Setanta Income Opportunities Fund Q3 2026 Commentary

Market Background

At this time last year, we wrote that expectations for the large scale Artificial Intelligence (AI) infrastructure build-out were beginning to take shape. Early forecasts pointed to multi-trillion dollar investments in Information Technology (IT) equipment, including semiconductor chips, such as graphic processing units (GPUs) and DRAM (memory) chips as well as power generation and related infrastructure. One year on, spending appears to be exceeding those initial expectations. Leading hyperscalers, those companies that are taking the lead in building the data centres that are the backbone of AI-related processing computation, have reported substantial year-on-year increases in capital expenditure, whilst semiconductor and hardware suppliers are reporting staggering levels of revenue growth, and full order books. Samsung Electronics, a Fund holding and a leading semiconductor manufacturer, stated that it expected third-quarter 2026 revenue to more than double year on year, with its operating margin rising to an unprecedented level for the industry. Data centre capacity is also being added at remarkable speed, as indicated through real estate sources[1] . In several markets, new projects represent multiples of existing installed capacity and are being delivered in record time.

Against this backdrop, the US economy continues to show very strong momentum. The latest quarterly Gross Domestic Product (GDP) estimate indicated annualised growth of more than 2% in real terms[2], whilst industrial activity indicators, including Purchasing Manager Indices, point to healthy expansion. Supported by this investment cycle, corporate earnings are expected to grow strongly in the years ahead, providing an important underpinning for equity markets. However, the broader economic, and geopolitical, environment remains challenging. The prolonged closure of the Strait of Hormuz, alongside the continuing Russia-Ukraine conflict, has left crude oil and refined-product inventories at low levels as the Northern Hemisphere approaches winter. Higher energy prices have pushed headline inflation to uncomfortable levels, adding to pressure from elevated housing, and healthcare, costs. On some measures, the US personal savings rate has fallen to multi-year lows, as households face increasing affordability pressures[3]. Consumer confidence, as measured by the US Conference Board, is at its lowest point since 2014. Recognising the inflationary pressure, the Federal Reserve raised interest rates by 0.25% at its September meeting, bringing an end to an easing cycle that had been under way for two years.

Strong investment-led growth in debt issuance and persistent inflation expectations have also driven bond yields higher. The US 10-year Treasury yield rose rapidly to 5.3% at the end of the quarter, while long-term bond yields reached period highs in other major economies. These higher yields have raised concerns among borrowers. These include the US Treasury itself, which announced interventions in longer-dated US government debt, as well as the Japanese Yen. Market participants interpreted both measures as attempts to contain the rise in market interest rates. Credit spreads, which had remained subdued for much of the year, widened sharply in the final days of the quarter[4].

Key Factors in Fund Performance

In this mixed environment, global equity markets edged higher. Energy was the strongest-performing sector, supported by a stronger outlook for fossil fuel prices amid geopolitical uncertainty. Information Technology also performed well, recovering losses from the previous quarter as investors reassessed the potential disruption that AI may present to software and IT-services businesses. By contrast, traditionally, interest-rate-sensitive sectors, including Utilities and Consumer Staples, underperformed.

Setanta Income Opportunities Fund Q3 2026 Commentary

The Fund delivered a return of **-0.7%** for the quarter, in a period where both the equity and bond portfolios corrected mildly, partly offset by positive contribution from the Fund's allocation to Irish property, as well as good cash and option income.

In the equities portfolio, **Sonova** was among the strongest contributors. Although the sector's long-term outlook remains attractive, a cyclical slowdown in recent quarters has prompted investors to question the durability of its growth rate. More recent developments have been encouraging: several peers have reported robust trading conditions, whilst industry consolidation could help support a healthier backdrop for growth in the years ahead. **Chicago Mercantile Exchange** also performed strongly. CME is one of the largest derivatives exchange operators in the United States. During the quarter, CME's exchanges public periodic filings have reported strong trading volumes, supporting earnings expectations .

Home Depot, a home improvement retailer, was among the largest detractors to Fund performance. The company continues to operate in difficult trading conditions, with management referring to "frozen housing conditions" and customers facing pressure from high energy prices and interest rates. Existing home sales , a widely used indicator of activity in the home-improvement market, have been depressed and are running at around 80% of their 10-year average[5]. Earlier expectations of easier monetary conditions have receded, and interest rates are now expected to remain higher for longer. Despite this challenging backdrop, Home Depot has delivered resilient results, with broadly stable revenue and earnings, whilst continuing to invest in the business. **CRH**'s shares also detracted from performance. The company reported solid second-quarter results, with progress in backlog, revenue and profitability. Despite positive strategic and operational progress, the share price declined during the quarter as investors incorporated expectations of higher energy prices and interest rates.

The **bond portfolio** delivered a resilient performance over the quarter, returning -1.2% in an environment in which most bond indices were impacted by the bond selloff. Performance was supported by the portfolio's relatively low interest-rate sensitivity, reflected in an average modified duration of just over three years, as well as its strong average credit quality. The Fund's fixed income portfolio benefited from a pickup in income generation from its allocation to diversified global corporate bonds, contributing to the portfolio's total return.

We believe the Fund remains conservatively positioned across a selection of high-quality, income producing investments. We expect the Fund to continue to offer a defensive and differentiated income growth profile underpinned by the Fund's selective approach.

**All figures are in euro unless stated; performance figures are gross of fees.*

Notes:

1. *https://www.cbre.com/insights/reports/global-data-center-trends-2025*
2. https://www.bea.gov/news/2026/gdp-third-estimate-industries-corporate-profits-state-gdp-and-state-personal-income-2nd
3. https://fred.stlouisfed.org/series/PSAVERT
4. https://fred.stlouisfed.org/series/BAMLH0A0HYM2
5. https://fred.stlouisfed.org/series/exhoslusm495s

Important Information

The Income Opportunities Fund is managed by Setanta Asset Management 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.

Keyridge Asset Management Limited, trading as Irish Life Investment Managers and trading as Setanta Asset Management, is authorised as an investment firm by the Central Bank of Ireland under the European Union (Markets in Financial Instruments) Regulations 2017 – S.I. No. 375/2017. Keyridge Asset Management Limited is authorised and regulated by the Financial Conduct Authority to provide investment services in the UK through a UK branch. Keyridge Asset Management Limited, has been granted the International Adviser exemption from registration in the Canadian provinces of Manitoba, Ontario and Quebec Keyridge Asset Management Limited, is a registered investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance