Setanta Global Dividend Fund (CAD)
Q2 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

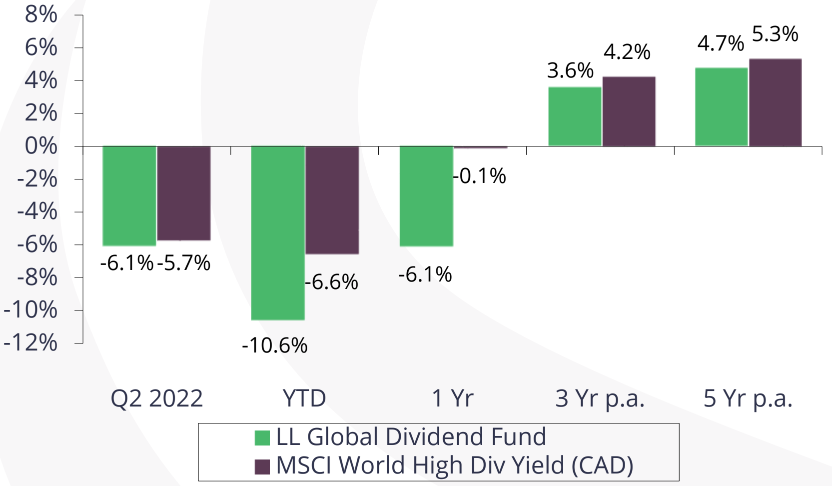
We consider scenarios rather than making forecasts

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 – 30.06.2022 (CAD)



Yearly Performance

Year %	2017	2018	2019	2020	2021
Fund	12.7	1.2	15.6	2.3	12.0
Benchmark	10.4	0.8	16.9	-1.8	14.8

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the London Life Global Dividend Fund 8.26SAM [IEC15005] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** MSCI High Yield Index (100% CAD). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg. *Calculated using Index Method.

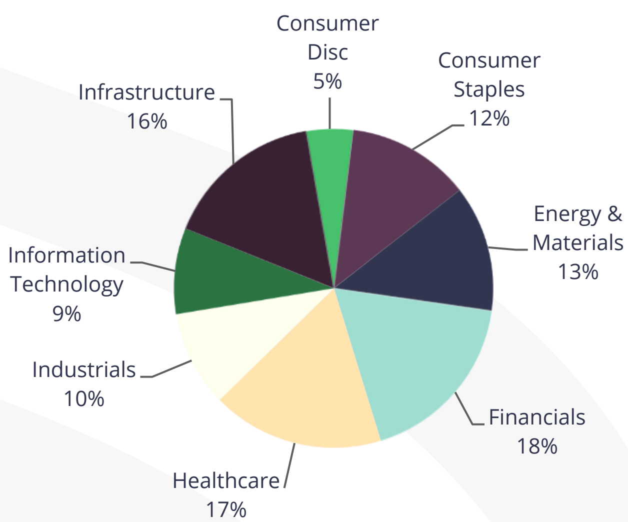
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
JOHNSON & JOHNSON	HEALTHCARE	4.2%
PROCTER & GAMBLE	CONSUMER STAPLES	3.8%
NESTLE SA	CONSUMER STAPLES	3.4%
GSK PLC	HEALTHCARE	3.3%
SWEDISH MATCH	CONSUMER STAPLES	3.3%
SANOFI	HEALTHCARE	3.3%
BANGKOK BANK	FINANCIALS	3.3%
NWS HOLDINGS	INDUSTRIALS	3.3%
MEDTRONIC PLC	HEALTHCARE	3.2%
NOVARTIS AG	HEALTHCARE	3.1%

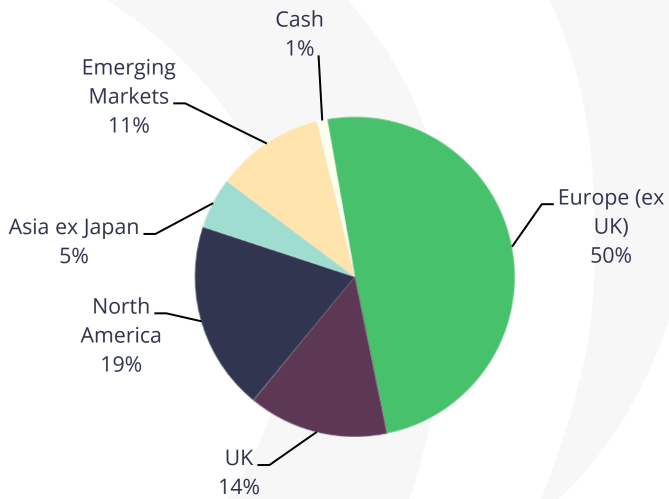
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	13.9
DIVIDEND YIELD %*	4.1
AVERAGE MARKET CAP C$BN	128.0
NO. OF HOLDINGS	39
DEBT/EQUITY %	50.4
ACTIVE SHARE %	79.2

Sector Distribution



Geographic Distribution



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Commentary

"In a rapidly changing world the opportunities for making mistakes are legion" - The Anguish of Central Banking[1]. Arthur F. Burns.

Arthur Burns served as the 10th Chair of the Federal Reserve from 1970 to 1978. This was a tumultuous period, spanning the dissolution of the Bretton Woods monetary system, commodity price shocks, and price controls[2]. Over this period, monetary policy under his stewardship was considered inadequate fuelling inflation, quelled only by brutal interest rate hikes and other contractionary economic policies in the following decade.

By all accounts, Mr Burns was an analytical man and a very accomplished economist, credited with some of the first efforts to isolate 'core inflation', a topical matter to this day. His experience is perhaps a cautionary tale of the difficulty in steering the path of an economy and the potential long- term consequences of policy mistakes. Arguably, by dismissing the impact of "transitory factors", such as energy and food, on inflation, and having a strong desire not to disturb employment trends, interest rates were kept too low for much of his tenure, sending expectations of price (and wage) increases spiralling out of control, such that US inflation remained high through the 1970s.
Inflation, and central bank policies, are again a topic of keen interest for people on the street. As inflation rises, purchasing power is eroded and family budgets are stretched by increases in the cost of electricity, petrol, and food. Central banks have earned much credit, perhaps deservedly, as financial 'first responders' ensuring that the global financial system had sufficient liquidity, both during the Great Financial Crisis and the COVID pandemic period. Now they have a responsibility to address this excess liquidity, which when combined with the consequences of the war in Ukraine, appears to be causing inflation increases that haven't been seen for decades. Their objective remains to ensure that the environment of price stability, conducive to economic growth that many have taken for granted, resumes in coming years. "Opportunities to make mistakes are legion", however, and we are reminded of the many factors that make economic behaviour unpredictable. Even if Central Banks succeeded in fighting fires over the last decade, this is a different, and novel, challenge.

To date, the monetary policy response appears to have been swift. During the quarter, the Federal Reserve raised rates twice, both times in greater increments than normal, having already ceased its open market support of the bond market in the previous quarter. The ECB, lagging somewhat, perhaps mindful of regional discrepancies in the Eurozone area, has committed to multiple interest rate rises later in the year, while also ceasing its bond buying programme. Since these policy measures, expectations of long-term inflation have moderated. Despite the hardening financial conditions, the US economy remains very strong with historically low unemployment rates and resilient consumer spending. Perhaps unsurprisingly, the US dollar strengthened again over the quarter and has appreciated markedly against most major trading currencies in the year to date.

Global equity markets were weak again during the quarter and the Setanta Global Dividend Fund fell 3%. Higher market interest rates have most likely contributed to lower equity market valuations while diminishing excess liquidity has resulted in greater scrutiny of the most speculative corners of the market.

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[1] https://fraser.stlouisfed.org/files/docs/publications/FRB/pages/1985-1989/32252_1985-1989.pdf
[2] https://www.yardeni.com/pub/excerptinflators.pdf
https://www.project-syndicate.org/commentary/fed-sanguine-inflation-view-recalls-arthur-burns-by-stephen-s-roach-2021-05?barrier=accesspaylog

Commentary

Some of the pain caused by the inflationary environment has started to appear in company's financial reports in the form of stagnating revenues, shrinking margins, swelling working capital requirements, and difficulty in accessing capital markets. We believe that the Dividend Fund's focus on owning a selection of quality, dividend-oriented stocks is suited for "rainy days". Over periods of uncertainty, it should perform resiliently, benefitting from holdings characterised by strong brands, advantaged competitive positions, customer stickiness, business-critical services, and contractually protected, or highly visible revenue streams.

Without a doubt, the Fund's holdings companies operate in competitive industries, and could face a number of systematic and/or idiosyncratic challenges. Over the quarter, its holding semiconductor and IT hardware companies, including **TSM** and **Cisco**, fell sharply despite reporting stellar sales growth numbers and a full order book respectively. The semiconductor industry is rallying to global demand for increased chip supply following post-pandemic shortages and multi-billion projects have been announced. However, amid fears of a global recession, there are some concerns about high inventories and over-ordering by some customers. The Fund's IT holdings operate in highly-consolidated industries and have very strong balance sheets. The huge, $550b semiconductor, market is likely to keep growing strongly as economies continue their digital transition. Elsewhere, **Medtronic** reported slightly disappointing earnings and outlook, amid supply chain, inflation and COVID-19, headwinds. Despite this, the company announced an 8% quarterly dividend increase, underlying its commitment to returning cash to shareholders.

Among the top performers for the period, **Swedish Match** rose strongly as the company received a takeover bid from industry giant Philip Morris. This company has been an excellent performer for the Fund since our purchase in 2017, providing a growing regular dividend income stream, additional special dividends, as well as significant capital appreciation. The company has achieved notable success growing its smokeless tobacco and oral nicotine businesses. These businesses have high returns on capital, reflecting significant barriers to entry, and customer stickiness. Pharmaceutical companies, **Johnson & Johnson**, **Sanofi**, and **GlaxoSmithKline**, also performed strongly in the quarter as the essential nature of their products are expected to do well in a recessionary scenario.

Portfolio Activity

We acquired a position in SGS, the testing, inspection, and certification (TIC) industry leader. We believe the TIC industry has attractive characteristics, providing the quality assurance required in a world with increasing regulation, and supply chain complexity. The cost of such assurance to SGS's customers is typically only a small fraction of the end value of their good or service, while customers rarely switch. The global (TIC) market, assessed at EUR 200b, is still largely insourced and highly fragmented. SGS has a strong track record of growth both organically, and through acquisition of niche players with strong local and regional market positions. SGS can be the best owner for these businesses providing scale and access to global clients, and efficiency through best business practices. As a result of years developing its portfolio of businesses, we believe SGS has one of the highest quality and most diversified customer bases amongst its peers. Financial strength is imperative, and the company has historically maintained a very solid balance sheet. SGS's share price has corrected sharply since the beginning of the year, on concerns, we think, about its sensitivity to the business cycle. We purchased the stock at a price equating to a 3.5% dividend yield; we believe that this dividend has plenty of scope to grow.

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IMPORTANT INFORMATION

The Global Dividend Fund is managed by Setanta Asset Management Limited and is a representative account of the Global Dividend strategy. The performance shown is the performance of a representative account (London Life Global Dividend Fund 8.26SAM [IEC15005]). 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' sections below.

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