

Fund Description

The **Income Opportunities Fund** ('the 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.



WINNER
Equities Manager of the Year



WINNER
Equities Manager of the Year



WINNER
Equities manager of the year

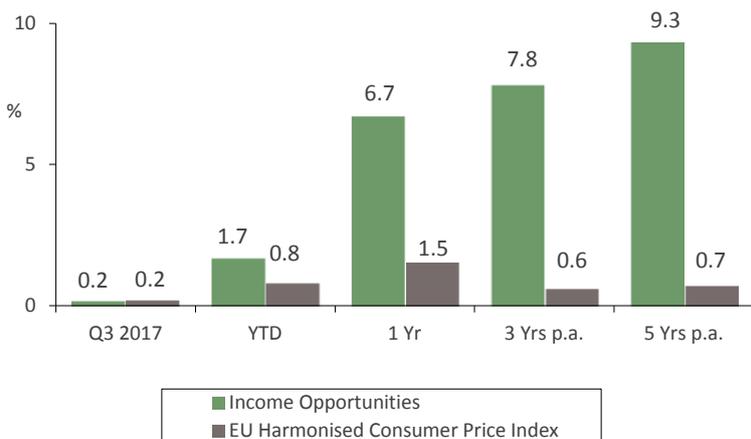


WINNER
Equities Manager of the Year



WINNER
Equities Manager of the Year

FUND PERFORMANCE – 30.09.17



YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016
Fund	11.7	14.7	8.4	10.6	9.7
Benchmark	2.2	0.8	-0.2	0.2	1.1

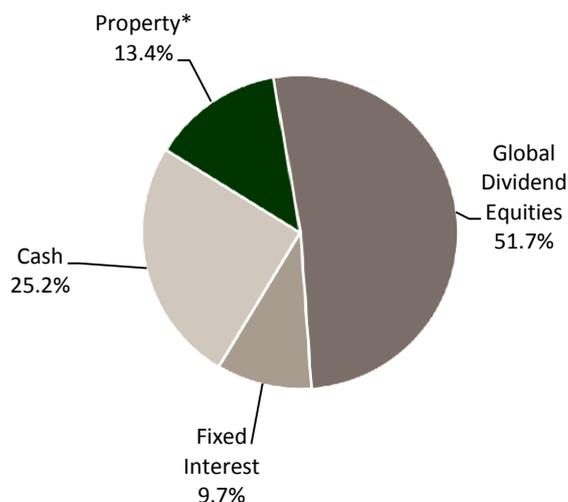
Performance Source: Setanta Asset Management Limited. Benchmark: European Harmonised Consumer Price Index. Fund returns are shown gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.

* Inception as at 30.09.11

TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
ORIGIN ENTERPRISES	CONSUMER STAPLES	2.4%
ENI SPA	ENERGY	2.2%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.2%
LANCASHIRE HLDGS	FINANCIALS	2.2%
SWEDISH MATCH	CONSUMER STAPLES	2.1%
SMITHS GROUP	INDUSTRIALS & MATERIALS	2.0%
TELIA COMPANY	TELECOMS & UTILITIES	2.0%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	2.0%
PROXIMUS SA	TELECOMS & UTILITIES	1.9%
VODAFONE GROUP	TELECOMS & UTILITIES	1.9%

GEOGRAPHIC & ASSET SPLIT



*includes 3.1% in IRES REIT

HISTORIC INCOME

Year	Income Earned % of Fund Value
2011	6.2%
2012	5.6%
2013	5.5%
2014	4.8%
2015	5.5%
2016	4.7%

Ten Years on...

It was roughly this time ten years ago that global stock markets peaked before the onset of the global financial crisis. The crisis first unfolded slowly, then quickly and suddenly in late 2008 it seemed that the entire financial system was on the brink of collapse. Central banks should be given credit for their response then, which infused liquidity and confidence into a system that was seizing up. Though the economic recovery from this harrowing time has been soft by historical standards, stock markets have produced quite remarkable returns in the intervening years. Since the peak of October 2007, immediately prior to the crisis, to today, the S&P 500 has produced an annualised total return of over 7% (dividends reinvested). Given the enormous value destruction that occurred during the crisis, this is pretty stunning. One must attribute at least some of this to the extraordinary monetary policies in place throughout the period. Interest rates as low as they've ever been, quantitative easing and overt assurances from the central banks to support financial markets through any hardship have led us to where we are today. While we take great interest in how this backdrop is unfolding we don't make macro forecasts. Rather than dwelling on thereon, we make the following observations on today's markets:

- Volatility levels remain very low by historical standards. Even the recent worrying developments on the Korean peninsula had almost no effect on markets.
- Central Banks are beginning to unwind the extremely stimulative monetary policies that have become the norm for almost a decade, yet there has been essentially no market impact observable. If these policies had been so helpful, won't their absence have consequences? Nor has the shift towards what might be referred to as 'political populism' across the western world dented markets.
- According to Moody's Analytics, 75% of new loans in the leveraged loan market (new borrowings raised by already indebted companies) are "covenant-lite". Covenants protect investors by placing limits on the issuer and the pervasiveness of covenant-light issuance suggests investors are acting in a complacent manner. Bloomberg quotes a senior covenant officer at Moody's: *"it's basically the worst it's ever been in terms of loan covenant protections"*.

The observations above, courtesy of our colleagues managing the EAFE Fund, are relevant to all Setanta funds. We are not calling a market top nor the start of a new crisis. It is quite conceivable that the next bear market might be many years away. However, we think that it makes sense to act cautiously. We continue to focus on good businesses that we think are quite shock-resistant and, as always, we spend a lot of time thinking about the durability of each company's earnings.

We recently liquidated our investment in power utility, **Fortum**, which was held since 2009. Though the journey was bumpy and we didn't earn the return we had hoped for, this investment worked out satisfactorily overall, thanks in part to a nice dividend that accrued through the period. Fortum disposed of its regulated assets in Sweden, Finland and Norway at very good prices in 2015. What remained were unregulated electricity generation businesses (nuclear and hydro) based in Finland, Sweden and Russia. Wholesale electricity prices are influenced by coal prices, which remain low and thus Fortum's profits remain depressed. It is not clear when (or if) this backdrop will improve and this is out of management's hands. At the time of sale, it also remained uncertain what management might do with the cash retained since the disposal of the regulated assets. Whilst the stock might prove to be undervalued at this point, based on these uncertainties we decided to sell our holding.

Richard Doyle & David Pastor – Portfolio Managers

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