

# Epoch Global Equity Shareholder Yield (Hedged)

JUNE 2022

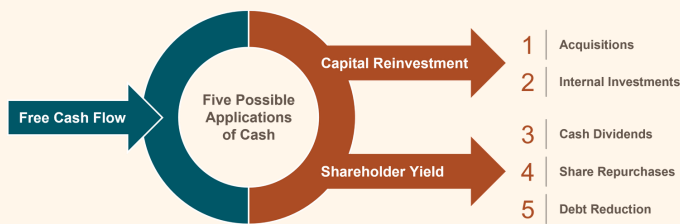
## Fund Overview

### INVESTMENT PHILOSOPHY

Epoch believes the key to understanding a company requires a focus on the cash generation drivers of the business and how management allocates that cash to benefit shareholders. Rather than traditional accounting-based metrics such as price-to-earnings or book value, a company's value is derived from its ability to generate free cash flow. Management's ability to allocate cash flow effectively determines whether the company's value rises or falls.

Companies in the portfolio possess management teams that focus on creating value for shareholders through consistent and rational capital allocation policies with an emphasis on cash dividends, share repurchases and debt reduction — the key components of shareholder yield.

#### Companies Maximize Returns Through Disciplined Capital Allocation



*A company should reinvest capital if the expected return on invested capital is greater than the company's cost of capital. Remaining free cash flow should be returned to shareholders via shareholder yield.*

### INVESTMENT APPROACH

The Fund invests in companies that grow free cash flow and allocate it intelligently

- Income generation from global equities, paid quarterly
- Benchmark unaware, diversified portfolio of 90-120 global companies, including many household names
- Provides diversification of income sources and free cash flow growth
- Fund's holdings have history of increasing dividends
- Low turnover (av.20% p.a.)
- Has consistently delivered significant downside protection

## Performance as at 30 June 2022

|                                  | 1 month % | 3 months % | 1 year % | 3 years % | 5 years % pa | 7 years % pa | 10 years %pa | Since Inception <sup>1</sup> % pa |
|----------------------------------|-----------|------------|----------|-----------|--------------|--------------|--------------|-----------------------------------|
| <b>Distribution</b> <sup>2</sup> | 0.77      | 0.76       | 1.18     | 4.14      | 4.14         | 6.64         | 7.87         | 8.75                              |
| <b>Growth</b>                    | (7.44)    | (7.98)     | (2.39)   | (0.54)    | (0.11)       | (1.32)       | 0.11         | (1.86)                            |
| <b>Total Return</b> <sup>3</sup> | (6.67)    | (7.22)     | (1.21)   | 3.60      | 4.03         | 5.32         | 7.98         | 6.89                              |
| <b>Benchmark</b> <sup>4</sup>    | (8.10)    | (15.10)    | (12.51)  | 6.36      | 7.33         | 7.81         | 11.29        | 7.45                              |

<sup>1</sup> Inception date: 15 May 2008

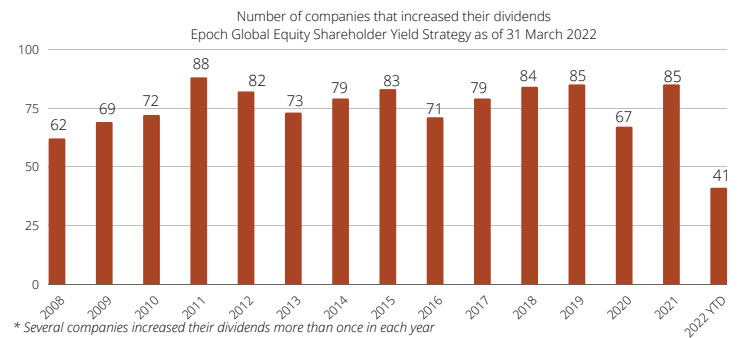
<sup>2</sup> Distribution may include income, realised capital gains, and any return of capital

<sup>3</sup> Fund returns are calculated net of management fees and assume distributions are reinvested

<sup>4</sup> MSCI World ex- Australia Index Net dividends reinvested, 100% hedged into \$A\*

## Fund Characteristics

### HOLDINGS HAVE A HISTORY OF RAISING DIVIDENDS



\* Several companies increased their dividends more than once in each year

Source: Epoch Investment Partners, Inc. This data shown is for a representative account. Such data may vary for each fund in the strategy due to market conditions, investment guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time.

### HISTORY OF PROTECTION IN DOWN MARKETS

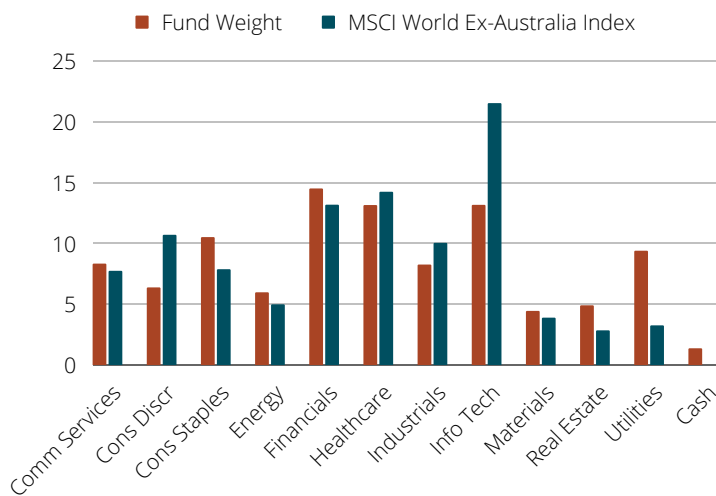
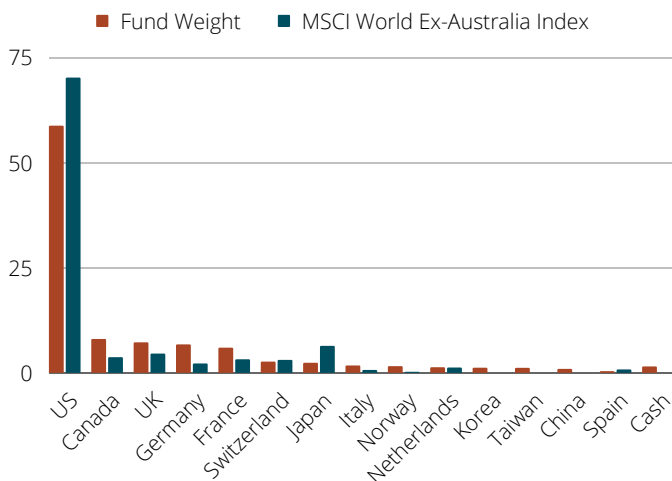
| When Market Was Negative (45 out of 167 periods)  | When Market Was Down >5% (24 out of 167 periods)  | Upside Participation with Protection in Down Markets in 167 rolling three month periods since the portfolio's inception.                                    |
|---|---|---|
| Portfolio outperformed<br><b>80%</b><br>of the time<br>By an average of<br><b>4.87%</b> | Portfolio outperformed<br><b>88%</b><br>of the time<br>By an average of<br><b>5.32%</b> | Return period from 31 May 2008 to 30 June 2022.<br>Market represented by the MSCI World ex- Australia Index Net dividends reinvested, 100% hedged into \$A. |

Source: GSFM as of 30 June 2022

### PORTFOLIO CHARACTERISTICS

| Characteristics                | Portfolio | Index |
|--------------------------------|-----------|-------|
| Number of Equity Positions     | 111       | 1454  |
| Dividend Yield (%)             | 4.0       | 2.1   |
| Return on Equity               | 23.0      | 23.5  |
| Enterprise Value to EBITDA (x) | 10.7      | 13.6  |
| Predicted Beta                 | 0.8       | 1.0   |
| 12-Month Turnover (%)          | 26.0      | --    |
| Active Share                   | 78.8      | --    |

**Past performance is not a guide to future performance**

**SECTOR ALLOCATION**

**REGIONAL ALLOCATION**

**TOP 10 HOLDINGS**

|                          | Sector                 | Dividend Yield % |
|--------------------------|------------------------|------------------|
| IBM                      | Information Technology | 4.7              |
| AbbVie, Inc.             | Health Care            | 3.5              |
| Philip Morris Int. Inc.  | Consumer Staples       | 5.1              |
| Broadcom Inc.            | Information Technology | 3.3              |
| TotalEnergies SE         | Energy                 | 5.2              |
| Astrazeneca              | Health Care            | 2.1              |
| Microsoft Corporation    | Information Technology | 0.9              |
| British American Tobacco | Consumer Staples       | 6.1              |
| Novartis AG              | Health Care            | 3.8              |
| Deutsche Telekom AG      | Communication Services | 3.4              |

*The data presented in these tables and graphs is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of any future portfolio characteristics.*

**Manager Commentary**
**Market Review**

Stocks tumbled, reacting to faster inflation, more aggressive central banks, higher interest rates and growing fears of a recession. The headline CPI rate rose to 8.6% in both the U.S. and the euro area, catching investors off guard and calling into question the "peak inflation" narrative. Even Japan, long associated with deflation, saw its inflation rate hit 2.5%. Profit margins came under scrutiny, with some companies reporting difficulty in passing on inflation costs to their customers. A majority of sectors had double-digit declines, with information technology shares falling the most. The energy sector along with the defensive areas of health care, consumer staples and utilities had the smallest losses.

The Federal Reserve raised short-term rates twice and indicated it was willing to risk a recession in its quest to achieve price stability. The 10-year Treasury yield surged to 3.48% in June before settling below 3% by the end of the period. Christine Lagarde, head of the European Central Bank, outlined a rationale for the ECB to turn away from a decade of aggressively dovish monetary policy and committed the bank to two interest rate hikes by September. The German 10-year bund yield, which was negative at the beginning of March, ended the period at 1.36%. The Bank of Japan remained an outlier in keeping a lid on interest rates. The war in Ukraine and China's Covid Zero lockdowns continued to hamper supply chains, dampen economic growth, and contribute to inflation.

Growth forecasts by the major central banks and the OECD were downgraded in June. The U.S. economy contracted at a 1.6% rate in the first quarter. While they continued to indicate an expansion, PMI indicators in the U.S. and Europe slumped from their elevated levels. On the positive side, labour markets remained robust, with unemployment declining in most developed markets. The U.S. dollar strengthened against other major currencies; the euro approached parity while the yen breached the 130-per-dollar mark for the first time in 20 years.

**Portfolio Review**

In very challenging market conditions, the Fund posted a negative return for the quarter, with key positive contributions from Health Care, Consumer Staples and Utilities sectors being offset by Information Technology and Financials. Semiconductor stocks were primarily responsible for challenging performance in Information Technology, as the industry underperformed on reports of weakening consumer demand. European insurance firms accounted for the bulk of Financials' detraction to return, as the sector in the region remains pressured by the ongoing war in Ukraine.

All sectors contributed to relative performance, with the largest contributions coming from Information Technology and Communication Services, Consumer Discretionary and Utilities sectors. A combination of sector allocation and stock selection drove the strong relative returns in Information Technology, with an underweight allocation to the poorly performing sector and exposure to an IT services stock with strong performance driving return, while stock selection fueled outperformance in Communication Services, as exposure to the only positive segment in the sector, diversified telecommunications services, was mainly responsible.

Among the largest individual contributors to return were IBM and Deutsche Telekom. IBM shares benefited from the consistent, recurring nature of IBM's business, which is likely to outperform during a slowing macro environment. IBM pays a well-covered, growing dividend. Deutsche Telekom shares outperformed on strong German results despite the Ukraine war disrupting Europe. The pending monetisation of its tower assets and strong U.S. performance from T-Mobile were all supportive of share strength. The company pays a well-covered dividend and is reducing debt in the U.S. post the Sprint merger.

Among the largest detractors were Broadcom and Cisco Systems. Broadcom is a designer and manufacturer of digital and analog semiconductors focused on connectivity. Shares underperformed as consumer demand weakness replaced concerns over supply chain issues. This was most apparent in PCs and Smartphones, particularly in China. As inventories stabilise and lockdowns become more infrequent, demand and production should normalise. Broadcom returns cash to shareholders via an attractive dividend, with a target of paying out 50% of free cash flow, and to fund debt reduction, share repurchases, and/or accretive M&A. Cisco is the world's largest supplier of routers and switches. Shares underperformed on the disclosure of large supply chain issues, particularly in power systems resulting from lockdowns in China. However, underlying demand appears to have remained strong, with performance obligations increasing during the quarter. Competitors likewise called out strength in the market from enterprise investment in network capabilities as employees return to the office and service providers invest in their 5G networks. The company has a policy of returning more than 50% of cash generation through a progressive dividend and share repurchases.

Positions were initiated in Keycorp and U.S. Bancorp. KeyCorp is a regional bank with branches in 15 states in the Northeast, Midwest, and Northwest U.S. The company has a valuable low-cost deposit franchise, diversified loan portfolio, and well-capitalised balance sheet, which should allow Keycorp to earn mid-teens returns on equity on a mid-cycle basis. KeyCorp has a history of returning capital to shareholders through consistent dividends and share buybacks, and we believe the company's high dividend coverage and attractive current and prospective shareholder yield make this a strong opportunity. U.S. Bancorp (USB) is a large regional bank serving retail and commercial clients throughout the Midwest and Western U.S. USB's low-cost deposit base and strong non-interest income streams allow it to earn mid-teens returns on equity on a mid-cycle basis. In addition, the company's pending acquisition of Union Bank of California strengthens USB's position on the West Coast and offers significant synergy opportunities. U.S. Bancorp pays an attractive growing dividend and regularly repurchases shares.

Positions were closed in Ally Financial and Target during the quarter to fund better shareholder yield opportunities.

### Outlook

The global macroeconomic outlook continues to be challenging. The war in Ukraine continues to pressure global economic growth and exacerbate supply chain issues. Additionally, despite increasingly aggressive monetary tightening by hawkish central banks, inflation remains elevated in the face of broad commodity price pressure and resilient demand. The probability of a recession within the next year has risen as central banks may find facilitating a soft landing for the economy difficult while facing stubborn inflation, falling consumer confidence, and high oil prices.

Against this backdrop it remains doubtful that we will see equity returns benefit from multiple expansion. Multiples for many long-duration stocks continue to come under pressure and are unlikely to expand in a slower growth, rising rate environment. Shareholder distributions are expected to be the most reliable, and perhaps most significant component of returns for the foreseeable future. Companies have accumulated large cash balances which should continue to lead to growing dividends and an increase in share buybacks. While earnings are bound to be pressured by the current macro backdrop, companies characteristic of the shareholder yield portfolio, those with strong market position, strong pricing power, and the ability to defend margins with efficiency steps, should prove capable of maintaining earnings and cash flow growth despite the challenging environment.

We remain focused on those companies that can generate free cash flow and have managements that have proven they can allocate cash effectively. Despite the ongoing challenging and volatile market environment, shareholder yield focused companies should hold up well and continue to deliver consistent and attractive dividend income, lower-than-market volatility, and good downside protection.

### Distributions

The Fund aims to pay distributions on a quarterly basis. A distribution of 0.6420 cents per unit will be paid for the quarter ended 30 June 2022.

### Fund Disclosure

The Fund has certain regular reporting and continuous disclosure obligations pursuant to the Corporations Act. All continuous disclosure notices are available at [gsfm.com.au](http://gsfm.com.au).

**See [gsfm.com.au](http://gsfm.com.au) for more information about the Epoch Global Equity Shareholder Yield (Hedged) Fund.**

**FUND FACTS****APIR CODE**

GSF0001AU

**MFUND CODE**

GSF01

**INCEPTION DATE**

15 May 2008

**DISTRIBUTIONS**

Quarterly

**INVESTMENT MANAGER**

Epoch Investment Partners Inc.

**RESPONSIBLE ENTITY**

GSFM Responsible Entity Services Ltd

**MANAGEMENT FEE**

1.30% P.A.

**BUY / SELL SPREAD**

Buy +0.20% / Sell -0.20%

**Important Information**

\*All data is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI assumes no liability for or in connection with the data. GSFM Responsible Entity Services Limited 48 129 256 104 AFSL 321 517 (GRES) is the responsible entity of the Epoch Global Equity Shareholder Yield (Hedged) Fund ARSN 130 358 440 and Epoch Global Equity Shareholder Yield (Unhedged) Fund ARSN 130 358 691 (collectively, the Funds). The Funds are registered as managed investment schemes under the Corporations Act 2001 (Cth). GRES has appointed Epoch as the investment manager of each Fund. Class A Units in each Fund are available for issue by GRES, as responsible entity of the Funds. The information included in this update is provided for informational purposes only. The information contained in this update reflects, as of the date of publication, the current opinion of Epoch Investment Partners, Inc (Epoch) and is subject to change without notice. Before making an investment decision in relation to a Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs. Prospective investors should read and consider the product disclosure statements for the Funds dated 26 March 2019 and the Additional Information to the Product Disclosure Statement which can be obtained from [www.gsfm.com.au](http://www.gsfm.com.au) or by calling 1300 133 451.

GSFM Responsible Entity Services has produced a Target Market Determination (TMD) in relation to the Epoch Global Equity Shareholder Yield Funds. The TMD sets out the class of persons who comprise the target market for the Epoch Global Equity Shareholder Yield Funds and is available at [www.gsfm.com.au](http://www.gsfm.com.au)

Past performance information given in this document is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance. None of GRES, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Funds or any particular returns from the Funds. No representation or warranty is made concerning the accuracy of any data contained in this document. This document is issued on 12 July 2022.