Setanta Income Opportunities Fund – Q2 2016

Setanta
ASSET MANAGEMENT

Fund Description

The **Income Opportunities Fund** is an actively managed multi-asset Fund that is focussed on generating income and maintaining the real value of capital invested over the long-term.

The Portfolio Managers follow Setanta's value investment philosophy, seeking to pick stocks at a price below the managers' assessment of intrinsic value. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders.

While the Fund does not target specific regional or sector weights, the managers seek to maintain a sensible level of diversification. Risk is minimised by focusing on valuation, financial and operational risk measures and therefore the degree of downside protection, rather than focusing on measures of market volatility or beta. The Fund usually holds between 20 to 40 stocks with expected holding periods of up to 5 years. While investment in attractively valued high yield equities (overwritten with call options) will be the primary strategy employed in the Fund, the Portfolio Managers seek long-term higher yielding value opportunities in other asset classes also.

The covered option overwriting strategy employed is active and at all times maintains a focus on total return.

The Income Opportunities Fund has two investment objectives:

1 To generate income at a target rate. (Declared annually at beginning of year).
2 To grow real capital value over the long term

Portfolio Managers

Richard Doyle CFA & David Pastor CFA

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.

Irish Pensions AWARDS 2015
WINNER
Equities Manager of the Year

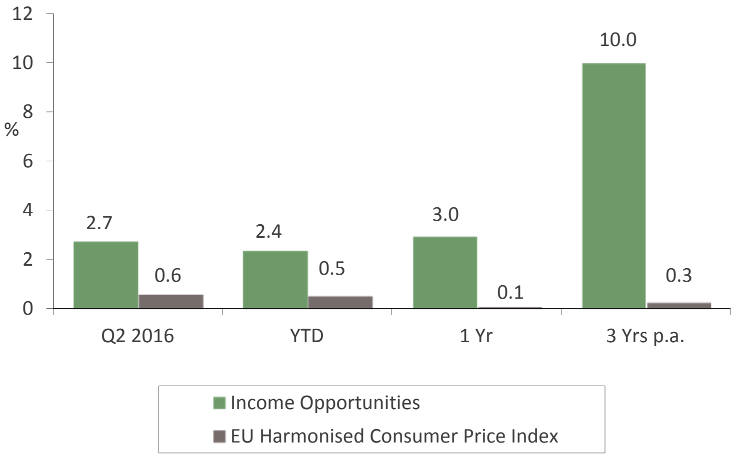
Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

Setanta
ASSET MANAGEMENT

FUND PERFORMANCE – 30.06.16



YEARLY PERFORMANCE

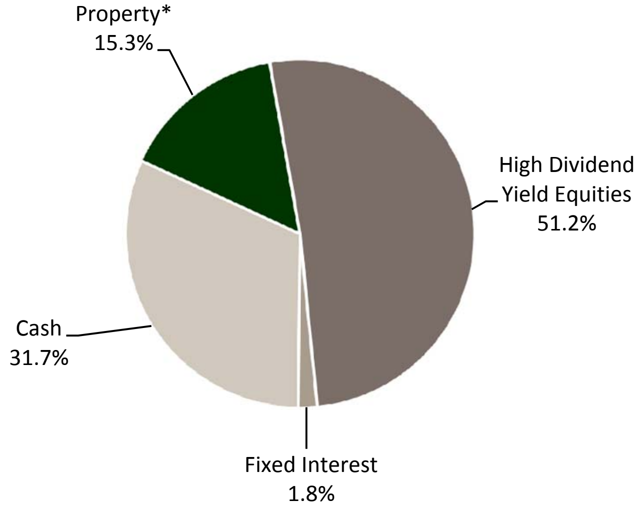
Year %	2012	2013	2014	2015
Fund	11.7	14.7	8.4	10.6
Benchmark	2.2	0.8	-0.2	0.2

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
PEARSON	CONSUMER DISCRETIONARY	3.0%
GLAXOSMITHKLINE	HEALTHCARE	3.0%
ENI Spa NPV	ENERGY	3.0%
SMITHS GROUP	INDUSTRIALS & MATERIALS	2.8%
NATIONAL OILWELL	ENERGY	2.6%
FENNER	INDUSTRIALS & MATERIALS	2.6%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	2.5%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.5%
MATTEL INC	CONSUMER DISCRETIONARY	2.4%
GROUPE BRUXELLE LAMBERT	FINANCIALS	2.4%

GEOGRAPHIC & ASSET SPLIT



*includes 4.8% Irish REIT

HISTORIC INCOME

	Income Earned % of Fund Value
2011	6.2%
2012	5.0%
2013	5.5%
2014	4.8%
2015	5.5%

Brexit

Thanks to ‘Brexit’, the vote by the U.K. to leave the EU, the second quarter of 2015 had a wild finish. Following an initial sharp fall in financial markets, defensive sectors, (i.e. healthcare, utilities, staples), and assets perceived to be low risk (gold, German bunds, US dollar, and ironically, UK gilts) performed strongly after the referendum. Peripheral European countries, reflecting some concerns about the future integrity of the EU, and more cyclically-sensitive sectors, amidst worries about the implications for global economic growth, sold off in the market’s popular ‘risk off’ trade. Sterling plummeted against all major currencies and hit a thirty-year low against the dollar.

The fund’s value had increased prior to the referendum, before falling sharply as the result became known. In the final few days of the quarter, the fund recovered much of this performance to post a 2.7% rise over the quarter as a whole. Against this ‘Brexit’ backdrop, some of our stocks lagged the wider market. However, we have confidence in our diversified portfolio of generally good businesses, conservatively financed at modest valuations. We believe that the economic substance of the businesses we own will survive “Brexit” or similar episodes of future political upheaval in the EU, the US or elsewhere. Our process steers us to own companies with defensible barriers to entry, that make valuable products and services which are highly appreciated by their customers. As examples, in all likelihood, Yara will sell more higher value added crop nutrition products, Mattel will continue to be one of the established global provider of toys and Vodafone will carry more data on behalf of its customers, thus all creating value for shareholders. With their strong balance sheets and robust cashflows, we believe that our holdings should be able to withstand whatever harsh financial conditions might occur.

As the manic dynamics of financial markets play out, we stand ready to take advantage of any opportunities arising to deploy capital at good prospective rates of return. In the immediate aftermath of the ‘Brexit’ vote, we did just that, increasing positions in some of the stocks which were, in our view, unduly punished amidst the chaos. In addition, the Fund has a unique ability to take advantage of these periods of high volatility through its capacity to sell expensive options in times of uncertainty. Having had subdued volatility conditions throughout much of the period, we were able to achieve a good level of option coverage for the fund in the second half of June thus generating valuable income.

Tullow Oil Bond

The quarter brought a first for the fund in the form of our purchase of a Tullow Oil bond, the 2020 senior unsecured 6.0% issue. While the fund has held various sovereign bonds in the past, this is the first occasion in which it has acquired a corporate bond. This is very much consistent with our desire to select assets, wherever they might be, that offer us a good income and the prospect of reasonable capital growth. In this case, we acquired the bonds at $82 per $100 of par value; all going well, we will collect a total of a $6 coupon semi-annually and be repaid the par value of the bond, $100, in 2020. This would equate to a yield to maturity of 11%.

Tullow Oil is a UK and Ireland-listed oil exploration and development company with assets primarily in West Africa, particularly Ghana. Tullow is considered a successful pioneer in the African oil markets. Like most energy companies, the current low oil price environment has taken its toll. However, an additional negative for Tullow has been its debt load, which it took on to develop a handful of large and highly promising oil fields. The combination of the oil price, the high debt load as well as a loss of confidence from the investment community resulted in a very sharp fall in the company’s share price and a substantial widening of its bond yields. As Tullow transitions from a phase of high investment to one of harvesting cashflow, supported by a prudent policy of hedging its oil production and the possibility of reducing its stakes in some of its best assets, we are confident that this investment will be a profitable one for unitholders.

Richard Doyle and David Pastor – Portfolio Managers

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IMPORTANT INFORMATION