

# Setanta Dividend Fund

Q1 2021

## 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 Fund 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 Dividend 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

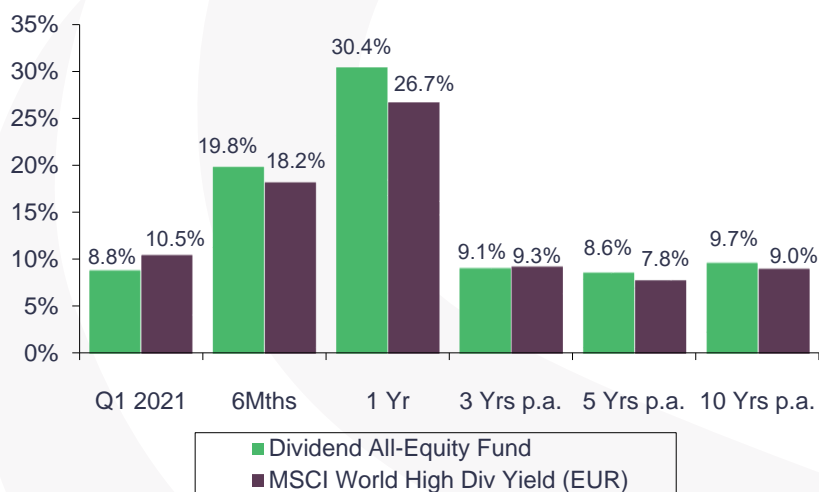
We consider scenarios rather than making forecasts

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 – 31.03.2021 (EUR)



## Yearly Performance

| Year %           | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|------|------|------|------|------|
| <b>Fund</b>      | 11.9 | 6.3  | -2.0 | 24.0 | -4.8 |
| <b>Benchmark</b> | 12.6 | 3.8  | -2.9 | 25.4 | -8.3 |

**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.

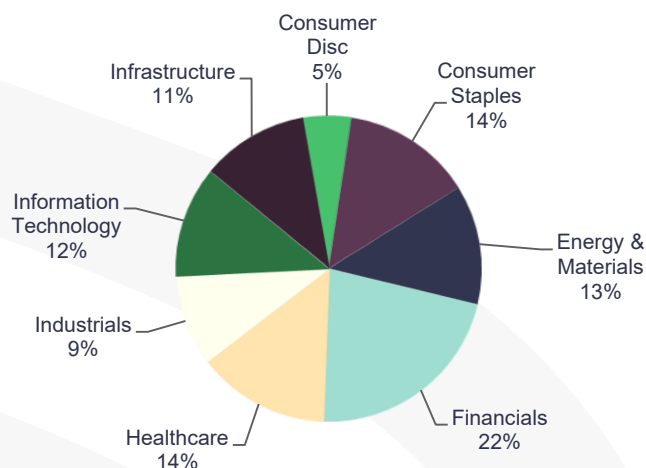
## Top 10 Holdings

| COMPANY               | SECTOR                 | % OF FUND |
|-----------------------|------------------------|-----------|
| COCA-COLA AMATIL      | CONSUMER STAPLES       | 4.4%      |
| SAMPO OYJ             | FINANCIALS             | 4.0%      |
| SK TELECOM            | INFRASTRUCTURE         | 3.2%      |
| CISCO SYSTEMS         | INFORMATION TECHNOLOGY | 3.1%      |
| TAIWAN SEMICONDUCTOR  | INFORMATION TECHNOLOGY | 3.1%      |
| SMITHS GROUP          | ENERGY & MATERIALS     | 3.0%      |
| PROCTER & GAMBLE      | CONSUMER STAPLES       | 3.0%      |
| SAMSUNG ELECTRONIC    | INFORMATION TECHNOLOGY | 2.9%      |
| GPE BRUXELLES LAMBERT | FINANCIALS             | 2.9%      |
| GLAXOSMITHKLINE       | HEALTHCARE             | 2.9%      |

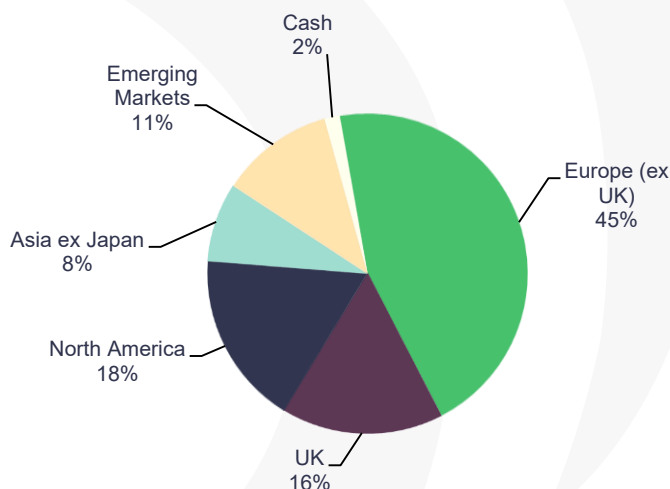
## Fund Statistics

|                             |      |
|-----------------------------|------|
| PRICE/BOOK                  | 2.5  |
| PRICE/EARNINGS RATIO (FY 1) | 16.2 |
| DIVIDEND YIELD %*           | 3.5  |
| AVERAGE MARKET CAP €BN      | 89.1 |
| NO. OF HOLDINGS             | 40   |
| DEBT/EQUITY %               | 56.1 |
| ACTIVE SHARE %              | 77.5 |

## Sector Distribution



## Geographic Distribution





# Commentary

At the onset of the Covid-19 pandemic unprecedented fiscal stimulus was unleashed to prevent a pandemic-induced recession. These injections resulted in an abundance of cash in what was already an ultra-low interest rate world, fuelling further risk and debt appetite. As we round the first anniversary of the pandemic, we reflect on some of the consequences of this abundance, with examples surfacing this quarter in retail trading, debt-fuelled investments and in markets in general.

We commented last year on the post-Covid surge of retail investors and their ability to effect market moves through their use of social media, but this phenomenon was dramatically demonstrated early in the first quarter when GameStop shares jumped over 350%. Retail investors, mobilised through Reddit, bet heavily on the video game retailer in a bid to realise ‘the demise of Melvin Capital’<sup>1</sup> – one of a number of short sellers whose losses mounted as the share price soared. Caught off-guard, retail trading platforms, including Robinhood, temporarily halted retail access, precipitating further wild swings in the stock over the following days. Both Melvin and Robinhood were forced to seek emergency cash injections of over \$2bn from investors.

The perils of significant financial leverage were also highlighted as the quarter drew to a close, when Archegos Capital was unable to deposit additional collateral for substantial positions it had amassed using leverage provided by some of the world’s largest investment banks. These banks raced to liquidate the leveraged positions in fire sales which saw over \$20b of stock dumped into the market causing some share prices to plummet over 30% intraday and yielding lending losses estimated at \$7bn.

Meanwhile, most global equity indices have rallied above the all-time highs they had reached shortly before the pandemic, with the Fund’s benchmark, the MSCI World High Dividend Yield Index, doing so during the first quarter. Expectations of higher interest rates and inflation took hold over the quarter pushing bond yields higher, with the US 10 year Treasury yield increasing 80 basis points returning it to pre-pandemic levels. While market conditions have been turbulent and the outlook is uncertain, we reiterate our view that holding a balanced portfolio of good quality companies with strong market positions underpins the Fund’s ability to withstand a host of scenarios. The Fund’s long term performance has been achieved across time periods in which interest rates, inflation rates and exchange rates have fluctuated and monetary policy has oscillated between easing and tightening. We believe that prudence in avoiding poor business models and highly leveraged companies is rewarded, with solid companies better poised to grow cash flows over time.

The Fund climbed 8.8% over the first few months of the year, with Cisco, Intel, Exxon and NWS among its top contributors. After lagging the broader IT sector last year, **Intel** and **Cisco** played catch up in the first quarter of 2021, outperforming the sector as growth expectations and optimism returned. Cisco is showing signs of progress in its move to a subscription model and an uptick in IT spend by Cisco’s customers, whose IT activities have been in firefighting mode for much of the past year, is being anticipated. During the quarter, veteran chip designer Pat Gelsinger returned to Intel, joining as CEO. He recently announced that Intel has resolved the technical issues which have been delaying production of its next generation of semiconductor chips and that it plans to beef up its foundry business.

Oil prices endured a significant decline last year due to the impact of Covid-19 on worldwide production and transport. As the world began to reopen, the price of oil, and indeed many commodities, bounced in 2021 with **Exxon’s** share price trajectory closely tracking oil price moves. We believe Exxon is a disciplined company which will continue to generate good returns.

**NWS** also benefitted from positive economic sentiment during the quarter swinging from a detractor in 2020 to one of the top contributors in the 1<sup>st</sup> quarter of 2021. The market was pleasantly surprised by the company’s positive results announcement and the reiteration of its dividend policy. NWS is well placed to take advantage of the industrialisation of China over the long term.

<sup>1</sup>“Melvin Capital, GameStop and the road to disaster”, FT, 6/02/2021

# Commentary

During the quarter we purchased for the Fund a position in **Nestlé**, a well invested consumer-focused conglomerate. While Nestlé is renowned for KitKats and Nescafé, it in fact boasts a diverse and differentiated portfolio of market leading brands in attractive categories, with core focus areas including pet care, premium waters and coffee. Its Purina brand is the world's number 2 in pet food.

In addition to maintaining sensibly low levels of debt and a focus on generating good returns, Nestlé converts over 90% of its net income to cash. It has demonstrated a strong commitment and capacity to pay dividends with a track record of dividend payments exceeding 75 years and dividend growth extending to 25 years.

Since the appointment of new management 4 years ago we have seen some positive changes at Nestlé including a refinement of the company's strategic direction and a focus on reducing bureaucracy to improve the agility and speed with which new products can be brought to market. We acknowledge the inclusion of a returns metric in management compensation conditions and we expect Nestlé to generate a solid return over the life of our investment supported by its strong growth prospects and a dividend yield of 2.7%.

*\*All figures in euro, unless stated otherwise; fund performance figures 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](http://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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