# Setanta Dividend Fund
Q1 2019

## Fund Description

The **Dividend All-Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Dividend strategy.

The 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 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

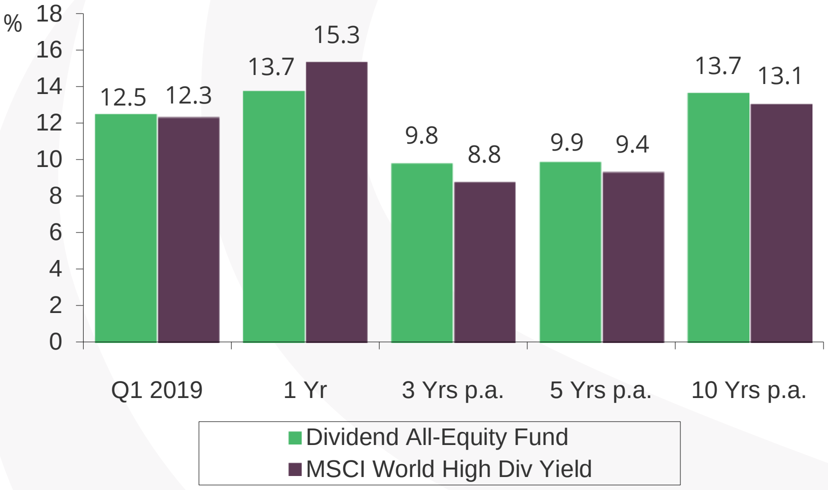
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

## Fund Performance – 31.03.2019




## Fund Statistics

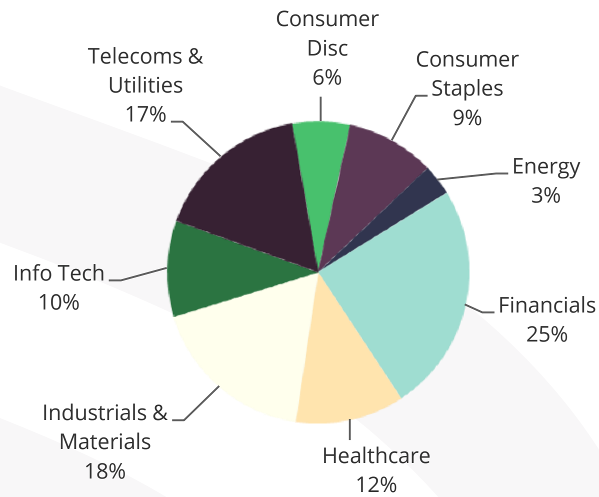
| | |
|---|---|
| PRICE/BOOK | 1.8 |
| PRICE/EARNINGS RATIO (FY 1) | 14.5 |
| DIVIDEND YIELD % | 4.2 |
| AVERAGE MARKET CAP €BN | 55.0 |
| NO. OF HOLDINGS | 44 |
| DEBT/EQUITY % | 50.9 |
| ACTIVE SHARE % | 79.0 |

## Yearly Performance

| Year % | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Fund | 11.9 | 12.2 | 11.9 | 6.3 | -2.0 |
| Benchmark | 16.7 | 7.8 | 12.6 | 3.8 | -2.9 |

**Performance Source:** Setanta Asset Management Limited. Benchmark: MSCI High Yield Index (100% Euro). The Fund returns since 30.09.07 are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The unit prices prior to this are derived from a net of fee price, adjusted for the management charge to be representative of the gross of fee performance. **Fund Statistics Source:** Bloomberg (metrics include Financials)

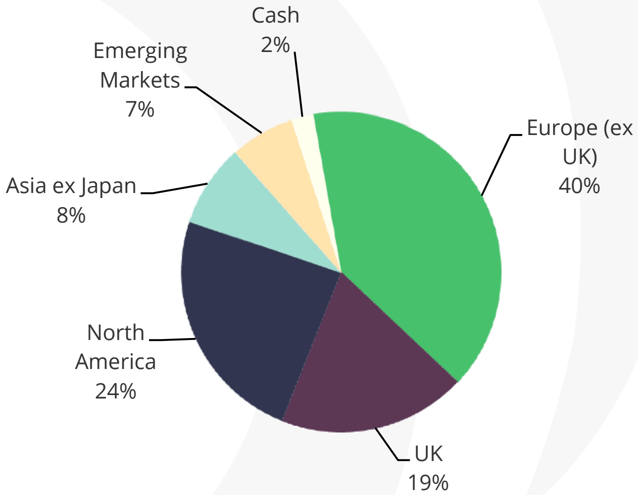
## Sector Distribution




## Top 10 Holdings

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| FEDERATED INVESTORS | FINANCIALS | 3.9% |
| LANCASHIRE HOLDINGS | FINANCIALS | 3.5% |
| GLAXOSMITHKLINE | HEALTH CARE | 3.4% |
| SAGA PLC | FINANCIALS | 3.3% |
| NOVARTIS | HEALTH CARE | 3.2% |
| COCA-COLA AMATIL | CONSUMER STAPLES | 3.2% |
| HARLEY DAVIDSON | CONSUMER DISCRETIONARY | 3.1% |
| SMITHS GROUP | INDUSTRIALS & MATERIALS | 3.0% |
| CISCO SYSTEMS | INFORMATION TECHNOLOGY | 3.0% |
| YARA INTERNATIONAL | INDUSTRIALS & MATERIALS | 2.7% |

## Geographic Distribution

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# Commentary

As keen observers of financial markets, we often reflect on the fickleness of investors' sentiment and the oftentimes wild gyrations in asset prices that accompany it. In the last quarterly commentary, we highlighted some of the markets' worries and how eventually 'fear' caused a sharp fall in equity markets into the year end.  Only a few months later, the S&P 500 has risen +15% to the end of March (in euro terms) and is close to its  September 2018 lifetime peak.  European markets have experienced a similarly steep recovery from their December lows. It seems that markets are seeking the silver lining to the previously-identified clouds. On the monetary policy side, after its recent rate hike, the US Federal Reserve bank has taken a much more 'dovish' stance. In Europe the European Central Bank extended its targeted long term repurchase operation, providing support to many financial assets. In the world of the real economy, the signals are mixed, as global trade and European economies slow, while some US indicators flash amber.

As enthusiastic readers of these commentaries, you no doubt know that at Setanta we don't believe we can profit in calling how the macroeconomic situation will evolve. In our view, there are too many factors that are subject to unpredictability. Instead, we focus on studying a company's competitive advantages, and its industry structure, in our search for sustainable economic returns that will in time result in good fund performance. Thinking more about what characterises Setanta's  investment style, we found an interesting framework in Howard Marks' latest book, "Mastering the Market Cycle". In it, Mr. Marks, a well-regarded value investor, describes all investment activity across three dichotomies: cycle positioning \ asset selection, aggressiveness \ defensiveness and skill \ luck.

How does this apply to the Dividend Fund? At Setanta, every investment case incorporates asset selection, emphasising our knowledge of intrinsic value as the main driver of investment returns. This is accompanied, to a lesser extent, with a consideration of the how the investment is affected by the broader industry and economic cycle. This brings to mind our purchase of **IRES** a number of years ago. At the time, the young company was building a portfolio of residential assets in Dublin, Ireland at prices below replacement value and attractive rental yields that would enable it to pay good dividends in the future. The Irish economy and the Dublin area in particular, had experienced an extreme residential property bubble. After the bursting of this bubble, house prices and rent levels both collapsed. Construction of new residential housing stock remained at a fraction of the recovering economy's needs for years, starting to recover only from 2017. Our experience with this stock has been very good, reflecting both cash returns through dividends and capital appreciation, as residential rent levels have recovered at a fast pace since our investment.

# Commentary

With regards to risk attitude, the Fund's income style very much leans towards defensiveness (vs. aggressiveness), as high dividend paying companies tend to be well-established entities with mature businesses and high cash flow. Setanta's investment approach overlays an additional degree of conservativism as we shun excessive leverage and also try to ensure that the investments we make have a ‘margin of safety’. Over the life of the Fund we have witnessed the rise and fall of a number of high dividend paying, but risky business models, that by and large we have been able to avoid (e.g. fast growing banks, but highly exposed to credit risk and \ or with mismatches in their assets and liabilities). We have owned and continue to own some banks, but not all of them are created equal. We favour entities with a long term orientation and conservative lending practices, appropriate incentives for staff and strong capital ratios. We believe that **Svenska Handelsbanken**, a fund holding, to be a prime example of those. It has a unique long-term culture, a highly decentralised structure and a long track record of superb credit underwriting, spanning good and bad times.

Finally as regards, skill vs ‘luck’, we believe that the longer the time period, the greater the role that skill plays, hence our focus on longer-time periods of performance. This is not to say that ‘luck’, which we consider to be unexpected events, whether fortunate or unfortunate, doesn’t have influence, especially in the short term. Our recent purchase of **Fortescue Metals Group** has provided a total return of well over 100% (in euro terms) in a matter of months. We think that this partly reflects the low valuation of the stock and some of the actions of Fortescue over this time (achieving much better prices for its iron ore products, while also initiating a share buyback and paying a special dividend). However, we recognise that an unanticipated event also played a role in the stock’s performance. An unexpected reduction in the supply of iron ore caused iron ore prices to rise sharply, from which Fortescue benefitted. This unexpected reduction in supply was a consequence of restrictions placed on Vale, a competitor of Fortescue and a major supplier of iron ore, due to the bursting of one of its dams. We note that this event was foremost a tragedy for hundreds of people, either killed or injured in the disaster.

**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

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