Setanta Global Dividend Fund (CAD)

Q4 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

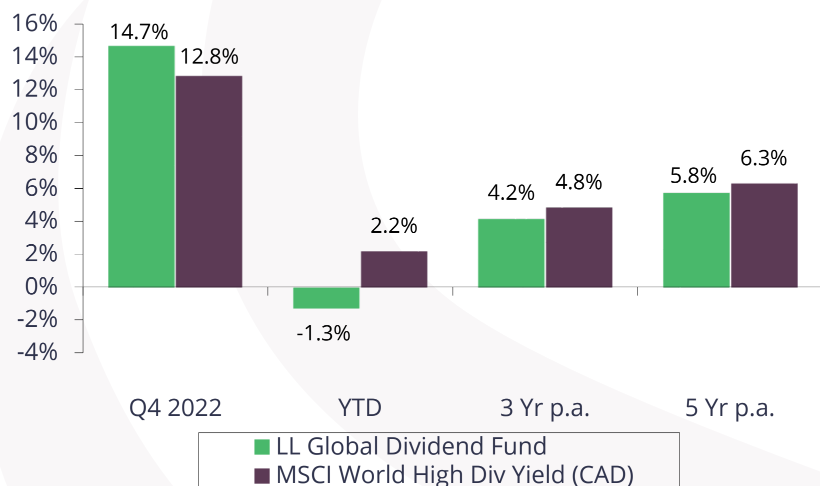
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.2022 (CAD)



Yearly Performance

Year %	2018	2019	2020	2021	2022
Fund	1.2	15.6	2.3	12.0	-1.3
Benchmark	0.8	16.9	-1.8	14.8	2.2

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.

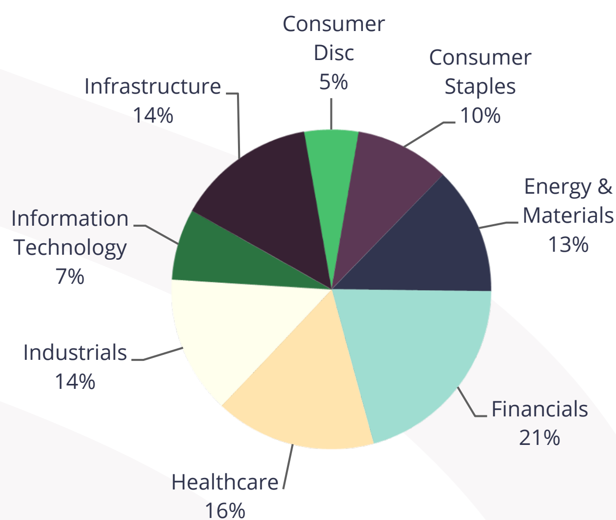
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
JOHNSON & JOHNSON	HEALTHCARE	4.2%
PROCTER & GAMBLE	CONSUMER STAPLES	4.0%
SANOFI	HEALTHCARE	3.8%
SAMPO OYJ	FINANCIALS	3.5%
NESTLE SA	CONSUMER STAPLES	3.4%
NOVARTIS AG	HEALTHCARE	3.3%
BANGKOK BANK	FINANCIALS	3.3%
MEDTRONIC PLC	HEALTHCARE	3.0%
LANCASHIRE HOLDINGS	FINANCIALS	3.0%
NWS HOLDINGS	INDUSTRIALS	2.9%

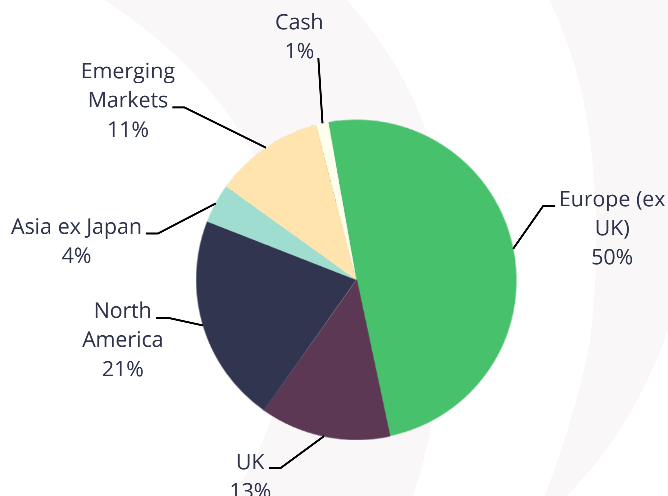
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	14.1
DIVIDEND YIELD %*	4.1
AVERAGE MARKET CAP C$BN	139.4
NO. OF HOLDINGS	42
DEBT/EQUITY %	52.4
ACTIVE SHARE %	81.2

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

After many years of generally rising financial markets, and accommodative monetary and fiscal policy, events truly took a turn in 2022. Amidst casualties estimated in the hundreds of thousands and the displacement of millions of people, Russia's invasion of Ukraine has reawakened thoughts of the last great conflict on the European continent as well as memories of the Cold War years when nuclear confrontation was an ongoing fear. In practical terms, it has added to strains in the global economy, not least in the form of a shock to energy, and other commodity, markets exacerbating prior supply chain issues and leading to a substantial rise in inflation, which neared 10% in many countries. As we have noted in previous commentaries, the world's monetary authorities have responded aggressively to the substantial rise in inflation. China's zero-COVID policy, entailing rolling and widespread lockdowns, persisted through most of the year, while its behaviour on the world stage became increasingly assertive, emboldened by the election of Xi Jinping to a third term as the country's leader. In response, the USA, and some other countries, have sought to reduce their manufacturing exposure to China, while Russia has become a pariah in the view of the vast majority of countries. This all adds to a sense that the 'western order' of the world, incorporating a settled post-Cold War geopolitical equilibrium; globalisation; and the great (inflation) moderation of the pre-pandemic 21st century has been upset.

To this backdrop, financial markets were weak. The broader equity market, as measured by the MSCI World Index, fell 13%, its worst calendar-year performance since the Great Financial Crisis. Bond markets, in many cases, recorded worse outcomes. European government bonds and European investment grade corporate bonds fell 17% and 14% respectively, as measured by broad bond indices.[1] These were, by some margin, the worst calendar-year outcomes for both indices in the past decade. A notable feature of 2022 was the correlation between equity and bond markets; having commenced the year with low yields, the bond market was unable to offer a safe haven, in contrast to many previous periods of stock market declines. Whatever safety there was could be found in the U.S. dollar, which strengthened against most major currencies over the course of the year. While of no direct relevance to the Fund, the implosion of much of the crypto universe was perhaps unsurprising given the lack of cashflow support to many of its related assets (e.g. 'non-fungible tokens') and an absence of regulation, as evident from the collapse of some of the crypto-based alternative financial systems.

The Dividend Fund ('The Fund') posted a total return of -1.3%, which compared to its benchmark's total return of 2.2%. From a helicopter perspective, the key factor in the Fund's performance was its exposure to European stocks, as Europe was the weakest-performing major region last year. In particular, those stocks perceived to be at direct, or indirect, risk of reduced earnings from the war in Ukraine, had negative total returns, even in some cases where they reported solid financial results. The Fund has typically had a relatively high weighting to Europe on account of the favourable income orientation of that region. North America was the strongest performing region, aided by the substantial appreciation of the dollar, as investors sought safety in troubled times. The strongest performing sectors included those of a 'defensive' orientation, such as Healthcare, Consumer Staples and Utilities, while the Energy sector profited from the turmoil in oil and gas markets caused by the war in Ukraine. More cyclical sectors, such as Information Technology and Consumer Discretionary were among the weakest sectors, as they anticipated an economic downturn.

We estimate that the Fund, on a weighted average basis, achieved ordinary dividend growth of 4.1% in 2022. In addition to that, three holdings, Sampo, Merlin and Richemont made bonus payments to shareholders in the form of special dividends. We believe that these actions are testament to the strength of the Fund, and reflective of generally strong Balance Sheets and robust cashflow generation. As we have noted many times before, the Fund is constructed conservatively so that it can absorb periods of economic weakness, and \ or market turmoil, with a view to achieving strong performance over the long-term.

[1] ICE Bank of America All Maturity All Euro Government Index; ICE Bank of America Euro Corporate Index.

Commentary

Key Stock Contributors to Fund Performance

Swedish Match, a leading smokeless product company, was approached by Philip Morris International (PMI) during the year. It was ultimately acquired by PMI at a share price of SEK 115, following an initial public bid for the company of SEK 106 per share. In the interim period, many investors, including Setanta, lobbied for a higher bid. We wrote to the board of the company indicating that we believed that the bid of SEK 106 undervalued the company (as per the Q1 Commentary). **Exxon Mobil**, an oil and gas company, had a very strong year and it is on course to report its highest operating profit in more than a decade. It benefitted from much higher commodity prices 'upstream' and, through its integrated business model, was also able to profit from higher refining margins 'downstream', as the prices of oil products, such as diesel and jet fuel, increased substantially in the aftermath of Russia's invasion of Ukraine. **Bangkok Bank** suffered more than most companies from the effects of COVID-19 lockdowns, not least due to the importance of tourism to Thailand (in normal times, estimated to contribute around 20% of GDP). As general economic activity increased and tourists returned to Thailand, it posted a strong total return in 2022. The bank's net interest margin benefitted both from good loan growth and the increases in the (Central) Bank of Thailand's benchmark interest rate.

Stock	*Performance Contribution*	*Stock*	*Performance Contribution*
Swedish Match	1.3%	TSM	-1.1%
Exxon Mobil	1.3%	DCC	-0.9%
Bangkok Bank	0.7%	Samsung	-0.8%

TSM continued to report stellar operational performance through the year. Its rapid revenue growth and strengthening operating margins arguably reflect its seemingly unassailable position in cutting-edge logic chip manufacturing and a full order book boosted by demand pulled forward during the pandemic years. Its latest quarterly earnings report showed earnings per share growing by no less than 80% on a year-on-year basis. The stock was weak however, mainly reflecting macroeconomic, and geopolitical, uncertainty as the US and other countries implemented policies to attempt to 're-shore' chip manufacturing, which these countries regard as strategic importance to these countries. **Samsung** also disappointed in total return terms. Some of its more cyclical businesses weakened through the year in the face of these macro uncertainties. In particular, its highly profitable and market leading memory semiconductor business struggled as demand growth fell short of industry supply, leading to slowing sales and higher inventories. The slowdown in the markets underlying the demand for these memory chips also affected the profitability of some of its consumer product businesses, such as those selling televisions, smartphones and tablets. Samsung's leading market positions and a Balance Sheet boasting almost $90b of net cash leads us to believe that the company will prosper in the future. Despite good results, **DCC** detracted from the Fund's performance last year, as its shares were derated to trade at a relatively low level (less than 10x its Earnings per Share). This seemed to reflect market concerns of its ability to adapt its energy business from the distribution of fossil-fuel energy products, such as heating oil and liquid petroleum gas, to renewable energy businesses, such as the installation of solar panels and heat pumps. While we acknowledge that this transition will have its challenges, we believe that the transition will take time, enabling DCC to profit in the interim, and that DCC's entrepreneurial culture will aid it as it adapts to these new markets.

Major Changes to the Fund

We added seven stocks to the Fund during 2022. **Exelon** is a regulated utility business that is mainly focused on the transmission and distribution of electricity.

Its portfolio of companies is spread across seven different regulatory jurisdictions, which include a number of large cities, such as Chicago, Baltimore, Philadelphia and Washington D.C. This provides Exelon with both geographical and regulatory diversification, as well as corporate scale. The company has a strong track record of efficient management of its operations and of a high quality of service to its customers, for whom a reliable supply of electricity is critical. Exelon plans to deploy a substantial amount of capital expenditure, $29b into 2025, equating to growth in its regulated rate base of over 8% per year. The company has a strong track record of returns on regulated equity invested, enabling it to pay a growing dividend; we acquired the Fund's position at a 3.2% dividend yield.

Formed through the merger of the two leading Irish construction materials companies in the 1970s, **CRH** is today one of the largest building materials companies in the world. We believe that the company's success is due to a strong focus on returns; a desire to own quality businesses; and a conservative financial culture. The US comprises just over half of CRH's revenue, including substantial exposure to the more resilient infrastructure, and repair and maintenance, markets. In the rest of the world, the company has a high-quality portfolio of construction basic materials and products businesses. With one of the strongest balance sheets in the sector, we believe the company is well positioned to deliver on its plans to grow its business, generate cash and grow its dividend significantly over the next five years. Despite these favourable structural attributes, the stock price fell through the year, allowing us to buy a position for the fund at, in our view, an attractive valuation, corresponding to a 3.3% dividend yield.

Boliden is a Nordic-based integrated miner. It mainly mines zinc, copper, nickel and gold, while also 'smelting' these metals into finished products. Boliden benefits from the scale of its key mines; advanced technology, particularly in automation; and favourable long-term power contracts. As the world becomes increasingly environmentally-conscious, we believe that Boliden's relative cost position will improve, on account of its relatively small environmental footprint (its uses a large amount of hydro-based electricity). Furthermore, we think that demand for metals such as copper and zinc should be high, given the critical nature of these metals to the energy transition (renewable energy sources, and electric vehicles, tend to be much more metal intensive than their corresponding legacy counterparts). We acquired the Fund's position at a historic ordinary dividend yield of around 3.2%, while noting that Boliden has, in recent years, typically supplemented this ordinary dividend with returns of capital.

We also acquired a small position in **The Home Depot**. Along with Lowes, Home Depot dominates retail distribution in the North American home improvement market where both companies benefit from large footprints and economies of scale. Competitive prices, a large product selection, and convenience have proved to be a winning combination, such that Home Depot has historically taken market share from smaller chains and independent stores. We believe the company's store base is advantageously located in downtown locations, enabling it to have a particularly strong position with professional tradespeople. Home Depot has in recent years grown its dividends at an annual growth rate of 15%, so we believe that our purchase of the stock at a dividend yield of 2.6% will provide the Fund with a good return over the long-term. The Fund also established positions in **SGS**; **Allianz**; and **Toronto Dominion**, all of which were noted in prior commentaries

We sold five holdings during the year, including **Intel**, a semiconductor designer and manufacturer. Although Intel remains a market leader in the personal computer, and server, markets this position is being eroded by competitors who are taking advantage of Intel's inability to keep up with the pace of improvement in manufacturing technology. Having decided to stick to its integrated design and manufacturing strategy, Intel will be investing large amounts of money in capital expenditure to try to recover its technological edge. Intel is one of the great success stories in corporate America, but acknowledging the strategic challenges and meagre free cash flow expected in the near term, we decided to sell the Fund's position.

Intel delivered a total annual return of 13%, boosted by strong dollar appreciation, over the Fund's nine-year holding period.

The remaining stock 'exits' from the Fund were all due to corporate actions, directly through two takeovers, and, indirectly through two 'spin-offs'. As previously reported, both **Swedish Match** and **Zardoya Otis**, the Spanish based elevator company, were acquired by third parties. **Haleon** and **SK Square**, demerged from Fund holdings' GSK (Glaxosmithkline) and SK Telecom respectively, were sold by the PMs after brief holding periods in both cases.

**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 Setanta Dividend Fund, IEC 7601.*

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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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