EPOCH GLOBAL EQUITY SHAREHOLDER YIELD FUNDS: QUARTERLY FUND UPDATE

EPOCH

31 December 2020

Performance

Unhedged

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception[1] % pa
Distribution[2]	0.49	0.52	4.40	7.38	7.22	7.61	6.56	5.40
Growth	(2.29)	2.89	(15.15)	(5.05)	(2.92)	(1.41)	3.07	1.01
Total Return[3]	(1.80)	3.41	(10.75)	2.33	4.30	6.20	9.63	6.41
Benchmark[4]	(0.50)	5.68	5.73	11.16	10.94	11.64	13.20	8.37

Hedged

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception[1] % pa
Distribution[2]	0.14	0.15	2.42	3.39	7.35	8.54	8.61	9.01
Growth	1.82	9.05	(8.98)	(2.04)	(2.13)	(2.79)	0.04	(2.15)
Total Return[3]	1.96	9.20	(6.56)	1.35	5.22	5.75	8.65	6.86
Benchmark[5]	3.45	11.73	10.57	9.02	11.41	10.45	11.94	8.38

1. Inception date: 15 May 2008
2. Distribution may include income, realised capital gains, and any return of capital
3. Fund returns are calculated net of management fees and assume distributions are reinvested
4. MSCI World ex- Australia Index in $A, net dividends reinvested*
5. MSCI World ex- Australia Index, Net dividends reinvested, 100% hedged into $A*

Past performance is not a guide to future performance

Fund facts

Sector allocation	Fund%	Index%[1]
Communication Services	8.0	9.0
Consumer Discretionary	6.7	12.3
Consumer Staples	11.7	7.7
Energy	4.7	2.7
Financials	13.1	12.3
Health Care	13.1	13.0
Industrials	8.1	10.5
Information Technology	15.0	22.2
Materials	4.6	4.1
Real Estate	2.6	2.6
Utilities	9.6	3.2
Cash	3.0	--
Unassigned	--	0.4
TOTAL[2]	**100.0**	**100.0**

1. MSCI World Ex-Australia Index in $A*
2. May not total 100 due to rounding

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.

Regional allocation	Fund%	Index%[1]
US and Canada	63.6	70.7
United Kingdom	6.4	4.4
Europe ex-UK	20.5	15.2
Asia ex-Japan	4.1	1.4
Japan	2.4	8.0
Australia and New Zealand	--	0.1
Other	--	0.2
Cash	3.0	--
Total[2]	**100.0**	**100.0**

Top 10 holdings	Sector	Dividend yield%
Verizon Communications	Communication Services	4.2
Allianz SE	Financials	4.8
Samsung Electronics Co.	Information Technology	1.5
AbbVie, Inc.	Health Care	4.4
Microsoft Corporation	Information Technology	0.9
Taiwan Semiconductor	Information Technology	1.2
Snam S.p.A.	Utilities	5.2
Nutrien Ltd.	Materials	3.8
IBM	Information Technology	5.2
Takeda Pharmaceutical	Health Care	4.8

In the Hedged Fund, the foreign currency exposure of the Fund is substantially hedged back into Australian dollars using foreign exchange contracts. While hedging activities undertaken in the Hedged Fund may protect investors from depreciations in the currencies in which the Fund invests (relative to the Australian dollar), they may also limit the benefit investors may receive, should those currencies appreciate in value relative to the Australian dollar.

The Hedged Fund gains exposure to global equity markets by investing its assets in the Unhedged Fund. References to the Fund in this Quarterly Update are to the underlying Unhedged Fund.

Market Review

Stocks surged following November announcements from Pfizer/BioNTech and Moderna that their respective mRNA vaccines for COVID-19 had high efficacy rates in late-stage trials. This was welcome news during a spike in new infections. Both vaccines were granted fast-track approvals from regulators. AstraZeneca subsequently reported positive results for its more traditional viral vector vaccine.

Broad-based indexes achieved record highs, with many sectors recording positive returns. Many industries hardest hit by the pandemic saw their shares rebound. The energy sector was the best-performing with a recovery in oil prices, followed by financials and consumer discretionary stocks. Consumer staples and health care detracted. Information technology provided market-like returns as investors weighed heightened regulatory scrutiny against the sector's leverage to secular growth and disruption themes.

In the U.S., the recovery in the labour market slowed, with the number of people employed remaining well below pre-COVID levels. The U.S. added only 245,000 jobs in November, while the unemployment rate ticked down to 6.7%. The housing market remained a bright spot, with a variety of indicators at elevated levels.

Returns were strongest in Europe. Euro zone manufacturers saw a continued rise in new orders, especially for exports, although they continued to trim their staffing levels. The services sector continued to contract. After four and a half painful years following the Brexit referendum, the U.K. and the EU announced a trade agreement that avoided a hard Brexit.

In the Asia Pacific region, Japan's economic indicators stabilized. Its manufacturing sector stopped contracting, new orders fell the least in two years and employment registered a marginal increase. Australia had the best returns in the region, although its close economic relationship with China came under strain. Australia's alignment with the West on foreign policy issues and its press critical of Chinese policy initiatives caused China to impose tariffs on some Australian goods and said further measures would be taken if Australia does not "correct its mistakes."

Portfolio Review

Markets rose in the fourth quarter stemming from progress on the coronavirus vaccines and deployment, more certainty surrounding the U.S. presidential election and prospects on the second stimulus plan. The portfolio generated a positive absolute return of 3.7%. We remain committed to maintaining a portfolio of high-quality companies that are well-positioned to deliver their shareholder yield characteristics during these volatile markets. We are happy with the upside participation but acknowledge that the strategy may lag during record-setting market rallies.

During the quarter, the majority of sectors contributed positively to absolute performance. Strong returns for portfolio holdings in financials and information technology led to some of the largest contributions on the sector level as the strategy's semiconductor, insurance and bank holdings performed well. Materials and energy also contributed positively. Health care, consumer staples and utilities detracted. Most countries contributed positively with the U.S. the strongest contributor by far while the U.K. detracted.

The portfolio's focus on dividend-paying stocks was under pressure during the last few weeks of the quarter as confidence about a recovery led investors to focus on growth and cyclical stocks as opposed to yield. Utilities detracted from relative performance, driven by both stock selection and an overweight since utility companies were expected to benefit less from the economic recovery (a result of the stimulus package and the vaccine rollout). Stock selection in communication services, health care and industrials also detracted. On the positive side, stock selection in information technology was the most notable contributor as semiconductor and technology hardware holdings in the portfolio outperformed. On a country basis, the U.K. was the largest detractor, followed by the U.S., while an overweight to Korea and Taiwan modestly contributed due to select holdings with strong returns.

Among the largest individual positive contributors to absolute performance were Samsung Electronics and Taiwan Semiconductor Manufacturing (TSMC). Samsung Electronics increased on improving NAND and DRAM supply/demand projections firming up pricing for both. Samsung has committed to returning 50% of free cash flow back to shareholders through its dividend and share repurchase program. TSMC is one of the largest semiconductor manufacturers in the world. Shares rose on Apple developing their own M1 chip to put into their MacBook's and reports that Microsoft similarly was looking at custom silicon. As the world's foundry, this will support continued demand for TSMC's services and extend pricing power. The company pays a well-covered dividend.

Among the largest individual detractors were Kimberly-Clark and Amgen. Kimberly-Clark underperformed along with consumer staples peers despite solid organic sales and an increased full-year outlook as the company failed to meet high expectations and experienced margin pressure due to COVID-19 related shutdowns. Investors also shifted focus towards potential pressures in 2021, including increased commodity costs, lower potential births and competitive intensity. We remain confident the company will continue to deliver sustainable growth over time. The company generates attractive levels of free cash flow and returns cash to shareholders through a combination of dividends and share repurchases. Amgen is a diversified biopharmaceutical company specializing in cardiovascular disease, oncology, bone health, neuroscience, nephrology and inflammation. Shares underperformed due to disappointing Phase 3 data for pipeline drug candidates omecamtiv in heart failure and tezepelumab in asthma. Uncertainty related to potential regulatory reforms also weighed on the share price. Amgen returns capital to owners through an attractive and growing dividend, which is well covered by free cash flow, and regular share repurchases.

A few positions were initiated during the period, including Omnicom Group and Medtronic. Omnicom is the world's second largest advertising agency providing creative content creation, planning and media strategy, analytics and execution services. Omnicom, with a quicker shift to digital and a better programming advertising model, has been able to sustain organic growth. While it is not immune to the systematic shift away from the traditional advertising model, particularly by consumer-packaged goods (i.e. CPG) companies, it has been able to navigate this decline better than most and has grown in the digital space faster than the traditional advertising decline. This growth should be sustainable and the rapid shift which occurred during the early days of the pandemic pulled forward some of the decline rate, lessening the go-forward headwind. The more persistent business that remains as well as its digital growth areas should allow the company to growth cash flow near the mid-single digits. Omnicom pays a well-covered dividend and has an aggressive share repurchase program which should return once the current pandemic uncertainty abates. Medtronic develops and sells therapeutic and diagnostic medical devices to treat a variety of conditions, including cardiac rhythm diseases, vascular and heart disease, spinal conditions and diabetes. The company has also developed a line of advanced surgical devices and systems. Cash flows are sustained by Medtronic's diversification across business segments, customer type and geography. Cash flow growth drivers include sales growth through penetration of existing markets and the creation of new markets with innovative new therapies, margin expansion from cost reduction and improved sourcing, and higher cash conversion from better working capital management. Medtronic returns capital to shareholders through a consistently growing dividend, with a 40% earnings payout target, and regular share repurchases.

A few positions were closed during the period, including Comcast and Macquarie. Comcast is a conglomerate which controls the largest cable operations in the U.S., owns several cable networks as well as the broadcast networks of NBC and Telemundo, produces films through Universal Pictures which support its Universal Theme Park business and is a relatively recent acquirer of Sky, a large pay-TV provider in Europe. We exited the position to fund other shareholder yield opportunities. Macquarie Group has historically returned cash to shareholders through an attractive, growing dividend accompanied by special dividends and share repurchases. After regulatory pressure led the company to reduce the final dividend for FY 2019 in May of 2020, we were hopeful they would maintain the interim dividend for FY 2020 when that was announced in November. However, the resurgence of COVID-19 cases in Australia over the summer led to new lockdown orders. This raised concerns about continued regulatory pressure on Australian banks and a second dividend reduction, so we exited to fund other portfolio opportunities. Following the sale, the company announced a second dividend cut with first half FY 2020 earnings.

Outlook

The short-term macro-outlook is challenging, as COVID-19 cases are on the rise in many parts of the globe. Broad lockdowns have been re-imposed across much of Europe and North America, and in many emerging markets, although they are expected to be shorter-lived than in early 2020. As a consequence, GDP growth is expected to slow before increasing for the remainder of the year.

The vaccination rollout process continues to gain momentum around the world following a series of positive news about vaccine trials and authorizations for use in various countries. While there remains a great deal of uncertainty regarding production and distribution, there is light at the end of the tunnel as people begin to receive the vaccine.

Regarding the U.S. election, Democrats have a small majority in the House and the tiniest of margins in the Senate. This has numerous implications for policy initiatives, which could include: a fiscal stimulus, a corporate tax hike, an increase in the income tax rate for the wealthy, ACA expansion, pharmaceutical pricing reform, incentives to onshore production, and infrastructure investment. Further, we expect a more consistent and cooperative approach to trade, which should help exporters and provide a tailwind for earnings and cash flows in a number of sectors. Regardless, the relationship with China is likely to remain tense.

The challenging and volatile macro environment means interest rates will remain lower for even longer, implying a continued world of yield starvation. Central banks around the world have committed to hold target rates near the zero bound until signs of inflation have clearly emerged. Even as global growth returns and potentially accelerates, upward pressure on bond yields is likely to remain contained until output gaps close and inflationary pressures become unambiguously evident.

Our screen continues to provide a robust opportunity set, and we have continued to deliver an attractive level of income. Many of the drivers that led to strong dividend payouts over the past decades remain intact. Technology, for example, is a key driver that will continue to influence the shift towards capital-light business models leaving more cash available to return to shareholders. We continue to believe that companies will not abandon sound capital allocation practices. Many management teams continue to reaffirm their commitment to paying dividends and resuming share repurchase programs. We expect this trend to continue and even perhaps accelerate. We remain confident that the strategy will deliver market-like returns over the long-run, with lower-than-market volatility, attractive and consistent income in a yield-starved world, good upside participation and strong downside protection.

Distributions

The Fund aims to pay distributions on a quarterly basis. A distribution of 0.566490 CPU for the Unhedged Fund and 0.100000 for the Hedged Fund will be paid for the quarter ended 31 December 2020.

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

See **gsfm.com.au** for more information about the Epoch Global Equity Shareholder Yield Funds.