Setanta Global Dividend Fund (CAD)
Q3 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



e.g. Dimson, Marsh and Staunton, 2011

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

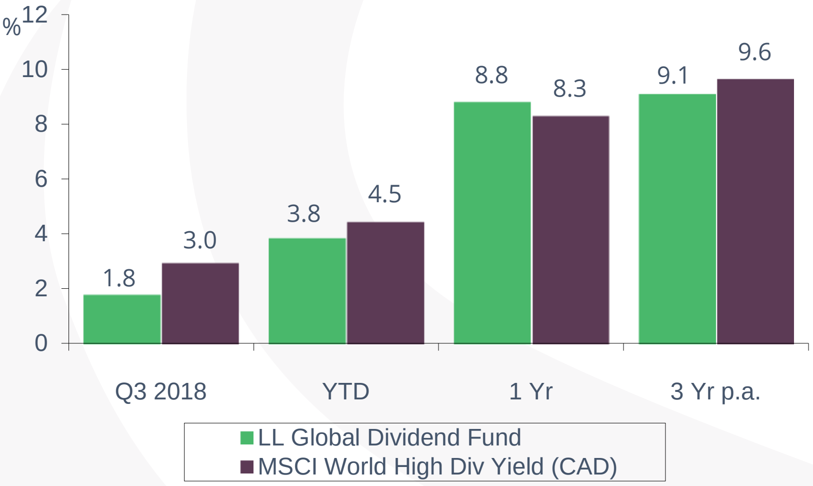
We don't make forecasts, we consider scenarios

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

Fund Performance – 30.09.18



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

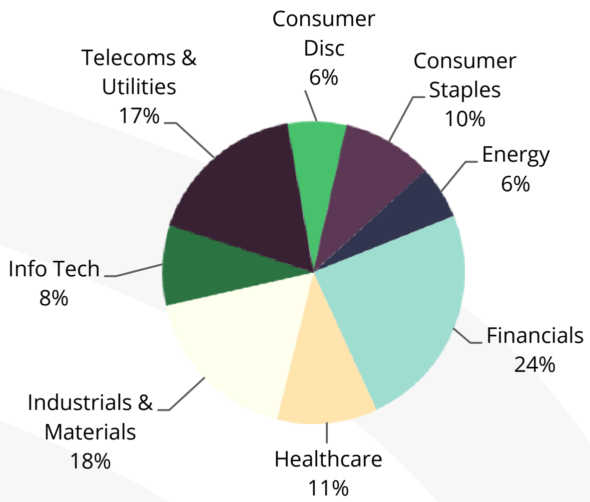
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
FEDERATED INVESTORS	FINANCIALS	3.4%
PROCTER & GAMBLE	CONSUMER STAPLES	3.2%
SK TELECOM	TELECOMS & UTILITIES	3.2%
LANCASHIRE HOLDINGS	FINANCIALS	3.2%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	3.2%
GLAXOSMITHKLINE	HEALTHCARE	3.1%
FORTESCUE METALS	INDUSTRIALS & MATERIALS	3.1%
HARLEY DAVIDSON	CONSUMER DISCRETIONARY	3.1%
SAGA PLC	FINANCIALS	3.1%
NWS HOLDINGS	INDUSTRIALS & MATERIALS	2.9%

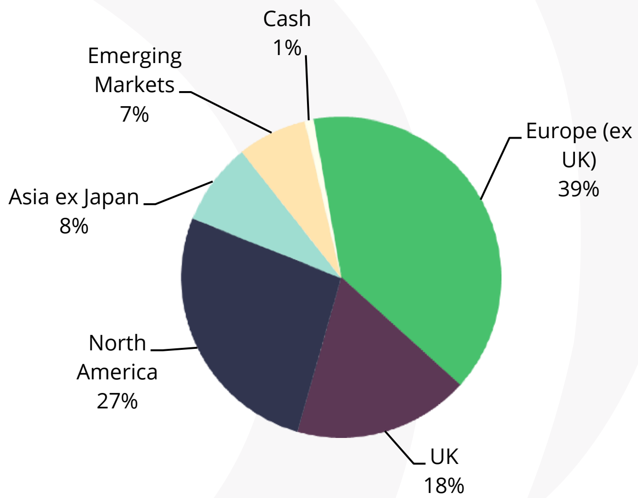
Fund Statistics

PRICE/BOOK	1.7
PRICE/EARNINGS RATIO (FY 1)	14.5
DIVIDEND YIELD %	3.7
AVERAGE MARKET CAP C$BN	77.1
NO. OF HOLDINGS	45
DEBT/EQUITY %	51.3
ACTIVE SHARE %	80.6

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

This quarter, our colleague, Caroline White, reflects on our experience investing in the Information Technology (IT) sector, while also reporting on a recent addition to the fund.

"We are living in the most complex and rapid changing of times. The pace of technological innovation, like never before, is challenging the way we operate".

Having enjoyed a huge bull run since March 2009, there is now a buzz surrounding the Information Technology sector which encourages faith in this being a fundamentally different era, both for society and investors. There is an abundance of capital chasing the IT industry. Early-stage companies with negative earnings are achieving billion dollar valuations in initial public offerings (e.g. Avalara and Spotify) and loss-making companies have experienced share price jumps as high as 200% upon adding 'blockchain' to their name (e.g. Long Island Iced Tea Corp. to Long Blockchain Corp.). Indeed, it could be argued that the meteoric rise of the FAANGs (Facebook, Apple, Amazon, Netflix and Google) has been a key factor in GICS, which classifies companies into sectors, moving Alphabet (a.k.a. Google) and Facebook from the IT sector into other sectors.

While it is undeniable that we live in an evolving world, it is notable that the quote above from the Scientific American Journal dates from no fewer than 150 years' ago (September 1868). As investors, we continually face challenges in how to respond to rapidly changing industries. With our conservative approach and our belief that risk is the possibility of permanent impairment of value, many of the companies cited above would simply be unsuitable for the funds that we manage. We are highly unlikely to invest in a loss-making early stage company, even if we acknowledge that some of those will survive and do very well over time. Likewise, we are wary of the media's current favourites, noting Warren Buffet's comment: "you pay a very high price in the stock market for a cheery consensus". Nonetheless, we have found some unloved gems in the IT sector over the years. We acquired each of these highly profitable, large-cap 'old-tech' stocks at low valuations. These stocks, both through consistent and growing dividends and capital appreciation, have greatly added to the performance of the fund. We summarise below our experience with the fund's current IT holdings.

At the time (2008) that we acquired semiconductor manufacturer, TSM, it had good market share, strong returns and scale economics in a fast growth environment. Being a cycle-sensitive business, its share price weakened considerably as the market corrected sharply in the early days of the Great Financial Crisis, giving us an excellent opportunity to take our position. TSM has fortified its stronghold over the years, so that it continues to achieve high returns on capital, while returning plenty of cash to shareholders (nearly trebling its dividend over this period). We acquired a position in Intel in 2013, attracted to its near-impregnable position in personal computer semiconductors, while having faith in its ability to navigate its way into emerging applications for its logic chips technology. We felt this vote of confidence was deserved given the company's track record of innovation and value creation and we took the opportunity to capitalise on the market's scepticism at Intel's ability to prolong this position. Today, the company continues to perform strongly, achieving Return on Capital Employed of around 20% in recent years. Our investment in router and switcher maker, Cisco, dates from 2016. At that time, we were attracted to the integral role that Cisco plays in ensuring that data travels expeditiously across IT networks all over the world. This key role was reflected in tremendous free cashflow generation (nearly 10% relative to its enterprise value) and a highly impressive return on capital. The market in our view, however, over-emphasised the emerging competition from Chinese peers and technological disruption. While Cisco's valuation today is more reflective of its strong position, we believe that its high returns are very much sustainable.

We seek a similar outcome with our most recent investment in the sector, Samsung Electronics. At a five year earnings yield of well over 10%, Samsung compares favourably with the IT sector average on a similar basis (circa 5%). Two thirds of its profits come from industries with oligopolistic market characteristics – three companies have almost all the market share of the DRAM memory market, three hold 75% of the NAND memory market and Samsung's share in the smartphone OLED screens is over 90%. It also targets the foundry market (manufacture of semiconductor chips for third parties) where economies of scale reap significant advantage.

Commentary

More than 50% of the foundry market is controlled by TSM (a fund holding), but Samsung's focus is on the remainder, while being fragmented, offers potential for an entrant with deep pockets and a long-term horizon. Although much uncertainty surrounds the current cyclical positioning of the memory markets, we are confident that with its $60b pile of net liquid investments, its extensive R&D operations, and an embedded culture of innovation, Samsung is well positioned to weather any lurking storm. We believe that in the long-run, Samsung will generate a good return both through increasing dividends and capital appreciation.

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IMPORTANT INFORMATION