Setanta Dividend Fund

Q1 2022

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

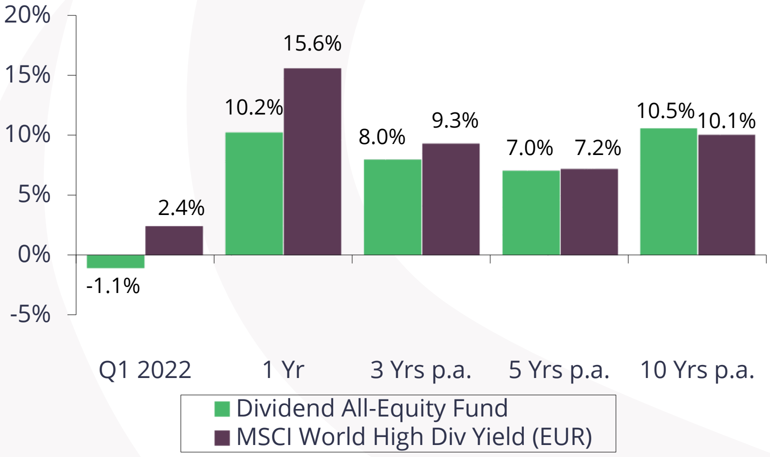
We consider scenarios rather than making forecasts

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 – 31.03.2022 (EUR)



Fund Statistics

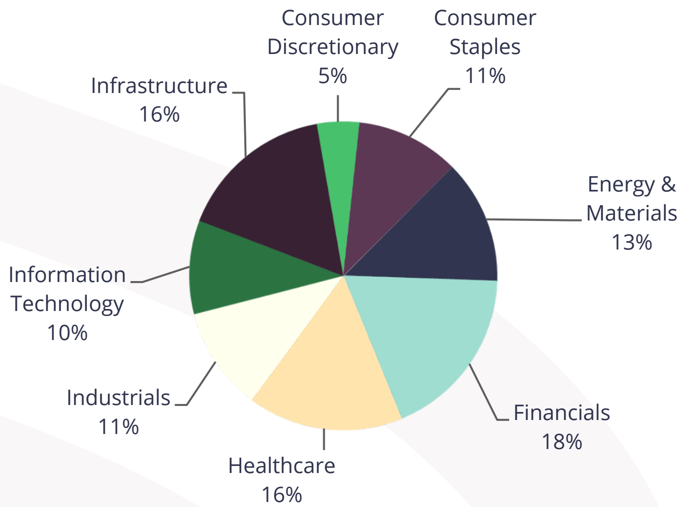
PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	16.4
DIVIDEND YIELD %*	3.7
AVERAGE MARKET CAP €BN	101.2
NO. OF HOLDINGS	39
DEBT/EQUITY %	47.1
ACTIVE SHARE %	78.8

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.

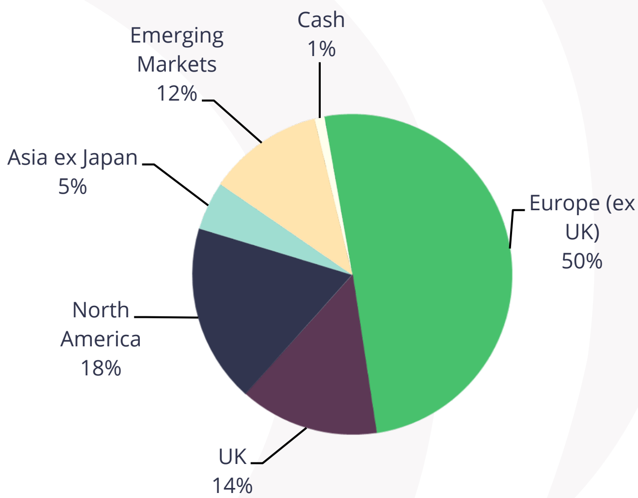
Sector Distribution



Top 10 Holdings

COMPANY	SECTOR	% OF FUND
JOHNSON & JOHNSON	HEALTHCARE	3.8%
MEDTRONIC PLC	HEALTHCARE	3.6%
PROCTER & GAMBLE	CONSUMER STAPLES	3.5%
NESTLE SA	CONSUMER STAPLES	3.4%
BANGKOK BANK	FINANCIALS	3.2%
NATIONAL GRID	INFRASTRUCTURE	3.1%
ZARDOYA-OTIS	INDUSTRIALS	3.0%
SANOFI	HEALTHCARE	3.0%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	3.0%
SAMPO OYJ	FINANCIALS	3.0%

Geographic Distribution



SETANTA Asset Management

Commentary

Our first quarterly commentary of the year occurs as we watch in horror at the violence and atrocities of the war in Ukraine. Societies thrive in times of peace and mutual understanding, while markets prosper from freedom, fairness, and the rule of law. Our thoughts are with the innocent victims of the conflict. Although of a much different nature to the experiences of those in the conflict zone, much could be at stake for the global economy too as a world order built on years of economic integration is threatened and geopolitics and security take an increasingly central role. Supply chains, readjusting under the sudden jolt of economic reopening and changing consumption habits after two years of the pandemic, will now have to deal with further disruption from the destruction of production capacity and western sanctions, particularly impacting energy, agriculture, and metals markets.

Financial markets have been quick to reflect these developments as energy prices reaching highs not seen since 12 years ago, and some benchmarks of soft commodities such as winter and spring wheat, returning to 2007 levels (when the increase in food prices was widely credited for triggering social unrest and a decade of political instability in the Middle East). In developed economies, the "great moderation" dynamics of low inflation, low interest rates and job creation appear to be under threat, as inflation rises sharply, effectively tying the hands of Central Banks and their ability to come to the rescue of embattled economies. The Federal Reserve Bank raised interest rates in March, for the first time since 2018. It also signalled further increases through 2022 and 2023, while accelerating plans to reduce the size of its balance sheet, having ceased asset purchases in February this year.

Dividend-paying equities, living up to their defensive status, performed resiliently over the quarter. Energy, and mining, stocks rose sharply reflecting underlying commodity prices, while defensive sectors such as healthcare and utilities outperformed. Reflecting the proximity of the conflict, European stocks markets materially underperformed stock markets elsewhere, notably those in the US. The Fund, while underperforming its benchmark for the quarter, still performed well in the context of global equity markets, albeit suffering due to its overweight Europe position.

Lancashire Re, Sandvik, and BASF, were among the main detractors from the Fund’s overall performance. **Lancashire**, a specialty insurer that we know well, has a growing business and a strong underwriting culture. The market seems to be concerned about the company's exposure to aircraft lessors after the Russian government seized most of the leased airplanes in the country. We believe that whatever aviation losses Lancashire suffers, they are likely to be lower than that assumed by the market (which appears to be ‘punishing’ the stock after a few years of cyclically depressed earnings). **Sandvik's** share price also fell noticeably. A maker of high-technology tools and engineering solutions, its business is highly sensitive to projected economic trends, and therefore industrial production. We believe that the share price reaction is due to concerns about a cyclical downturn, rather than a structural change in its business (its exposure to Russia is limited to around 3% of its sales). **BASF**, the German-based global chemical company, has no revenues from Russia, but does have an investment in an oil and gas joint venture, which has operations there. BASF has been reducing its exposure to both oil and gas and Russia in recent years (indeed, it was due to sell its stake in the joint venture in 2020, as the pandemic intervened), but we now assume that the value of this interest is impaired, at least in the medium-term. Additionally, there are concerns about the consequences of an EU ban on imports of Russian natural gas and oil for Germany given the reliance of companies such as BASF on these imports. While such a ban would be challenging for BASF, we believe that its oil and gas activities are a small part of the company’s value, in what is a global, and well-diversified business with end markets that reach beyond chemicals, to healthcare, automotive, consumer goods, and agriculture.

Commentary

Among the largest contributors to the Fund’s performance, **Exxon** and **Fortescue** rose strongly, as prime beneficiaries of higher commodity prices in oil and natural gas, and iron ore, markets respectively. In the 2021 full year, Exxon generated around $50b in operating cashflow, which enabled it to pay a large dividend, growing it for the 39th consecutive year. It was also able to repay $20b in debt, largely drawn down during the pandemic, allaying fears that it would cut its dividend. In keeping with the performance of their sectors, as mentioned above, the Fund's regulated utilities and healthcare companies performed solidly, with good contributions from **Medtronic**, **Johnson & Johnson** or **National Grid**.

We acquired a position in **Allianz** for the Fund. The company has leading positions in life and non-life insurance markets across the world, benefiting from a position of incumbency, a well invested technological platform, and substantial scale in the relevant distribution channels. Its portfolio of businesses is profitable and well diversified, and although mature, it has good prospects for policy growth and earnings growth over time. Additionally, the company owns two solid asset management franchises, PIMCO and Allianz Global Investors. We believe the market underestimates Allianz's business prospects and its resilience to unfavourable macroeconomic factors. Allianz shares dropped markedly in early March (as the insurance sector weakened on fears related to the war in Ukraine), allowing us to opportunistically take a position on the Fund’s behalf. The stock's dividend yield was 4.5% at quarter end and the company intends to grow this dividend by at least 5% over the coming three years.

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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. 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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