Setanta Dividend Fund – Q3 2016

Setanta
ASSET MANAGEMENT

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 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% Euro).

Portfolio Managers

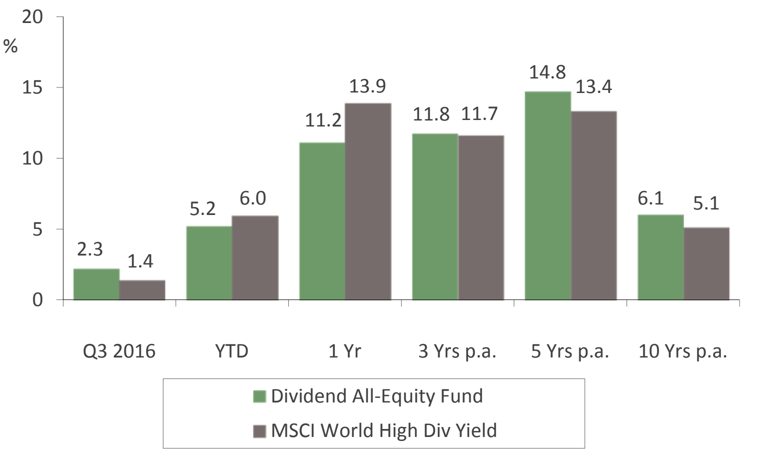
Richard Doyle CFA & David Pastor CFA

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

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 – 30.09.16



YEARLY PERFORMANCE

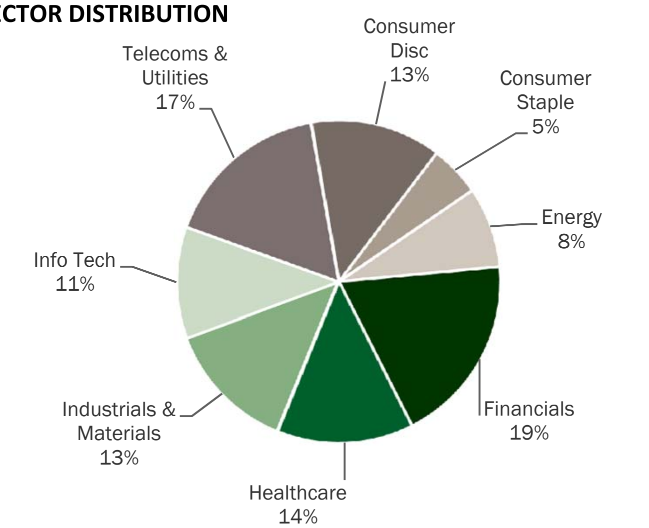
Year %	2010	2011	2012	2013	2014	2015
Fund	13.0	-2.4	15.6	22.4	11.9	12.2
Benchmark	7.0	4.8	10.9	16.6	16.7	7.8

Performance Source: Setanta Asset Management Limited. Benchmark: MSCI High Yield Index (100% Euro) & Bloomberg. 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)

FUND STATISTICS

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	16.9
DIVIDEND YIELD %	3.3
AVERAGE MARKET CAP €BN	48.8
NO. OF HOLDINGS	36
DEBT/EQUITY %	48.8
ACTIVE SHARE %	81.8

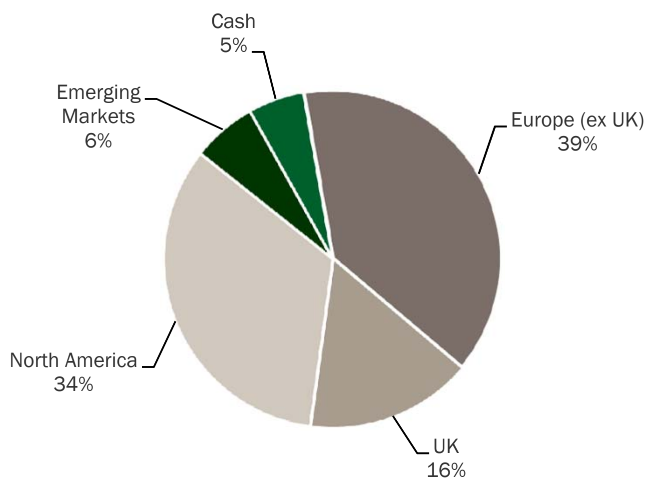
SECTOR DISTRIBUTION



TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
SMITHS GROUP	INDUSTRIALS & MATERIALS	4.6%
SANDVIK AB	INDUSTRIALS & MATERIALS	3.7%
NATIONAL OILWELL	ENERGY	3.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.5%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	3.5%
JOHNSON & JOHNSON	HEALTHCARE	3.4%
NOVARTIS	HEALTHCARE	3.3%
GPE BRUXELLES LAMBERT	FINANCIALS	3.3%
INTEL	INFORMATION TECHNOLOGY	3.3%
SANOFI	HEALTHCARE	3.2%

GEOGRAPHIC DISTRIBUTION



COMMENTARY

Hunt for elusive income turns to niche investments

Managers look to student digs, GP surgeries and peer-to-peer for returns

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SEPTEMBER 30, 2016 by: Aime Williams

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Buttonwood

An emerging threat

Investors are buying emerging-market bonds as the fundamentals are deteriorating

Oct 8th 2016 | From the print edition

We chose to open this quarterly commentary with a couple of recent headlines from the FT and The Economist. In a world of low (and even negative) interest rates, the quest for income is increasingly topical, and while we may be far from the excesses of other times, yields on many risky assets do not compensate fairly for the probability of capital loss in our opinion. At this point in time we remain vigilant in our scrutiny of existing and prospective holdings. We are selective in the stocks that we buy and we strive for a well-diversified portfolio. In accordance with our value investment philosophy, we search for good businesses, with defensible moats and strong fundamentals, while rejecting excessive leverage and business risk. If possible, we try to be opportunistic and are on the lookout for any market dislocation, but **always within Setanta's circle of competence**. In doing so, we often draw on the experience of the other portfolio managers here.

Last quarter, we bought shares in **Redes Energeticas Nacionais (REN**). REN operates the high voltage electricity transmission lines and the high pressure transport of natural gas in mainland Portugal under a public service concession from the Portuguese government. 100% of its revenues derive from energy transmission tariffs charged on customers' electricity and gas bills, which are calibrated so that REN earns a fair market return on the capital it invests in vital national infrastructure after efficiently covering its costs. The rate of return is set with reference to long term Portuguese government bonds. These are long life infrastructure assets with stable and predictable cash flows, and as such, REN has ready access to debt finance, which is managed conservatively (this was also the case through the recent credit crunch). The company's assets provide a natural hedge against increases in the cost of capital, as allowed returns on capital reprice with market interest rates, making for an attractive investment in our opinion. However, as ever, we are mindful of what can go wrong. Portugal's economy is vulnerable, having accumulated substantial debt in the aftermath of the Global Financial and Euro crises. REN already bears a special levy of 0.85% on the value of its assets, and if Portugal's fiscal condition deteriorates, this tax could be seen as an easy source of revenue. Our purchase of shares in REN was at a slight premium over the regulated value of assets, providing a dividend yield of 6.5%.

Richemont owns of some of the most iconic luxury jewellery, and watch, brands in the world, including Cartier, Van Cleef & Arpels, Jaeger LeCoultre and Baume & Mercier. Branded luxury has been an extraordinary business for a long time. Brand owners have been able to exercise pricing power consistently, producing high cash flow returns on capital and creating substantial shareholder value. Richemont has difficulties in recent times as the Chinese economic slowdown, and a clampdown on material excesses by the Communist Party there affected sales both in mainland China and also in a number of Chinese tourism destinations. In Hong Kong, a top market for watches, Swiss exports dropped in June by 29% year on year. As the share price fell we took the opportunity to build a position in the Fund. At our purchase price, Richemont had net cash equivalent to 17% of its market capitalisation, traded on 6% trailing free cashflow to enterprise value and had a 3.0% dividend yield.

Richard Doyle & David Pastor – Portfolio Managers

COMMENTARY

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