Setanta Managed Fund
Q2 2024

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

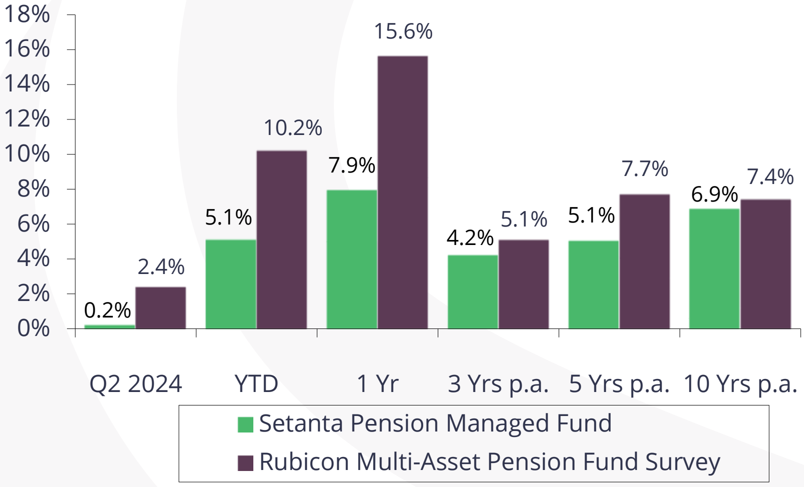
We consider scenarios rather than making forecasts

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 – 30.06.2024 (EUR)

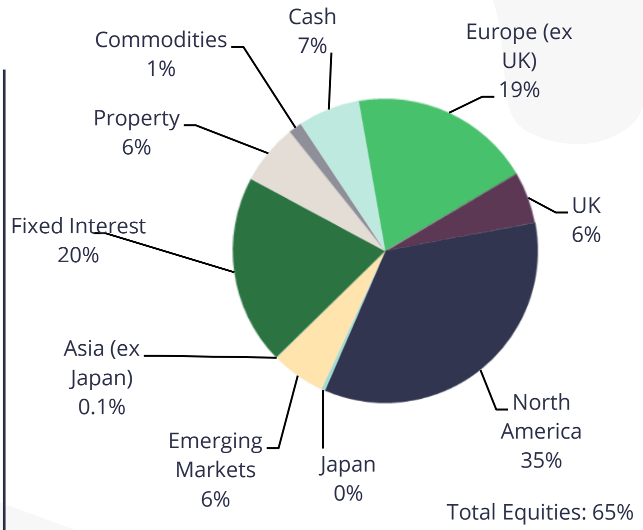


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Multi-Asset Pension Fund Survey. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Credit Rating Source:** S&P.

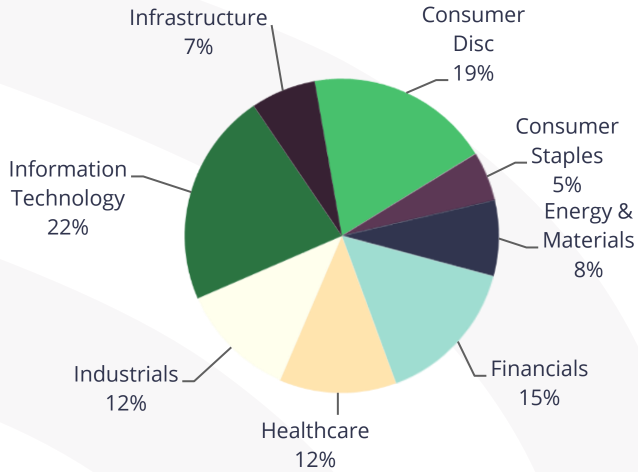
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT	INFORMATION TECHNOLOGY	3.0%
ALPHABET INC	CONSUMER DISCRETIONARY	2.8%
ORACLE CORP	INFORMATION TECHNOLOGY	2.6%
BERKSHIRE HATHAWAY	FINANCIALS	2.6%
BOOKING HLDGS	CONSUMER DISCRETIONARY	2.3%
TAIWAN SEMICON	INFORMATION TECHNOLOGY	2.1%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	2.0%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.8%
S&P GLOBAL INC	FINANCIALS	1.6%
DCC	INDUSTRIALS	1.3%

Geographic & Asset Distribution



Equity Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	22.82%	23.20%
AA	40.53%	35.67%
A	11.81%	17.83%
BBB	24.84%	23.31%
	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

The Managed Fund gained +0.20% in the second quarter.

Fixed income continued to struggle as Central Bank rate repricing continued into the 2nd quarter with interest rate expectations now falling into better balance. Additionally, the snap election called in France also introduced heightened political risk which was priced into the local European market. Government bonds were the worst performer falling -2.58% while investment grade credit contributed positively (+1.81%) as the higher income earned was able to offset some of the losses from yields moving higher. Emerging market debt struggled, falling -0.88% as mixed macro data in the US pushed out the easing cycle forcing yields higher for longer.

Equities contributed positively over the quarter (+0.62%) with the Information Technology and Consumer Discretionary the best absolute performers as returns in the market continue to be dominated by a narrow set of companies.

Irish property fell -0.34% over the quarter as higher rates continue to weigh on asset valuations and office vacancies remain elevated.

Allocation:

Over the quarter there was an allocation from cash into government bonds and emerging market debt on attractive yields.

Market Commentary

Equities

The second quarter saw risk assets continue to perform strongly. Equity markets shrugged off the prospect of fewer rate cuts than expected and were buoyed by economic resilience across most economies.

The soft-landing narrative has continued to prevail, with reasonable growth, a positive earnings season and inflation generally moving in a downward trend. Ultimately, this environment benefitted riskier assets over safer ones. Global equities saw returns of 3%+ over the quarter, although the market remains narrow, with positive returns driven by only a few companies.

It was large cap growth that drove performance, with more rate-sensitive sectors (REITs and small cap) lagging as they dealt with the 'higher-for-longer' rates environment. Nvidia, the poster child for artificial intelligence (AI) enthusiasm, is starting to look a little stretched, falling close to 10% from its highs (which wiped over $300bn off its $3tn market cap), while trading at a market capitalisation greater than all of the German DAX index.

German Dax vs Nvidia Market Capitalisation

Source: Setanta / Bloomberg

Emerging market equities also performed strongly, as the Chinese government looked to steady the local property market with new state initiatives, providing a boost to the market, with local tech catching the tailwinds from the US.

Bonds

The European Central Bank (ECB) cut rates by 25 basis points (bps) in June, taking its main refinancing rate to 4.25%, but highlighted that, given stickier inflation, the path to further cuts is data dependent. The move was well priced in, so financial market reaction was muted.

Bonds struggled over the quarter, as rate cut expectations for 2024 were reduced. Central banks are probably leaning a little more hawkish as they are seeing fewer reasons to cut rates with the labour market looking relatively strong and inflation still above 2% hurdle rates. While cuts are more likely than hikes, we may not revert to a prolonged rate cutting cycle just yet.

"As the late footballer and manager Sir Bobby Robson said, "the first 90 minutes are the most important". Similarly, we will not rest until the match is won and inflation is back at 2%."

Sintra, 1 July 2024

Exposure to shorter duration and higher coupon bonds helped offset rising long-term yields in government bonds. Meanwhile, a positive macro backdrop supported corporate bonds, both investment grade and high yield. Corporate earnings held up well, with corporate bond spreads tightening and default rates causing little concern.

The expected return outlook remains positive for bonds as yields are at reasonable levels and rates are supportive over the medium term.

Politics

Political noise had quite an influence in markets over the quarter. A snap election was called by President Macron in France post a poor showing in the European Parliamentary elections. This caused considerable underperformance in European assets, across both equites and bonds, driven by concerns of a far-right government led by Le Pen's National Rally party. The Euro Stoxx 50 of European Shares trended lower post the announcement, even as the S&P 500 rallied higher.

Source: Setanta / Bloomberg

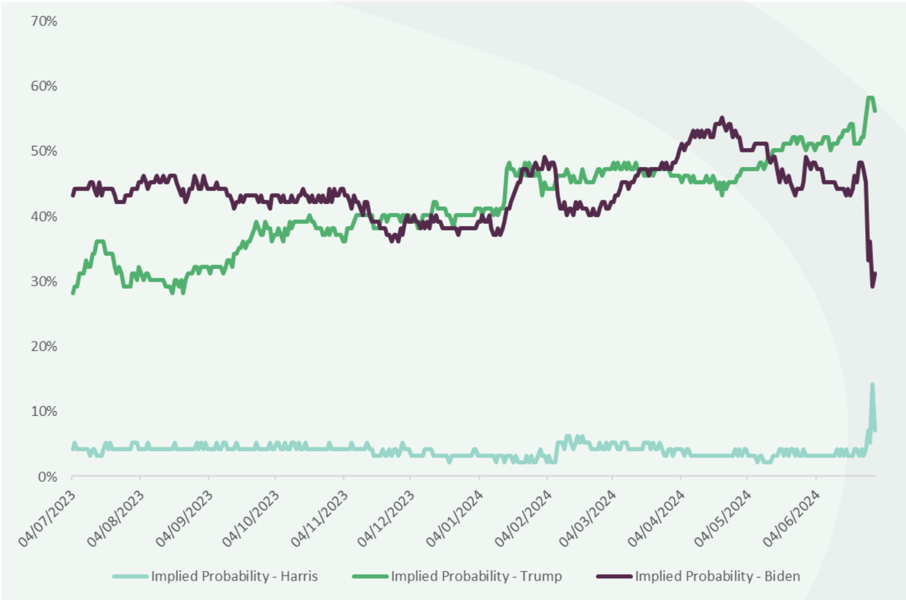
Government bond spreads gapped wider in Europe. In France, with National Rally emerging as first round winner of the French Parliamentary elections. Both Le Pen and Melenchon (far right and far left) want tax cuts, wage increases and a lower retirement age, likely putting pressure on already stretched public finances. This caused the spread between French and German 10-year bonds to hit decade highs, widening to 0.80%, nearly double the most recent levels.

French OAT- German BUND Spread

Source: Bloomberg/Setanta

Meanwhile, yield curves steepened in the US with longer dated bonds underperforming shorter dated, as the probability of a Republican win increased post the first presidential debate, reflecting concerns over higher government spending and deficits under Trump. Concerns over President Biden's ability to run has also increased the odds of a new Democratic candidate, and Biden's odds of re-election fell considerably into quarter end.

US Election Probabilities



Source: Bloomberg/Setanta

In the UK elections, Labour was expected to win with a large majority, but with little real spillover effects on markets compared to the elections in the US and Europe.

Macro

Finally, it is worth noting some worrying macro signals, though it is hard to see them reflected in markets. US economic data surprised to the downside, while equity markets multiples continued to move higher, reflecting little concern by investors.

US Economic surprise index / S&P 500

Source: Setanta / Bloomberg

Turning to the US fiscal situation, the US budget deficit is at 6%, which is unheard of with only 4% unemployment, raising concerns around the fiscal space available if a recession were to occur – especially given that both parties are talking about increased spending and lower taxes.

The current United States Government Debt to GDP is around 122%, having averaged around 66% from 1940 until 2023. Further loose fiscal policy could force upward pressure on global interest rates and the dollar, pushing up funding costs in the rest of the world, exacerbating fragilities and magnifying risks.

Governments globally need to be aware of the risks of a buyers strike, if they don't get their balance sheets in order.

Commentary

Key takeaways:

- Growth to remain healthy in the short term, with the US leading while Europe benefits from a cyclical recovery, although signs of a slowdown are becoming more evident.
- Inflation to remain broadly heading in the right direction bar some form of supply or demand shock. With service inflation stickier than expected, central banks may not cut interest rates as aggressively as in previous cycles.
- Elections causing more turmoil than expected, with the French election potentially reigniting fragmentation risk, and with the US Presidential elections to garner more focus into quarter four.
- Equities have continued to rally, but concentration and valuations are becoming more acute in certain geographies and sectors, though history has shown this can go on for some time.
- The fund will remain diversified across assets, sectors and security names to help navigate market gyrations through time.

David Ryan, CFA

Head of Multi-Asset Funds

Commentary

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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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