Setanta Managed Fund
Q2 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 +1.0% over the second quarter, bringing year to date returns to +10.6%.

Global equity markets continued their upward trajectory (MSCI World +2.5% QTD), while we lagged (+0.5% QTD), absolute returns for our global equity component remain strong year to date (+13.8%).

Within global equities, the Consumer Staples (+3.9%) and Healthcare (+2.7%) sectors were the leaders in performance, while energy (-10.4%) and Telecom & Utilities (-1.1%) 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

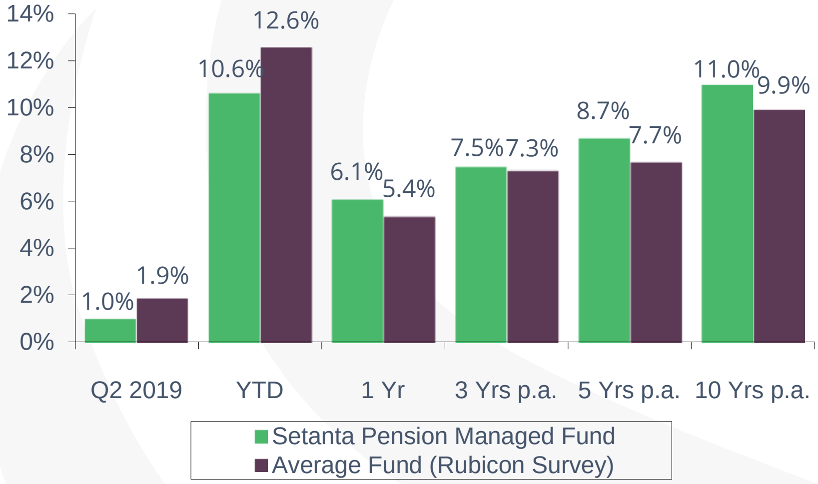
We consider scenarios rather than making forecasts

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 – 30.06.19

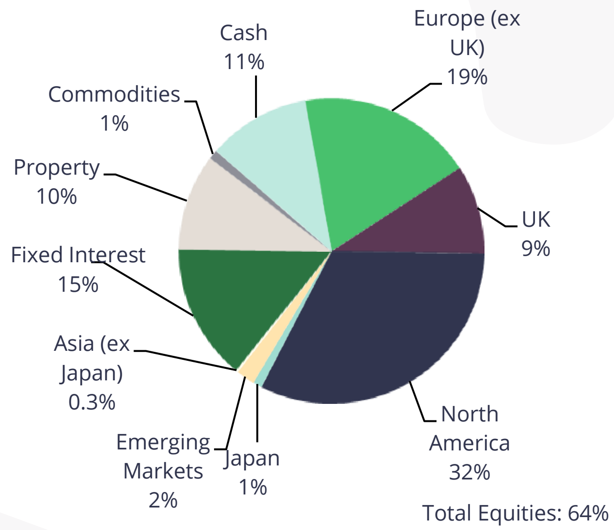


Performance Source: Setanta Asset Management Limited. Benchmark: Rubicon Pension Managed Fund Survey. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund and are net of management fees. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Credit Rating Source:** S&P

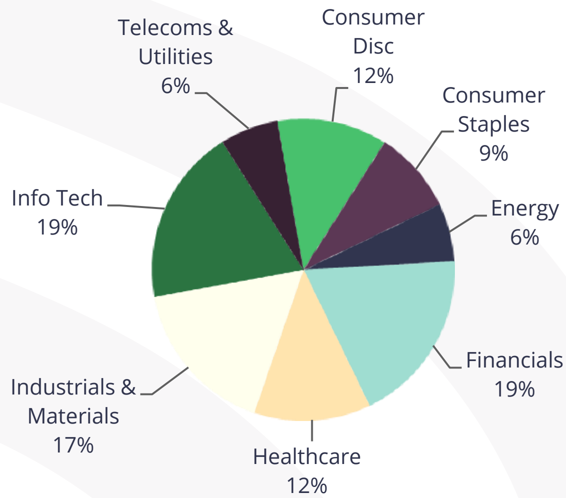
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	2.1%
BERKSHIRE HATHAWAY	FINANCIALS	2.0%
DCC	INDUSTRIALS & MATERIALS	1.8%
FEDERATED INVESTORS	FINANCIALS	1.7%
LANCASHIRE HOLDINGS	FINANCIALS	1.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.4%
STERIS PLC	HEALTHCARE	1.4%
JOHNSON CONTROLS	INDUSTRIALS & MATERIALS	1.4%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	1.4%
OSHKOSH CORP	INDUSTRIALS & MATERIALS	1.4%

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	13.0%	19.7%
AA	44.7%	37.9%
A	22.5%	19.1%
BBB	19.8%	23.3%
	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

Commentary

Across our other main asset classes, Government bonds (+5.9%), Property (+1.1%), & Corporate Debt (+1.0%) all posted positive returns, all largely driven by central banks remaining committed to their recent dovish pivot.

The quarter largely brought negative news on the U.S.-China trade front, with tensions growing a dovish shift from central banks through both rhetoric (Federal Reserve jawboning) and action (ECB TLTRO III), and some soft economic data (predominantly manufacturing surveys dipping).

Global equities, government bonds and corporate credit all rallied in response to the various economic and central banks signals, which initially may look odd but there could be some sense to it.

Equities may be comforted by the central bank “put” (whereby central banks step in whenever investors step out), while bonds and credit are comforted by lower base rates as far as the eye can see alongside subdued inflation, and the possibility of a structurally lower neutral real rate going forward.

Time will tell how this plays out, but based on historical valuations bond pricing looks at best rich and, at worst, insane. Around fourteen trillion dollars’ worth of global bonds are currently offering negative yields, forcing nervous investors down the credit curve and out the term structure. The ongoing low bond yields feeds into justifying high valuations in most asset classes, as the discounting of cash flows is flattered while the cost of capital poses little hurdles.

Some economic data released over the period suggests a global economy operating slightly below trend. While labour data (unemployment near all-time lows), shows the consumer remains in a robust positon, which should continue to underpin consumer spending and GDP. While some business sentiment surveys have been weak, forward-looking components have steadied and second quarter GDP looks promising.

In relation to the central bank ”put”, central banks dovishness was reiterated recently at an ECB forum in Portugal, where ECB Chief Draghi said that "additional stimulus will be required" if inflation remained low. He also said that "further cuts in policy interest rates … remain part of our tools. The more things change the more they stay the same springs to mind!”

The comments marked a course change, as they were preparing to normalize monetary policy. The news from Portugal prompted an angry response from US President Donald Trump. The President accused Draghi of trying to weaken the Euro to gain an unfair advantage in international trade. Draghi as yet has not been drawn into a war of tweet exchanges!

Coming back to the different perspectives taken by equities (going up on bad news) and bonds (yields going down on bad news), it’s worth considering the shape of the yield curve. Over the last few months the US yield curve inverted (shorted dated bond yields higher than longer dated), increasing concerns around recession risks. Indeed, whether looking at the New York Fed (33%) or the Cleveland Fed (38%), their probability of a recession within 1 year has increased from the start of the year.

Historically, the yield curve has been a relatively consistent recessionary signal as it inverted before each of the recessions experienced by the US. However, in 3 of the past 10 inversions, no recession followed over the next two years, so like many financial indicators they can work until they don’t!

Either way, there tends to be a long lead-time between inversion and recession (anywhere up to 2 years). Also, it would be fair to argue that central bank policies (asset purchase programs) and benign inflation, may well make this more noise than signal. It is something to bear in mind all the same.

Commentary

Less we forget, there are other levers to be pulled when markets get concerned about monetary policy effectiveness, namely fiscal policy. It is worth noting recent comments from Fed chairman Powell "... it's not good to have monetary policy be the main game in town, let alone the only game in town."

While mindful of all the various developments, macro and micro, we remain humble in our ability to understand let alone forecast their outcomes. We continue to look to add assets at valuations we believe will offer good long term risk adjusted returns.

David Ryan – Portfolio Manager

Contact Details:

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION