

Setanta Dividend Fund

Q2 2021

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 Fund 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 Dividend 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

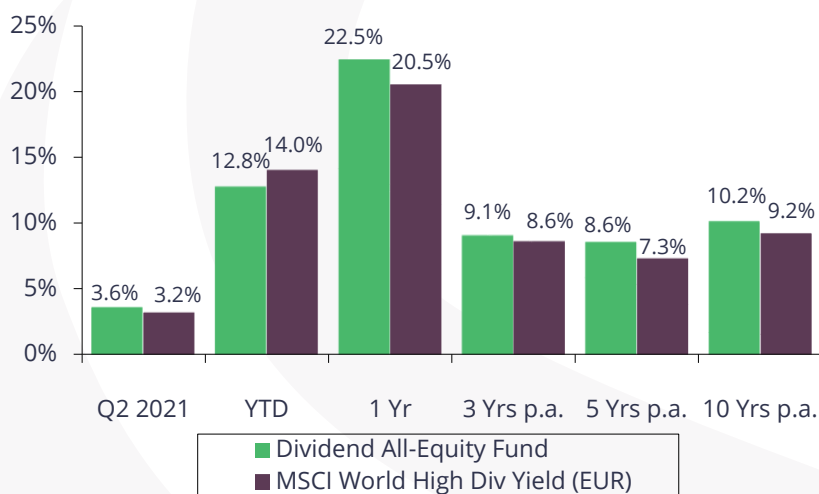
We consider scenarios rather than making forecasts

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 – 30.06.2021 (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.

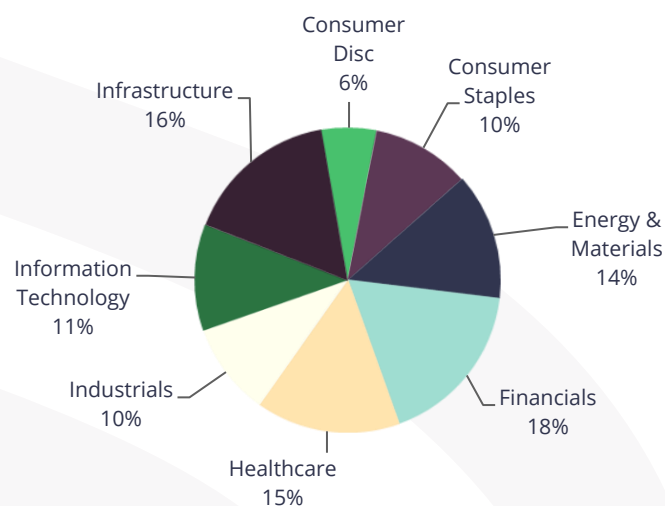
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
SAMPO OYJ	FINANCIALS	3.9%
SK TELECOM	INFRASTRUCTURE	3.6%
RICHEMONT	CONSUMER DISCRETIONARY	3.5%
PROCTER & GAMBLE	CONSUMER STAPLES	3.4%
JOHNSON & JOHNSON	HEALTHCARE	3.4%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.1%
NESTLE SA	CONSUMER STAPLES	3.1%
GLAXOSMITHKLINE	HEALTHCARE	3.1%
SMITHS GROUP	ENERGY & MATERIALS	3.1%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	3.1%

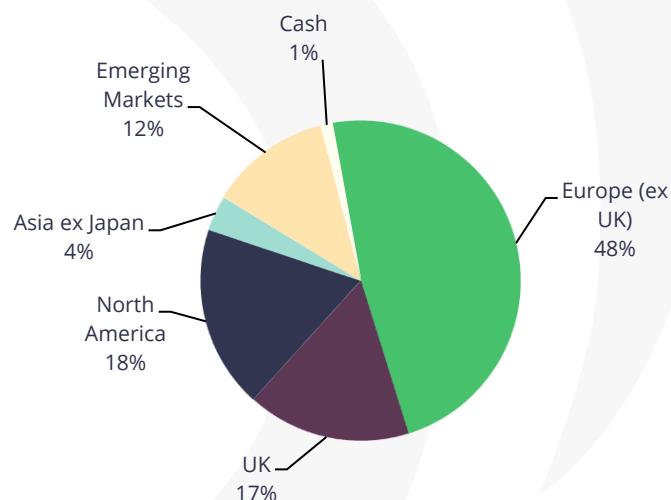
Fund Statistics

PRICE/BOOK	2.2
PRICE/EARNINGS RATIO (FY 1)	15.3
DIVIDEND YIELD %*	3.5
AVERAGE MARKET CAP €BN	95.4
NO. OF HOLDINGS	38
DEBT/EQUITY %	52.4
ACTIVE SHARE %	76.4

Sector Distribution



Geographic Distribution





Commentary

Market commentary

Equity markets continued to tick upwards in the second quarter of the year, as capacity constraints in the global economy became increasingly evident. Supply chains for a number of internationally traded goods, from lumber to cars, creaked under the strain of the massive and sudden jolt induced by the reopening of major economies. Inflation indices reflected increasing prices across developed countries.

Perhaps most noteworthy is the slowly shifting inflation and growth expectations as priced in financial assets through the quarter. Reflected in a flattening yield curve, bond markets appeared to discount less vigorous growth in the long term, and the increasing likelihood of some degree of future policy response to the spiking inflation. Sure enough, in its June meeting, the Federal Reserve indicated it would be prepared to raise interest rates from the current historically low rates as soon as 2023, signalling a departure from its recent ultra-dovish stance. This shift in expectations combined with the spread of the highly contagious Delta variant of Covid-19 likely contributed to weakness in some of the most cyclical stocks towards the end of the quarter.

Fund Performance and Activity

The Dividend Fund increased in value by 3.6% in the second quarter, and is up 12.8% year to date. Among the top contributors were SK Telecom, and two Swiss stocks, Richemont and recently added Nestlé (see Q1 2021 commentary). Bangkok Bank and IRES were two of the main detractors from the Fund's performance.

A long term holding, **SK Telecom (SKT)** is the market leader in mobile phone communications in South Korea with 50% market share. This has been a competitive market, requiring operators to deploy state of the art services to satisfy demanding customers. South Korea is well advanced in its deployment of 5G telecom services, and SKT has recruited more than five million high value 5G customers already, a significant proportion of its total customer base. Additionally, SKT has created substantial value via its investments in semiconductors and other local South Korean ICT (information and communications technology) businesses, which we believe were largely underappreciated by the market. Over our holding period we've benefitted from SKT's attractive record of paying dividends, which have contributed half of its total return (on average 6% per annum). During the quarter, SKT's management announced it intends to split the company into one telecoms provider, and a new SKT Investments entity; a dedicated home for the collection of ICT investments, with the key rationale of enhancing shareholder value.

Richemont's share price has been significantly volatile in recent times, often driven by the short term trading conditions in one of its largest markets and customer constituencies, the growing Chinese middle class. We're attracted to Richemont's unique set of jewellery and watch brands, and secular growing demand for luxury items. We also believe that the company is wisely led by Chairman and largest shareholder Johann Rupert, a veteran investor in luxury brands who put the company together as we know it today and who knows and understands the business like few people do. The company reported resilient full year results in the quarter, and confirmed an excellent outlook for the business, sending shares up strongly. Its recent share price strength reflects expectations of a significant increase in profit and cash flow generation, as economies reopen and global travel resumes. All the while Richemont continues to invest in its business, reaching more customers directly, and keeping good stewardships of timeless brands such as Cartier, Van Cleef & Arpels, and Vacheron Constantin.

After cutting its dividend during the pandemic on prudential grounds, Richemont has re-instated it at pre-pandemic levels; we believe it can resume its pre-pandemic trend of growing dividends at more than 5%.



Commentary

On the downside, **Bangkok Bank's** share price was adversely affected by a raging third wave of Covid-19 in Thailand. The company retains a strong capital position, and a conservatively provisioned loan book. Its business mix, with large market shares in lending to large creditworthy corporate clients, should be more protected from the worst effects of the pandemic than peers with more economically sensitive businesses. After the Central Bank of Thailand restricted dividend payment by Thai banks for much of 2020, Bangkok Bank was this year allowed to resume dividend payments, doing so in the second quarter. We see this as a hallmark of the bank's strong capital position in the face of the region's deepest economic crisis of this century. We believe the company is well positioned with good prospects and a culture of conservative lending. Trading below half its book value we believe the company is substantially undervalued.

IRES has operated efficiently, managing tenancies and servicing properties on its quality Dublin apartments portfolio through the pandemic. IRES's strategy is to grow conservatively, funding housing development and acquisitions of apartment portfolios, thereby providing certainty and long term capital to a market that has been severely undersupplied for a number of years - an activity that was largely disrupted through Covid. Over the quarter and as national house prices accelerated, there was some heated political debate over the role institutional investors should play in the supply of affordable housing in the country, which affected the company's share price. As Ireland's largest landlord we believe IRES is well positioned to provide quality regulated services to its tenants while obtaining appropriate returns. The company's dividend has grown annually since its initial public offering in 2014 and today equates to a 4% yield.

Coca Cola Amatil departed the portfolio during the quarter. The company was the subject of a takeover approach from European peer Coca Cola European Partners (CCEP) in October of last year. Initially, CCEP bid for Amatil at A\$12.75, supported by its majority shareholder and brand owner, 'The Coca Cola Company'. We, Setanta Asset Management, as well as other shareholders, publicly stated that we believed the offer undervalued the company. Subsequently, CCEP improved its bid to A\$13.50, which we accepted, thus tendering our holding in Amatil. We believe that the improved bid is a fair reflection of the company's value. Combined with substantial dividends received over the relatively short holding period (Amatil was purchased in Q1 2018), the Fund has obtained a total return close to 80% on this investment.

We work hard to understand the long-term dynamics and valuations of the businesses that make up the Fund's portfolio, separating wheat from chaff amid the daily price ebb and flow, the wisdom of markets or the madness of crowds. For us this is what value investing is all about, and we find reward when our work pays off in the form of gradual, and sometimes sudden, recognition of the value we identify. We believe that the Fund is well-positioned with its collection of high quality dividend paying stocks.

**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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