Setanta Global Dividend Fund – Q2 2016 (CAD)

Setanta
ASSET MANAGEMENT

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.

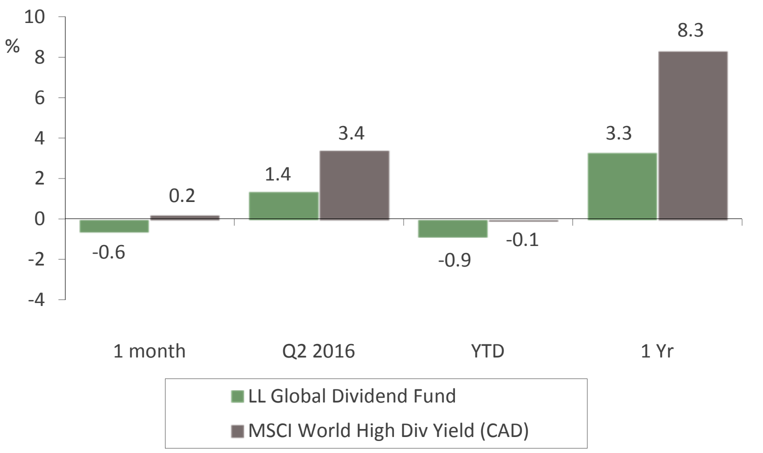
Irish Pensions AWARDS 2015
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

FUND PERFORMANCE – 30.06.16



Performance Source: Setanta Asset Management Limited. Benchmark: MSCI High Yield Index (100% Euro) & Bloomberg. The Fund returns since 30.09.07 are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The unit prices prior to this are derived from a net of fee price, adjusted for the management charge to be representative of the gross of fee performance. **Fund Statistics Source**: Bloomberg (metrics include Financials)

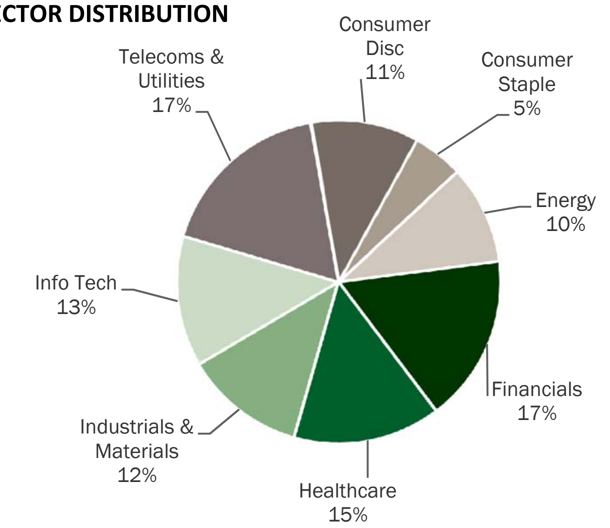
TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
ENI	ENERGY	4.2%
GPE BRUXELLES LAMBERT	FINANCIALS	4.1%
SANOFI	HEALTHCARE	4.1%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.8%
JOHNSON & JOHNSON	HEALTHCARE	3.5%
NOVARTIS	HEALTHCARE	3.5%
NATIONAL OILWELL	ENERGY	3.4%
INTEL	INFORMATION TECHNOLOGY	3.4%
SANDVIK	INDUSTRIALS & MATERIALS	3.4%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	3.4%

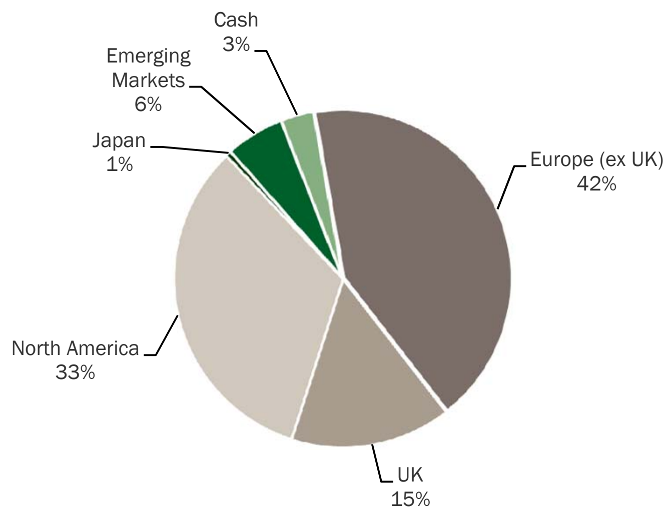
FUND STATISTICS

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	19.6
DIVIDEND YIELD %	3.5
AVERAGE MARKET CAP $BN	82.2
NO. OF HOLDINGS	35
DEBT/EQUITY %	44.7
ACTIVE SHARE %	81.3

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



Brexit

Thanks to 'Brexit', the vote by the U.K. to leave the EU, the second quarter of 2015 had a wild finish. Following an initial sharp fall in financial markets, defensive sectors, (i.e. healthcare, utilities, staples), and assets perceived to be low risk (gold, German bunds, US dollar, and ironically, UK gilts) performed strongly after the referendum. Peripheral European countries, reflecting some concerns about the future integrity of the EU, and more cyclically-sensitive sectors, amidst worries about the implications for global economic growth, sold off in the market's popular 'risk off' trade. Sterling plummeted against all major currencies and hit a thirty-year low against the dollar.

The fund's value had increased prior to the referendum, before falling sharply as the result became known. In the final few days of the quarter, the fund somewhat recovered to post a 1.4% rise over the quarter as a whole. Against this 'Brexit' backdrop, some of our stocks lagged the wider market. However, we have confidence in our diversified portfolio of generally good businesses, conservatively financed at modest valuations. We believe that the economic substance of the businesses we own will survive "Brexit" or similar episodes of future political upheaval in the EU, the US or elsewhere. Our process steers us to own companies with defensible barriers to entry, that make valuable products and services which are highly appreciated by their customers. As examples, in all likelihood, Yara will sell more higher value added crop nutrition products, Mattel will continue to be one of the established global provider of toys and Vodafone will carry more data on behalf of its customers, thus all creating value for shareholders. With their strong balance sheets and robust cashflows, we believe that our holdings should be able to withstand whatever harsh financial conditions might occur.

As the manic dynamics of financial markets play out, we stand ready to take advantage of any opportunities arising to deploy capital at good prospective rates of return. In the immediate aftermath of the 'Brexit' vote, we did just that, increasing positions in some of the stocks which were, in our view, unduly punished amidst the chaos. Our EAFE fund colleagues have recently been elaborating on the issue of valuation, and we relay here some of their thoughts, which are pertinent to all the funds managed by Setanta.

Valuation

A recent court case brought by former Dell investors, who felt they had been short-changed when the company was taken private by founder Michael Dell in 2013, gave an interesting insight into the topic of business valuation. The court relied solely on the Discounted Cash Flow (DCF) methodology as it merited "the greatest confidence within the financial community". Each side used prominent academic experts to make their case. The company produced an estimate of $12.68 per share, suggesting that the $13.75 per share buyout price paid to shareholders was in fact generous. The calculation on behalf of the disgruntled investors was significantly higher, at $28.61 per share. This implied a $28bn aggregate valuation difference more than double the actual buyout amount!

At Setanta, we believe value is more than a number and, by extension, that valuation is more of an art than a science. There is no magic formula for valuing a company. The critical part is all the work beforehand in understanding the business - its durability, the threats it faces, and assessing what it can reasonably expect to earn over a business cycle. We ask ourselves how a given company has performed through cycles in the past and whether there are structural reasons why this shouldn't repeat. The level of sustainable cash earnings of a company over an economic cycle can be very different to the audited profit reported in a given year or indeed the non-GAAP metrics often highlighted by public companies. Examples of factors that need to be taken into account include the capital structure, the accounting policies used by management, the level of investment spending and where the company is in its business cycle. There is no one-size-fits-all approach to making these adjustments. It is only through spending a considerable amount of time in researching and understanding the business that one can sensibly factor in these considerations. Our aim is to be generally right rather than precisely wrong.

Richard Doyle & David Pastor – Portfolio Managers

COMMENTARY

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IMPORTANT INFORMATION