Setanta Dividend Fund
Q4 2023

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

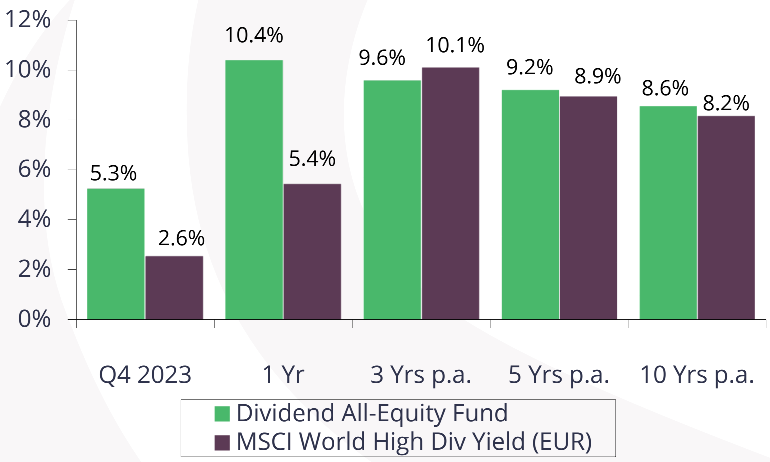
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.2023 (EUR)



Yearly Performance

Year %	2019	2020	2021	2022	2023
Fund	24.0	-4.8	21.3	-1.7	10.4
Benchmark	25.4	-8.3	24.6	1.5	5.4

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 Div 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.

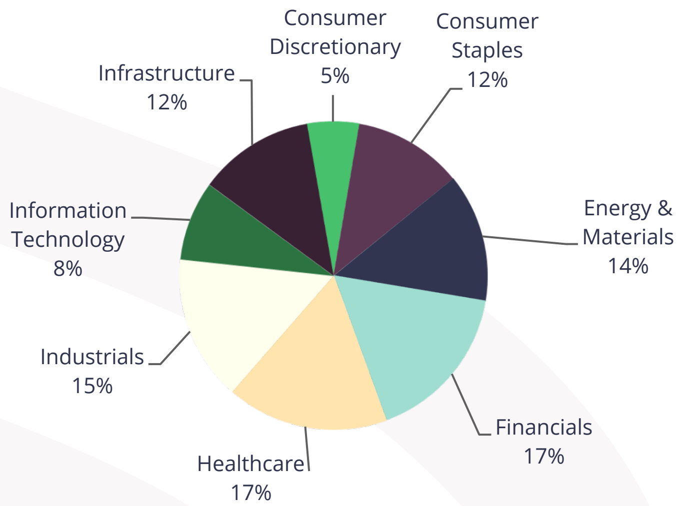
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CRH PLC	INDUSTRIALS	4.1%
DCC	INDUSTRIALS	3.9%
SANOFI	HEALTH CARE	3.7%
NOVARTIS	HEALTH CARE	3.7%
ALLIANZ AG	FINANCIALS	3.5%
PROCTER & GAMBLE	CONSUMER STAPLES	3.5%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	3.4%
JOHNSON & JOHNSON	HEALTH CARE	3.3%
AIR LIQUIDE(L')	ENERGY & MATERIALS	3.3%
TAIWAN SEMICON MAN	INFORMATION TECHNOLOGY	3.1%

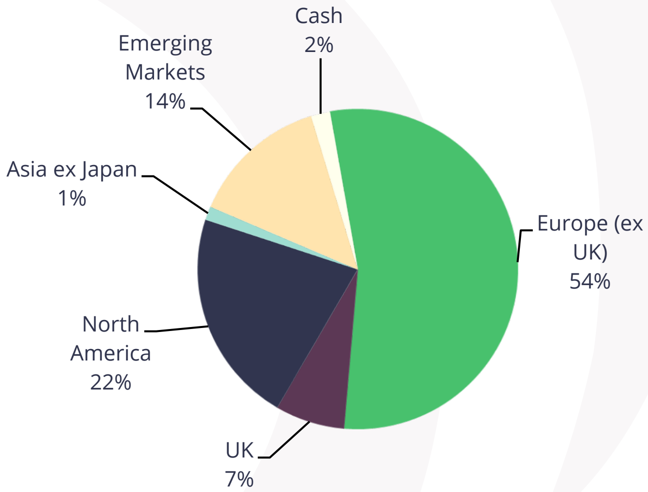
Fund Statistics

PRICE/BOOK	2.4
PRICE/EARNINGS RATIO (FY 1)	14.7
DIVIDEND YIELD %*	3.5
AVERAGE MARKET CAP €BN	100.9
NO. OF HOLDINGS	41
DEBT/EQUITY %	58.2
ACTIVE SHARE %	78.0

Sector Distribution



Geographic Distribution



SETANTA
Asset Management

Commentary

Charlie Munger, Vice-Chairman of Berkshire Hathaway and legendary value investor, died late last year at the age of 99 years. In a personal tribute in the Wall Street Journal, Jason Zweig wrote that:

> *"Those who knew him well consider him a moral exemplar—someone who showed how to think clearly, deal fairly and live fully. He took nothing for granted."*

Warren Buffett, his long-time friend and business partner at Berkshire-Hathaway, credited Munger with much of the company's success, particularly in how he exhorted Buffett to

> *"Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."*[1]

As managers of the Setanta Global Dividend Fund ('The Fund'), we endeavour to follow this 'Munger Maxim', seeking high-quality companies that will provide high, and growing, dividend income, creating long-term value for unitholders in the Fund. We do this in a volatile world in which armed conflict is, regrettably often a notable feature. Last year, the war in Ukraine continued, while in the long-simmering Middle East, violence again erupted. Notwithstanding a constructive engagement between President Biden and President Xi, bilateral relations between the USA and China remained frosty. Climate change was very much to the fore in 2023, its symptoms all-too-apparent, whether Canada's record-breaking wildfires, unprecedented flooding in Libya, or the extreme drought conditions experienced in some parts of Europe. Towards the year end, at a gathering of the Conference of the Parties on climate change (COP 28), global leaders agreed for the first time to phase out fossil fuels in energy usage.

Central banks continued to increase interest rates throughout the year. They reached 5.5% and 4.5% in the USA and Eurozone respectively, achieving some success as inflation fell to levels closer to the targets of the central banks, helped by moderating electricity and fuel prices. As the year was coming to an end, the European Central Bank retained a 'hawkish' tone, but commentary from the Federal Reserve suggested that it might be shifting to a 'dovish' stance. Whatever the case, to date, the world economy, has broadly remained resilient, notably in terms of low unemployment. However, earlier in the year, it felt that the steep adjustment in interest rates could cause a financial crisis; a number of US regional banks failed, while Credit Suisse, a centenarian Swiss banking institution, had to be rescued in an operation orchestrated by the central bank of Switzerland.

2023 was also noteworthy for the emergence of artificial intelligence (AI) into the consumer domain, most notably through ChatGPT, an application launched by **OpenAI**, a startup company backed by Microsoft, among others. AI potentially heralds a revolution in how people learn, work, and play. Technology development in AI, combined with continued appetite for digitalisation among companies and consumers, propelled upwards the share prices of many Information Technology (IT) companies as investors rushed to participate in the potential value creation from these powerful forces. Indeed, the impact of a select few of these IT giants, dubbed by some the 'Magnificent Seven', has been so great that they are arguably distorting some US equity indices, such as the S&P 500.[2]

[1]From the 2014 Berkshire Hathaway Shareholder Letter.
[2]It rose 24%, but without them, a mere seven of 500 odd stocks, it would only have risen 16%.

Commentary

In Healthcare, a class of drugs, known as GLP-1s that were previously used mainly in cases of diabetes, were found to be very effective in combatting obesity, through suppressing the desire to eat. While makers of these drugs, including Novo Nordisk and Eli Lilly, benefitted from the development, those whose products could be negatively impacted, including some snack-producing Consumer Staples companies such as Kellanova (formerly Kellogg) and Mondelez, faced investor concern.

In any case, the Healthcare and Consumer Staples sectors both had negative total returns last year, as did Utilities, another 'defensive' sector. Cyclical sectors generally performed strongly, such that IT, noted above, Consumer Discretionary, Industrials and Materials all had double double-digit total returns.[3] From a regional perspective, Asia-Pacific, and Western Europe, performed very strongly, while North America just about reported a positive return. In contrast to 2022, the Fund's material overweight in European stocks was beneficial given this backdrop.

Key Stock Contributors to Fund Performance

The Fund's total return over the year was 10.4%, comfortably in excess of its benchmark.[4] The Fund has outperformed over the last five, and ten, year periods and, as we noted in the Q2 commentary, over the twenty years since its inception. CRH, DCC, and Air Liquide made the largest contributions to the Fund's absolute performance last year, each recording a total return over 30%. TSM and NWS were also material contributors to the Fund's performance, while Fortescue had the single-best stock performance. **CRH**, a provider of building materials and related services, reported strong revenue growth throughout the year. In addition, it moved its primary listing from the UK to the USA, opening the door both to comparison with US peers, who trade on higher valuation multiples than its European peers, and to inclusion in US equity indices. **DCC** entered the year trading at a very low valuation; indeed, it was one of the largest detractors from the Fund's performance last year. During the year, it reported generally good results, particularly in its key Energy division, while assuaging some investor fears about its ability to navigate its medium-term transition from selling mainly fossil fuels to one in which it mainly provides renewable products and services. **Air Liquide**, a global industrial gases giant, continued its reliable performance, combining sales growth and margin expansion, boosted by strong demand from its home healthcare division as well as robust demand from gas cylinder customers globally.

Stock	*Performance Contribution*	*Stock*	*Performance Contribution*
CRH	2.0%	Johnson and Johnson	-0.5%
DCC	1.2%	Boliden	-0.5%
Air Liquide	1.0%	Exelon	-0.4%

Johnson and Johnson, Boliden, and Exelon made the largest negative contributions to the Fund's performance last year, reporting total returns of between -11% and -17%. Healthcare was the weakest performing sector of the benchmark; this included **Johnson and Johnson**, which continued to be the target of litigation relating to some of its talc products. **Boliden**, a Swedish integrated miner, performed poorly, due mainly to lower zinc prices and a number of operational mishaps. Utilities, including **Exelon**, faced a difficult environment of rising cost of capital and energy price volatility. Towards the end of the year, the public utilities regulator in Illinois issued its final decision on Exelon's business plan for the coming years. This prompted the company to reassess the plan, with a view to re-filing in 2024, causing a large fall in Exelon's share price.

[3]References to sectors and regions here all relate to the Fund's benchmark.
[4]The Fund's benchmark is the MSCI World High Dividend (Net) Total Return Index.

Major Changes to the Fund in 2023

During the year, we decided to sell four stocks, namely BASF, GBL, GSK and Telia which had underperformed our expectations over a long period of time. In addition, we exited our position in **NWS**, a Hong Kong conglomerate, through a tender offer initiated by its majority shareholder, New World Development. The Fund also received, through spin-offs from Sampo and Novartis respectively, shares in Mandatum, a Finnish life assurance company, and Sandoz, a producer of generic pharmaceuticals. As these companies were peripheral to our rationales for investing in Sampo and Novartis, we sold both of them.

GSK is a UK pharmaceutical company whose Research and Development (R&D) productivity has, in our view, been lacklustre and whose dividend, as a consequence of the need for greater R&D investment, has been cut significantly. We think that the company's strategic decisions, such as the divestment of its consumer healthcare business and its U-turn on the oncology market (exiting, then re-entering through an acquisition) have made it a less attractive investment. **BASF**, is a global chemicals behemoth whose 'Verbund' culture of deep integration of its production facilities has been instrumental to its success. However, the costs of doing business in Europe for chemical producers have been rising, due to mounting regulatory hurdles and to the impact of Russia's war on Ukraine on the availability of natural gas as a 'feedstock' for chemical plants. While BASF's actions, such as substantial investment in lower-cost regions, like China, might aid it in the long-term, we consider alternative stocks, such as those discussed above, as having better prospects. In the case of **Telia**, the Swedish-based communications company, we regard the European telecommunications sector as one of the most competitive in the world, while the necessity of ongoing cycles of substantial capital expenditure makes it difficult for the likes of it to earn a sufficiently-attractive return on its capital investment.

We acquired four new stocks for the Fund: Kone; Sonova; Kenvue; and Diageo. We commented on **Kone** in the Q3 commentary. In the case of **Kenvue**, it was 'spun out' of Johnson and Johnson, a Fund holding, so was thus already known to us. It is a consumer healthcare business, owner of brands such as Calpol, Listerine, and Johnson's Baby Oil. We believe that Kenvue, as an independent entity, is well-positioned to participate in the industry's attractive growth prospects (it grew 5% per annum since 2019)[5], a function of greater demand for personalised health solutions; a growing desire for preventative healthcare; and generally increasing life expectancies worldwide. We like Kenvue's capital allocation policy, which prioritises reinvestment in its brands and dividend payments. At the time of our investment, Kenvue offered a dividend yield nearing 4%.

Sonova is a Swiss-based manufacturer of hearing aids that supplies the related wholesale, and retail, markets globally. In most markets, hearing aids are regulated as medical devices. Sonova has earned a good reputation in the clinical performance of its devices with audiological prescribers. Indeed, the top four players in the industry have retained over 80% of the global market for more than a decade. Steady growth in the hearing aids market is supported by an ageing population; improvements in healthcare in emerging markets; and a broadening in training of those who can dispense hearing aids. The 4-5 year replacement cycle of these aids and quelling, through miniaturisation, of negative stigma associated with their clunky ancestors are also helping to increase demand. Sonova generates pre-tax profits in the region of 20% of sales and a double-digit return on invested capital. With a dividend, yielding 2% at purchase, which has grown in every year barring the global financial crisis and the COVID pandemic, we believe that Sonova will be a strong addition to the Fund.

[5]According to a 2023 Boyar Value Group report.

Commentary

Diageo, a relatively new position, has had a rocky start as a Fund holding. Last quarter, the company reduced its mid-term profit guidance to 5-7% per annum profit growth , due to inventory issues in its highly profitable Latin American business and a strategic decision to increase brand investment across a number of brands. In our view, Diageo is a strong investment proposition, with a diversified portfolio of highly coveted, high quality, well-invested brands of alcoholic beverages that have a strong track record of cash generation and growth. At acquisition, the stock had a dividend yield of 2.5%, an attractive level considering the likelihood that the company's profits (and dividend) should over time reflect the strength and growth of its brand portfolio. We believe that these stocks, added to the existing Fund holdings (making 41 at year end) will assist in continuing the strong long-term performance of the Fund.

Richard Doyle, CFA, David Pastor, CFA & Caroline White, CFA
Co-Lead Portfolio Managers

**All figures, unless stated otherwise, are in euro terms; all figures relating to performance are gross of fees, unless stated otherwise.*

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.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance.

SETANTA
Asset Management