Setanta Managed Fund – Q4 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 had a strong final quarter (+2.9%), leading to a respectable return for the year (+6.8%).

Within asset classes, equities led (+4.12%), posting positive returns across all our sectors.

Government debt posted a positive return for both the quarter (+1.1%), and surprisingly the year (0.8%), even dealing with a December sell-off.

Our short dated credit and emerging market debt was negative (-1.2%) for the period, suffering mainly on further Euro strength, though positive for the year as a whole (+2.0%).

(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

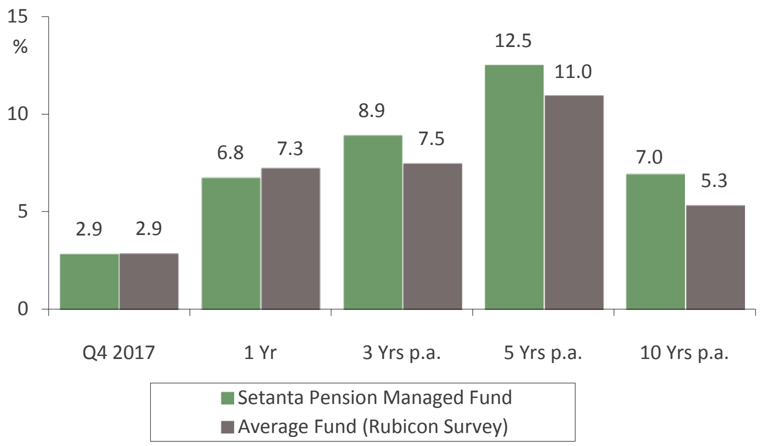
Irish Pensions AWARDS 2014 — WINNER Equities manager of the year

Irish Pensions AWARDS 2013 — WINNER Equities Manager of the Year

Irish Pensions AWARDS 2012 — WINNER Equities Manager of the Year

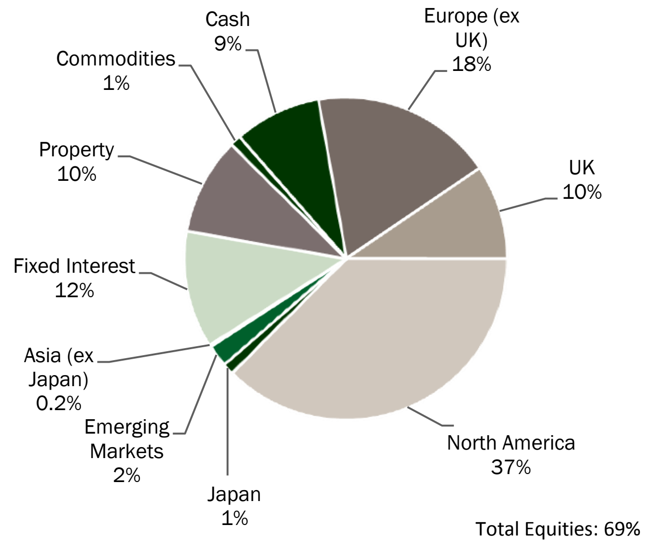
Setanta
ASSET MANAGEMENT

FUND PERFORMANCE – 31.12.17



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

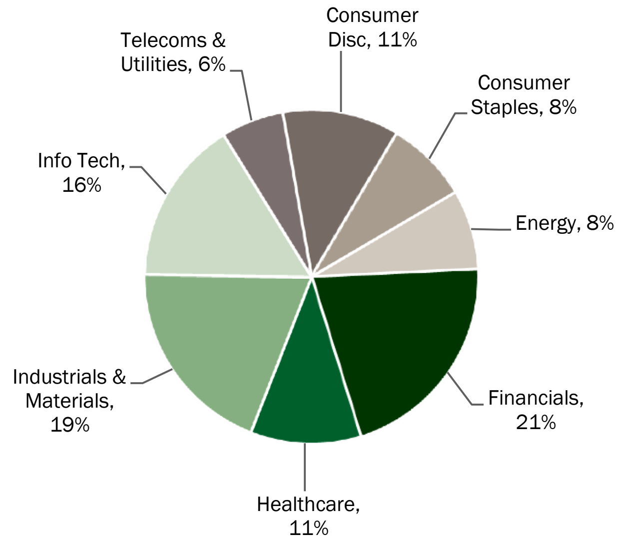


Total Equities: 69%

FIXED INTEREST PORTFOLIO

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	21.2%	21.7%
AA	36.3%	38.1%
A	2.2%	3.3%
BBB	40.3%	36.9%
	100%	100%

SECTOR DISTRIBUTION



TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
BERKSHIRE HATHAWAY	FINANCIALS	2.2%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.1%
OSHKOSH	INDUSTRIALS & MATERIALS	2.1%
DCC	INDUSTRIALS & MATERIALS	2.0%
CRH	INDUSTRIALS & MATERIALS	1.9%
FEDERATED INVESTORS	FINANCIALS	1.8%
LEUCADIA NATL	FINANCIALS	1.8%
MICROSOFT	INFORMATION TECHNOLOGY	1.7%
FAIRFAX FINL	FINANCIALS	1.5%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.5%

YEARLY PERFORMANCE

Year %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	6.8
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	7.3

Looking at equity sectors, the Oil sector continues to perform strongly (+8.75%), helped by Oil continuing to trend higher and strong security selection.

Industrial and Materials (+0.50%) and Healthcare (+0.03%) lagged the market, short term name underperformance in industrials and materials on unwinding of positive sentiment towards US infrastructure spending. The Healthcare sector would seem to have just lagged the market with cyclicals outperforming.

Our direct property was marginally positive (+0.3%) over the quarter, while posting a positive return for the year (+4.4%).

Commodities, were positive for the quarter (+2.9%), underpinned by a rally in industrial metals and energy, though poor over the year (-11.0%). Industrial metals posted strong gains on firm Chinese demand and an increase in supply discipline. While Oil surged (+16.9%), driven by agreement among Opec, and non-member countries, such as Russia, to extend production cuts to the end of 2018.

Market Commentary

As if there wasn't enough concern around central bank policies, the Bundesbank goes and gives permission to print your own currency, on genuine euro banknote paper no less! Before running to the inflationary hills, I should caveat that it was only given to a Frankfurt artist Michael Riedel, there are only 300,000 art(ificial) banknotes, and they are available for purchase. So, this should pose less of a concern than the billions of Euro printed by the ECB, under unconventional policies, that has distorted financial markets for the last number of years.

The irony is the Bundesbank allowing this now, just at a time when the ECB encouraged by a robust economy, announced in October, a reduction in monthly quantitative easing purchases down to €30 billion (from €60Bn.). This lower pace will start in January and last until at least September of 2018. Effects remain to be seen.

Elsewhere, the Bank of England increased interest rates in November for the first time in a decade, noting that further rises are likely gradual and dependent on Brexit negotiations. While in the US, the Federal Reserve (the Fed) raised rates in December, for the third time in 2017.

Bond market volatility (like equity), remains remarkably subdued given the turn in central bank policy, it's unlikely such serene conditions will continue, with further interest rate increases likely to have profound effects for all asset markets given developed bonds role as the risk-free rate and a building block of discounting valuations.

Current normalising monetary policy is undoing a decade of easing, something markets may be both complacent and unprepared for. The task is herculean, with central bank balance sheets never being so large, government bond rates so low and global debt so high.

Fortuitously, there has been something of an inflationary disappointment, which allowed government bonds deliver better returns than expected. However, a pickup in inflation expectations into year end, combined with US tax cuts and tightening policy, ensured returns were paltry.

Political risks seem to outweigh economic risk near term, both locally and globally. Political paralysis in Berlin poses a problem for Europe, with only a caretaker chancellor. While upcoming elections in Italy could pose a volatile hurdle to pass.

Equities stood out over the quarter and year, not only for respectable returns given ongoing valuation concerns, but also for the lack of volatility. In the US, equities delivered positive returns in every single month of the year, the first time this has happened since 1958. While, volatility measures across all asset classes continued to trend lower. A risk going forward could be more upside to global growth and the fear that central banks are behind the curve. In this environment, investors should expect less central bank support, decompression of yields and greater volatility.

It's also important to note who has been buying and why. It is not only central banks that are large net buyers of assets. The US corporate sector is the biggest net buyer of equities through mergers and acquisitions and share buybacks, arguably insensitive to valuation because of a principal-agent conflict. The worry is that of a "Minsky" moment, a collapse following a period of calm. At this stage in the cycle, with rates having started to move higher, a further small increase could lead to an outsized movement lower, a bond "butterfly effect".

Signs of economic growth in Europe helped push the euro higher over the quarter and year, with Europe's economy consistently beating expectations throughout 2017, leading to increased growth forecasts. European factories recently reported their strongest month since before the creation of the single currency. The Eurozone manufacturing purchasing managers index in December printed 60.6, its highest since surveys began (readings above 50 indicate expansion).The ECB now expect growth to have been 2.4% in 2017 (compared with expectations of 1.7% at the beginning of the year).

The continued strength of the Euro, may continue into 2018. The world has never been more heavily invested in US assets, the net international position of the US, measures the net assets of a nation against the rest of the world, has continued to deteriorate in recent years. Despite the Fed raising rates, and expectations to continue into 2018, the dollar has yet to react to widening yield differentials. The markets have set a high hurdle for the dollar given the strong pace of global growth and monetary normalisation broadening elsewhere.

Investors for the most part have enjoyed a rewarding quarter and year. Though, strong returns for risk assets in the final years of a bull market are more the norm than the exception. The market concern is can the goldilocks environment remain (synchronised global growth, strong corporate earnings, accommodative monetary policy and low inflation) in an environment of unwinding of unconventional monetary policy alongside the sheer length of the expansion, which is beginning to feel more late cycle. This prompts caution that extreme positive sentiment is spilling over into pure exuberance, in such a period of growing uncertainty, asset class diversification and security valuation is vital.

David Ryan – Portfolio Manager

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