Setanta Managed Fund
Q1 2019

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 Managed Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities, cash and absolute value. The Fund holds between 50-80% of its assets in equities, reflecting the breadth of the market and Setanta's expertise in the area. 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 investment objective of the Fund is to outperform the median of competitor Managed Fund offerings over the long term.

Fund Commentary

The Setanta Managed fund gained +9.5% over the first quarter, completely reversing fourth quarter losses from last year.

Global equity markets were strong (+13.2%), with double digit returns, potentially driven by a myriad of factors.

Within global equities, the I.T. (+19.8%) and the Industrial & Materials (+17.4%) sectors were the main drivers of performance, while Telecom & Utilities (+8.2%) and Financials (+8.49%), though strongly positive, were the laggards.

(Fund Commentary continued on Page 3)

Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

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

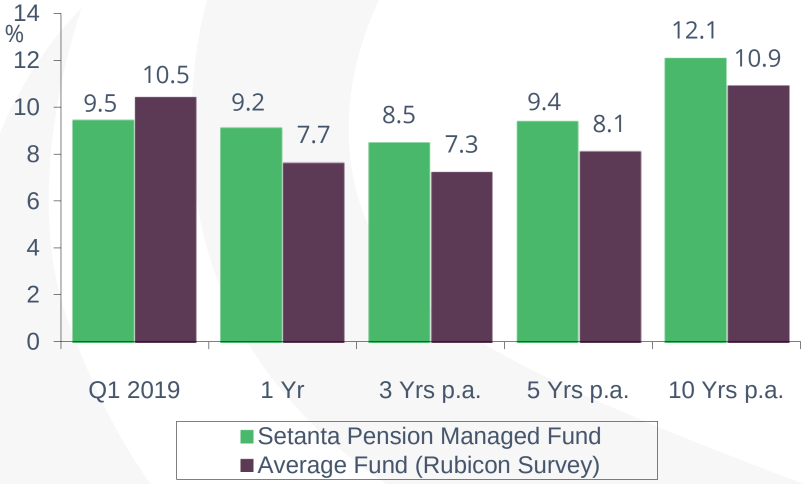
We consider scenarios rather than making forecasts

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 – 31.03.19

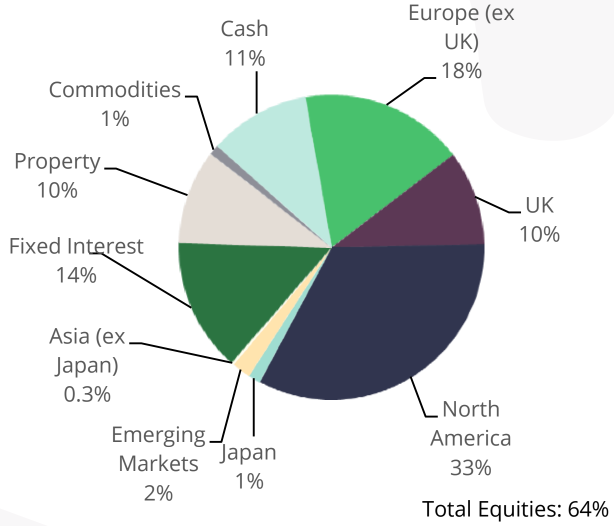


Performance Source: Setanta Asset Management Limited. Benchmark: Rubicon Pension Managed Fund Survey. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund and are net of management fees. Credit Rating Source: S&P

Top 10 Equity Holdings

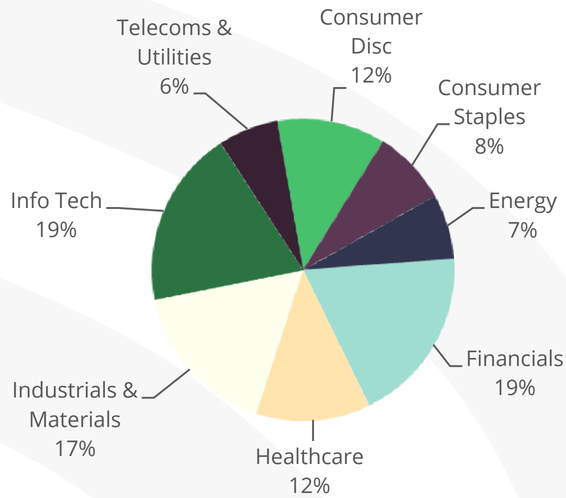
COMPANY	SECTOR	% OF FUND
MICROSOFT	INFORMATION TECHNOLOGY	1.9%
BERKSHIRE HATHAWAY	FINANCIALS	1.9%
DCC	INDUSTRIALS & MATERIALS	1.8%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	1.6%
FEDERATED INVESTORS	FINANCIALS	1.5%
LANCASHIRE HOLDINGS	FINANCIALS	1.5%
OSHKOSH	INDUSTRIALS & MATERIALS	1.5%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.4%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	1.4%
KEYSIGHT TECHNOLOGY	INFORMATION TECHNOLOGY	1.3%

Geographic & Asset Distribution



Total Equities: 64%

Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	13.1%	21.2%
AA	44.9%	37.5%
A	25.6%	18.8%
BBB	16.5%	22.7%
	100%	100%

Yearly Performance

Year %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fund	9.1	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	8.3	12.2	6.8	-2.7
Benchmark	13.3	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9	7.3	-5.2

SETANTA Asset Management

Commentary

Government debt (+4.2%) also contributed as the central bank tone turned more dovish. While our credit positions (+3.7%), benefited from tightening credit spreads on positive sentiment, below target inflation and low default concerns.

Income opportunities (+8.5%), Property (+0.8%) and Commodities (+7.5%) were all positive, contributed to varying degrees over the period.

When stock prices are rising, it's called "momentum investing", when they are falling, it's called "panic." – Paul Krugman, The New York Times

Markets, post the decline in Q4 2018, rebounded aggressively this quarter. Reasons ranged from growing optimism in US-China trade negotiations, central banks adopting a more patient and flexible approach, or simply because there was a general fear of missing out!

Interest rate markets, through lower yields, moved to price out any rate hikes in Europe or the US this year. Surprisingly, a cut in base rates is now more likely in the US than a rise, which doesn't seem to sit comfortably with surging equity markets.

The pivot towards a dovish monetary policy in the main economies likely helped market sentiment despite ongoing signs of weakening global growth. Most Equity markets rallied and across the credit spectrum spreads tightened, even as earnings revisions and economic data trended lower.

Despite the rally, markets remain susceptible to a repricing of risk. This could erupt due to any manner of things on the radar (trade tensions, slowing global economic activity, political shocks), or by those lurking, but currently under the radar.

Corporate debt, as an example, is an obvious risk. While capacity to service has improved (given such favourable funding levels), and balance sheets appear strong (though leverage is trending higher), overall debt and risk taking have increased, with the creditworthiness of markets in general deteriorating.

The stock of lower-rated investment-grade bonds have quadrupled, with the stock of speculative-grade bonds almost doubling in the United States and the Euro area since the crisis. Any type of slowdown could topple these heavily indebted firms, sending shockwaves through the system.

In Europe, the financial-sovereign sector nexus has not gone away, despite the best efforts of regulators. Fiscal challenges in Italy, recently leading to clashes with the European commission, have pushed local yields higher and spreads wider. While banking and Insurance capital ratios have improved, non-performing loans and declines in government bonds could erode safety buffers quite quickly.

The ECB kept the main refi rate the same at 0.00%, with expectations that this will remain here at least through the end of 2019. They continue to reinvest the principal payments from maturing securities purchased (under the asset purchase programme), to maintain liquidity and ample monetary accommodation (until such time as inflation returns).

Also, new targeted longer-term refinancing operations (TLTRO-III) will be launched (Sep 2019 with a maturity of two years), preserving favourable bank lending conditions and the smooth transmission of monetary policy. The question, one could ask, is why they still need to have these measures?

Further afield, vulnerabilities in China remain high. The government is struggling to support growth, while containing leverage through regulatory tightening. The possible ramifications to global growth and emerging market economies in particular could be stark if this is mishandled.

Commentary

An interesting concern that has raised its head recently, somewhat removed from corporate and government balance sheets is the attack on central bank independence.
Towards the end of the quarter, a member of the ECB management board, Yves Mersch gave a timely speech "Necessity, proportionality and probity – central bank independence in unconventional times" highlighted the need for Central banks to stay independent.

This clashes somewhat with what is going on across the pond, with blatant political appointments of allies to the board of the Federal Reserve and regular social media bashing of the current policy. A market that loses faith with the most important central bank globally would not augur well for financial assets in general and the local currency in particular.

We remain of a long term bias. While cognizant of global macro & micro affairs, we remain wary of the "noise" that they can create, but are keen to take advantage when the "signal" of cheap valuations, allow for investment at reasonable expected returns.

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IMPORTANT INFORMATION