Setanta Dividend Fund
Q3 2020

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

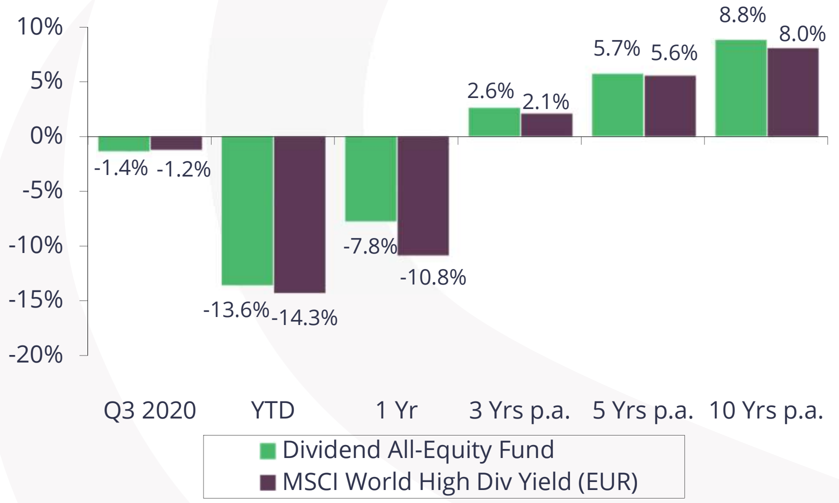
We consider scenarios rather than making forecasts

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

Fund Performance – 30.09.2020 (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.

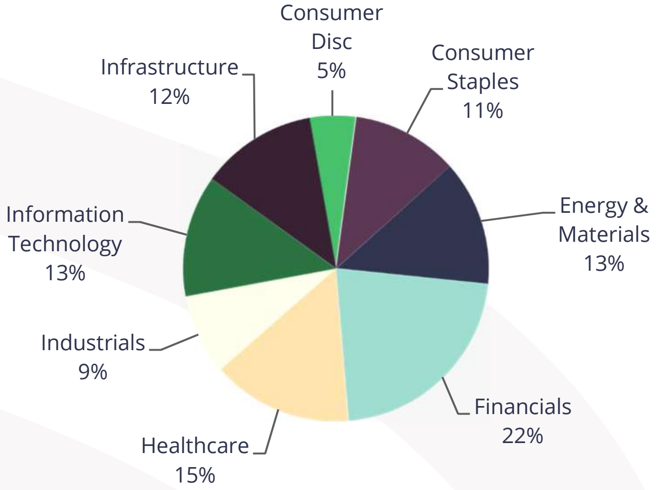
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	4.0%
SAMPO OYJ	FINANCIALS	4.0%
SMITHS GROUP	ENERGY & MATERIALS	3.9%
PROCTER & GAMBLE	CONSUMER STAPLES	3.8%
GLAXOSMITHKLINE	HEALTHCARE	3.4%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.4%
COCA-COLA AMATIL	CONSUMER STAPLES	3.3%
LANCASHIRE HOLDINGS	FINANCIALS	3.2%
NOVARTIS AG	HEALTHCARE	3.1%
JOHNSON & JOHNSON	HEALTHCARE	2.9%

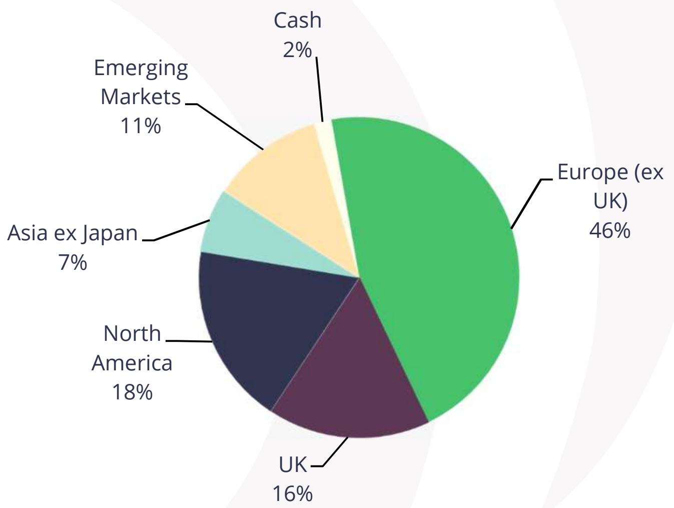
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	16.0
DIVIDEND YIELD %*	3.8
AVERAGE MARKET CAP €BN	70.1
NO. OF HOLDINGS	40
DEBT/EQUITY %	57.1
ACTIVE SHARE %	78.5

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

During the third quarter of the year, the world continued to deal with the consequences of the COVID-19 pandemic. Policymakers everywhere grappled to balance the effects of sharp reductions in economic activity with whatever leeway they could afford for budget deficits and monetary policy. Families and businesses altered their behaviour in some ways that would have been difficult to predict ahead of the facts. The pandemic seems to have accelerated some of the trends already well in train, such as digitalisation, e-commerce, and climate change awareness, while giving rise to others with uncertain future impact (for example, lower interest rates for longer, working from home, how people travel and broader changes in consumption patterns). Who would have thought that in the middle of one of the sharpest economic contractions ever, house prices in rich and middle income countries would grow at a 5% rate year over year[1] or that the S&P 500 would reach all-time highs, while the number of unemployed rose alarmingly, and large numbers of families had to resort to governments' assistance programs.

Financial markets appeared to find a nervous equilibrium in the generally improving economic conditions as they digested some of these changes noted above and looked ahead at second waves of COVID-19 contagions in the northern hemisphere's approaching winter, yet more Brexit negotiations, and the prospect of an indeterminate US presidential election. Equity indices generally made small advances in the quarter, led by some of the more cyclical sectors. 'Fear' in the market, as measured by a number of implied volatility indices, remained relatively elevated[2]. The Fund fell slightly, -1.4%, over the period.

Looking at stock performances this quarter, the Fund's holdings in the IT sector are noteworthy. We have found fertile ground for stock picking in the less fashionable areas of IT (that is, not the so-called 'FAANGs'). These include TSM, Samsung, Intel and Cisco, which we consider to be established incumbents in the provision of IT hardware. TSM, Samsung, and Intel are relatively capital intensive as they invest heavily in physical plant, while all four of the companies also invest materially in R&D to produce the next generation of IT hardware that powers computing and telecommunication advances. They have tremendously solid balance sheets and good track records of returns, and while subject to their respective product sales cycle, they've generally been able to grow revenues, profits and dividends over time.

Over the quarter however, two of these stocks, Intel and TSM, took two very different paths as **Intel** fell sharply on comments from its new CEO about its future manufacturing strategy, while the same piece of news seemed to reinforce the perception of **TSM** as a long term winner in the outsourcing of chip fabrication.

[1] Knight Frank Global House Price Index see link
[2] VIX average Q3 2020: 27%. VIX 10 year trailing average: 17%

This followed confirmation that Apple would replace Intel chips for its range of personal computers, which although marginal in terms of Intel's revenue, was seen by some as indicative of Intel's waning market position.

We believe Intel remains a force within the industry, holding dominant market shares in both the growing server computer processing unit (CPU) market, and the more mature personal computer CPU market. It invests heavily in its current business and future growth applications such as autonomous driving, artificial intelligence and quantum computing among others with one of the biggest capex and R&D budgets in the sector. The company's innovative designs, customer relationships and manufacturing expertise helped it achieve its current dominant position. We believe a multiple of 11x earnings and a dividend yield of 2.5% combined with substantial share repurchases, undervalues the company.

As for TSM, its investments in the relentless pursuit of semiconductor fabrication excellence, customer focus and the massive barriers to entry in scale manufacturing of cutting edge chips are paying off, as it pulls away from its peers. After the recent significant upward re-rating, it trades on a 2% dividend yield, with the likelihood of significant growth, as it continues to capture share of a growing market.

In an exercise in proactive risk assessment, we decided to divest from **Austrian Post**. Through our holding period we believed the market was overlooking the underlying strength and competitive advantage in this company, as well as its capacity to deal with reducing volumes in its legacy letter business. Its ability to fend off new entrants in the market, and steady profits in recent years spoke to that effect. However, we believe that COVID-19 has brought about a number of developments that materially change the investment case. First of all advertising revenue is likely to suffer, while volume decline in ordinary letters is likely to accelerate in the near term. Secondly the growing parcel business is experiencing capacity issues, while competition remains lively, capping Austrian Post's ability to pass on increasing costs. Finally, Austrian Post needs to undertake an ambitious investment program to upgrade its sorting and delivery capabilities. We believe a dividend cut is likely next year, and uncertain cash flow dynamics in later years diminish our confidence in the company's ability to resume dividend growth, prompting our sell decision. While not appreciating as much in capital terms as we would have hoped, Austrian Post paid a series of substantial dividends over the Fund's holding period.

**All figures in euro, unless stated otherwise; fund performance figures stated gross of fees.*

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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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