Setanta Dividend Fund
Q4 2019

Fund Description

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

The is an actively managed equity portfolio, which holds 30-50 global high yield stocks. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders.

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. Stocks are chosen through bottom-up analysis, based on investment merit. The fund can hold up to 10% cash where investments of sufficient quality cannot be found. Rather than focusing on the historic level of volatility of an asset, the portfolio managers regard the probability of permanent impairment of capital as the most relevant measure of risk. In doing so, they seek to maximise downside protection by understanding the risks posed by the valuation, financial, and operational characteristics of the asset. The investment objective of the Fund is to outperform the MSCI High Yield index 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

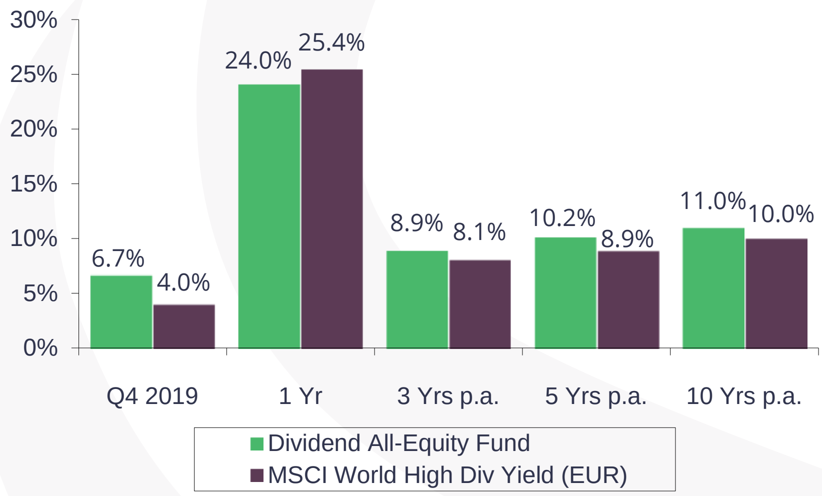
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA
Asset Management

Fund Performance – 31.12.2019 (EUR)



Yearly Performance

Year %	2015	2016	2017	2018	2019
Fund	12.2	11.9	6.3	-2.0	24.0
Benchmark	7.8	12.6	3.8	-2.9	25.4

Performance Source: The Fund returns since 30.09.07 are based on the movements in the unit prices of the ILA/CLI Setanta Dividend Equity Fund [IEC7601] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. The unit prices prior to this are based on a net of fee price, adjusted for the management charge to replicate a gross of fee performance. **Benchmark:** MSCI High Yield Index (100% Euro). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg (metrics include Financials). *Calculated using Index Method

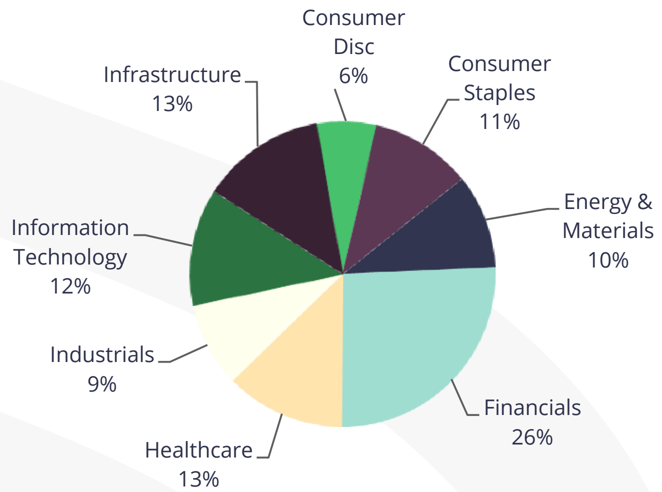
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
GLAXOSMITHKLINE	HEALTHCARE	3.9%
BOLSAS Y MERCADOS	FINANCIALS	3.8%
LANCASHIRE HOLDINGS	FINANCIALS	3.7%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.5%
NATIONAL GRID	INFRASTRUCTURE	3.2%
HARLEY DAVIDSON	CONSUMER DISCRETIONARY	3.2%
SAMPO OYJ	FINANCIALS	3.2%
SAGA PLC	FINANCIALS	3.2%
NOVARTIS	HEALTHCARE	3.1%
SMITHS GROUP	INDUSTRIALS	3.0%

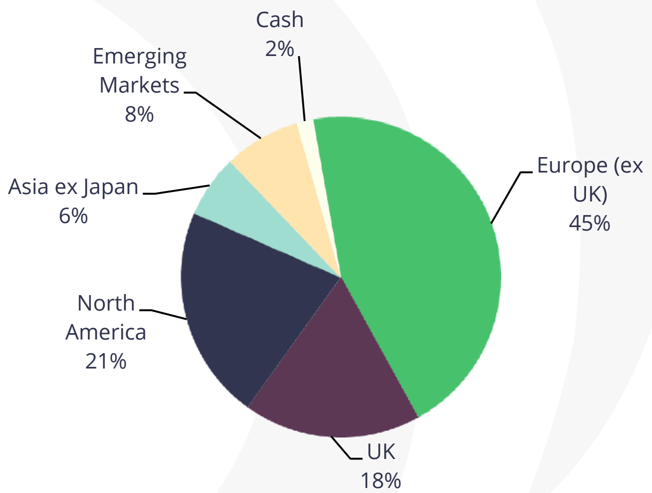
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	15.3
DIVIDEND YIELD %*	3.8
AVERAGE MARKET CAP €BN	62.1
NO. OF HOLDINGS	42
DEBT/EQUITY %	57.1
ACTIVE SHARE %	79.3

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

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 fund's benchmark, the MSCI World High Dividend Yield Index, which appreciated 25.4%*. This all occurred to the backdrop in the US of a continued deterioration in its 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. Among the best performing segments of the global stock market were large information technology companies and US banks in addition to those stocks perceived to have higher growth potential. Not all sectors appreciated so sharply; for example, European bank, and telecom stocks and the automotive, energy and retail sectors globally.

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 cashflow. The fund has an attractive expected dividend yield (4.2%), a classic indicator of value, yet, in our view, a much lower level of overall risk than the broader market.

In this somewhat febrile environment, the fund performed well in 2019, rising 24.0%, its second best calendar year since inception, albeit behind the benchmark. To put the fund's performance in context, the average per annum return on global equities over the very long-term is around 8% (As measured in US dollars; Source: Dimson Marsh Staunton study, Setanta estimates). Over 3, 5 and 10 years, the fund has risen 9%, 10% and 11% per annum respectively, outperforming its benchmark over all these periods. Below, for 2019, we discuss new purchases and complete sales, as well as the stocks that made the most positive and negative contributions to the fund.

Main Factors in Fund Performance

Fortescue, one of the world's main producers of iron ore, has been a tremendous investment for the fund. As we previously noted, the company benefitted from an upswing in iron ore prices following the Brumadinho dam burst in Brazil. Since then, further supply disruptions to its main peers in Australia have also highlighted the strength of its modern infrastructure. During the course of the year, Fortescue announced two major capital projects, which in our view, should support its ability to continue to create value for shareholders. Since our original investment in Fortescue, it has paid substantial dividends, both ordinary and special, equating to more than 30% of our original investment, while the stock's price has appreciated substantially.

Commentary

Stock	Performance Contribution (EUR)	Stock	Performance Contribution (EUR)
Fortescue	3.34%	Saga	-1.11%
BME	1.53%	NWS	-0.60%
TSM	1.42%	Viscofan	-0.34%

Bolsas y Mercados Espanoles (**BME**), the stock exchange business of Spain, is also a recent purchase. It finds itself in the happy position of being 'courted' by two European financial exchange companies, Six and Euronext. For our part, we were attracted to BME by the high barriers to entry in the financial exchange business, caused by the advantage that incumbency and scale provide. The outcomes of this in BME's case, recurring free cashflow and large dividends appealed to us greatly. As the stock rose strongly following an agreed bid from Six, we gained from our large position, which had been boosted during a time of weakness earlier in the year.

The other major contributor to the fund's overall performance, **TSM**, has been a long-term shareholding. As a reminder, we acquired TSM on the basis of its ability both to achieve high returns on capital and to return plenty of cash to shareholders. We increased our position in the stock earlier in the year and hence particularly benefitted from its strong performance over the second half of this year. Over that period, TSM reported its highest ever November sales, raised its forecasts for 5G technology related growth and re-iterated its commitment to its dividend.

Not all recent purchases contributed positively however. **Saga**, also acquired in 2018, was the fund's weakest performer. In the first half of the year, it announced that its profits for the next two years would be depressed, mainly due to a highly competitive UK insurance broking market. This caused the stock to more than halve in value. Following a comprehensive review, we believe that Saga is on the right path to restoring what was once a robust business, albeit while acknowledging that we under-estimated just how tough the UK environment is. We continue to believe that Saga has an attractive niche in insurance and travel, in both of which it focuses on the over-sixties cohort.

NWS's stock price was also weak over the course of 2019. **NWS** provides a range of mainly infrastructure-related services in both Hong Kong and mainland China. While some of its businesses have suffered due to the unrest in Hong Kong, by and large, the company has performed well operationally. There are, of course, trade fears relating to mainland China, while the company also has to digest its recent acquisition of a life assurance company, admittedly a different type of business to those it has operated in the past. We took the opportunity of weakness to add to our existing position as we believe that NWS is very well placed to prosper over the long-term, given its strong market positions and the recurring nature of much of its revenue streams.

Viscofan's negative contribution to performance was mainly a function of the timing of our purchase, which was near its price high of the year. While the company has subsequently reported strong quarterly sales figures, its financial report in the interim disappointed the market, due to unexpected operating cost increases and sales that were negatively affected by the effect of swine flu on the consumption of meat products. As per our most recent quarterly commentary, we believe that Viscofan will make a strong contribution to the fund over the long-term.

Major Changes to the Fund

The composition of the fund did not change much over the year. **Viscofan**, featured in the prior quarter commentary, was the only new holding. We exited from three stocks. We sold our position in **United Utilities**, following strong performance, consolidating some of the position into another U.K. utility, National Grid, in which we regarded valuation as more attractive. We had opportunistically acquired our position in United Utilities at a time when fears of the hypothetical consequences of a Labour government for the U.K. utility industry were particularly high.

We also sold two rump positions, those of DCC and National Oilwell Varco (NOV). **DCC**, principally a transporter of liquid fuels, has been an exceptionally good investment for the fund since we acquired our position back in 2011. While we continue to think that DCC is an attractive business, we have struggled to justify its valuation. In the case of **NOV**, a manufacturer of equipment for oil and gas drilling, and production, we had a very different experience. Although NOV has very strong positions in most of its markets, our investment coincided with a severe downturn in the oil and gas market. NOV substantially reduced its dividend, which combined with the emergence of alternatives with brighter medium-term outlooks prompted us to sell our remaining position.

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

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IMPORTANT INFORMATION

The Dividend Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the Dividend Equity strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Dividend Equity Fund [IEC7601]). 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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