

# Setanta Managed Fund

Q2 2018

## Fund Description

The **Managed Fund** ("the Fund"), managed by Setanta Asset Management Limited ("Setanta"), is a unit-linked offering of Irish Life Assurance Limited.

The Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities and cash. The Fund holds between 50-80% of its assets in equities. The asset exposures of the Fund are achieved primarily via:

- Equities: The Setanta Global Equity Fund; Global Equity UCITS Fund
- Fixed Income: The Setanta Fixed Income Fund; ILA Fixed Interest
- Property: The Canada Life Property Fund
- Commodities: The ETFs All-Commodities DJ-UBS
- Cash: The Setanta Liquidity Fund
- Absolute Value: Income Opportunities Fund

The investment objective of the Fund is to outperform the median of the domestic Managed Fund peer group.

## Fund Commentary

The Setanta Managed Fund returned +4.0% over the second quarter, bringing year to date performance to +1.5%.

Performance was largely driven by our equity holdings, with global equity up strongly at +5.97%. Within equity sectors, Energy (+25.79%) and Consumer staples (+11.79%) were strong, while Industrials & Materials (-1.01%) and Financials (+0.04%) lagged, with the absolute contribution across all sectors leading to a 1% underperformance of our equities versus the MSCI world benchmark (5.97% vs. 7.16%).

*(Fund Commentary continued on Page 3)*

## Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM



## Our Investment Principles

We do not believe the market is efficient

We aim to make investments at a price below our assessment of intrinsic value

We make an investment in a business rather than trade securities

We believe risk is the possibility of permanent impairment of value

We make investments for the long term

We invest where we see value and are not afraid to be contrarian and swim against the tide

We don't make forecasts, we consider scenarios

We demand financial strength from the companies we invest in

We will act with integrity and communicate with our clients in a manner representative of our investment style

We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study

## Fund Performance – 30.06.18



**Performance Source:** Setanta Asset Management Limited. Benchmark: Rubicon Pension Managed Fund Survey. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund and are net of management fees. **Credit Rating Source:** S&P

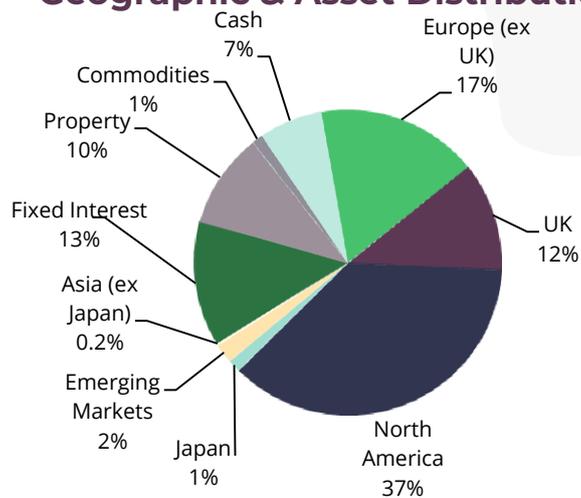
## Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT	INFORMATION TECHNOLOGY	1.9%
DCC	INDUSTRIALS & MATERIALS	1.9%
BERKSHIRE HATHAWAY	FINANCIALS	1.8%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	1.7%
NIKE INC	CONSUMER DISCRETIONARY	1.7%
JEFFERIES FINANCIAL	FINANCIALS	1.6%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	1.6%
OSHKOSH	INDUSTRIALS & MATERIALS	1.6%
CRH	INDUSTRIALS & MATERIALS	1.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.5%

## Yearly Performance

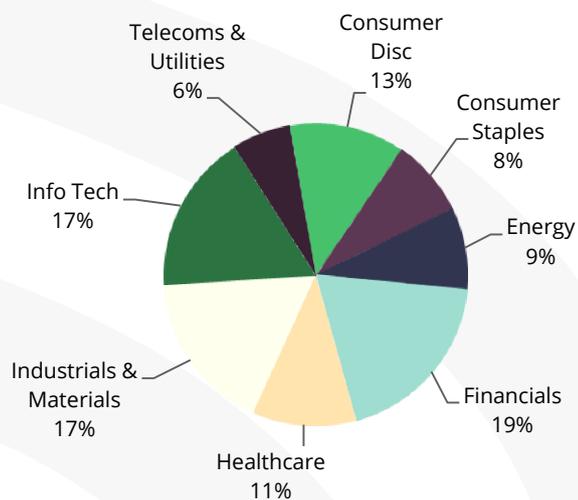
Year %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	21.7	9.1	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	8.3	12.2	6.8
Benchmark	21.7	13.3	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9	7.3

## Geographic & Asset Distribution



Total Equities: 69%

## Sector Distribution



## Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	18.4%	20.9%
AA	35.9%	37.2%
A	22.0%	18.7%
BBB	23.7%	23.2%
	100%	100%

# Commentary

Bonds lagged, with both our European government bonds (-1.60%) and our credit fund (-1.35%) detracting from performance. Within our alternative positions, Property (+1.22%), Commodities (+6.23%) and Income opportunities (+2.44%) all contributed to performance.

Turning to markets, despite easing momentum, global growth remains strong with many countries growing above long-term trend this year, and bar a few emerging market countries, inflationary pressure remains largely contained.

Looking at interest rates, markets have discounted at least two more Federal Reserve (Fed) hikes over the next year, with the European Central Bank (ECB) and the Bank of Japan (BoJ) not expected to follow suit. Central banks continued a slow normalisation of policy. The ECB announced the end of quantitative easing, reducing asset purchase to €15 billion a month from €30 billion for the last quarter of the year, and voiced the intention to end net purchases at year end.

They took the sting out of this hawkish development by a dovish commitment to keep rates on hold until summer 2019. There would seem to be growing confusion as to when summer is at the ECB given recent headlines (disagreements on what month rates will start to increase). Rate markets, taking this on board, are starting to price an earlier hike. The Fed continued down their hiking path, as they raised rates another 0.25%, bringing the Federal funds rate to 2.00%.

These moves by central banks (tightening Fed & relatively loose ECB) helped underpin a strengthening dollar against the Euro (~+5%), with dollar strength particularly evident versus emerging markets currencies. The Euro was weaker versus most currencies, with only Sterling weakening against it, likely driven by the ongoing malaise around Brexit negotiations.

Developed government bond yields, took divergent paths over the period. German ten year yields saw a fall from 0.50% to 0.30%, back below year end levels, while US treasuries tracked 0.13% higher to 2.86%. German yields were driven by a flight to safety as peripheral spreads moved wider, driven by Italian woes.

Spread widening due to the Euro-sceptic Italian government were on concerns around their fiscal policy plans, which remain largely at odds with European policies. Fears have subsequently calmed, albeit with ten year yields settling at a higher level of 2.68% at quarter end, having spiked to a yield of 3.44% at one point in May.

Another area of stress was local and hard currency (Dollar, Euro & Yen denominated) emerging market debt. There has been a marked selloff on concerns around the recent dollar strength and the capital flight that could ensue on fund flows back to more attractive US yields coupled with concerns around the cost of rolling over more expensive dollar funding from an emerging market perspective.

While there would not seem to be large rollover risk as yet (capital markets remain open to them), there has certainly been a repricing higher (larger premium) to get bonds issued.

It has been interesting to note signals from cash and bond markets. In the US the Libor-OIS index moved wider. This spread, between short dated bank funding and market expectations of interest rate levels, would generally point to bank funding concerns and a risk-off environment. The spread hit a high in April, not seen since 2009. While some technical factors are pushing this index higher (increased issuance of bills and a dearth in commercial paper buyers), it's one to monitor.

# Commentary

Looking at bonds, we have a US 2yr bond yield greater than the S&P 500 dividend yield, which may see some increased competition for capital amongst the main asset classes. While further out the yield curve, the spread between two year and ten year bonds continues to fall (curve flattening), though this has still not inverted (go below zero, + 0.25% currently). This could point to lowering inflation expectations, and rising recessionary concerns. It is worth caveating, that with quantitative easing (QE), central banks influence has moved out the curve (long end buying of bonds) possibly distorting any information previously within yield curve shapes. Either way, an inverted yield curve could lower positive market sentiment.

Corporate bond spreads tracked wider, with most sectors posting negative returns, outside of some high yield, loans and mortgage backed securities. The backdrop of an improving global economy supports spreads, though absolute levels continue to be at expensive levels. Escalation in trade tensions could increase volatility, pushing spreads wider again.

Also, some technical issues are turning less favourable (high issuance, fund outflows, waning foreign demand), while earnings would seem buoyant, balance sheets may be becoming more levered.

Equity markets would seem to be relatively sanguine about these messages from the central banks (lower likelihood of a central bank put to protect markets) and bond markets (higher likelihood of a rising cost of capital). They may be aided by countercyclical fiscal expansion in the US acting as a tailwind to the US growth outlook, arguably offsetting the monetary tightening headwind, and above trend growth elsewhere supporting fundamentals as they grow into stretched valuations. Certain indicators do feel a little late cycle though (while very aware of our low ability to forecast!). The current equity bull market as at quarter end (taking the S&P 500 index as a guide) is 9.3 years old, in and around the average bull market of 9.1 years (1926-2018). This has got some concerned, but it should be said we have seen both considerably shorter (2.5 years) and longer (15.1 years) runs.

Even with momentum coming off in some indicators (global PMIs), and maybe a new regime of higher volatility for equities, equities still form the bedrock of the portfolio. Equity valuations are less stretched than they were (post the February fall) and earnings remain supportive. Higher volatility going forward would mean lower risk adjusted returns for multi-asset funds in general. This, coupled with bonds at low yields not offering much protection, increases intra horizon risk. The possibility of a large drawdown.

While cognizant of this, we invest with a more end horizon perspective (long term), with time on our side to generate returns. This allows for a reduction in end horizon risk (lower absolute returns), as performance from equities should still be a large driver of positive performance. We remain ready and willing to take advantage of any further pickup in volatility, to purchase undervalued assets with adequate expected returns.

*David Ryan – Portfolio Manager*

## Contact Details:

Setanta Asset Management Limited,  
Beresford Court,  
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 612 4926  
Email: [brendan.moran@setanta-asset.com](mailto:brendan.moran@setanta-asset.com)  
[www.setanta-asset.com](http://www.setanta-asset.com)

## IMPORTANT INFORMATION

For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via [www.irishlife.ie](http://www.irishlife.ie). Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and 'IMPORTANT INFORMATION' below.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

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