Setanta Income Opportunities Fund

Q1 2020

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

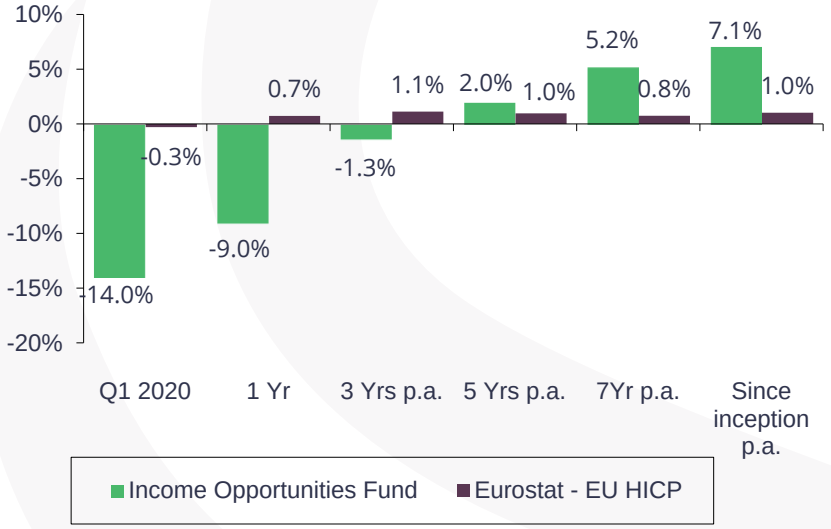
We consider scenarios rather than making forecasts

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 – 31.03.2020 (EUR)



Yearly Performance

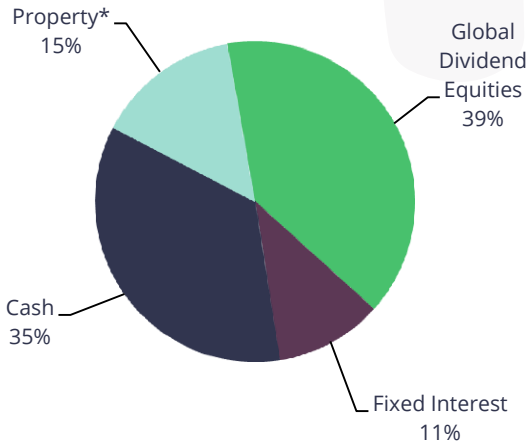
Year %	2015	2016	2017	2018	2019
Fund	10.6	9.7	2.9	-1.2	13.7
Benchmark	0.2	1.1	1.4	1.6	1.1

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
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.2%
SVENSKA HANDELSBANKEN	FINANCIALS	1.9%
COCA-COLA AMATIL	CONSUMER STAPLES	1.9%
ZARDOYA-OTIS	INDUSTRIALS	1.8%
EXXON MOBIL	ENERGY & MATERIALS	1.7%
NWS HOLDINGS	INDUSTRIALS	1.7%
RICHEMONT	CONSUMER DISCRETIONARY	1.6%
SAMPO OYJ	FINANCIALS	1.5%
VISCOFAN SA	ENERGY & MATERIALS	1.5%
GLAXOSMITHKLINE	HEALTHCARE	1.3%

Asset Distribution



*includes 0.8% in IRES REIT

Historic Income

	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%

Commentary

Overview

As many readers will recall, it seems that we have been concerned about the prospect of a sharp fall in the market for some time. Among other things, we have wondered about the robustness of China's economy, its apparent ability to consistently grow at a rapid pace seemingly without pause, and whether it would be the trigger for the next market collapse. Little did we think that while the genesis of the recent collapse in global equity markets would indeed be China, it would come from a market for live animals in the large, but little known city, of Wuhan. From there into the human world, emerged the COVID-19 virus.

Events since then have moved to the point where the world as a whole is, first and foremost, grappling with a virulent threat to life, largely unknown to our generation in the western world. Schools, governments, museums, cafes, pubs and even McDonalds, have pulled their shutters down, while the physical environment of citizens has shrunk in the midst of widespread curfew. In many countries, only those businesses deemed essential have been allowed to remain open. Considerations of profit and loss for other companies are, for now, secondary. As in the Great Financial Crisis of 2008-2009, central banks have reacted by cutting interest rates, albeit from low levels, and providing liquidity to corporations. In contrast to that time, governments have responded with large amounts of fiscal stimulus, rather than austerity. In all this, equity markets buckled, falling 32% peak to trough intra-quarter (as measured by MSCI World High Dividend Yield Index in EUR), before recovering into the quarter end. This intra-quarter peak-to-trough fall was steeper than any experienced by that index during the Great Financial Crisis. In this, the Income Opportunities fund absorbed some of this weakness, falling 14% over the quarter. Both the fund's equity and bond portfolios lost value, mitigated by the stabilising force of its substantial cash position and, to date, its commercial property interests. This follows a very strong period last year, in which it increased in value by 14%.

This is a strange time when the foremost focus of many companies is whether they can generate revenues, whatever about profit. The issues of solvency and liquidity are again to the fore. In this context, an ECB instruction to all Eurozone banks to neither pay dividends, nor repurchase shares, doesn't seem that shocking, even if it is unprecedented. An increasing number of companies have suspended, if not cancelled, already-declared dividends. This is entirely understandable, as financial strength in a crisis of indefinite length, must be prioritised. It is also the case that payment of those dividends, alongside workforce reductions for example, could be perceived as insensitive at this time. In such circumstances, we are inclined to be supportive of company managements, albeit on the expectation that dividends will resume in due course.

Commentary

In assessing the fund, our approach to date has been to robustly re-examine many of our holdings, both with a view to testing their ability to navigate the unique challenges of this crisis and reconsidering the merits of the cases on which we made those investments. The specifics of financial obligations, cash and liquidity are being re-assessed, while the threats (and in some cases, opportunities) of this particular crisis are being considered. Numerous calls, and correspondences, all from our homes, have taken place. To date, while cognisant of the realities of the pressures above, we are encouraged by the underlying ability of the fund's holdings to provide income, whether dividends, bond coupons, or rent.

Looking ahead, there is huge uncertainty. We believe that the true quality of many companies has still to be tested. As they publish their financial statements and update the market on the effect of the crisis on their businesses over coming quarters, this quality, or its absence, should be revealed. Due to the extent of the lockdown, some companies find themselves in the unusual position of being unable to compete and, as such, demonstrate the strength of their competitive positioning. This could delay, perhaps even mitigate, discrimination between the strong and weak. We believe that the fund will be well served by holdings that have strong competitive positions, while prudently oriented in terms of their financial solvency and liquidity.

Noteworthy Portfolio Changes

Prior to the quarter, BME, the Spanish stock exchange business, received a takeover bid and, as such, behaved largely like cash during the quarter as its stock price anchored around that bid. As further upside in BME was limited and we feared the possibility that the takeover offer might be withdrawn in this feverish environment, we sold our position, realising a handsome contribution to the fund. We also sold the fund's holding in Harley Davidson, following a review of the stock. Although we believe that Harley has many favourable attributes, it has faced a number of headwinds (unfavourable demographic trends and tariffs among others) in recent years. When combined with an environment in which finance is not guaranteed, some strategic uncertainly following its CEO's departure in recent times, we concluded that the risk \ reward profile, from our perspective, had become unfavourable.

We used some of the cash from these sales to acquire a new position in DCC. Mainly a distributor of fuels, DCC fell heavily during the quarter tarred with the energy brush, which provided a favourable opportunity for investment in this consistently value-creating company. We acquired the fund's position at a yield of just under 3% on a dividend that has grown at more than 12% annually over the past five years. We also took a new position in Air Liquide. An industrial gases company, Air Liquide is one of only two truly global industrial gases companies. It has a crucial, value-adding role, in a wide range of industries, not to mention healthcare.

Indeed, the latter has been a factor in its resilient performance in the short period since our acquisition. Additionally, we took advantage of the crisis to deploy some of its net cash to holdings that, in our view, offered very good value.

Prior to the onset of the crisis, we acquired a position in Zardoya Otis, a Spanish company. Zardoya Otis is one of a small number of companies that provide elevators mainly in Spain, a country with among the highest ratio of elevators per-capita. Given a high proportion of residential exposure and the attractive and defensible margins that elevator aftermarket services offer, Zardoya should be able to generate attractive free cashflows for years to come. Our position was acquired at a historic dividend yield of just under 5%.

**All figures are stated in euro, while those specifically relating to fund performance are also stated gross of fees. This commentary relates only to the Income Opportunities Fund sold in Ireland.*

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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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