Setanta Dividend Fund
Q4 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

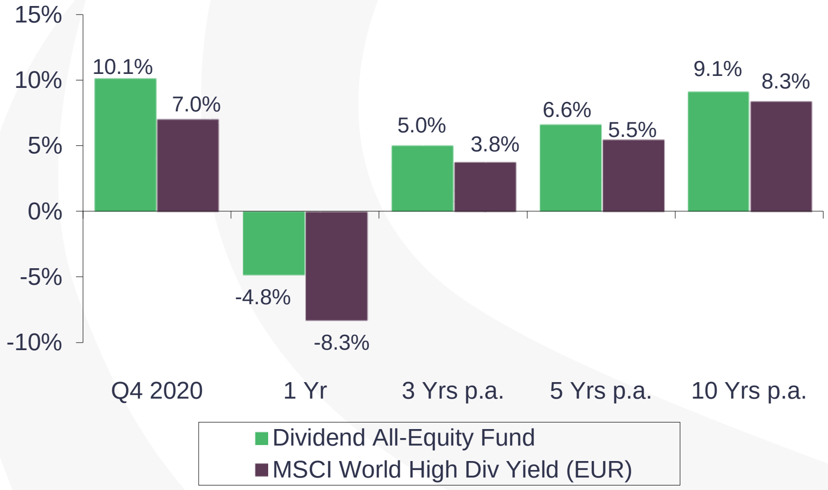
We consider scenarios rather than making forecasts

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 – 31.12.2020 (EUR)



Yearly Performance

Year %	2016	2017	2018	2019	2020
Fund	11.9	6.3	-2.0	24.0	-4.8
Benchmark	12.6	3.8	-2.9	25.4	-8.3

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.

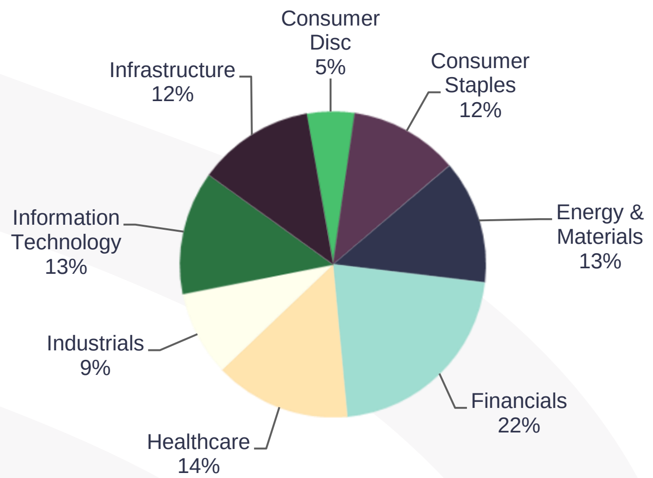
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
COCA-COLA AMATIL	CONSUMER STAPLES	4.3%
SAMPO OYJ	FINANCIALS	3.8%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	3.7%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	3.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.5%
LANCASHIRE HOLDINGS	FINANCIALS	3.2%
PROCTER & GAMBLE	CONSUMER STAPLES	3.1%
NOVARTIS AG	HEALTHCARE	3.1%
UNILEVER PLC	CONSUMER STAPLES	3.0%
GLAXOSMITHKLINE	HEALTHCARE	3.0%

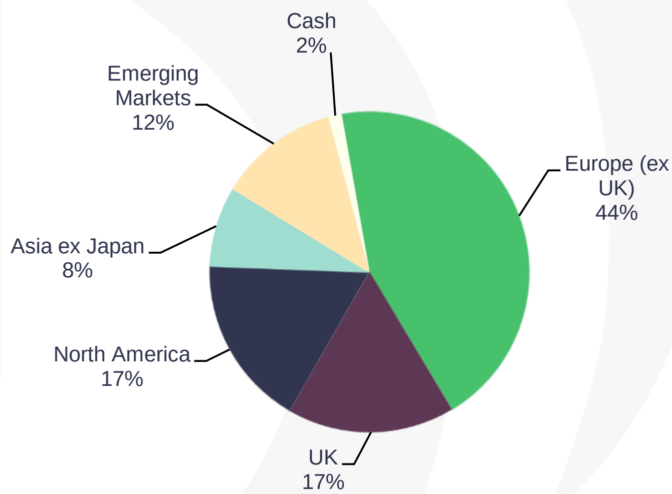
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	15.5
DIVIDEND YIELD %*	3.4
AVERAGE MARKET CAP €BN	75.5
NO. OF HOLDINGS	40
DEBT/EQUITY %	58.4
ACTIVE SHARE %	80.0

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

Overview

2020 was as surprising, and eventful, a year as we can recall. Aside from its dominant feature, the COVID-19 pandemic, it was also the year in which two of the 'chapters' that have strongly featured in the 'story' of the past four years, those of Brexit and the presidency of Donald Trump in the US, drew to a close. Last year was also the year in which a number of world leaders fell victim to this new virus; in the case of UK Prime Minister, Boris Johnson, he became critically ill before recovering. The victory of Joe Biden, a centrist figure, in the US Presidential Election suggested some return to normality there, with consequences for global trade relations and US tax policy. At the end of this undulating year of lockdowns and periods of 'liberty', the announcement of the successful trials of a number of vaccines for the new virus brought hope to the world at large.

As some sectors of the global economy literally ground to a halt, economic growth collapsed. In many countries, such as Ireland, governments responded with a massive increase in welfare spending, reflecting the huge number of people rendered unemployed overnight; compensation to businesses ordered to close; and contingency investment in healthcare. In the US, the ratio of national debt to GDP jumped to its highest level since WWII, over 130%, as the federal government spent $3 trillion on COVID-19 related measures. Given the trend of the past decade, the decision of most central banks to commit to low interest rates for the foreseeable future was hardly a surprise, yet it is nevertheless remarkable. Debt issuance generally rose substantially, whether due to necessity or caution; in the US, corporate debt issuance last year greatly exceeded any other year on record (Source: Dealogic), albeit this was very much skewed to larger companies. On a global basis, it's hard to remember a period in which the combination of fiscal and monetary policies has been so favourable to growth, whatever the long-term consequences.

The undulation in the real world was matched by the equity markets, which had a rollercoaster ride. As we noted in Q1, at -32%, as measured by the MSCI World High Dividend Yield Index, the peak-to-trough fall exceeded the worst period of the Global Financial Crisis. By the end of the year, this index, the Fund's benchmark, had substantially recovered, to finish 8.3% lower than at the start of the year. Given its position in that Q1 period, this seems like a modest fall. Looking at the broader equity market, the best-performing sectors were Information Technology (IT) and Consumer Discretionary. IT was boosted by an acceleration in the digital transformation while consumer discretionary companies benefitted from substantially-increased online purchasing and consumers shifting their discretionary spend towards food and homes in the absence of many alternatives. The worst-performing sectors were Energy and Financials.

In the former case, the combination of the pandemic, the failure of OPEC (the oil producers' cartel) to maintain price stability, and an ever-increasing focus on climate change resulted in distress at many oil and gas companies. In the Financials sector, banks were confronted with potential pandemic-related credit losses; the prospect of lower interest rates for longer; as well as restrictions on dividend payments.

The Dividend Fund fell 4.8% on a per unit basis during 2020, thus materially outperforming its benchmark. We noted in Q1 that we believed that the true quality of some holdings had, through financial reporting, still to be revealed. It is to-date encouraging that in such a challenging time, the Fund has clearly differentiated itself from its benchmark. The key contributors and detractors to the Fund's performance are discussed below, while the main changes in the Fund's composition are also noted. Over 3, 5 and 10 years, the fund has risen 5%, 7% and 9% per annum respectively, outperforming its benchmark over all these periods.

Major Factors in Fund Performance

TSM, the Taiwan Semiconductor Manufacturing Company, and **Samsung**, manufacturer of a wide range of consumer electronics and IT components, were top contributors to the fund in 2020. Last summer, Intel (also a Fund holding) announced further delays to its seven nanometre semiconductor process development, adding that it was contemplating outsourcing some production to other foundries. For the semiconductor foundry companies, chief amongst them TSM and Samsung, this was widely interpreted as a positive signal of further consolidation in an already oligopolistic industry. The world was reminded of the immense technological challenge facing foundries in the continual shrinking of chip sizes. Market participants concluded that TSM and Samsung are set to increase their market shares of the semiconductor market, having widened the gap on competitors in the latest technological migration. On top of that, the Covid-19 outbreak brought additional computing demand from which both companies benefitted, while Samsung's preference shares, those held by the Fund, increased in value relative to its ordinary shares. In the case of TSM, its 2020 reported sales increased 30% over 2019, driven by the digital transformation, as adults and children across the globe abruptly required the ability to respectively work and study from home.

Even though a smaller position for the fund, **Fortescue**, a key player in the iron ore market, has continued to be a material contributor to the Fund's performance. Despite the disruption to the global economy, demand for iron ore to produce steel in China, the world's largest producer of steel, remained strong during the year.

Commentary

Industry supply in recent years has not matched this increase in demand, due both to disruptions to existing capacity and a lack of major investment in new capacity. In Fortescue's case, it has continued to produce at a high level, while it is also investing to bring further relatively low-cost capacity to the market. Over the last 18 months, Fortescue's reported operating income has increased threefold over the equivalent prior period.

Stock	Performance Contribution	Stock	Performance Contribution
TSM	207 bps	Saga	-205 bps
Samsung	151 bps	Harley Davidson	-175 bps
Fortescue	101 bps	NWS	-115 bps

Bps = Basis Points

Saga, the UK insurance and travel company, battled throughout 2020. The pandemic had a particularly damaging impact on its business, as it was prohibited from operating its cruise business, which, to exacerbate matters, typically caters to a much older, and thus COVID-19 vulnerable, demographic. Management took a number of actions both to ensure the company's survival and to re-orient it to thrive in the medium-term. We supported these initiatives, which included debt re-financing, raising equity, appointing new management personnel and implementing new policies in the insurance broking business. While it seemed that any news relating to Saga last year was negative, positive news emerged late in the year, namely the strong success of the COVID-19 vaccinations in clinical trials and the beginning of a vaccination programme in the U.K., while the company's insurance business showed encouraging signs of renewal. On the back of a subsequent strong rally in the stock, we took the opportunity to reduce the Fund's position.

We sold the Fund's position in **Harley Davidson** following a review earlier in the year. In our Q1 commentary, we noted emerging challenges, including strategic uncertainty following the CEO's departure and the lack of certainty in Harley's ability to ensure access to finance for its financial arm. The stock lost half its value, after which we exited our position. While the stock subsequently rallied strongly, the company announced a change in strategy and also largely eliminated its dividend.

NWS, a Hong Kong-based conglomerate, was also a detractor from the Fund's performance in 2020. While earlier in the year, the protests in Hong Kong hurt some of its businesses, such as its transport and duty-free divisions, it was also materially affected by the pandemic. In the case of its toll roads business in mainland China, volumes fell dramatically (down 50% at one point in the year); its exhibition centre was closed for most of the year and its aircraft leasing business, while resilient, also suffered.

While these were clearly costly, we believe that NWS's broad base of assets should create value for shareholders over the medium term. We took heart both in the attractive dividends that NWS continues to pay (its trailing dividend yield is over 7%) and the good valuations that it has achieved on assets that it has recently divested. After reviewing the stock in some depth, we took the opportunity to increase the Fund's shareholding in the company.

Major Changes to the Fund

At the end of the year, the Fund held positions in 40 stocks, having entirely sold nine positions, while adding seven new holdings to the Fund. This level of activity is perhaps befitting of an extraordinary year, in which the strength of companies' business models was put to the test, leading us to fully exit positions in some holdings in which we already had doubts, but also to acquire positions in some high-quality companies that were, in our view, unduly discounted by the market.

As we reported earlier in the year, we undertook a thorough and dispassionate analysis of the Fund's investments amidst the worst of the pandemic. Businesses deemed acutely sensitive to sectors heavily hit by the COVID pandemic and with relatively weakened financial positions, were minutely scrutinised. Where an elevated probability of prospective value impairment was estimated, we acted swiftly. This led us to exit both **Harley Davidson** and **Sysco**, the food services company, notwithstanding the impact of the Federal Reserve's support to US corporates in general. At the time of our sale, in our view, Sysco's stock was implying a full recovery by restaurants to pre-Covid-19 levels within two years and little cost for Sysco from customer bankruptcies. On account of a material increase in its level of debt, we deemed that **Vodafone**, the UK-based telecom company, was unsuitable for this Fund.

This was also a year where accelerating changes in the structure of many industries prompted us to further test our conviction in the investment cases of some holdings. On this basis, we sold out of **Austrian Post,** as accelerated e-substitution made for a weaker outlook for dividends in the near future. We also decided to switch the Fund's investment in Italy-based oil and gas producer, **ENI,** into **Exxon Mobil,** the global integrated oil and gas producer that has a an impressive long-term record of creating value in difficult periods, as well as solid free cash generation through the economic cycle. Our holdings in **BME,** the Spanish stock exchange company**,** subject to a takeover bid, and **Yara,** a producer and distributor of nitrogen-based fertiliser and small, rump positions in **Fairfax Financials** and **Origin Enterprises** were sold to make room for better opportunities identified through the year.

Commentary

We believe that **Unilever**, **DCC** and **Zardoya Otis**, covered in our Q1 newsletter, **Medtronic** and **Bangkok Bank**, covered in our Q2 newsletter, are such better opportunities. In addition, the Fund took a position in Air Liquide, one of the world's two global industrial gases companies. Air Liquide has a highly defensive business model and good growth prospects, which we were able to acquire at a reasonable valuation, equating to a three-year earnings' yield of 4%.

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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