Setanta Income Opportunities Fund
Q4 2018

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

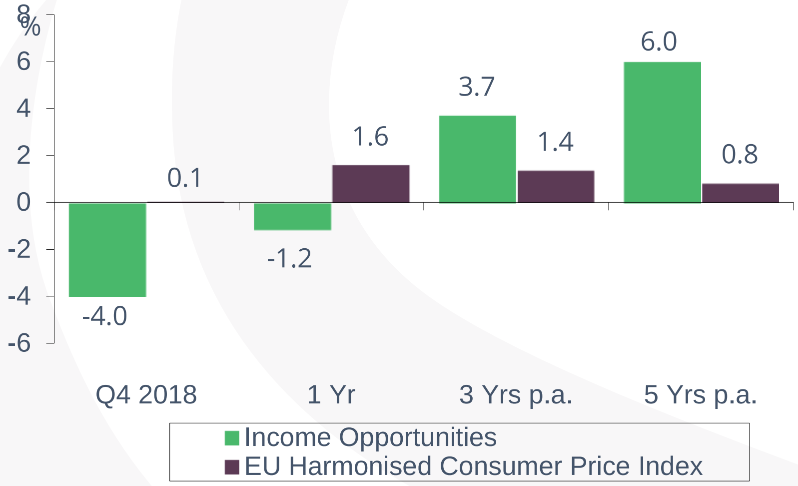
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.18



Yearly Performance

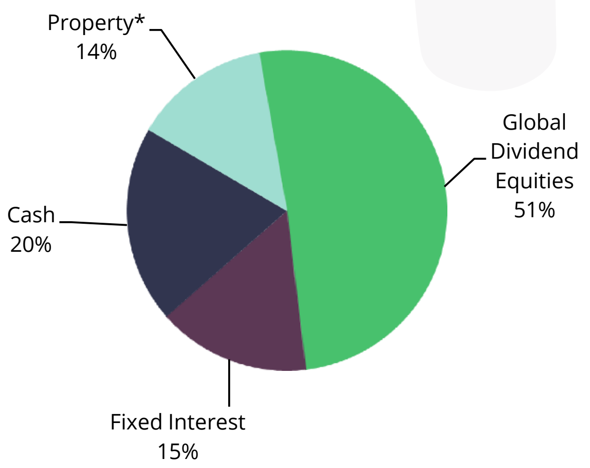
Year %	2014	2015	2016	2017	2018
Fund	8.4	10.6	9.7	2.9	-1.2
Benchmark	-0.2	0.2	1.1	1.4	1.6

Performance Source: Setanta Asset Management Limited. Benchmark: European Harmonised Consumer Price Index. Fund returns are shown gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.
* Inception as at 30.09.11

Top 10 Holdings

COMPANY	SECTOR	% OF FUND
NWS HOLDINGS LTD	INDUSTRIALS & MATERIALS	2.4%
PROXIMUS SA	TELECOMS & UTILITIES	2.3%
SAMPO	FINANCIALS	2.0%
FEDERATED INVESTORS	FINANCIALS	1.9%
FORTESCUE METALS	INDUSTRIALS & MATERIALS	1.8%
GLAXOSMITHKLINE	HEALTHCARE	1.8%
VODAFONE GROUP	TELECOMS & UTILITIES	1.8%
PROCTER & GAMBLE	CONSUMER STAPLES	1.8%
BASF AG	INDUSTRIALS & MATERIALS	1.7%
BOLSAS Y MERCADOS	FINANCIALS	1.7%

Geographic & Asset Distribution



*includes 1.7% in IRES REIT

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%

SETANTA
Asset Management

Commentary

Fund Commentary

After falling earlier in the year, global stock markets generally rose during the second and third quarters of the year, thus continuing their upward trend since March 2009. From its peak, the world market (as measured in euro by the MSCI World Index) then fell 17% in just over two months, its steepest fall in three years. Many reasons have been attributed to this sharp fall, including an end to the 'quantitative easing' of monetary authorities, the escalating US \ China trade dispute, and wider fears about the political and economic relationships between sovereign nations. One could certainly wonder why it is now that these fears are materialising, as market participants have heretofore largely 'shrugged their shoulders' to similar risks in the past.

The fund's total return was -1% for the year, thus below the rate of inflation. While it is disappointing to have a slightly negative return for the fund, we are pleased with the contribution of the non-equity portion, roughly half, of the fund. In recent years, we have broadened the fund so that it is more diversified and thus less reliant on the equity market alone. While the equity portion of the fund contracted by just over 3%, the non-equity elements of the fund offset this to a large degree, rising 2%. This reflected a good performance in the fund's property weighting, a diversified range of prime Irish office and retail assets, and a solid performance by its bond holdings. Over the more relevant long-term periods, the fund continues to perform well, rising 4% and 6% over 3 and 5 years respectively (all gross of fees, euro terms), comfortably in excess of inflation.

We cannot accurately predict the future. However, we can endeavour to position the fund in a prudent fashion for whatever that future might hold. We believe that the fund is well-positioned in this regard, holding investments generally characterised by their sustainability, strong financial positions and durable cashflows. As of end 2018, 50% of the fund's assets were held in equities; 15% in property (including REITs); 15% in bonds; and 20% in cash. In this report, we discuss the investments that made the most positive and negative contributions to the fund.

Main Contributors to Fund Performance

Under the leadership of a new CEO, Cisco is changing from its one-time sale \ hardware-based business model to a subscription \ recurring revenue model. It in is a good position to take advantage of the expected growth in connectivity resulting from increasing wired and wireless communications and the 'Internet of Things'. In 2018, Cisco continued its record of growing sales, profits, and dividends. As we noted in last quarter's review, while Cisco is not as favourably valued as at the time of our initial investment we believe that its high returns are very much sustainable.

Investment	*Performance Contribution*	*Investment*	*Performance Contribution*
Cisco	0.62%	Vodafone	-0.82%
NWS	0.62%	BASF	-0.72%
Swedish Match	0.50%	Harley Davidson	-0.76%

Commentary

NWS continues to both grow revenues and to generally improve its profitability. It is well positioned to benefit from the urbanisation and industrialisation of mainland China, whether in operating toll roads, managing water and waste facilities, or facilitating China's 'belt and road' initiative through rail and port terminals. It has a similar position in Hong Kong, albeit with a tilt towards more economically-sensitive areas, and benefits from the generally constrained supply of land and space for infrastructure.

Swedish Match, maker of smokeless tobacco products, has been a good investment for us. The company reported good sales growth, improved its operating margin in its core Nordic region, while making a breakthrough with it new 'Zyn' product outside this region. It continued to return substantial amounts of cash to shareholders, both through ordinary and special dividends and large share repurchases. The stock rose very strongly through the first half of the year during which we substantially reduced our position, thus booking gains for the fund.

2018 wasn't a good year for **Vodafone**. Competitive dynamics worsened in Spain and Italy, two of its biggest markets, where new entrants have been rapidly capturing market share. The company also had to pay 'top dollar' for its allocation of fifth-generation airwave spectrum in Italy, prompting fears that it will have to pay more than expected in other countries. A weakening economic outlook and uncertainty about the outcome of the relevant authorities' reviews of its proposed acquisition of Liberty Global's assets in Germany and Central Europe exacerbated matters. On the positive side, the German, British and some of its African businesses were strong, and the company's strategic and competitive position is much improved after years of heavy investment. The company certainly faces challenges, but is, in our view, good value, yielding more than 8% at the year end.

The share price of **BASF**, the global chemical company, fell sharply in the second half of 2018, reflecting weak results and lowered profit expectations. This reflected a sharp slowdown in the automotive industry, an important end market for the company, general economic weakness in China, attributed to US \ China trade war concerns, and logistical difficulties at its key German production site due to the exceptionally low level of the Rhine river (a worry, perhaps, not just for the company, but all of us). Our view very much remains that BASF is an excellent company, distinguished by its commitment to creating value through innovation and through its largely unique commitment to integration. It currently yields a dividend of around 5%.

Harley Davidson continued to report declining unit sales of its motorcycles. This prompted closure of one of its factories, as well as a material restructuring cost. The company was also a somewhat innocent victim of President's Trump's trade policies, suffering from tariffs relating both to steel imports and exports to the EU. Despite this, its profitability was sound, while cashflow generation was also good, as Harley's new bikes sold at good prices. While Harley's declining unit sales are certainly a concern, the company is addressing this through investment in both new bikes and broadening the appeal of recreational motor cycling. Harley's disciplined approach to selling (and related pricing power), its huge brand strength, and the discipline of its management continue to underpin the stock. Harley currently has a dividend yield of 4.5%, which is supplemented by substantial share repurchases.

Income Commentary

Dividend income, net of withholding tax, was the largest contributor to the fund's income in 2018. In addition, coupon income form the fund's growing bond portfolio and rental income earned by the fund's indirect property investments also made noteworthy contributions, illustrating the broadening base on which the income yield is based.

Commentary

While implied volatility of the market relative to most previous years continued to be low, thus hindering option writing, we took what opportunities arose to write options, so that premia from options again augmented the direct income of the fund. The contribution of these four sources to income for 2018 tallied to 4.0%. In addition to this, through the year the fund held roughly 20% of its weight in cash, consistent with our conservative approach. This weighting provided ballast to the fund, boosting the overall fund return, albeit in this time of quantitative easing, earning a yield slightly below zero. The overall income including this interest was just under 4.0%.

For 2019, we target an income yield of 4.0%, believing this to be a differentiated level of income given the market backdrop and the fund's dual objective of income generation and long-term real growth of the fund.

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