

Setanta Income Opportunities Fund

Q4 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

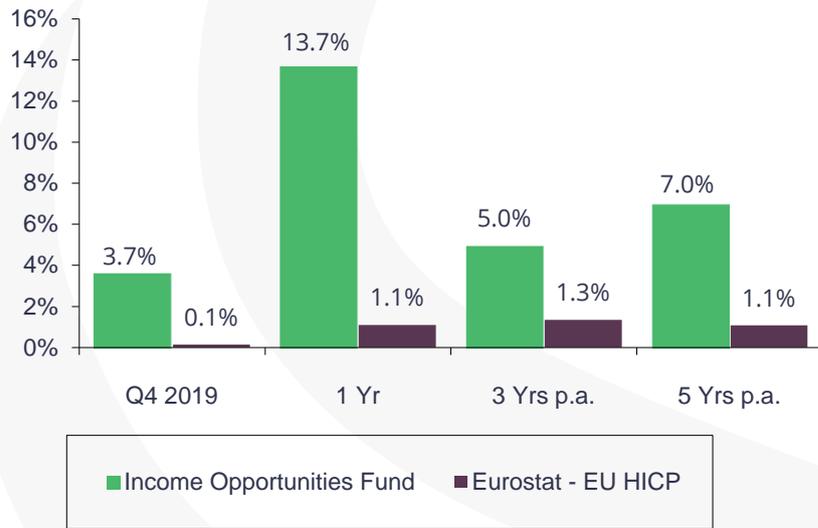
We consider scenarios rather than making forecasts

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 – 31.12.19 (EUR)



Yearly Performance

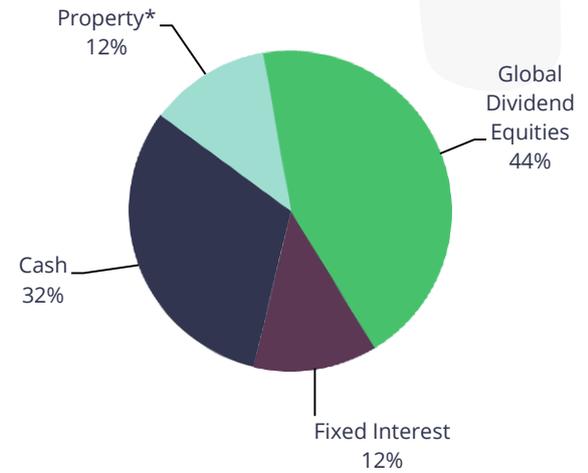
Year %	2015	2016	2017	2018	2019
Fund	10.6	9.7	2.9	-1.2	13.7
Benchmark	0.2	1.1	1.4	1.6	1.1

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI Income Opportunities Fund [P-INC1] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** Eurostat Harmonised Index of Consumer Prices (EUR). Inception as at 30.09.11 **Holdings Source:** Setanta.

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
SAGA PLC	FINANCIALS	2.5%
NATIONAL GRID	INFRASTRUCTURE	1.8%
NWS HOLDINGS	INDUSTRIALS	1.7%
COCA-COLA AMATIL	CONSUMER STAPLES	1.7%
HARLEY DAVIDSON	CONSUMER DISCRETIONARY	1.7%
BOLSAS Y MERCADOS	FINANCIALS	1.7%
SVENSKA HANDELSBANKEN	FINANCIALS	1.6%
RICHEMONT	CONSUMER DISCRETIONARY	1.6%
EXXON MOBIL	ENERGY & MATERIALS	1.5%
SAMPO OYJ	FINANCIALS	1.5%

Asset Distribution



*includes 1.0% 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%
2019	4.2%

Overview

In cutting interest rates no fewer than three times in 2019, the Federal Reserve reversed the recent path of interest rate rises in the USA, while also marking a much lower interest rate peak than those of prior decades. US equities soared, as the S&P 500 posted one of its best annual returns in recent times. As the US financial markets usually lead those of the rest of the world, so too did other indices rise strongly, such as the MSCI World High Dividend Yield index, which appreciated 25.4%*. Meanwhile, bonds rallied, as yields generally tightened.

This all occurred to the backdrop in the US of a continued deterioration in the fiscal position and an elevated current account deficit. A dislocation in the overnight repurchase obligation market, albeit short-lived, brought back memories of the Global Financial Crisis of a decade ago. In Europe, interest rates remained very low, while surveys of economic activity generally indicated caution. 2019 was also a year of trade wars, the impeachment of President Trump in the USA, a withdrawal deal for the UK from the EU, as well as popular discontent in Hong Kong.

In recent times, companies that have embraced greater indebtedness and \ or aimed for fast-paced growth have thrived. Looking at these we see not the 'opportunity' of higher investment returns through rose-tinted glasses, but rather financial risk and speculation through our value investment lens. We believe that whatever performance the Fund achieves should be built on investment foundations of stone, rather than sand. While acknowledging that the environment of recent years presents a headwind for Setanta and value investors generally, we will continue to remain true to our investment principles, prioritising the mitigation of risk. We regard the Fund as well-positioned, holding a collection of stocks that generally have strong balance sheets and durable cash flow.

Asset Performance

The Fund performed strongly over the course of 2019, rising by 13.7%*. Although all asset classes in the Fund performed at least as well as we expected, this performance was principally due to the very strong performance of the Fund's portfolio of equities, which increased in value by more than 20%. Among the major equity holdings contributing to the Fund's performance were Fortescue, an Australian iron ore producer; TSM, one of the world's leading semiconductor manufacturers; BME, the Spanish stock exchange business, and Coca-Cola Amatil, an Australian associate of the Coca-Cola Company. As it happens, all these companies are relatively recent investments. These companies are characterised by being well-positioned in their respective industries with a record of cash flow generation, solid balance sheets, and a commitment to the payment of dividends (a set of characteristics no doubt familiar to frequent readers of these commentaries!). Of the stocks that declined in value over the course of the year, the most notable was Saga, a UK insurer and travel company. We believe that there is value in the stock on the basis of its position in a well-defined niche in the UK market, focusing on the over-sixties cohort.

The Fund's portfolio of bonds also performed strongly, rising 13%, reflecting coupon income of around 6% and the general tightening of yields, noted above. During the year, our holding in the Mersin 2020 bond was 'called'. This meant that the bond was redeemed early, as Mersin, the main seaport operator in southern Turkey, chose to fully repay the outstanding amount. The Fund also took the opportunity to participate in the early redemption of its investment in the Ocean Yield's 2020 bond at a premium, re-investing it in a 2024 issue of the same company. Ocean Yield is a Norwegian-based company that has built a strong position in the offshore vessels leasing market.

Commentary

As in previous years, the Fund's property interests made a solid contribution to the Fund's performance. These interests are indirect holdings on an ungeared basis, mainly in prime office and prime retail assets in Dublin.

The Fund continues to perform well as measured over the most relevant periods, comfortably exceeding its benchmark of European inflation since inception and over the past 3 and 5 years, consistent with its goal of preserving and growing the real value of capital.

Income

The Fund's other goal is that of income generation. In 2019, the Fund achieved an income yield of 4.2%, in excess of its 4.0% target and continuing a record of achieving above-market income yields. In contrast to the overall return of the Fund, the source of this income was spread more evenly, testament to the ballast that income provides to the Fund. Income from bonds, property and the Fund's option writing strategy accounted for almost 50% of the Fund's total income. For 2020, the Fund will again target an income yield of 4.0%.

**All figures relating to stock and index performance are in Euro terms, unless otherwise stated; all figures relating to Fund performance are also gross of fees, unless otherwise stated.*



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IMPORTANT INFORMATION

The Income Opportunities Fund is managed by Setanta Asset Management Limited and is a representative account of the Income Opportunities strategy. The performance shown is the performance of a representative account (ILA/CLI Income Opportunities Fund [P-INC1]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is also available on a segregated basis or a UCITS mutual Fund via Beresford Funds ICAV. Current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

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WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance