Setanta Dividend Fund

Q2 2020

Fund Description

The **Dividend 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

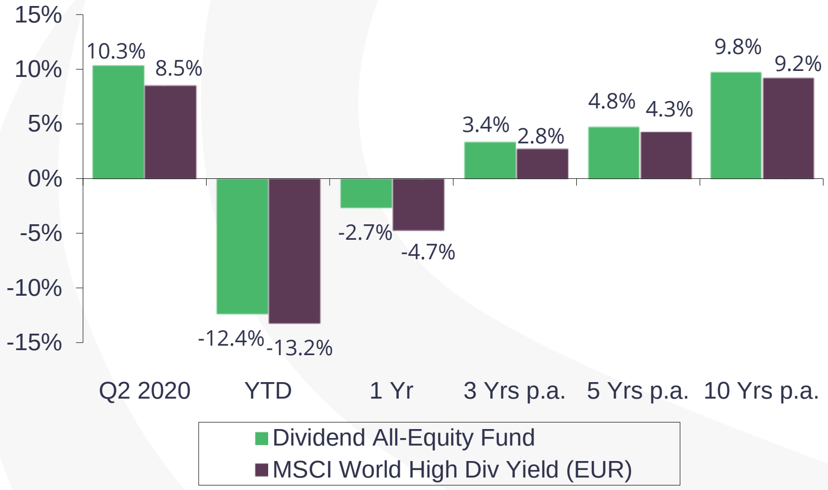
We consider scenarios rather than making forecasts

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

Fund Performance – 30.06.2020 (EUR)



Yearly Performance

Year %	2015	2016	2017	2018	2019
Fund	12.2	11.9	6.3	-2.0	24.0
Benchmark	7.8	12.6	3.8	-2.9	25.4

Performance Source: The Fund returns since 30.09.07 are based on the movements in the unit prices of the ILA/CLI Setanta Dividend Equity Fund [IEC7601] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. The unit prices prior to this are based on a net of fee price, adjusted for the management charge to replicate a gross of fee performance. **Benchmark:** MSCI High Yield Index (100% Euro). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg (metrics include Financials). *Calculated using Index Method

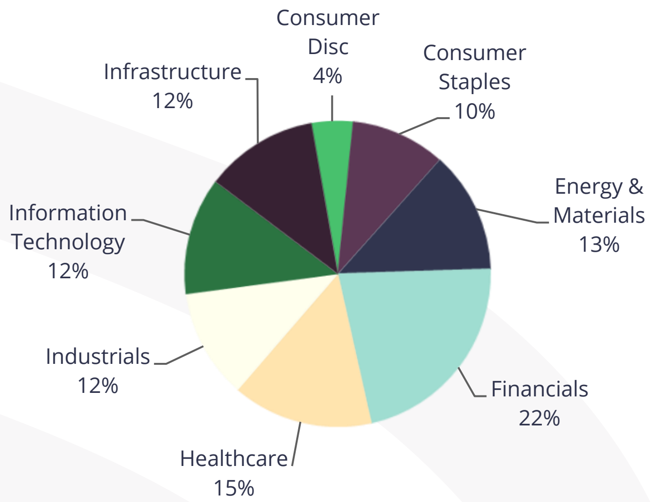
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CISCO SYSTEMS	INFORMATION TECHNOLOGY	4.1%
SMITHS GROUP	ENERGY & MATERIALS	3.9%
GLAXOSMITHKLINE	HEALTHCARE	3.7%
LANCASHIRE HOLDINGS	FINANCIALS	3.6%
SAMPO OYJ	FINANCIALS	3.4%
PROCTER & GAMBLE	CONSUMER STAPLES	3.3%
NOVARTIS AG	HEALTHCARE	3.2%
SANOFI	HEALTHCARE	3.0%
COCA-COLA AMATIL	CONSUMER STAPLES	2.9%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	2.8%

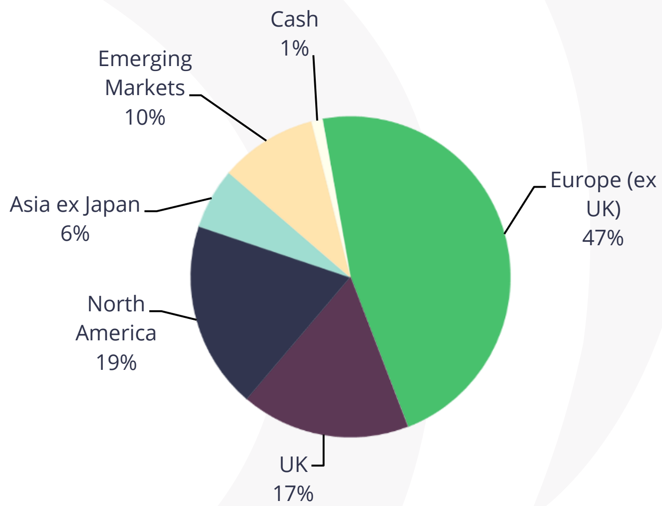
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	16.2
DIVIDEND YIELD %*	3.9
AVERAGE MARKET CAP €BN	65.8
NO. OF HOLDINGS	42
DEBT/EQUITY %	54.5
ACTIVE SHARE %	78.9

Sector Distribution



Geographic Distribution



SETANTA
Asset Management

Commentary

Following the fastest 30% decline in history earlier this year, the S&P500 proceeded to record its quickest recovery from a low in almost a century. Global markets were accompanied by suitably elevated volatility[1]. The famous assertion by Ben Graham, father of value investing, that "in the short run, the market is a voting machine but in the long run, it is a weighing machine" seems especially apt at this time. We've seen a threefold surge in stock market 'voting' by retail investors in the US this year[2], with some retail platforms giving investing the look of an online gaming platform while numerous popular social media accounts tout stocks as punts without mention of financials. Government and Central Bank participation in markets has also been elevated; the Federal Reserve, for example, has injected a massive $3 trillion since the start of the year.

We wish to remind you though, that while everything has changed, in one sense nothing has changed. By this we mean that we continue to live in an unpredictable world and it is for precisely this reason that at Setanta Asset Management we have always sought businesses with strong balance sheets and considered their ability to withstand a range of scenarios rather than trying to forecast. These are key tenets of our investment strategy. Strong balance sheets offer protection against the unexpected, in turn enabling us to first and foremost preserve your capital. We continue to implement these principles, which we believe are now as important as ever.

Last quarter we spoke about the unprecedented fall in equity markets and the fact that our investments had fallen in line with this generally. Due to the unusual blanket shut-down nature of the recession it was important for us to reassess the businesses we hold and their prospects in the face of the new specific risks, threats and cash commitments facing them. While short term trading has been affected, we believe permanent damage will be limited, with our review triggering a sale otherwise. We believe that overall the businesses we hold are well positioned to survive and thrive as they come out the other side of this, with many of their competitors in weaker positions.

During the quarter, we increased our holdings in companies with strong balance sheets which we believe are well positioned to navigate the challenges facing their industry such as **Sandvik**. We added to companies which we think will benefit from the current crisis and we took advantage of opportunities to acquire quality companies at reasonable valuations, such as **Medtronic**, though unfortunately such opportunities were rare and short-lived. Some positions, like **Fortescue**, were reduced on valuation grounds.

[1]While volatility, as measured by the VIX Index, fell during the second quarter of 2020 it remains elevated at circa 50% higher than its 30 year average level.
[2]According to Goldman Sachs Global Investment Research, the number of positions held by Robinhood investors in S&P500 stocks tripled shortly after the market started to decline.

Commentary

The Fund climbed over 10% during the period, with Sampo, Lancashire and DCC plc being top contributors. **Sampo** recovered 15% during the quarter upon confirmation of low insurance exposure to Covid-19 claims, improved insurance underwriting margins and good solvency. Following regulator pressure on the industry to curtail dividends the market reacted positively to Sampo paying a dividend backed by its insurance earnings. Contrary to peers who will need capital to fund lumpy COVID-19 payouts, **Lancashire's** conservative underwriting is paying off with lower Covid-19 exposure and the company recently raised capital to advance as others retreat. **DCC** also reassured the market with its robust balance sheet and low debt, its high conversion of earnings to cash and its resilient business performance despite the lock down, including strong contributions from recent acquisitions and a dividend increase. Although we are comfortable that it will be a valuable long term contributor to the portfolio, NWS was a detractor from performance over this short time period. **NWS** is currently weighed down by political unrest in Hong Kong but should benefit from industrialisation and urbanisation trends in China through its toll roads and infrastructure exposure.

Having fallen over 30% since the start of the year we saw an opportunity to acquire a position in **Bangkok Bank** during the quarter. Bangkok Bank is among Thailand's top three banks. It is a well-established commercial bank with a large deposit base and a diversified loan book of large corporates and small to medium enterprises. It enjoys substantial market share in the corporate lending space but prioritises conservatism over market share gains. Cautioned by memories of the Asian and Global Financial Crises the management team maintains provisions exceeding normal loan losses and the bank prioritises being capitalised well in excess of regulatory requirements. It is generally more conservative in its capital buffers and its loan to deposit ratio than peers.

We acquired our position at an attractive price, when the company was valued at less than half of its book value and offering a dividend yield well above 5%. We had updated our investment case earlier in the year and following share price weakness associated with its acquisition of Permata Bank in Indonesia, we took the opportunity to take a position. We have been following Bangkok Bank at Setanta for more than 10 years.

Last quarter we prepared for dividend suspensions but believed that our holdings were well positioned from an ability to pay standpoint. We are reassured by the fact that relatively few of our companies have deviated from their dividend policies, while those that did appear willing to reassess the possibility of paying dividends later in the year.

Commentary

The Fund will again this year aim to continue to build attractive long-term performance through its mix of quality, dividend paying, value stocks.

While parts of the economy remain completely closed, it is difficult for some of our businesses to prove their comparative resilience and strength for now. Our exposure to COVID-fighting healthcare companies and work-from-home internet businesses is more limited than their representation in broad equity indices. Is Zoom really worth over 500x earnings or loss-making Novavax worth 300x sales? We don't know but we won't be gambling your money on it. We believe that we hold a set of good quality businesses with competitive advantages which should do well over the long term. We would expect fundamentals to eventually be reflected in prices as the world reopens, once businesses can compete with each other again and as we move through the stages of this recession.

**All figures are stated in euro, while those specifically relating to fund performance are also stated gross of fees.*

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IMPORTANT INFORMATION

The Dividend Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the Dividend Equity strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Dividend Equity Fund [IEC7601]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

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