

# Setanta Dividend Fund

Q3 2024

## 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

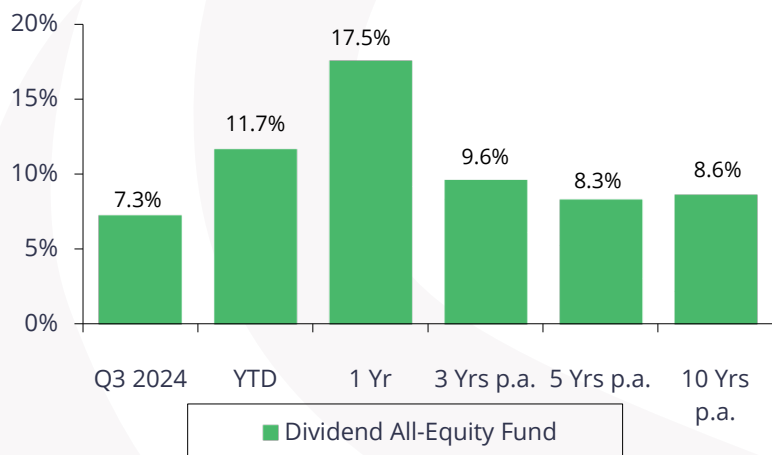
We consider scenarios rather than making forecasts

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 – 30.09.2024 (EUR)



## Yearly Performance

Year %	2019	2020	2021	2022	2023
Fund	24.0	-4.8	21.3	-1.7	10.4

**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. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg (metrics include Financials). \*Calculated using Index Method.

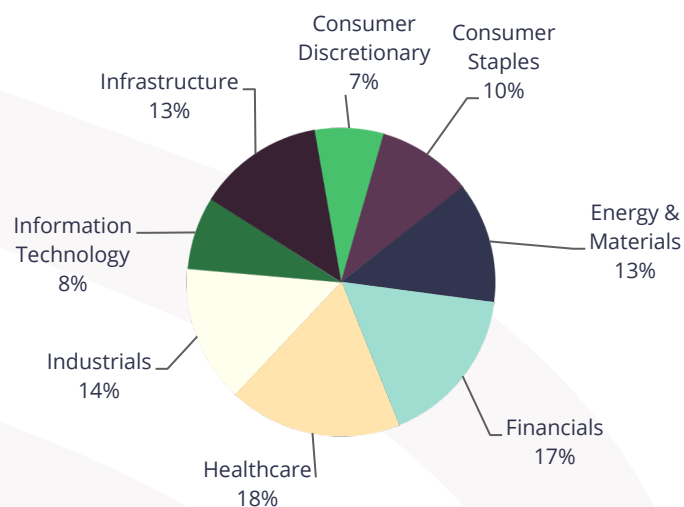
## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
SANOFI EUR2	HEALTH CARE	4.0%
ALLIANZ AG	FINANCIALS	3.9%
NOVARTIS	HEALTH CARE	3.9%
PROCTER & GAMBLE	CONSUMER STAPLES	3.8%
CRH PLC	INDUSTRIALS	3.5%
AIR LIQUIDE(L')	ENERGY & MATERIALS	3.4%
TAIWAN SEMICON MAN	INFORMATION TECHNOLOGY	3.3%
DCC	INDUSTRIALS	3.3%
SK TELECOM	INFRASTRUCTURE	3.2%
T.E.R.N.A	INFRASTRUCTURE	3.2%

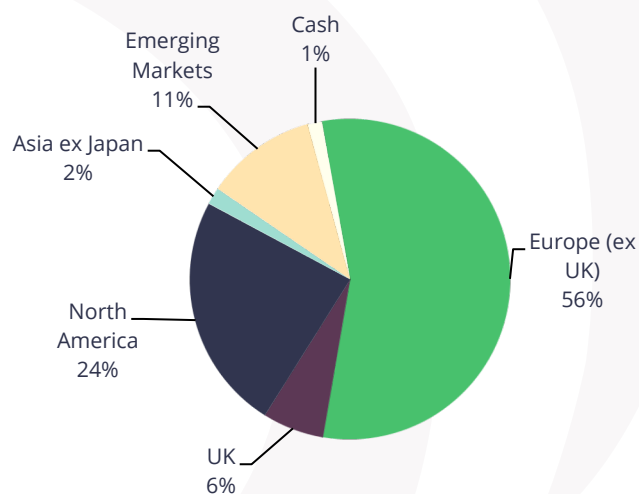
## Fund Statistics

PRICE/BOOK	2.9
PRICE/EARNINGS RATIO (FY 1)	16.3
DIVIDEND YIELD %*	3.7
AVERAGE MARKET CAP €BN	120.3
NO. OF HOLDINGS	38
DEBT/EQUITY %	69.4
ACTIVE SHARE %	77.3

## Sector Distribution



## Geographic Distribution



# Q3 2024 Commentary

## Dividend Fund Q3 2024

### Dear Chairman

Our job as Fund Managers of the Setanta Global Dividend Fund is to invest in publicly listed companies by selecting securities issued by quality businesses with enduring strengths. These companies generate growing streams of free cash flow, which in turn fund the dividends that underpin returns for the Fund.

However, this is not the whole picture. Public companies are complex entities with multiple stakeholders, each with different and often conflicting interests. When properly organized, incentivised, and resourced, companies can create tremendous value. Stakeholders claim portions of this value through contracts or regulations -employment contracts, bond indentures, stock options, tax codes-, but shareholders, by definition, are only entitled to what's left after paying off all commitments. Over time, equity holders have historically been able to reap superior returns as compensation for being last in line.

But this isn't always guaranteed. The book *Dear Chairman* by Jeff Gramm details the history and rise of shareholder activism over the past century. Gramm presents eight case studies of notable shareholder campaigns, beginning with Benjamin Graham's efforts to influence Northern Pipeline to distribute excess capital to shareholders in the 1920s. At that time, corporate governance was an afterthought, financial information disclosure was minimal, and corporate affairs were largely carried out by an insiders' club of corporate directors. Graham's focus on the concept of "intrinsic value" as a measure of a corporation's worth was novel, in a world where security pricing appeared to be driven by rumours, inside information and speculation instead. His success in influencing Northern Pipeline's board marked a milestone in holding company fiduciaries accountable for their actions.

"The story of the rise of shareholder activism has never been told as compellingly and instructively as Jeff Gramm offers it in *Dear Chairman*, a book that dissects the dramatic deals and brings to life the unbelievable characters of the past hundred years."  
—ARTHUR LEVITT, former chairman, U.S. Securities and Exchange Commission

## DEAR CHAIRMAN

BOARDROOM BATTLES *and the*  
RISE of SHAREHOLDER ACTIVISM

JEFF GRAMM





## Q3 2024 Commentary

*"The capital not needed by these pipeline companies in the normal conduct of their business, or to provide for reasonable contingencies, should be returned to the stockholders, whose property it is, in the form of special dividends and/or reductions of capital" - Benjamin Graham, 1927*

The book goes on to explore other conflicts and developments in shareholder capitalism, including the rise of the high-yield market and the downfall of titans like General Motors. These stories highlight the often uneasy relationship between shareholders, managers, and directors, and the complex dynamics of capital allocation, incentives, and governance decisions where investors are not free of blame.

At Setanta, we believe shareholders not only have the right, but the responsibility, to make sure that qualified directors are appointed who will act in the best interest of shareholders. Through our votes we aim to ensure that high standards of corporate governance are upheld and a Boardroom dynamic which is conducive to equitable treatment of stakeholders, efficient use of resources and growth.

### **Irish Residential Properties REIT (IRES).**

The Fund has held a position in IRES since shortly after its Initial Public Offering in 2014. Despite its small size, the company has become a leading owner and operator in Dublin's private residential accommodation market, managing over 3,700 units. While IRES initially performed well, recent years have been challenging due to regulatory, operational and financial hurdles which led to a sharp drop in its share price. As these challenges emerged, we became increasingly concerned that the shackles imposed by the very conservative Irish REIT regulatory regime, compounded by rental price controls and onerous taxation would be too big a hurdle for the company to grow and produce competitive returns leading us to reduce our position over the period. At the time of writing, all the Irish REITs ever created under the Finance Act 2013 have effectively been acquired or otherwise removed from public markets except for IRES. Additionally, the company's inability to exploit prima facie accretive internal development opportunities, compounded our doubts.

As these events occurred, the company faced an activist campaign culminating in a proxy battle at the 2023 AGM. A subsequent extraordinary general meeting (EGM) in early 2024 saw the appointment of two activist representatives to the Board. Throughout this period, Setanta PMs, on behalf of the Setanta Global Dividend Fund investors engaged diligently with the relevant parties and voted constructively in the interests of all shareholders at both general meetings.

However, with no indication of progress, our confidence in the investment deteriorated. While there may be significant value in the shares, we believe it will be difficult to unlock and considering the stock's relative illiquidity we decided to exit the position during the quarter. Public equity markets may still have a role to play in contributing to finance much needed housing in this market, but we believe that the Fund's capital will obtain better returns when put to work in alternative investments.



# Q3 2024 Commentary

## Key Contributors to Fund Performance

During the quarter, the cooling effect on the economy of high interest rates appeared to be finally taking hold, fuelling expectations of rate cuts. In equity markets, some interest-rate sensitive sectors rallied, led by real estate and utilities while energy stocks underperformed as oil prices weakened towards the end of the quarter.

The Fund delivered a strong performance over the quarter, with a total return of **7.3%** in EUR.

Among the notable contributors, **Sanofi** and **Kenvue** saw solid share price gains. These are large companies with profitable operations and solid prospects supported by innovative product pipelines (Sanofi), and well-funded marketing and distribution budgets (Kenvue). Both companies saw their stock prices heavily punished in 2023 – Sanofi largely for a misunderstood strategic update, and Kenvue for results that missed market expectations.

**Bangkok Bank** also performed well this quarter. It is a conservative bank with a stable and profitable book of business which proved resilient in a challenging local economic environment post-pandemic. Thailand, its main market, has also endured more than its fair share of political volatility. The appointment of a new prime minister in August was well received bringing some much-needed stability to the country. Shares of local banks have performed well since the announcement. Bangkok Bank currently trades at low multiples of earnings and a 4.6% dividend yield.

On the downside, the Fund's **Samsung** shares fell materially. Samsung dominates the cyclical memory chips market and holds strong market positions in logic chip design and manufacturing, and selected consumer electronics markets. Weakness in the memory business dragged expectations lower through the quarter. Additionally, the company has been unusually slow to develop specialised memory chips for AI data centres, a rapidly growing market segment. In early October, Samsung issued a profit warning and pre-announced weak results for Q3-24, pledging to make "any necessary adjustments" to regain its competitive edge. Samsung remains the most profitable memory chip manufacturer, and we believe it has all the resources required to continue to succeed. The company is making significant strides and appears to be in good position to bridge the technological and manufacturing gap with competition in AI data centres.

**Nestlé** shares also weakened this quarter. Nestlé manages a diversified and high-quality portfolio of everyday brands from coffee to pet food. The company has a solid track record of value creation by investing in its brands with a long-term outlook. Several of its brands performed exceptionally well during the pandemic and subsequent reopening, showing strong pricing power, although volume growth was more muted. As 2024 progressed, inflationary pressures took a toll on consumers, exhausted by high prices, leading to a more value-conscious approach to spending. In response, Nestlé adjusted its growth strategy to balance price and volume more in tune with historical norms. CEO Mark Schneider who led the company for eight years and significantly re-energised and reshaped its portfolio of businesses, stepped down. Laurent Freixe, a company veteran, has taken over with a mission to resume Nestlé's track record of "consistent and sustainable value creation" in the words of Chairman Paul Bulcke. Nestlé shares currently offer a 3.6% dividend yield

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



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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](http://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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