

Setanta Global Dividend Fund – Q3 2017 (CAD)

Fund Description

The **Global Dividend Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Dividend strategy.

The Fund is an actively managed portfolio of global high yield equities. The Portfolio Managers embrace Setanta's value investment philosophy, seeking to pick stocks at a price below the managers' assessment of intrinsic value. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders. The rationale for the Fund is underpinned by studies* that show dividends have played an important role in the cumulative total return of equities over the past century, while other academic studies support the thesis that a high dividend yield is an excellent indicator of value.

While the Fund does not target specific regional or sector weights, the managers seek to maintain a sensible level of diversification. Risk is minimised by focusing on valuation, financial and operational risk measures and therefore the degree of downside protection, rather than focusing on measures of market volatility or beta. The Fund usually holds between 30 to 50 stocks with expected holding periods of approximately 5 years.

The investment objective of the Fund is to generate a return above the general return of equities over rolling periods of three years or more – this is measured by reference to the total return of the MSCI World High Yield Index (100% Euro).

Portfolio Managers

Richard Doyle CFA & David Pastor CFA



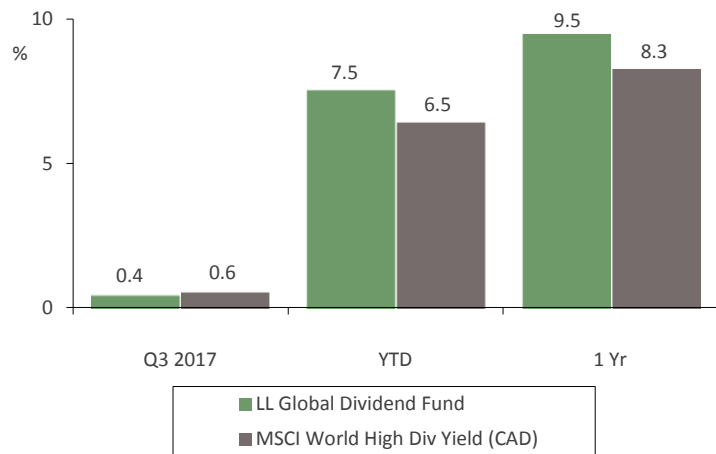
*e.g. Dimson, Marsh and Staunton, 2011

Investment Principles

- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- We invest where we see value and are not afraid to be contrarian and swim against the tide.
- We don't make forecasts, we consider scenarios.
- We demand financial strength from the companies we invest in.
- We will act with integrity and communicate with our clients in a manner representative of our investment style.
- We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study.



FUND PERFORMANCE – 30.09.17



Performance Source: Unit prices: GWL. Returns are based on LL - Global Dividend Fund 8.26SAM Account. Benchmark: MSCI High Yield Index (100% CAD). Returns are in CAD and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

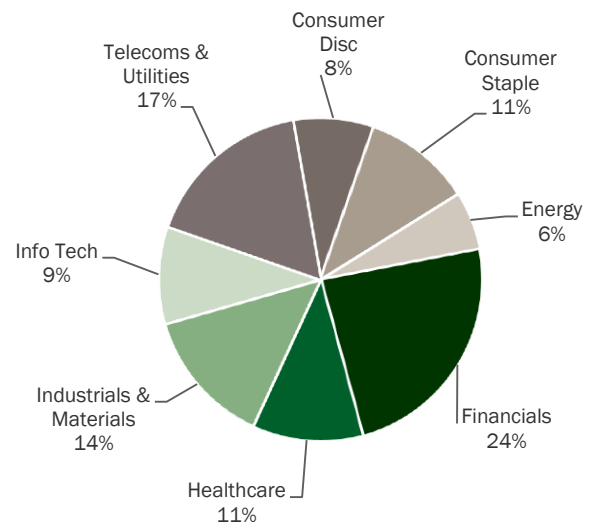
TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
LANCASHIRE HOLDINGS	FINANCIALS	3.7%
GLAXOSMITHKLINE	HEALTHCARE	3.4%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	3.4%
CISCO SYSTEMS COM	INFORMATION TECHNOLOGY	3.4%
INTEL	INFORMATION TECHNOLOGY	3.3%
PROCTER & GAMBLE COM	CONSUMER STAPLES	3.3%
SK TELECOM	TELECOMS & UTILITIES	3.3%
GPE BRUXELLES LAM	FINANCIALS	3.1%
PEOPLE'S UNITED FINL	FINANCIALS	3.1%
ENI SPA	ENERGY	3.1%

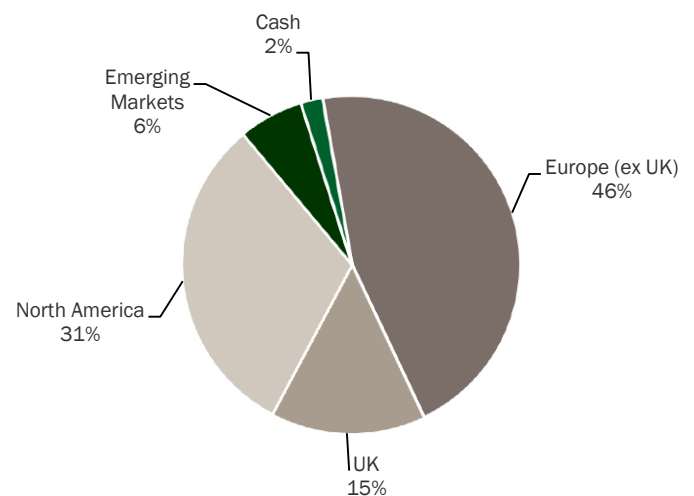
FUND STATISTICS

PRICE/BOOK	2.2
PRICE/EARNINGS RATIO (FY 1)	16.3
DIVIDEND YIELD %	3.3
AVERAGE MARKET CAP C\$BN	73.1
NO. OF HOLDINGS	39
DEBT/EQUITY %	54.4
ACTIVE SHARE %	80.8

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



Ten Years on...

It was roughly this time ten years ago that global stock markets peaked before the onset of the global financial crisis. The crisis first unfolded slowly, then quickly and suddenly in late 2008 it seemed that the entire financial system was on the brink of collapse. Central banks should be given credit for their response then, which infused liquidity and confidence into a system that was seizing up. Though the economic recovery from this harrowing time has been soft by historical standards, stock markets have produced quite remarkable returns in the intervening years. Since the peak of October 2007, immediately prior to the crisis, to today, the S&P 500 has produced an annualised total return of over 7% (dividends reinvested). Given the enormous value destruction that occurred during the crisis, this is pretty stunning. One must attribute at least some of this to the extraordinary monetary policies in place throughout the period. Interest rates as low as they've ever been, quantitative easing and overt assurances from the central banks to support financial markets through any hardship have led us to where we are today. While we take great interest in how this backdrop is unfolding we don't make macro forecasts. Rather than dwelling on thereon, we make the following observations on today's markets:

- Volatility levels remain very low by historical standards. Even the recent worrying developments on the Korean peninsula had almost no effect on markets.
- Central Banks are beginning to unwind the extremely stimulative monetary policies that have become the norm for almost a decade, yet there has been essentially no market impact observable. If these policies had been so helpful, won't their absence have consequences? Nor has the shift towards what might be referred to as 'political populism' across the western world dented markets.
- According to Moody's Analytics, 75% of new loans in the leveraged loan market (new borrowings raised by already indebted companies) are "covenant-lite". Covenants protect investors by placing limits on the issuer and the pervasiveness of covenant-light issuance suggests investors are acting in a complacent manner. Bloomberg quotes a senior covenant officer at Moody's: *"it's basically the worst it's ever been in terms of loan covenant protections"*.

The observations above, courtesy of our colleagues managing the EAFE Fund, are relevant to all Setanta funds. We are not calling a market top nor the start of a new crisis. It is quite conceivable that the next bear market might be many years away. However, we think that it makes sense to act cautiously. We continue to focus on good businesses that we think are quite shock-resistant and, as always, we spend a lot of time thinking about the durability of each company's earnings.

One company that we believe has durable earnings is **BASF**, a global chemical company, based in Germany. Some of you might remember BASF cassette tapes, but the company has evolved much since then. Today, it is of the world's largest producers of chemicals, albeit with an increasing focus on chemicals that add significant value to customers, either enhancing performance of a particular product or being customised for a particular end market, rather than simply being an input. The company is unique in its dedication to internal integration (which it calls 'Verbund'), contrasting it with most of its peers, which have followed a course of separating assets. This commitment manifests itself not just in the physical co-location of manufacturing sites, but the integration of processes and functions across the business. We believe that this philosophy is instrumental in BASF's ability to create value above the cost of capital, as demonstrated by an average return on capital employed of more than 20% over the past ten years. We acquired our position at a price that corresponded to a dividend yield just shy of 4.0% and a price-to-earnings ratio of 16.5x its average earnings over the past five years.

We recently liquidated our investment in power utility, **Fortum**, which was held since 2009. Though the journey was bumpy and we didn't earn the return we had hoped for, this investment worked out satisfactorily overall, thanks in part to a nice dividend that accrued through the period. Fortum disposed of its regulated assets in Sweden, Finland and Norway at very good prices in 2015. What remained were unregulated electricity generation businesses (nuclear and hydro) based in Finland, Sweden and Russia. Wholesale electricity prices are influenced by coal prices, which remain low and thus Fortum's profits remain depressed. It is not clear when (or if) this backdrop will improve and this is out of management's hands. At the time of sale, it also remained uncertain what management might do with the cash retained since the disposal of the regulated assets. Whilst the stock might prove to be undervalued at this point, based on these uncertainties we decided to sell our holding.

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IMPORTANT INFORMATION

The Setanta Global Dividend Fund is managed by Setanta Asset Management Limited and is a representative account of the Setanta Dividend strategy. The Fund is available on a separate account basis to institutional investors. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections 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