

Setanta Global Dividend Fund (CAD)

Q1 2018

Fund Description

The **Global Dividend 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 portfolio of global high yield equities. The Portfolio Managers embrace Setanta's value investment philosophy, seeking to pick stocks at a price below the managers' assessment of intrinsic value. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders. The rationale for the Fund is underpinned by studies* that show dividends have played an important role in the cumulative total return of equities over the past century, while other academic studies support the thesis that a high dividend yield is an excellent indicator of value.

While the Fund does not target specific regional or sector weights, the managers seek to maintain a sensible level of diversification. Risk is minimised by focusing on valuation, financial and operational risk measures and therefore the degree of downside protection, rather than focusing on measures of market volatility or beta. The Fund usually holds between 30 to 50 stocks with expected holding periods of approximately 5 years.

The investment objective of the Fund is to generate a return above the general return of equities over rolling periods of three years or more – this is measured by reference to the total return of the MSCI World High Yield Index (100% CAD).

Portfolio Managers

Richard Doyle, CFA; David Pastor, CFA; Caroline White, CFA



Our Investment Principles

We do not believe the market is efficient

We aim to make investments at a price below our assessment of intrinsic value

We make an investment in a business rather than trade securities

We believe risk is the possibility of permanent impairment of value

We make investments for the long term

We invest where we see value and are not afraid to be contrarian and swim against the tide

We don't make forecasts, we consider scenarios

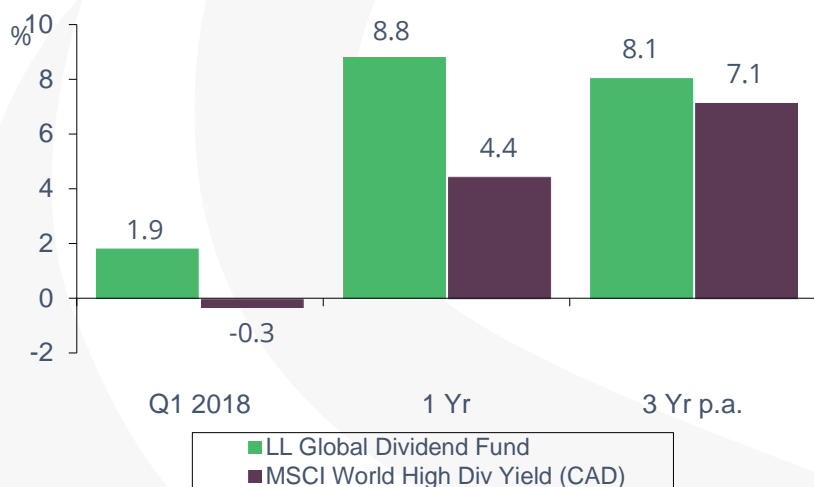
We demand financial strength from the companies we invest in

We will act with integrity and communicate with our clients in a manner representative of our investment style

We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study

*e.g. Dimson, Marsh and Staunton, 2011

Fund Performance – 31.03.18



Performance Source: Unit prices: GWL. Returns are based on LL - Global Dividend Fund 8.26SAM Account. Benchmark: MSCI High Yield Index (100% CAD). Returns are in CAD and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

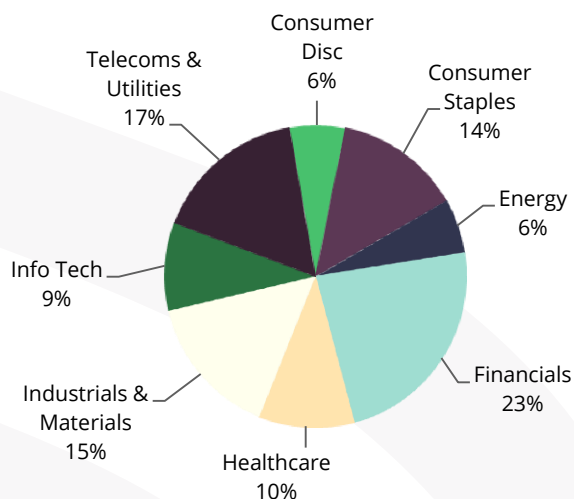
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
SWEDISH MATCH	CONSUMER STAPLES	3.8%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.5%
GPE BRUXELLES LAM	FINANCIALS	3.5%
LANCASHIRE HOLDINGS	FINANCIALS	3.5%
GLAXOSMITHKLINE	HEALTHCARE	3.3%
INTEL	INFORMATION TECHNOLOGY	3.1%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.0%
FEDERATED INVESTORS	FINANCIALS	3.0%
PROCTER & GAMBLE	CONSUMER STAPLES	2.9%
ENI Spa	ENERGY	2.8%

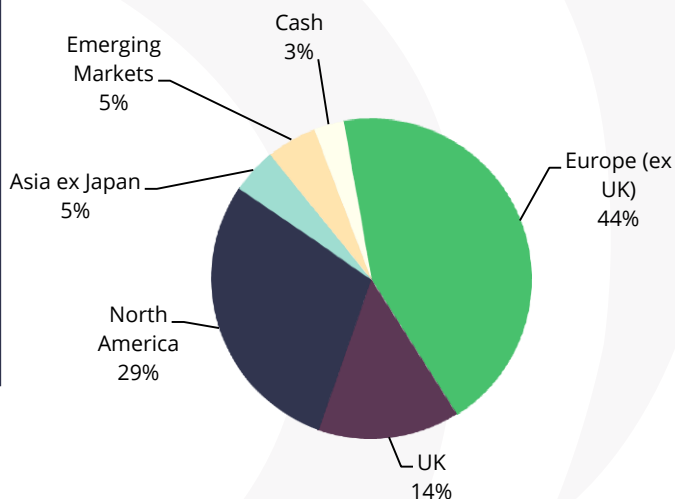
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	14.8
DIVIDEND YIELD %	3.6
AVERAGE MARKET CAP C\$BN	76.1
NO. OF HOLDINGS	40
DEBT/EQUITY %	51.4
ACTIVE SHARE %	78.9

Sector Distribution



Geographic Distribution



Commentary

"There's this unbelievable company, these guys just crushed it -- not sure whether it's in biotech or a technology business, but they're up 80 percent this year. It's this company called XIV,"

According to Bloomberg, this is part of a conversation between an Uber driver and a hedge fund manager in New York in the second half of 2017. Our commentary on that same time period noted the placidity of markets, which struck us as strange given a number of seemingly destabilising events that happened then. Soon after writing these comments, we witnessed the S&P 500 index fall more than 10% in a matter of days, while the Chicago Board Options Exchange (CBOE) index of implied volatility 'VIX' escalated from 14% at the beginning of February to nearly 40% a week later.

You might be wondering what this has to do with the unbelievable biotech \ technology company called XIV! The VIX index is simply the level of volatility, or dispersion, that is implied by the price of short term options on the S&P index. It is regarded as a useful bellwether of market sentiment and is known as 'Wall Street's fear index'. XIV is the inverse of VIX, both literally and in its design. However, the "company" in question, the XIV, is actually an Exchange Traded Note (ETN), created by Credit Suisse bank and designed to offer inverse exposure to the one day performance of the VIX index. So, if the VIX index decreased from 12% to 10% in a day, the product would increase by 20% in the same day. Sounds good, not least in the environment of recent times, when volatility seemed to many to be heading inexorably downward?

Originally manufactured to suit the risk management needs of institutional clients, funds invested in XIV grew massively, attracting a significant number of retail investors (possibly including the Uber driver above). However, the product embeds a massive amount of leverage. Perhaps, this shouldn't be a surprise – after all, it's based on something volatile, volatility itself! Virtually all of the value of the note was wiped out in one single day in February 2018, as the VIX futures almost doubled in one session. The sheer size of XIV and similar products and their inner workings are believed to be factors that contributed to amplify the volatility spike. This in turn caused 'fear' in the equity markets, a likely factor in the S&P's sharp fall.

While this episode in the world of structured finance is far removed from how we invest at Setanta, it does provide some relevant lessons. Excessive leverage, whether embedded in a financial product like XIV or sitting on or off the Balance Sheet of a company, is to be avoided. People, Uber drivers and professionals alike, shouldn't put their money into products or 'instruments' that they don't understand. If something seems too good to be true (doubling in a short period of time when the world hasn't changed), then investors should proceed with caution.

Thankfully, these are risks that we at Setanta don't feel we have to take. While it always a challenge to find attractive stocks, the fact is that there are thousands of opportunities, yet we only need to find 40 or so good ones. In taking our time, doing thorough research, avoiding investments that we don't understand and \ or that involve too much speculation, all the time investing for the long-term, we mitigate, if not eliminate, the type of risks highlighted above. Generally speaking, we seek to invest in high quality companies that have limited amounts of debt and that are available at a reasonable valuation. We try to protect the Fund through a healthy dose of scepticism, sensible diversification and a margin of safety 'buffer' embedded in our valuation work.

During the most recent quarter, we took a position in Coca-Cola Amatil, a bottling company that has the exclusive rights to manufacture, distribute, market and sell The Coca-Cola Company products in Australia, New Zealand, Indonesia and other Asia-Pacific countries. Through this relationship, Amatil benefits from strong market shares and economies of scale, which result in an attractive return on capital. Recent challenges include growing pains in the promising Indonesian franchise and some regulatory headwinds in the shape of a container deposit scheme in a number of Australian States, not to mention shifting consumer tastes. Nonetheless, we believe that the business is sustainably strong over the long-term and we like its plentiful cash flow and small debt burden. The relationship with The Coca-Cola Company is a terrific asset and works both ways – Coca-Cola owns 30% of Amatil's equity. We acquired a position for the Fund at a multiple of 14x our estimate of sustainable earnings and at a dividend yield of 5.3%.

¹ Source <<https://www.bloomberg.com/news/articles/2018-02-13/uber-driver-s-investment-tip-confirmed-britton-s-doubts-on-xiv>>

² XIV had to rebalance into the close of session every day, buying more VIX futures when the VIX was up in the day, and selling VIX futures when the VIX was down. As the VIX index spiked up on the 5th of February into the close of the session, XIV and other similar instruments bought VIX futures, arguably contributing to further increases in VIX futures price.

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IMPORTANT INFORMATION

The Strategy is managed by Setanta Asset Management Limited. The Strategy is available on a separate account basis to institutional investors. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.

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