

Setanta Dividend Fund – Q4 2017

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



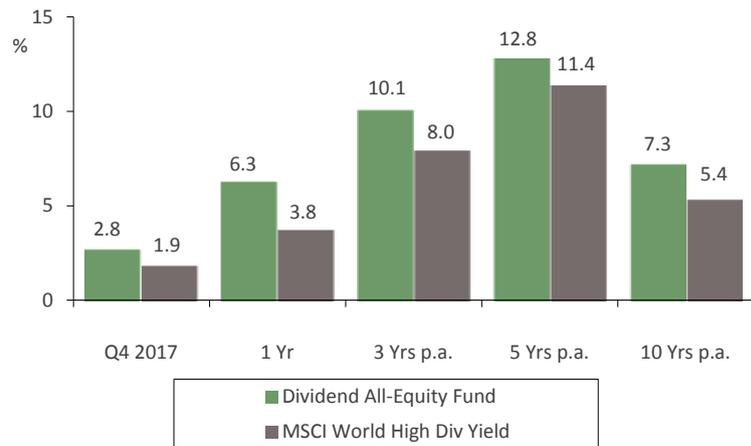
*e.g. Dimson, Marsh and Staunton, 2011

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 – 31.12.17



YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016	2017
Fund	15.6	22.4	11.9	12.2	11.9	6.3
Benchmark	10.9	16.6	16.7	7.8	12.6	3.8

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)

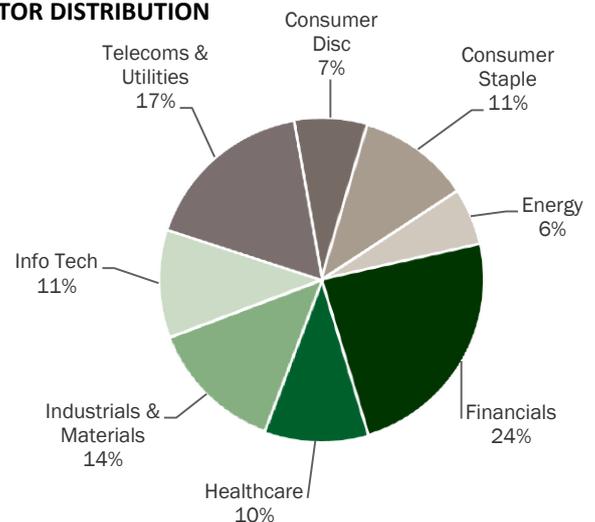
TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
INTEL CORP	INFORMATION TECHNOLOGY	3.9%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	3.8%
LANCASHIRE HOLDINGS	FINANCIALS	3.8%
SK TELECOM	TELECOMS & UTILITIES	3.6%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	3.6%
PROCTER & GAMBLE	CONSUMER STAPLES	3.2%
GROUPE BRUXELLES LAM	FINANCIALS	3.2%
SWEDISH MATCH	CONSUMER STAPLES	3.2%
FEDERATED INVESTORS	FINANCIALS	3.1%
PEOPLE'S UNITED	FINANCIALS	3.0%

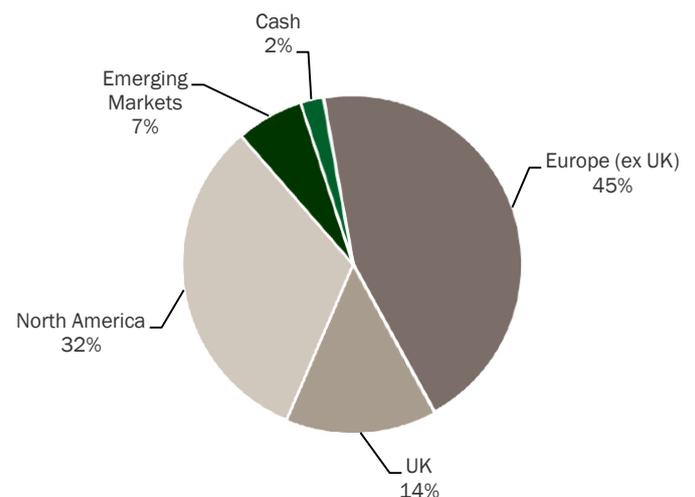
FUND STATISTICS

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	16.0
DIVIDEND YIELD %	3.3
AVERAGE MARKET CAP €BN	52.0
NO. OF HOLDINGS	38
DEBT/EQUITY %	52.9
ACTIVE SHARE %	79.6

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



On many measures, 2017 has been a placid year. A combination of low interest rates, widespread economic growth, and strong corporate earnings have collaborated to produce another good year for equity markets. The main equity indices of the world, translated into euro terms, posted strong returns (e.g. S&P up 7%; Eurostoxx 600, up 11%). The fund's benchmark, the MSCI World High Dividend Yield (net), measured in euro, increased more modestly, 3.7%, while the fund itself increased by 6.3% on a per unit basis, gross of fees. There were numerous positive contributors to the fund's positive relative performance. Chief amongst them were: Euler Hermes, which benefitted from a buyout bid from its parent; Sandvik, favourably exposed to an uptrend in global industrial production; and TSM, a well-placed beneficiary of strong global demand for semi-conductors. The fund's absolute and relative returns over long-term periods continues to be strong.

The Dividend Fund is a portfolio of stocks that currently offers an above-average income yield, based on stocks that have the capacity and commitment to continue paying these dividends. These companies are a mixture of mature and growing businesses, which generally have resilient, cash-generating capabilities that have stood the test of time. Many of the portfolio's holdings have long track records of paying and growing their dividend. Some others, operating in more cyclical industries, have cut their dividend in times of strife, but retaining their structural advantage, have subsequently resumed dividend growth through the economic upswing.

Of the portfolio's 38 holdings, 27 raised their ordinary dividend during 2017, while two cut theirs. Nearly half of the fund's current holdings have track records of at least a dozen years of stable or growing dividends, a period which includes the financial crisis of 2007 - 2008. Indeed, we estimate that dividends represent just under a third of the fund's 12.8% per annum return (gross of fees) over the past five years, a solid underpinning for its future prospects. The remainder has come from capital growth, whether due to a greater level of profits or a higher valuation being placed on those profits.

Purchased	Sold
BASF	Diebold Nixdorf
Federated Investors	Fortum
National Grid	Mattel
Austrian Post	
Origin Enterprises	
Swedish Match	

In the table above, we detail major changes to the portfolio in 2017. During the last quarter of the year, we acquired a position in BASF, a German-based specialty chemicals company dating from 1866. We believe that BASF is favourably positioned to prosper in the future. It is focused on higher-margin chemical products that enhance performance of and \ or are customised for its customers. It also has substantial scale in commodity chemicals which supports the businesses of these higher-margin products. At the core of how it operates is the concept of 'Verbund', loosely translated as 'integration'. In contrast to most of its peers in the industry, BASF aims to integrate as much of its business as possible, encompassing not just the operational facilities, but reaching through to corporate functions, so that ideas are shared and synergies are continuously harvested. We believe that this strategy has created, and will continue to create, excellent financial performance. BASF has an outstanding record of creating value over the last ten years (Return on Equity has been close to 20% over that period). It has consistently generating substantial amounts of free cashflow, which in turn have buttressed an attractive dividend (nearly 4.0% at the time of our purchase).

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