

Setanta Income Opportunities Fund

Q3 2019

Fund Description

The **Income Opportunities Fund** ('the Fund') is an actively managed portfolio primarily comprising global equities but with the flexibility to invest in assets which offer attractive income and reasonable value. These assets include fixed income, property (including REITs) and cash. The fund is not constrained by limitations on the level of any given asset. In practice, the Fund has had its greatest weight in equities, reflecting the breadth of that market, Setanta's expertise in that area, and the option writing strategy employed by the fund. Nevertheless, property, fixed income and cash have all played meaningful roles in past returns of the fund, at times, comprising up to 50% of the fund's assets. 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 fund is managed by three portfolio managers, who also look to leverage off the experience and knowledge of their colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis.

The fund employs an option writing strategy. This entails the sale of both call and put options in return for a cash premium, representing an income stream that boosts the underlying income yield of the fund. This strategy is employed in a conservative fashion, as all options written are fully covered.

The Income Opportunities Fund has two investment objectives:

1. To generate an annual income yield at a target rate. This is declared at the start of each financial year.
2. To achieve capital appreciation over the long term.

Portfolio Managers

Richard Doyle, CFA; David Pastor, CFA; Caroline White, CFA



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

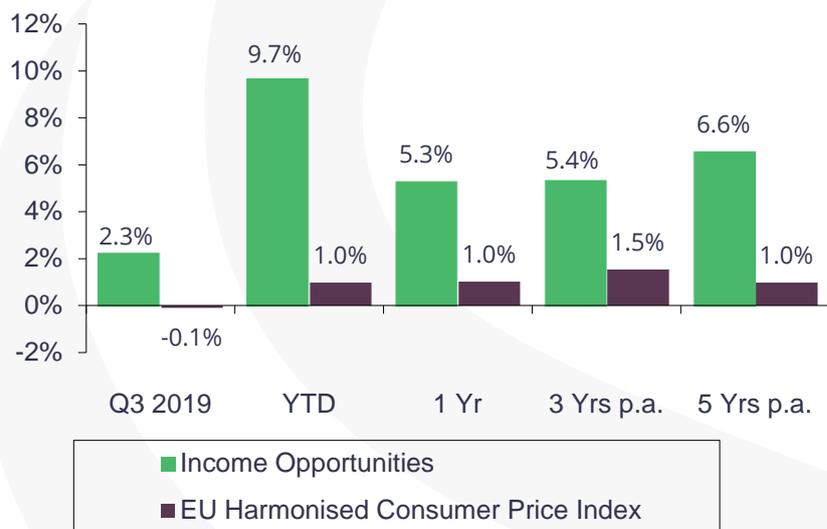
We consider scenarios rather than making forecasts

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 – 30.09.19



Yearly Performance

Year %	2014	2015	2016	2017	2018
Fund	8.4	10.6	9.7	2.9	-1.2
Benchmark	-0.2	0.2	1.1	1.4	1.6

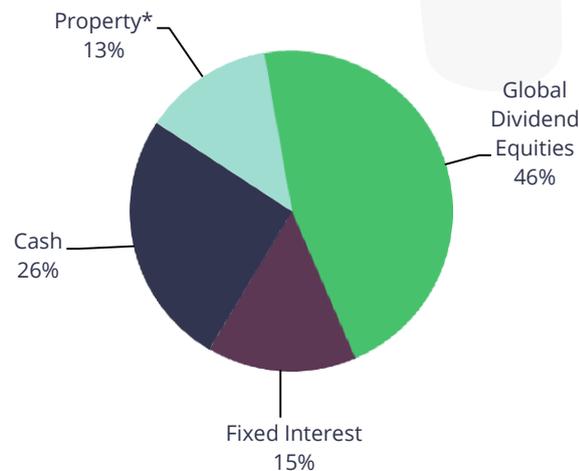
Performance Source: Setanta Asset Management Limited. Benchmark: European Harmonised Consumer Price Index. Fund returns are shown gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.

* Inception as at 30.09.11

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
SAGA PLC	FINANCIALS	2.6%
LANCASHIRE HOLDINGS	FINANCIALS	2.0%
HARLEY DAVIDSON	CONSUMER DISCRETIONARY	1.9%
COCA-COLA AMATIL	CONSUMER STAPLES	1.8%
NATIONAL GRID	INFRASTRUCTURE	1.8%
RICHEMONT	CONSUMER DISCRETIONARY	1.7%
PROXIMUS SA	INFRASTRUCTURE	1.7%
SWEDISH MATCH	CONSUMER STAPLES	1.7%
SVENSKA HANDELSBANKEN	FINANCIALS	1.6%
SAMPO OYJ	FINANCIALS	1.5%

Asset Distribution



*includes 1.2% 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%
2017	4.1%
2018	3.9%

Commentary

The character of the Setanta Income Opportunities Fund is one of 'downside protection'. In seeking to achieve this, we are guided by the importance of a) being risk averse; b) being highly selective; and c) having a long-term horizon. Our recent purchase of Viscofan, a Spanish-based maker of meat casings, provides a good insight into how we seek to put these principles into practice in our investment process.

We first encountered Viscofan a decade ago, being sufficiently interested to produce a formal investment report to be subjected to further scrutiny. Our view then was that Viscofan appeared to be not much more than a producer of a basic product for meat processors, themselves part of a powerful and concentrated industry. As such, we had doubts about the ability of Viscofan to earn an attractive operating profit margin. A number of years later, we returned to the company, noting its record of strong operational and financial performance in the interim. We gained a better knowledge of the role that casings play, in particular how they enhance the feel and taste of many meat products and how they play an important role in enhancing the productivity (thus lowering costs) of those meat processors. We thus had greater confidence that Viscofan could earn an attractive operating profit margin. Nevertheless, we questioned whether this profit margin could be sustained over the long-term, bearing in mind the way in which above-average margins are often 'competed away' by peers.

In the face of further evidence of robust underlying financial performance, and a dip in the share price, we again considered the stock earlier this year. Challenging our remaining doubts, we came to the view that Viscofan has a strong prospect of prospering into the future. It has few competitors that can strongly challenge its dominant position, in what is a niche and oligopolistic industry. Compared to those few competitors, Viscofan has, in our view, much better market share and manufacturing scale; superior intellectual property; greater proximity to end markets; and a much stronger financial position. In fact, as time has passed, Viscofan has increased its advantage over its peers, in turn resulting in attractive returns on its capital (it has achieved an average Return on Equity of 18% over the past five calendar years). In the belief that we are adhering to the investment principles highlighted, we built a position in Viscofan, acquiring shares at a dividend yield of over 3% and a P/E over the past three years of 18x, good value, in our view, for a company of this quality. Of course, we cannot fully control the outcome of this investment; however, we can ensure that we take a selective, risk averse approach, investing on a long-term horizon.



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IMPORTANT INFORMATION

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