

Setanta Income Opportunities Fund

Q3 2024

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.

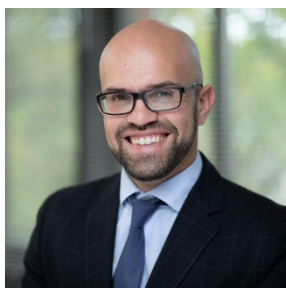
The Fund employs an option writing strategy. This entails the sale of both call and put options in return for a cash premium, representing an income stream that boosts the underlying income yield of the Fund. This strategy is employed in a conservative fashion, as all options written are fully covered.

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

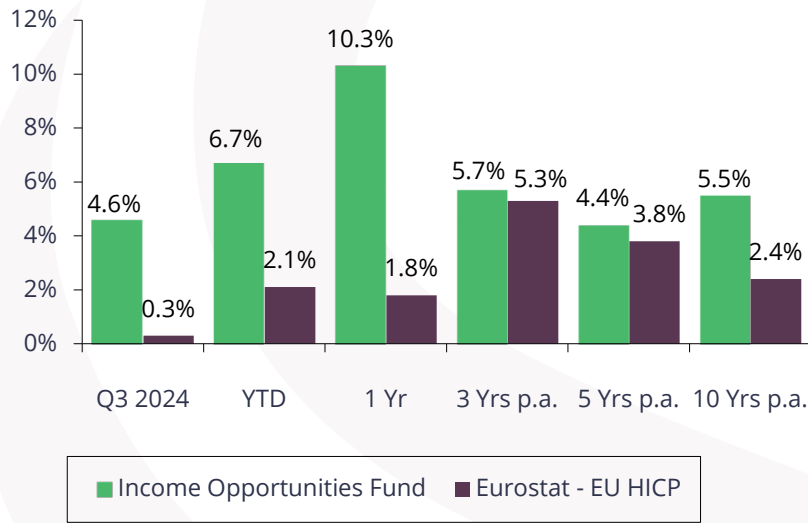
We consider scenarios rather than making forecasts

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 – 30.09.2024 (EUR)



Yearly Performance

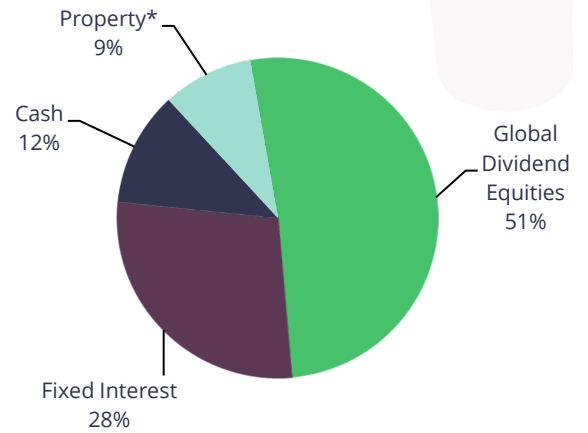
Year %	2019	2020	2021	2022	2023
Fund	13.7	-5.6	11.9	-0.3	6.5
Benchmark	1.1	-0.3	5.0	9.6	2.8

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.

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
PROCTER & GAMBLE	CONSUMER STAPLES	2.2%
AIR LIQUIDE	ENERGY & MATERIALS	2.2%
SANOFI EUR2	INDUSTRIALS	2.0%
BOLIDEN	HEALTH CARE	1.9%
NOVARTIS	CONSUMER DISCRETIONARY	1.8%
NATIONAL GRID	FINANCIALS	1.8%
MEDTRONIC	HEALTH CARE	1.8%
CRH PLC	INDUSTRIALS	1.8%
KENVUE INC	CONSUMER STAPLES	1.8%
SAMPO	INFORMATION TECHNOLOGY	1.7%

Asset Distribution



*includes 1.1% in IRES REIT

Historic Income

Year	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%

Q3 2024 Commentary

Dear Chairman

Our job is to invest in publicly listed companies by selecting securities issued by quality businesses with enduring strengths. These companies generate growing streams of free cash flow, which in turn fund the dividends and borrowing capacity that underpin returns for the Setanta Income Opportunities Fund.

However, this is not the whole picture. Public companies are complex entities with multiple stakeholders, each with different and often conflicting interests. When properly organized, incentivised, and resourced, companies can create tremendous value. Stakeholders claim portions of this value through contracts or regulations -employment contracts, bond indentures, stock options, tax codes-, but shareholders, by definition, are only entitled to what's left after paying off all commitments. Over time, equity holders have historically been able to reap superior returns as compensation for being last in line.

But this isn't always guaranteed. The book *Dear Chairman* by Jeff Gramm details the history and rise of shareholder activism over the past century. Gramm presents eight case studies of notable shareholder campaigns, beginning with Benjamin Graham's efforts to influence Northern Pipeline to distribute excess capital to shareholders in the 1920s. At that time, corporate governance was an afterthought, financial information disclosure was minimal, and corporate affairs were largely carried out by an insiders' club of corporate directors. Graham's focus on the concept of "intrinsic value" as a measure of a corporation's worth was novel, in a world where security pricing appeared to be driven by rumours, inside information and speculation instead. His success in influencing Northern Pipeline's board marked a milestone in holding company fiduciaries accountable for their actions.

"The story of the rise of shareholder activism has never been told as compellingly and instructively as Jeff Gramm offers it in *Dear Chairman*, a book that dissects the dramatic deals and brings to life the unbelievable characters of the past hundred years."
—ARTHUR LEVITT, former chairman, U.S. Securities and Exchange Commission

DEAR CHAIRMAN

BOARDROOM BATTLES *and the*
RISE of SHAREHOLDER ACTIVISM

JEFF GRAMM





Q3 2024 Commentary

"The capital not needed by these pipe line companies in the normal conduct of their business, or to provide for reasonable contingencies, should be returned to the stockholders, whose property it is, in the form of special dividends and/or reductions of capital" - Benjamin Graham, 1927

The book goes on to explore other conflicts and developments in shareholder capitalism, including the rise of the high-yield market and the downfall of titans like General Motors. These stories highlight the often uneasy relationship between shareholders, managers, and directors, and the complex dynamics of capital allocation, incentives, and governance decisions where investors are not free of blame.

At Setanta, we believe shareholders not only have the right, but the responsibility, to make sure that qualified directors are appointed who will act in the best interest of shareholders. Through our votes we aim to ensure that high standards of corporate governance are upheld and a Boardroom dynamic which is conducive to equitable treatment of stakeholders, efficient use of resources and growth.

Irish Residential Properties REIT (IRES).

The Fund has held a position in IRES since shortly after its Initial Public Offering in 2014. Despite its small size, the company has become a leading owner and operator in Dublin's private residential accommodation market, managing over 3,700 units. While IRES initially performed well, recent years have been challenging due to regulatory, operational and financial hurdles which led to a sharp drop in its share price. As these challenges emerged, we became increasingly concerned that the shackles imposed by the very conservative Irish REIT regulatory regime, compounded by rental price controls and onerous taxation would be too big a hurdle for the company to grow and produce competitive returns leading us to reduce our position over the period. At the time of writing, all the Irish REITs ever created under the Finance Act 2013 have effectively been acquired or otherwise removed from public markets except for IRES. Additionally, the company's inability to exploit prima facie accretive internal development opportunities, compounded our doubts.

As these events occurred, the company faced an activist campaign culminating in a proxy battle at the 2023 AGM. A subsequent extraordinary general meeting (EGM) in early 2024 saw the appointment of two activist representatives to the Board. Throughout this period, Setanta PMs, on behalf of the Setanta Global Dividend Fund investors engaged diligently with the relevant parties and voted constructively in the interests of all shareholders at both general meetings.

However, with no indication of progress, our confidence in the investment deteriorated. While there may be significant value in the shares, we believe it will be difficult to unlock and considering the stock's relative illiquidity we decided to exit the position during the quarter. Public equity markets may still have a role to play in contributing to finance much needed housing in this market, but we believe that the Fund's capital will obtain better returns when put to work in alternative investments.



Q3 2024 Commentary

Key Contributors to Fund Performance

The cooling effect on the economy of high interest rates appears to be finally taking hold, fuelling expectations of rate cuts. In equity markets, some interest-rate sensitive sectors rallied, led by real estate and utilities while energy stocks underperformed as oil prices weakened towards the end of the quarter.

The Fund delivered a strong performance over the quarter, with a total return of **4.6%** in EUR with good performance across the equities and bond portfolios.

Among the notable equity contributors, **Sanofi** and **Kenvue** saw solid share price gains. These are large companies with profitable operations and solid prospects supported by innovative product pipelines (Sanofi), and well-funded marketing and distribution budgets (Kenvue). Both companies saw their stock prices heavily punished in 2023 – Sanofi largely for a misunderstood strategic update, and Kenvue for results that missed market expectations.

Bangkok Bank also performed well this quarter. It is a conservative bank with a stable and profitable book of business which proved resilient in a challenging local economic environment post-pandemic. Thailand, its main market, has also endured more than its fair share of political volatility. The appointment of a new prime minister in August was well received bringing some much-needed stability to the country. Shares of local banks have performed well since the announcement. Bangkok Bank currently trades at low multiples of earnings and a 4.6% dividend yield.

On the downside, the Fund's **Samsung** shares fell materially. Samsung dominates the cyclical memory chips market and holds strong market positions in logic chip design and manufacturing, and selected consumer electronics markets. Weakness in the memory business dragged expectations lower through the quarter. Additionally, the company has been unusually slow to develop specialised memory chips for AI data centres, a rapidly growing market segment. In early October, Samsung issued a profit warning and pre-announced weak results for Q3-24, pledging to make "any necessary adjustments" to regain its competitive edge. Samsung remains the most profitable memory chip manufacturer, and we believe it has all the resources required to continue to succeed. The company is making significant strides and appears to be in good position to bridge the technological and manufacturing gap with competition in AI data centres.

Nestlé shares also weakened this quarter. Nestlé manages a diversified and high-quality portfolio of everyday brands from coffee to pet food. The company has a solid track record of value creation by investing in its brands with a long-term outlook. Several of its brands performed exceptionally well during the pandemic and subsequent reopening, showing strong pricing power, although volume growth was more muted. As 2024 progressed, inflationary pressures took a toll on consumers, exhausted by high prices, leading to a more value-conscious approach to spending. In response, Nestlé adjusted its growth strategy to balance price and volume more in tune with historical norms. CEO Mark Schneider who led the company for eight years and significantly re-energised and reshaped its portfolio of businesses, stepped down. Laurent Freixe, a company veteran, has taken over with a mission to resume Nestlé's track record of "consistent and sustainable value creation" in the words of Chairman Paul Bulcke. Nestlé shares currently offer a 3.6% dividend yield

On the bond portfolio, the Fund benefited from a strong income yield to maturity of around **4.2%**, and favourable tailwinds from monetary policy in Europe and the US. The Fund continues to have a low risk profile with a relatively low average duration of 2.5 years. Over the quarter, we continued to diversify the credit portfolio with the addition of a number of diversified, quality bond issues with accretive yields.

*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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