Setanta Income Opportunities Fund
Q4 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

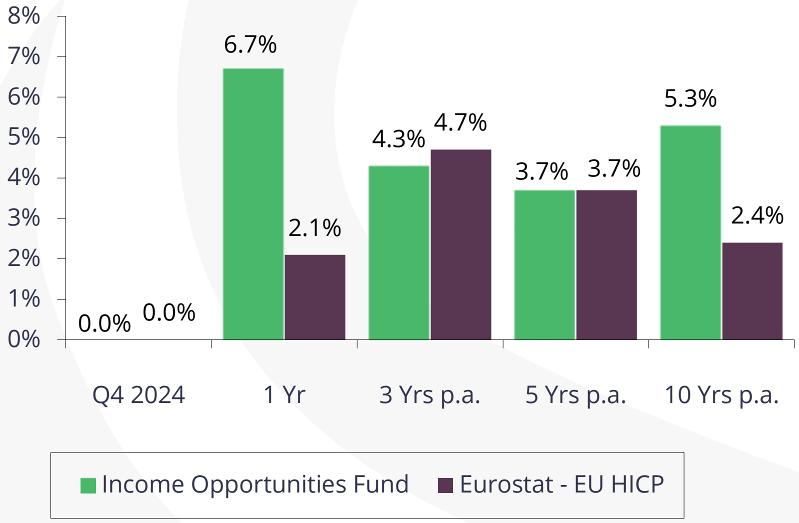
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

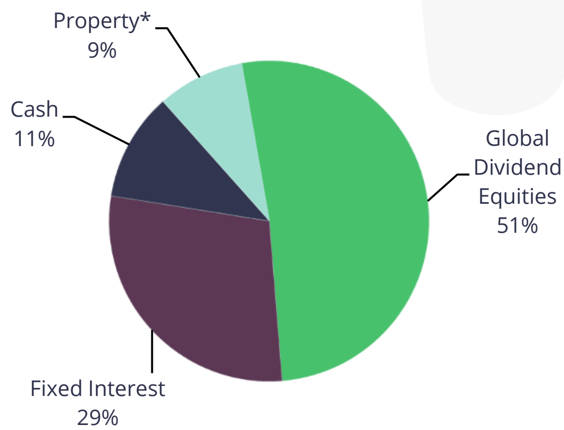
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Fund Performance – 31.12.2024 (EUR)



Asset Distribution



*includes 1.0% in IRES REIT

Yearly Performance

Year %	2020	2021	2022	2023	2024
Fund	-5.6	11.9	-0.3	6.5	6.7
Benchmark	-0.3	5.0	9.6	2.8	2.1

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%
2024	4.3%

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
PROCTER & GAMBLE	CONSUMER STAPLES	2.4%
AIR LIQUIDE	MATERIALS	2.0%
SANOFI	HEALTH CARE	1.8%
KENVUE INC	CONSUMER STAPLES	1.8%
BOLIDEN	MATERIALS	1.8%
MEDTRONIC PLC	HEALTH CARE	1.7%
NATIONAL GRID	UTILITIES	1.7%
NOVARTIS	HEALTH CARE	1.7%
SAMPO	FINANCIALS	1.6%
CRH PLC	MATERIALS	1.6%

Q4 2024 Commentary

When writing our 2020 review at the time of the attack on the Houses of Congress in Washington noting the election of Joe Biden as president, little did we think that Donald Trump would again be elected as President of America, thinking it much more likely he would end up in less salubrious surroundings. Time magazine has recognised Mr. Trump's remarkable, and clearcut, victory, naming him its 'Person of the Year'. In doing so, he joins a small list of repeat winners, which includes Franklin Roosevelt and Ronald Reagan, but also Richard Nixon and Josef Stalin. Among other things, Trump is expected to increase tariffs on many countries, most notably China and Mexico, and to demand that America's allies substantially increase their spending on defence, putting pressure on fiscal budgets. His administration appointments to date indicate a desire to deregulate the American economy and to reduce federal bureaucracy, although as often the case with Trump, his true intentions are open to interpretation.

Having reached a multi-decade peak in most major economies, interest rates fell during 2024. Central banks acted, recognising that inflation was returning to normal levels of around 2% in America and the Eurozone. China's economic struggles persisted, notwithstanding its announcement of a major fiscal and monetary stimulus later in the year. Geopolitically, it flexed its muscles, as its military undertook increasingly aggressive manoeuvres offshore, particularly around its neighbour, Taiwan, to which it has long laid claim. The violence in the Middle-East broadened through the more direct involvement of parties in Iran and Lebanon, albeit without affecting the price of crude oil substantially. Artificial Intelligence (AI) continued to dominate headlines, while beginning to permeate the everyday lives of people. AI is increasingly visible in apps, while educational institutions face challenges in distinguishing the likes of ChatGPT creations from authentic student compositions.

In equity markets, cyclical sectors were generally the strongest performers, led by Information Technology and followed by Financials (particularly North American regional banks), Consumer Discretionary, and Industrials. 'Defensive' sectors, those less exposed to cycles, such as Healthcare and Consumer Staples, under-performed the broader equity market. Utilities bucked this trend, performing robustly, led by electricity grid-focused companies that are expected to benefit from AI-related investment; tobacco stocks also performed well. In fixed income markets, there was significant volatility, driven by fluctuating inflation expectations, monetary policy shifts, the US elections, and the ongoing conflict in Ukraine, among other factors.

Key Stock Contributors to Fund Performance

In 2024, the Income Opportunities Fund achieved a total return of 6.7%, well in excess of Eurozone inflation, its benchmark. On the equity side, **TSMC**, the world's largest manufacturer of semiconductors, based in Taiwan, followed up a strong performance in 2023, by achieving a total return in excess of 100% last year. It reported very strong revenue growth as well as sequential improvement in its operating margin, as it benefitted from AI-driven demand for its logic semiconductors. This was despite the increasingly bellicose actions of China, noted above. Investors are likely taking some heart in TSMC's diversification of its manufacturing; it reported positive progress on its new American manufacturing plants ('fabs'), which are beneficiaries of substantial Federal funding. **CRH**, the US-oriented building materials company, was for the second successive year also one of the largest positive contributors to the Fund's performance. It continued to report good results, notably in North America, incorporating rising profit margins, a function among other things of price increases, cost management, and operational efficiency. The strong tailwinds of multi-year Federal infrastructure spending are expected to be reaffirmed under the new Trump administration. **Allianz**, the German multi-line insurer continues to be an excellent holding. In its most recent quarterly report, it reported strong growth in its Life and Health business, while its Property and Casualty combined ratio, a measure of underlying profitability, improved.

The Fund's fixed income portfolio made a meaningful contribution to overall fund performance in the year, delivering a strong total return of over 6%. This performance was achieved amidst the volatility in fixed income markets, noted above. We believe this bond portfolio is well-positioned, with a diversified portfolio of fixed income securities with strong credit quality, and limited duration risk.

Major Changes to the Fund

At year end, 50% of the Fund’s assets were held in equities; 29% in bonds; 11% in property (including REITs) and 10% in cash. During the year, the Fund added four equity investments. **American Tower** is a Real Estate Investment Trust that focuses on communications infrastructure, particularly the towers that provide coverage for mobile services. As communications companies became more indebted, they decided to sell much of their infrastructure to the likes of American Tower. It, and a few peers, now own much of America’s mobile communications infrastructure; this is also the case in Europe. This is a business that benefits from economies of scope, particularly in how American Tower can add additional communication equipment to an existing tower, thus obtaining additional revenue and boosting its return on capital employed. We were able to acquire our position at a dividend yield of over 3%. We also invested in **American Waterworks** (AWK), a utility focused on provision of water, and wastewater, services in America. AWK operates in many states, albeit particularly oriented to the mid-west and north-east of the country. It is in an excellent position to capitalise on the substantial investment required to modernise America’s water infrastructure, especially as much of this infrastructure passes from small municipal entities to professional, large-scale infrastructure managers, such as AWK. We expect it to grow its regulated asset base substantially; combined with a dividend yield at acquisition of over 2%, we believe the stock is an attractive proposition. We covered **Coloplast**, manufacturer of incontinence products, and **CME**, the financial exchange business, in some depth in our Q2 and Q1 reports respectively.

We sold five equity investments from the fund. In the case of **Toronto Dominion** (TD), the leading Canadian bank, this was mainly due to its involvement in a money laundering scheme in America. While this event was itself unwelcome, drawing large fines from the relevant authorities, we believe that what it says about the bank’s culture is worrying. We have always emphasised financial strength, and prudence, particularly in assessing banks, so while we are attracted to the Canadian banking industry, we could no longer justify continuing to hold our position in TD. **Smiths Group**, an industrial conglomerate, has been for some time, a company long on potential, but short on delivery. While the company has performed reasonably over the years, it should, in our view, be doing better, given its generally strong market positions. We had placed much faith in its CEO, appointed in 2021, so when he abruptly departed, we decided it was time to move our investment elsewhere. In the cases of **Unilever**, a food and personal care consumer business, and **Federated Hermes**, an asset management firm, both stocks had underperformed our initial expectations, so after long holding periods in both cases, we sold our investments in them. We also sold **IRES**, which we covered in some depth in our Q3 commentary. During the year, a number of the Fund’s smaller bond holdings were fully redeemed upon maturity, while some were subject to tender offers by their issuers, to which we subscribed.

Over the period, we opportunistically added a number of bonds to the fund, locking in attractive yields, which we believe will support the Fund's returns in the years ahead. This included new positions in Chartered Communications, the US cable operator, and Nextera Energy Partners, an arm of a renewable-focused American utility.

Income Generation

The Fund achieved an income yield of 4.3% in 2024, exceeding its stated target of 4.1%. Dividend income benefitted from ordinary dividends in the Fund growing at around 5%, as well as special dividends from four holdings. The Fund's income-generating ability continues to benefit from the increase in its bond weight in recent years; income from bonds came to just under 1% (interest on cash also made a useful, albeit smaller, contribution). Implied volatility in equity markets was similar to 2023; option income made a good contribution to overall income at 0.6%. Despite continued challenges from working-from-home and online retail migration, the Fund's investment in Irish commercial property continued to generate good rent. 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. For 2025, the Fund's income target has been set at 4.1%.

** All references to fund performance are gross of fees and all figures are in euro terms (unless otherwise stated).*

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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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