Setanta Dividend Fund
Q4 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

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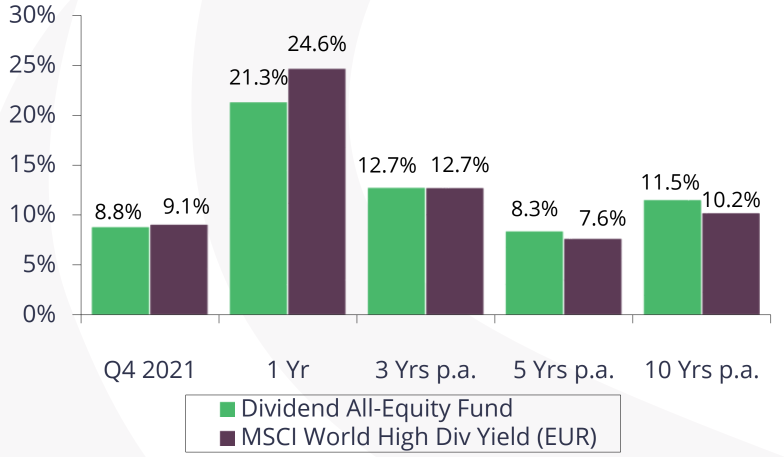
Fund Performance – 31.12.2021 (EUR)



Yearly Performance

Year %	2017	2018	2019	2020	2021
Fund	6.3	-2.0	24.0	-4.8	21.3
Benchmark	3.8	-2.9	25.4	-8.3	24.6

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.

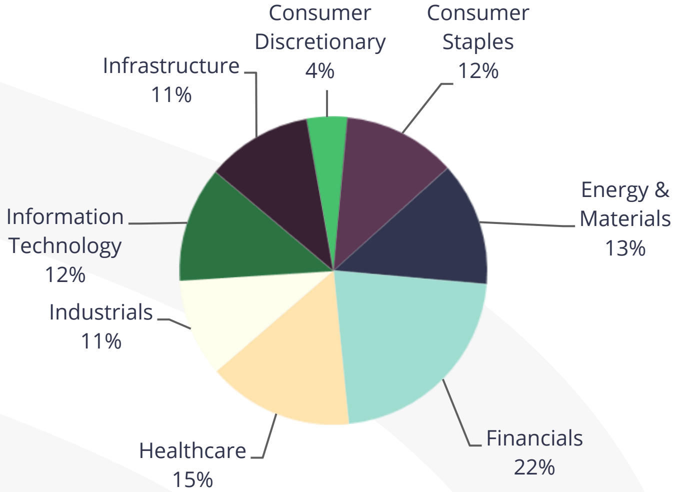
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
PROCTER & GAMBLE	CONSUMER STAPLES	4.1%
SAMPO OYJ	FINANCIALS	3.9%
JOHNSON & JOHNSON	HEALTHCARE	3.4%
NESTLE SA	CONSUMER STAPLES	3.4%
GLAXOSMITHKLINE	HEALTHCARE	3.4%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	3.2%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	3.0%
GPE BRUXELLES LAMBERT	FINANCIALS	3.0%
SMITHS GROUP	ENERGY & MATERIALS	3.0%
ZARDOYA-OTIS	INDUSTRIALS	2.9%

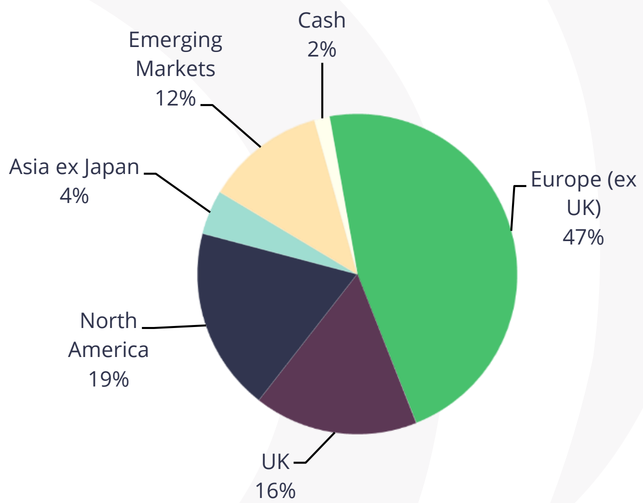
Fund Statistics

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	16.9
DIVIDEND YIELD %*	3.5
AVERAGE MARKET CAP €BN	99.4
NO. OF HOLDINGS	39
DEBT/EQUITY %	49.4
ACTIVE SHARE %	75.3

Sector Distribution



Geographic Distribution



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Commentary

Overview

2021 was a year characterised by a number of unusual developments in the world. These, by and large, strengthened financial markets, such that the Fund's benchmark, the MSCI World High Dividend Yield Index rose 24.6%, bringing its rise over the past three years to 43%. Most governments around the world have responded to the volatile course of COVID-19 by giving affected workers, and businesses, substantial financial supports, providing stimulus to the global economy. At the corporate level, much of the debt issued as a precaution during the early days of the pandemic was not repaid, despite the materialisation of a less adverse environment than expected. Instead, those funds have been used for capital investment, share repurchases, and corporate transactions. These developments have been received positively by the market. We noted in the first quarter commentary how retail investors are playing an increasing role in financial markets, leading to greater volatility, as well, we suspect, to greater upward momentum. The abundance of money in the global financial system, combined with pandemic-induced shortages and frustrated demand, has led to increased costs for companies. In turn, this has led to substantially increased prices for many products and, in some cases, pushed profit margins higher. In the background, the world's central banks, despite declarations about increasing interest rates, continue to have, in historical terms, an extraordinarily accommodative stance.

The Dividend Fund ('the Fund') rose 21% during 2021, considerably more than double the average long-term annual equity return. It comes, in our view, from a portfolio of stocks that is of a higher quality than that of the universe of income-bearing stocks. Over 5 and 10 years, the Fund has risen 8% and 11% per annum respectively, exceeding its benchmark over these periods, while its 13% average return over three years is in line with that of the benchmark. The median holding in the Fund has net debt of less than 30% of its book value, while the 5-year average Return on Equity of the Fund is 15%, respectively indicating financial prudence and an ability to create value for shareholders. In our view, the ability of the Fund to pay material, sustainable, and growing dividends is robust, having been demonstrated over a long period of time, which has included times of major stress, such as the COVID-19 pandemic and the Great Financial Crisis. For the coming year, we estimate that the Fund has a forward dividend yield of 3.8%.

Major Factors in Fund Performance

Richemont, maker of Cartier watches, and jewellery, was initially one of the companies that was most exposed to pandemic lockdowns in 2020, given its reliance on sales through retail and travel channels, as well as a high exposure to China. As economies re-opened, Richemont benefitted more than most. In the six months to September of the year, Richemont reported sales increasing by 20% over the comparable period in 2019 (and much more over the lockdown-stricken 2020 year), as well as a huge increase in profits, due to a much higher profit margin. Having conservatively halved its dividend payment in 2020, its full re-instatement last year was received well by the market. Towards the end of the year, the stock was further boosted from an investment by an activist investor, sparking speculation that Richemont could be acquired in a corporate transaction.

**Credit Suisse Global Investment Returns Yearbook 2020 – Dimson, Marsh, and Staunton*

Commentary

While **Cisco**, the routing and networking giant, is increasingly seen as 'old tech' it has been having success in migrating customers to a subscription model. Much of Cisco's business is the provision of routing and networking solutions to enterprises. As these enterprises move their activities to public clouds Cisco's market shrinks a little. Research suggests, however, that enterprises are likely to utilise a combination of on-premise and public clouds for years to come. While public cloud providers are capable of putting their own networks together using unbranded hardware, Cisco is seeing triple digit order growth from this customer group courtesy of its redesigned offering. Cisco also operates in a number of related, and growing, markets, enabling the smooth integration of on-premise and off-premise clouds and the provision of security and seamless interfaces across various clouds. It has been experiencing historically high and accelerating demand throughout last year culminating in order growth of at least 30% over the previous year in each of its geographic regions as of the end of October 2021. While future growth will certainly be lower than Cisco has been accustomed to, we are happy to own the stock, not least because of its solid net cash balance sheet, its ability to generate high return on investment and its dividend consistency.

Sampo, the pan-Nordic insurer, and a large position in the Fund following an increase during the 2020 pandemic-influenced low, also made a material contribution to the Fund's strong performance. During the year, it reduced its stake in pan-Nordic bank, Nordea. This holding, while not part of Sampo's core business, nevertheless had a substantial influence on its share price, such that its weak performance in prior years had weighed on Sampo. Over the past year, Sampo's substantial reduction in its Nordea stake has been positively received, both as Nordea has rebounded strongly, and as a signal that Sampo is concentrating on its core property and casualty insurance, an attractive market in which Sampo has a strong position. While Sampo has used some of the proceeds to buy Hastings, a UK property-casualty insurer, it has also announced a share buyback as well as its intention to pay a special dividend. This dividend would imply, on Sampo's current share price, a total dividend yield of around 8% in 2022 (a bonus yield of 4% on top of its ordinary dividend yield of 4%).

Stock	Performance Contribution	Stock	Performance Contribution
Richemont	2.0%	**Lancashire**	-0.7%
Cisco	1.6%	**Medtronic**	-0.2%
Sampo	1.3%	**SK Square**	-0.1%

Lancashire Holdings, the UK-based global specialist insurer, reported during the third quarter that it had incurred relatively large losses (more than $200m). These losses mainly related to Hurricane Ida in the USA and the floods across continental Europe, which between them are expected to cost the industry more than $40b. While these losses are disappointing, and perhaps a sign that the industry will be more exposed to losses of this type due to climate change, Lancashire has a track record of discipline and prudence. This means that it assesses risks in a way that large losses such as these above tend to be rare, and when it does book losses, it tends to be conversative, meaning that the actual loss is usually less than what is initially booked in the accounts.

Medtronic, maker of medical equipment, suffered some disappointments during the year. It first reported that an extended trial period was needed for a blood pressure product, which has tempered market expectations of it fulfilling its longer-term expectations of 5% organic sales growth. It then announced a delay in the launch of its soft-tissue robot and more recently, it reported that it had received a warning letter from the US Food and Drug Administration relating to one of its diabetes products. While the financial impact of this letter is unlikely to be material, the development, understandably, was received negatively by the market in general. After a strong performance earlier in the year, the stock now trades close to the Fund's average acquisition price from last year. Medtronic nevertheless remains well-positioned in what are largely oligopolistic markets, such as those for trauma devices and for cardiovascular support, while it has been winning share in some of its primary businesses.

The Fund received a new position, **SK Square**, as a result of a corporate transaction. SK Telecom, a holding of the Fund since 2011, split itself into two publicly-listed entities through a 'spin-off'. SK Square became the home of the prior company's information communication and technology assets, while SK Telecom became a 'pure' telecommunications company, housing its mobile and broadband assets in Korea. SK Telecom is a more mature entity and thus likely to generate higher cashflow and pay much larger dividends. SK Square will be more focused on creating value through investments in growth areas. Its largest investment remains a 20% stake in SK Hynix, a publicly listed leading semiconductor manufacturer, while it also has interests in home security company SK Shieldus, and established local e-commerce and navigation businesses. With the spinoff price already reflecting a discount to the value of net assets (the majority of which is derived from market prices of public securities) SK Square fell around 13% into the year end, as a number of recipients of the new shares were not natural owners of the stock.

Major Changes to the Fund

At the end of the year, the Fund held positions in 39 stocks in all 11 sectors (as designated by MSCI) and in 17 countries across Europe, North America, and Asia. We added a new position in **Nestle**, the Swiss-based food and (non-alcoholic) beverage company, to the Fund, commenting on this in the Q1 Commentary. We sold the Fund's position in **Coca-Cola Amatil**, as noted in the Q2 Commentary, through the completion of a corporate transaction. The Fund also completed its sale of Saga, the UK insurer and travel company, discussed at length in 2020.

We also sold the Fund's position in **Proximus**, the Belgian-based provider of communication services. The company has provided a generous stream of dividends over the Fund's holding period while maintaining a strong balance sheet and stable market shares. Proximus faces a period of elevated capital investment to roll out its full fibre and 5G mobile networks in a competitive and uncertain regulatory environment. Its strategy will require a substantial financial effort that has already prompted a dividend cut. This is a capital-intensive industry where decent economic returns on expensive infrastructure and customer acquisition investments are achieved over long periods of time. On waning confidence on the stability of future returns on capital, we decided to redeploy capital into better opportunities.

**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. This commentary relates to the lead fund, IEC 7601.*

Contact Details:

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

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. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. See 'WARNING' and IMPORTANT INFORMATION' below.

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