

## Setanta Dividend Fund – Q4 2016

### 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



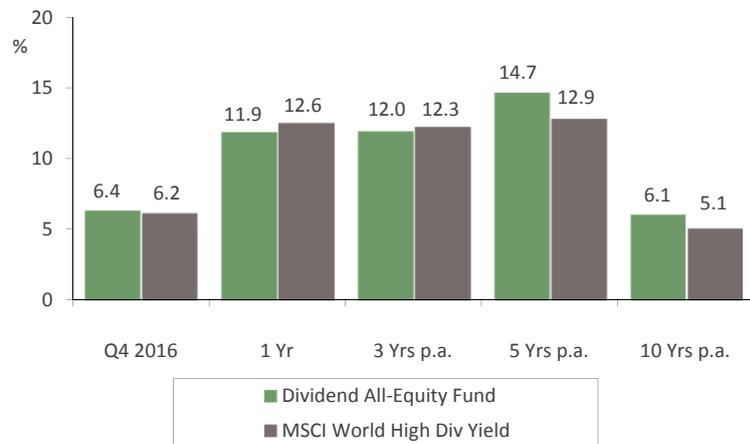
\*e.g. Dimson, Marsh and Staunton, 2011

### 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 – 31.12.16



## YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016
<b>Fund</b>	15.6	22.4	11.9	12.2	11.9
<b>Benchmark</b>	10.9	16.6	16.7	7.8	12.6

**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)

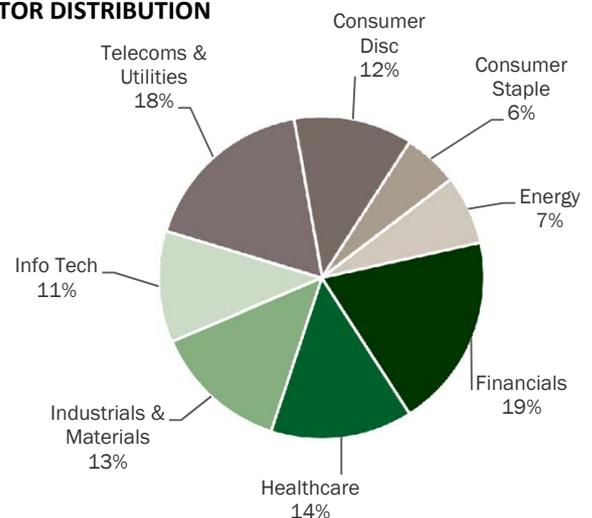
## TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	4.3%
SANDVIK	INDUSTRIALS & MATERIALS	4.0%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.9%
NOVARTIS	HEALTHCARE	3.9%
SANOFI	HEALTHCARE	3.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.5%
NATIONAL OILWELL	ENERGY	3.4%
PEOPLE'S UNITED FINANCIAL	FINANCIALS	3.3%
INTEL CORP	INFORMATION TECHNOLOGY	3.3%
TELIA COMPANY	TELECOMS & UTILITIES	3.3%

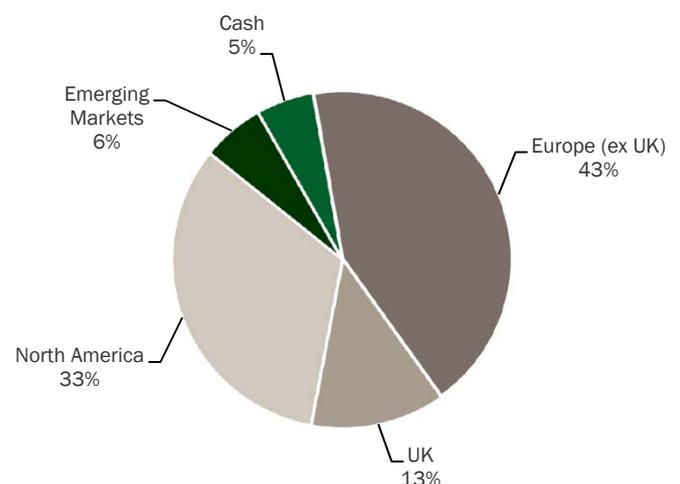
## FUND STATISTICS

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	15.9
DIVIDEND YIELD %	3.4
AVERAGE MARKET CAP €BN	51.6
NO. OF HOLDINGS	35
DEBT/EQUITY %	54.0
ACTIVE SHARE %	81.8

## SECTOR DISTRIBUTION



## GEOGRAPHIC DISTRIBUTION

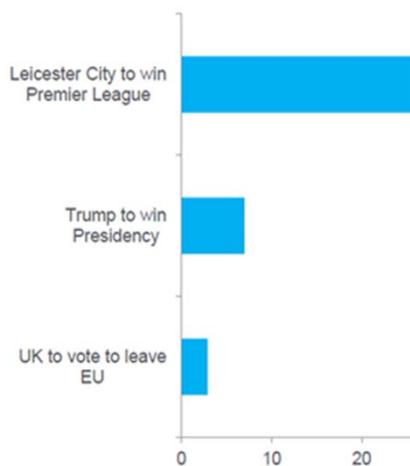


2016 was the year of the upset – Leicester City, Donald Trump, Nigel Farage and closer to home, the rise of (political) independents and Connacht rugby. Nobody told equity markets! Most major markets performed strongly (see graph below; source: Citi), continuing their largely uninterrupted upward trend since March 2009; the fund’s benchmark, the MSCI High Yield index climbed 12.6% (measured in euro terms). Indeed, despite anticipating the opposite, market participants appeared to embrace the unexpected; witness, the strengthening of the dollar post Donald Trump’s electoral triumph, while the UK equity market more than absorbed the post-Brexit weakness in sterling, to continue to rise in value.

## What was the most striking feature of 2016?

### The improbable not only happened...

Bookmaker odds offered at start of 2016, return on \$1 invested



Source: Betfair, Paddy Power, William Hill.

### ...it did so without ruffling markets

2016 total return by asset class, %



Source: Bloomberg, HFR, Yield Book, MSCI, Citi Research.

Units in the Dividend Fund increased in value by almost 12% over the past year. This follows increases of 12%, 12%, 22% and 16% over the prior four years; over the past five years, the fund has thus posted a cumulative average increase of almost 15%. It’s worth reflecting on this, in case we take such increases for granted. In historic terms, an increase in real value over those five years of around 13.5% (i.e. allowing for inflation of 1.5%) is well above the very long-term average real return on equities of around 6%, as found by Dimson, Marsh and Staunton’s study of financial markets since 1900. So many years of plenty is unusual and the extraordinary monetary policy of this time is unprecedented, both in duration and magnitude, a potentially uncomfortable connection. Indeed, cyclically-adjusted indicators, such as Schiller’s ‘CAPE’ metric suggest that the current valuation of some markets is well above their long-term average. Nonetheless, as ever, our mandate remains to sieve and sift through the aggregate of the market and find a collection of roughly 30 – 40 individual stocks, which we believe will increase the value of the fund’s units over the long-term.

Laying the foundations for the coming years is an ongoing task, as the horizon is ever-shifting. In this regard, we are satisfied with the major new additions to the fund this year: Cisco, Harley Davidson, Procter and Gamble, Merlin, REN and Richemont. Generally speaking, these are businesses with strong ‘moats’ around them, solid balance sheets and good cash generation. Their dividend yields at the times of acquisition were on average almost 4.0%. We sold the entirety of our holdings in Pearson, Tesco, Diamond Offshore, Pfizer, NTT Docomo, Sasol and CRH during the year. In the case of the first three companies, we underestimated structural challenges facing them and a severe cyclical downturn for Diamond Offshore; the elimination of their dividends for the foreseeable future by both Tesco and Diamond were pertinent factors too. On a more satisfactory note, the sales of NTT Docomo, CRH, Pfizer and Sasol generally followed long and profitable holding periods and at valuations that we found increasingly hard to justify given the investment cases at that point. In addition, we also ‘lost’ our holding in Wincor Nixdorf, following its cash and shares acquisition by its peer, Diebold.

In recent years, holding cash of around 5 – 10% (6% on average through 2016) as markets have risen has been ‘wrong’ in a narrow sense, detracting from relative performance, but remains a decision with which we are comfortable. If we do not have an adequate replacement for an exiting stock, rather than mechanically, and somewhat blindly, attributing cash to our remaining holdings, we generally prefer to either selectively boost current holdings that might have recently underperformed (with investment cases intact) or simply wait for the next good opportunity.

As previously noted, we are much more concerned about performance over the long-term, than over a year (or indeed, a quarter or a month, the timeframe of focus of some investment firms). This is in recognition of the cycles to which markets are prone, not to mention the ‘noise’ continuously being generated in this age of instant, and often erroneous, information. Over three, five and ten years, the fund’s units have increased in value by cumulative annual averages of 12.0%, 14.7% and 6.1% respectively, outperforming the benchmark over five and ten years, while being slightly behind over three years.

*Richard Doyle & David Pastor – Portfolio Managers*

## Contact Details:

Setanta Asset Management Limited,  
Beresford Court,  
Beresford Place, Dublin 1, Ireland.

Alan Hickey, Tel: + 353 1 612 4903  
Email: [alan.hickey@setanta-asset.com](mailto:alan.hickey@setanta-asset.com)  
[www.setanta-asset.com](http://www.setanta-asset.com)

## IMPORTANT INFORMATION

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 also available on a segregated basis or a UCITS mutual fund via Beresford Funds plc. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See ‘WARNING’ and IMPORTANT INFORMATION’ below.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2, Ireland. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

**WARNING:** Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance