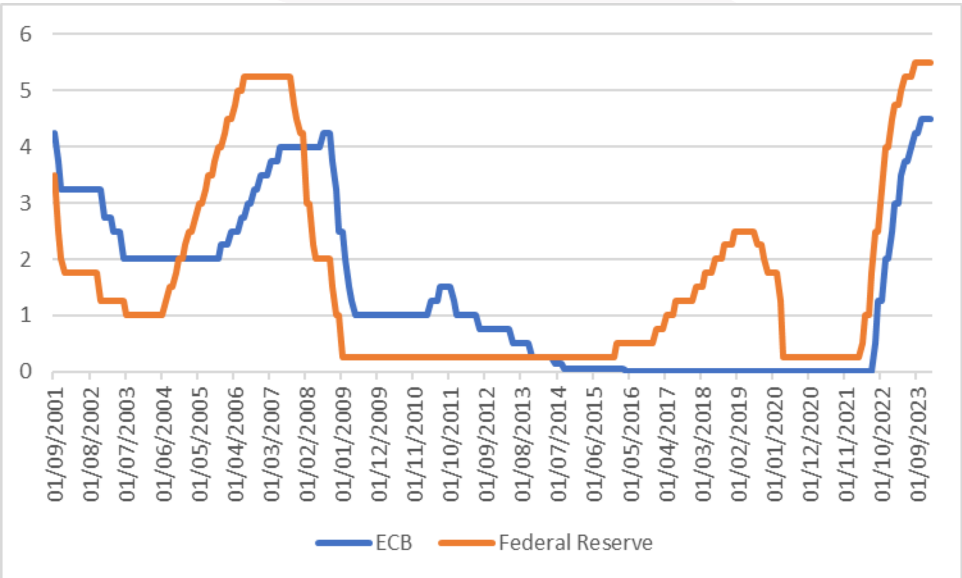
The Irish property fund continues to struggle, falling -2.4% over the quarter and -11.0% for the year, as concerns remained around vacancy rates and the future of work but the rally in REITs may point to signs of recovery.

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 rates steady for a second meeting in November, while signalling financial conditions were helping do some of the work for them, boosted investor sentiment.

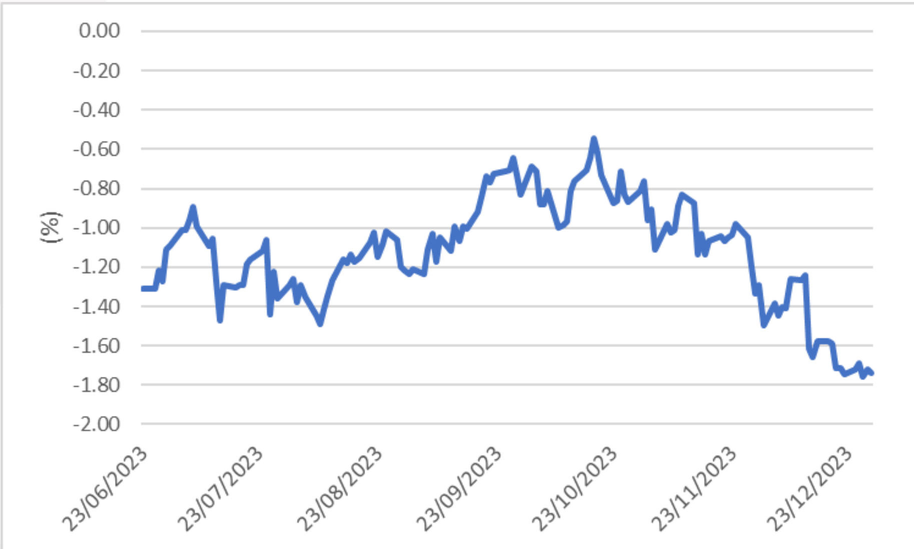
Base rates – ECB and Fed



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 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

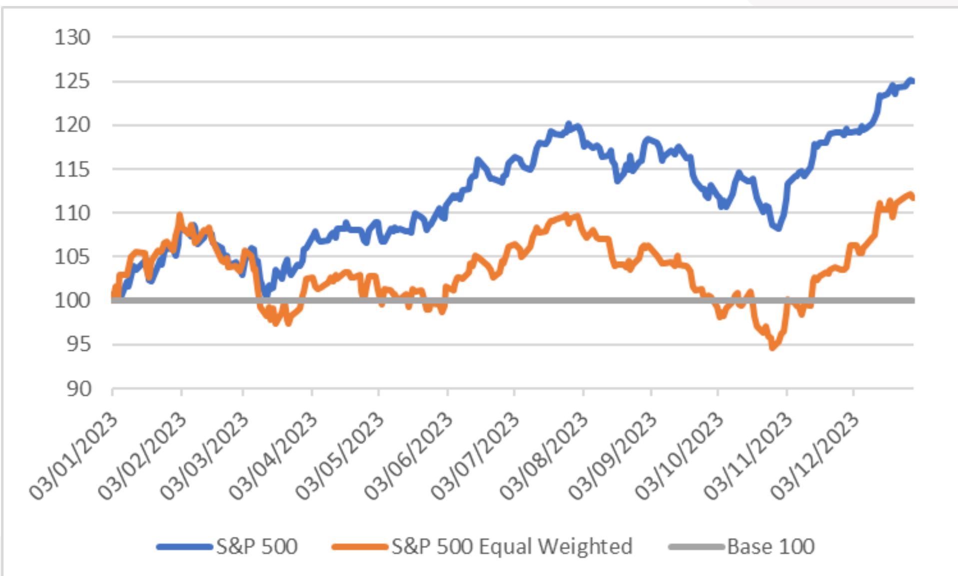


Source: Bloomberg / Setanta

Belief in the ‘immaculate disinflation” – inflation continuing to fall with US growth remaining resilient – drove markets into year end, and this was expected 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 500, market-cap and equal-cap weighted (rebased to 100)

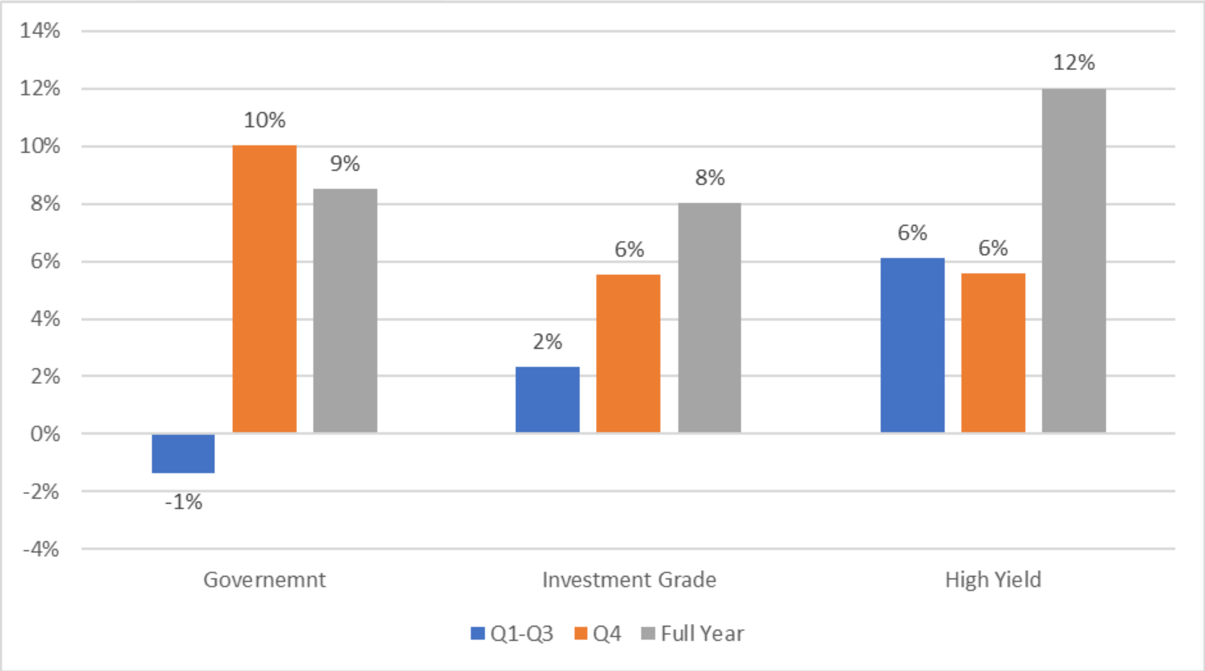


Source: Bloomberg / Setanta

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 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 and high yield



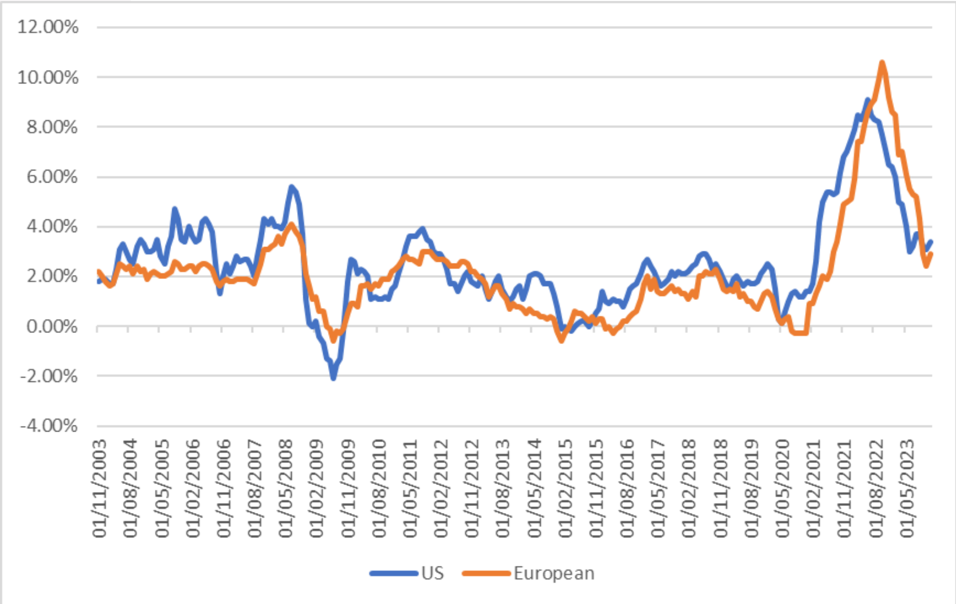
Source: Bloomberg / Setanta / Merrill Lynch

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 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.

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.

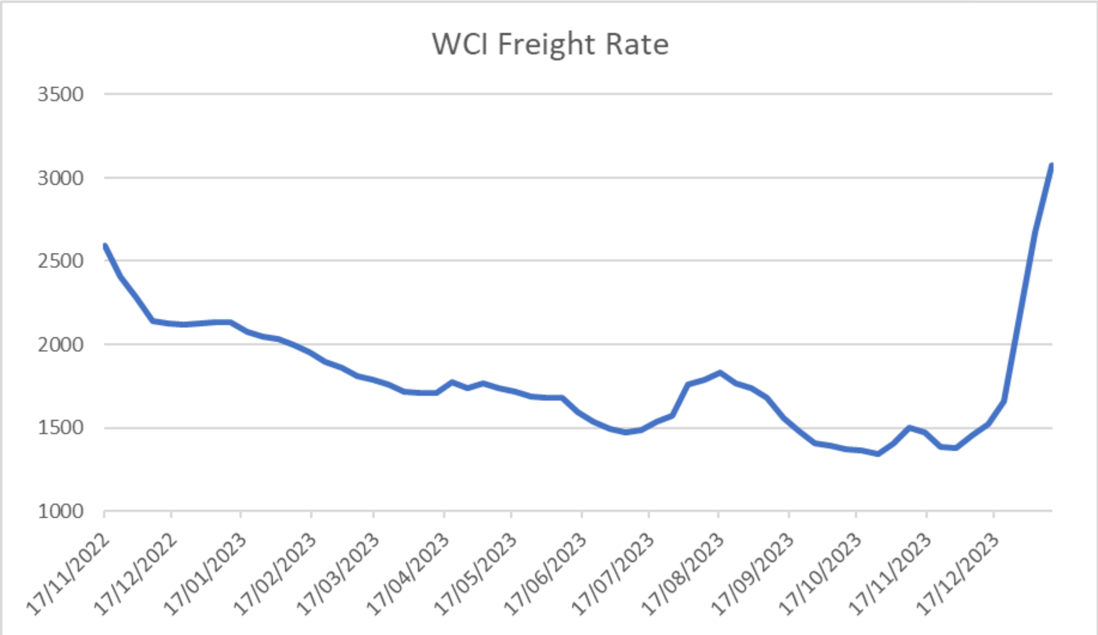
Headline inflation



Source: Bloomberg / Setanta

Inflation 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.

Freight rates



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

That said, 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.

David Ryan, CFA

Head of Multi-Asset Funds

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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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