Setanta Managed Fund
Q1 2021

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 +7.7% over the first quarter, a strong start to the year, led by risk assets buoyed by strong economic and earnings growth.

Our global equities generating a positive +12.2% return, outperforming the benchmark move of +9.2% by +3.0%.

Within global equities, the Industrials (+23.5%) and Energy & Materials (+17.1%) sectors were the leaders in performance. Similar to last quarter, beaten down value sectors are outperforming the broader market. While Consumer Staples (+4.0%) and Infrastructure (+5.9%), though generating positive returns, 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

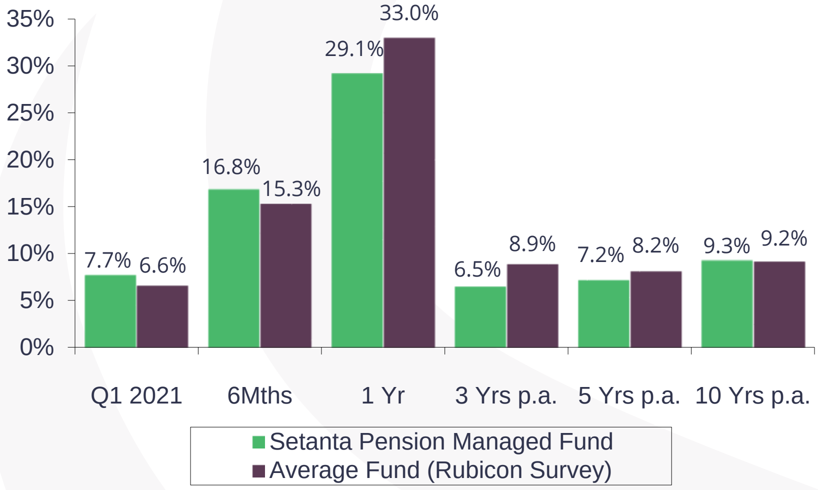
We consider scenarios rather than making forecasts

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 – 31.03.20 (EUR)

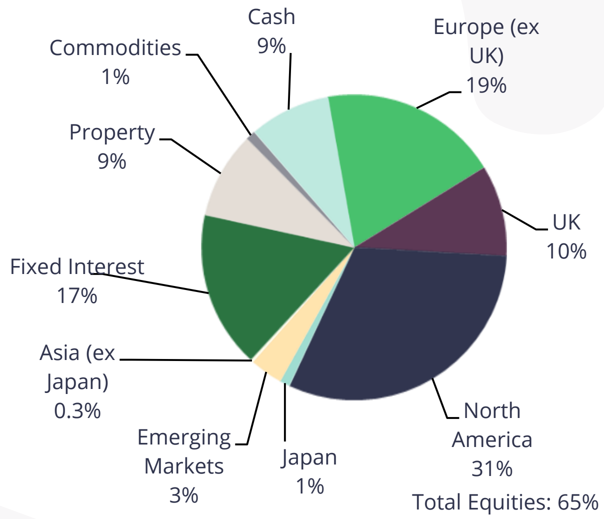


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Pension Managed Fund Survey. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Credit Rating Source:** S&P.

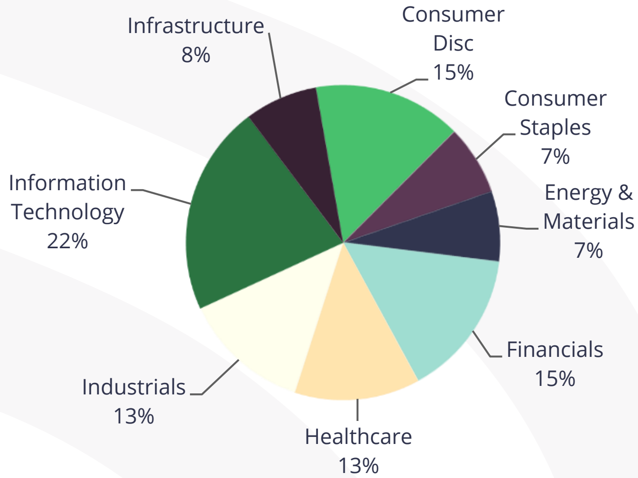
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	2.6%
BERKSHIRE HATHAWAY	FINANCIALS	1.8%
ALPHABET INC	CONSUMER DISCRETIONARY	1.7%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.6%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.5%
DCC	INDUSTRIALS	1.5%
ORACLE CORP	INFORMATION TECHNOLOGY	1.5%
BOOKING HOLDINGS	CONSUMER DISCRETIONARY	1.5%
JOHNSON & JOHNSON	HEALTHCARE	1.5%
OSHKOSH CORP	INDUSTRIALS	1.4%

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	14.83%	21.34%
AA	45.15%	36.72%
A	11.47%	18.54%
BBB	28.55%	23.41%
	100.00%	100.00%

Yearly Performance

Year %	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fund	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	7.9	12.2	6.8	-2.7	16.1	-3.1
Benchmark	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9	7.3	-5.2	20.6	6.2

SETANTA
Asset Management

Commentary

Equities remain supported (though volatile), as policies remain favourable (passing of US $1.9Trn Fiscal package), global vaccine deployment increases (with some teething problems around production), and recoveries across economies and sectors greater than expected (notable pickup in mobility and spending in areas/sectors where lockdowns are lifted). Inflation risks however are viewed as a possible concern going forward. Though valuation metrics look stretched in certain areas, a recovery in earnings may continue to underpin equities, though broad multiple expansion would seem unlikely.

Bonds had a mixed start to the year. Within developed markets, long duration, high quality bonds sold off (both government & credit). While shorter duration, lower quality bonds generated positive returns. Emerging market local currency debt was negative, struggling due to a mixed policy response to Covid-19, a stronger dollar, and fears of investment capital flowing back to higher (than before) yielding US assets.

Our European government bonds performed slightly worse (-3.0%) than our emerging market debt (-2.9%), as the foreign bonds benefitted from the extra yield, while our lower quality short dated credit (+2.9%) rallied in the risk on environment. Bonds currently make up less than 20% of the overall fund, with holdings skewed more towards credit and emerging markets and away from longer duration investment grade. Property (+0.2%) and Cash (-0.1%) added little to performance either way, while Income Opportunities (+6.7%) performed well.

Turing to inflation concerns, increased commentary around its resurgence and higher market implied forward rates (though absolute levels remains low) has shaken markets. Prior to discussing it, it is worth noting Federal Reserve member Rosengren comments on its trajectory, saying policy makers should be "pretty humble" about their level of confidence on inflation and that risks are both for overshooting or undershooting, the 2% target. Nobody knows the actual trajectory is the key point.

"In the post war period we don't have a pandemic experience with a new monetary policy framework with very aggressive fiscal policy all happening at the same time,"

"We have to be pretty humble about how confident we are about what the inflation outcomes are going to be."

-Federal Reserve Bank of Boston President Eric Rosengren

Debate is whether the recent inflation jump is transitory (e.g. base effects, tax changes, consumption basket changes) or persistent (rise due to monetary easing coupled with large fiscal spending), in nature. From a balanced fund perspective, its effect on the two largest asset allocations, bonds and equities, largely depends on where it peaks out.

At current levels, some inflation would bias you towards equities over bonds, and as it happens value type stocks over growth stocks, if accompanied by GDP growth. In a low inflation period, a positive relationship between changes in inflation and equity performance wouldn't be surprising. However, beyond a certain point (~3%), multiples paid for equities have tended to fall, creating a headwind for future returns. For bonds, inflation above expected inflation will be negative for returns in the short term, as their fixed cash-flow streams will suffer, as nominal yields rise. Though over the longer term reinvestment at higher levels is a positive. Something else to bear in mind, is at current debt levels and valuations (in both bonds & stocks), it won't take much of a rise in yields for a greater negative effect on both valuations than before. So history may be a poor guide!

Within equities, the "Growth" versus "value" struggle continues. Growth stocks, in general, outperformed over the last few years as you paid up for high expected growth. Low inflation meant low nominal GDP and low interest rates, increasing the net present value of "long-duration" growth companies, highlighting their greater sensitivity to bond yields, rising as bond yields fell (alongside inflation).

Commentary

There has been a strong relationship between the relative performance of "growth" versus "value" and inflation expectations. Rising inflation could lead to further rotation towards more cyclical and value companies, as long as inflation doesn't bring about a policy error (early rate hikes) stunting growth.

So in general (appreciate this is a dangerous comment for financial markets), rising inflation with growth is positive for "value" equities and negative for high quality government bonds. The portfolio is allocated to value stocks and had been moving away from long duration government debt into higher yielding credit and emerging market debt for some time. Both of which tend to do well in an improving growth scenario.

However, if government yields were to sell off aggressively we would look to allocate as they still have a place in a balanced portfolio as a consistent buffer to stock volatility. We remain humble in our ability to call these large macro trends, and would endeavour more to be prepared for, rather than predict absolute levels.

David Ryan – Head of Multi Asset Funds

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IMPORTANT INFORMATION

The Managed Fund is managed by Setanta Asset Management Limited and is a representative account of the Managed strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Managed Fund [H012]). 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 available on a separate account basis to institutional investors however 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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