# Setanta Managed Fund – Q2 2017

Setanta
ASSET MANAGEMENT

## 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; Asia Fund
- Fixed Income: The Setanta Fixed Income Fund; ILA Fixed Interest Fund
- 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 Managed Fund gave up some performance in the second quarter (-1.43%), with the fund now returning 2.44% year to date.

There was a little bit of a thematic reversal from quarter one, with our European government debt (+0.8%) outperforming alongside property (+0.5%), while equities (-2.29%) and credit (-0.3%) underperformed.

Within equities, looking at sector performance. Energy continues to struggle (-12.3%), as a over supply glut continues, keeping a lid on oil prices and dampening sentiment towards the sector. With the Healthcare sector (+3.8%) our only positive sector for the period.

*(Fund Commentary continued on Page 3)*

## Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

## 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

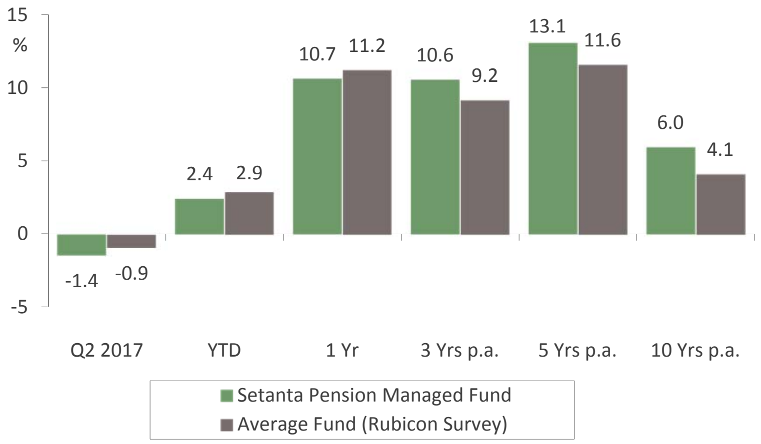
Irish Pensions AWARDS 2016
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

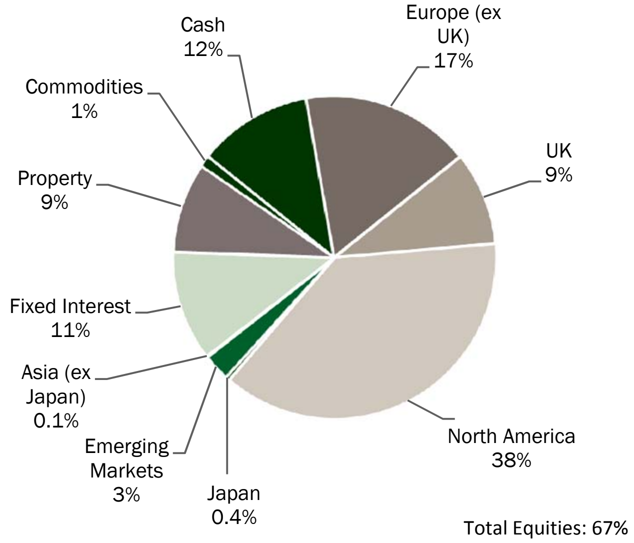
Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

## FUND PERFORMANCE – 30.06.17




**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

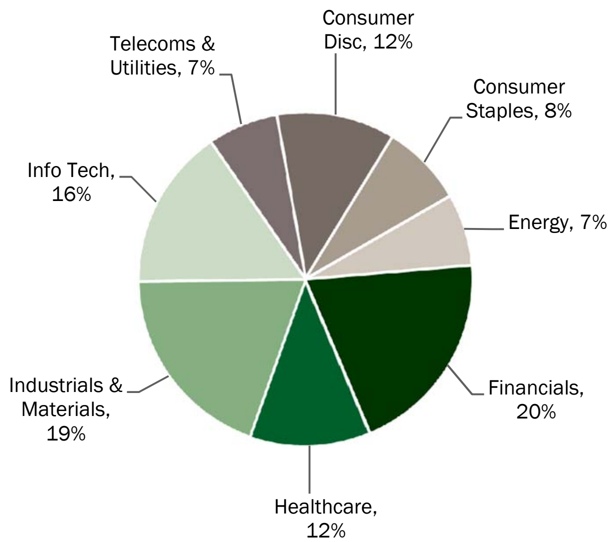
## GEOGRAPHIC DISTRIBUTION




## FIXED INTEREST PORTFOLIO

| CREDIT RATING WEIGHTING | | |
|---|---|---|
| CREDIT RATING TYPE | ASSET TYPE WEIGHTING | BENCHMARK WEIGHTING |
| AAA | 23.4% | 22.5% |
| AA | 36.0% | 37.4% |
| A | 2.1% | 3.1% |
| BBB | 38.5% | 37.0% |
| | 100% | 100% |

## SECTOR DISTRIBUTION




## TOP 10 EQUITY HOLDINGS

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| OWENS-ILLINOIS | INDUSTRIALS & MATERIALS | 2.5% |
| DCC | INDUSTRIALS & MATERIALS | 2.1% |
| BERKSHIRE HATHAWAY | FINANCIALS | 2.0% |
| CRH | INDUSTRIALS & MATERIALS | 1.9% |
| LEUCADIA NATIONAL | FINANCIALS | 1.8% |
| OSHKOSH | INDUSTRIALS & MATERIALS | 1.6% |
| JOHNSON & JOHNSON | HEALTHCARE | 1.5% |
| FEDERATED INVESTORS | FINANCIALS | 1.4% |
| SAMSUNG ELECTRONIC | INFORMATION TECHNOLOGY | 1.4% |
| MICROSOFT | INFORMATION TECHNOLOGY | 1.4% |

## YEARLY PERFORMANCE

| Year % | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | -20.4 | 12.2 | 9.8 | 21.7 | 9.1 | -1.8 | -29.6 | 22.9 | 9.5 | 0.5 | 14.2 | 18.5 | 17.8 | 8.3 | 12.2 |
| Benchmark | -19.0 | 12.2 | 10.2 | 21.7 | 13.3 | -3.9 | -35.6 | 22.0 | 11.3 | -3.6 | 14.3 | 16.6 | 15.6 | 9.5 | 5.9 |

As investors, we worry, worry a lot. Does our investment thesis hold up, is the valuation still attractive, is there something happening that we have missed? We worry about how much money we can lose and the probability of doing so.

Markets, at times worry about everything, other times nothing. Currently, mixed signals across economic data, asset markets and central banks garner attention. Divergences in hard and soft macro data, rallying equities yet falling bond yields, hawkish central bank rhetoric followed by broadly dovish exit strategies are debated incessantly.

Over the second quarter, global macro momentum seemed solid, global composite PMIs point towards expansion, with improved momentum across regions and sectors (manufacturing & services). Though, recent data points, highlight a reduction in the magnitude of positive surprises (data remain "good", but prints are not "better" than expectations).

Inflation expectations continued to fall, real yields rose and yield curves flattened, alongside robust growth and rallying risk assets (in local currency). The move in real yields ties in with stronger risk assets, though the flattening curve increases investor nervousness. Historically, flatter curves are a recessionary warning, at odds with stock markets trading near all time highs. Some explain this anomaly away through QE distortions (this time is different!).

Over time, above trend growth, should close the output gap increasing inflation risks. While, near term the "Trump" trade has been diminishing, there is still potential for a pickup on tax cuts & deregulation feeding into a stronger economy, already near full employment. Closer to home, the ECB see deflationary forces replaced with reflationary ones, though still advocating persistent monetary policy and prudence and gradualism in adjusting policy parameters. Draghi, the old hawkish dove!

Risk assets have performed over the period, with equities looking better on relative valuation grounds. Credit, both investment grade and high yield have outperformed government debt, with still a strong demand for yield pickup within a low default environment. Even with minor spikes in volatility (usually forcing spreads wider), spreads have remained contained. A marked default cycle would seem to have been pushed out, with the cost of funding to remain low relative to growth and inflation outlook. A possible misstep in Italian banking bonds was handled without too much concern (ailing banks in Veneto), only serving to highlight the power of large local retail holders!

While the drop in oil prices has created some concerns within equities and energy services bonds of late, it would seem more a supply side issue (read shale producers in the Lower 48 in the US), rather than weaker demand (global demand continues to grow) due to lower economic growth.

Politics, has seen a recent shift from local to geopolitical. Europe saw a positive surprise, with reformist Macron defeating Eurosceptic Le Pen in France. A misjudged snap election by May in the UK, could have caused market duress, only for sterling to act as a release valve. While concerns grow in relation to tensions between the United States and pick a country (Russia, Syria and North Korea), where outcomes range from a dramatic extinction event to business as usual.

We have started to see a reversal in the long term strong dollar trend. The rally in the dollar post Trump, caught markets a little wrong footed, now as some of the reflationary expectations increase in Europe, dollar strength is waning versus the Euro.

Despite concerns about political risk and the banking sector, the Eurozone economy has continued to positively surprise. Though there is a little dichotomy between hard (actual) and soft (sentiment) data, it remains consistent with above trend growth, particularly in Germany. A fiscal surprise from Germany would be welcome, less political concerns (more cohesive Europe going forward) and some monetary normalisation could all be seen as positives.

It's hard to see looser central bank policies from here, with the Fed rising rates during the quarter (+25bps) and another one likely by year end along with normalisation of their balance sheet. The ECB, in recent guidance on sequencing of events, has said it is likely to announce a taper of its qualititative easing programme first, prior to rate moves. Markets took Draghis recent Sintra speech in Portugal as quite upeat and hawkish, with some backtracking by various ECB members since, looking to balance optimism of the revival against a desire to move slowly on remaining monetary stimulus.

Risk measures are perceived to be low across various metrics, but like natural disasters, financial disasters tend to come along unannounced. Just because these readings are low doesn't mean impending doom but it also doesn't mean we should be draining the punchbowl and taking to the floor. So we continue to worry, looking to allocate to good assets with cheap valuations, all the time looking to limiting our downside.

"You rarely, if ever, make money from worrying; it does not typically enhance return. But by avoiding loss, you are able to hang on to what you have accumulated, which is a cornerstone of successful investing" - Seth Klarman

*David Ryan – Portfolio Manager*

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