

# Epoch Global Equity Shareholder Yield (Unhedged)

AUGUST 2022

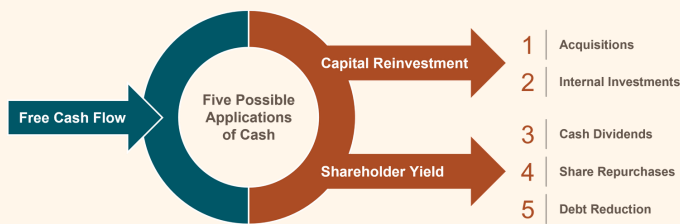
## Fund Overview

### 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 31 August 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>	0.00	8.16	9.45	7.64	8.24	7.84	7.88	6.02
<b>Growth</b>	(1.90)	(11.71)	(9.83)	(3.62)	(1.69)	(2.36)	2.39	1.00
<b>Total Return</b> <sup>3</sup>	(1.90)	(3.55)	(0.38)	4.02	6.55	5.48	10.27	7.02
<b>Benchmark</b> <sup>4</sup>	(2.54)	(1.11)	(9.62)	8.21	11.12	9.38	14.20	8.26

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

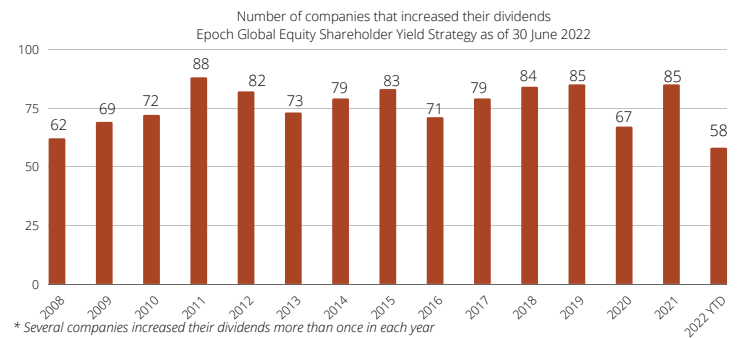
<sup>2</sup> Distribution may include income, realised capital gains, and any return of capital

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

<sup>4</sup> MSCI World ex- Australia Index in \$A, net dividends reinvested\*

## 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

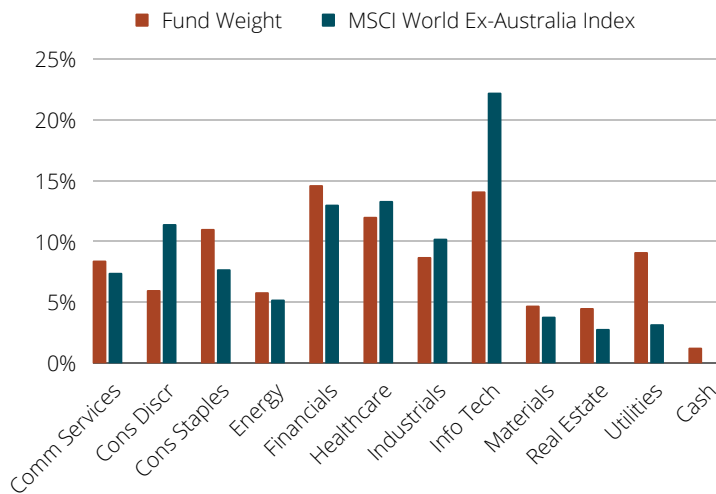
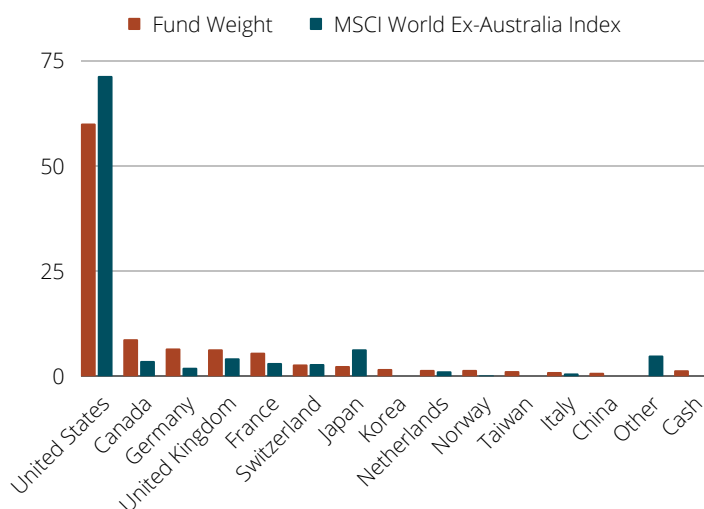
When Market Was Negative (48 out of 167 periods)	When Market Was Down >5% (21 out of 167 periods)	Upside Participation with Protection in Down Markets in 167 rolling three month periods since the portfolio's inception.
Portfolio outperformed <b>75%</b> of the time By an average of <b>4.29%</b>	Portfolio outperformed <b>86%</b> of the time By an average of <b>5.46%</b>	Return period from 31 May 2008 to 30 June 2022. Market represented by the MSCI World ex-Australia Index in \$A, net dividends reinvested.

Source: GSFM as of 30 June 2022

### PORTFOLIO CHARACTERISTICS

Characteristics	Portfolio	Index
Number of Equity Positions	107	1456
Dividend Yield (%)	4.1	2.0
Return on Equity	22.9	23.3
Enterprise Value to EBITDA (x)	10.8	13.9
Predicted Beta	0.8	1.0
12-Month Turnover (%)	28.0	--
Active Share	80.1	--

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

**SECTOR ALLOCATION**

**REGIONAL ALLOCATION**

**TOP 10 HOLDINGS**

	Sector	Dividend Yield %
AbbVie, Inc.	Health Care	4.1
IBM	Information Technology	5.1
Broadcom Inc.	Information Technology	3.2
Microsoft Corporation	Information Technology	1.0
Philip Morris Intl.	Consumer Staples	5.2
Analog Devices, Inc.	Information Technology	2.0
Iron Mountain, Inc.	Real Estate	4.7
TotalEnergies	Energy	5.2
Astrazeneca	Health Care	2.3
Novartis AG	Communication Services	3.9

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**

The Fund posted a negative return of 1.9% in August. Equities came under pressure again during the month, and the broad market as measured by the MSCI World Index Ex-Australia fell. July's exuberance bled into the early part of the month, as the peak-inflation narrative drove risk-on sentiment in hopes of a dovish policy pivot from central banks. However, markets turned negative when remarks from Fed officials made clear that monetary conditions will continue tightening until inflation is lowered to target levels. The Fund provided a measure of downside protection during the sell-off, as it's done through most downturns this year.

On an absolute basis, most sectors were negative for the month, with the largest drags on return being Health care and Information Technology. Within Information Technology semiconductors were primarily responsible for performance, owing partially to perceived softening of demand in consumer-focused end markets. Pharmaceuticals largely accounted for the negative return in Health care.

On a relative performance basis, the Fund finished with a better return than both the broad market benchmark and the MSCI World High Dividend Yield Index. Most sectors were positive contributors to relative returns, with Consumer Discretionary and Utilities contributing most. Stock selection drove performance in Consumer Discretionary, owing mostly to an out-of-benchmark hotels, restaurant, and leisure holding that had a strong month. Allocation was responsible for performance in Utilities, as the Fund is overweight in the sector which was one of the most resilient through the challenging month.

Among the largest individual contributors to return were Restaurant Brands International and Iron Mountain. Restaurant Brands (QSR) owns the Tim Hortons, Burger King, Popeye's Louisiana Kitchen, and Firehouse Subs quick service restaurant chains. They also own the supply chain business for their Canadian Tim Hortons locations. Effectively all their 28,000 restaurants are operated by franchisees who pay royalties to the parent company. Shares outperformed in the month after the company reported earnings and indicated that inflections at Burger King US and Tim Horton Canada were on track, with both concepts seeing sequential improvement. QSR also announced that it would coinvest with Burger King US franchisees to modernise stores. Looking ahead, we believe that QSR will continue to benefit from improving performance at Tim Hortons and Burger King. The company has a well-covered dividend and is focused on returning cash to shareholders. Iron Mountain (IRM) provides physical document storage, document retrieval and destruction services, and digital data management services to clients globally. The company is structured as a REIT. Shares rose following a strong Q2 earnings report. The company has experienced healthy storage revenue growth driven by price increases as well as new client wins. IRM has also continued to successfully ramp up the data center business. Management reiterated full-year 2022 guidance for adjusted funds from operations (AFFO) to grow in a range of 7% to 11%. We believe Iron Mountain is well-positioned with a strong management team and a globally recognised brand. The legacy document storage business is stable and very cash generative, while the data center business offers long-term growth potential. The company generates significant free cash flow and is committed to paying an attractive progressive dividend.

Among the largest detractors were Sanofi and Analog Devices. Sanofi is a global producer of pharmaceuticals based in France. The company also manufactures vaccines and operates a consumer health care business. Shares traded lower following news headlines around potential exposure to litigation alleging cancer caused by the OTC antacid medicine Zantac. While the risk of monetary exposure (due to litigation or settlement) is not immaterial, the market reaction seems overdone to us.

Multiple companies have made and sold Zantac since the drug was originally approved by the FDA in 1983 (with Sanofi involved only between 2017 and 2020), and there is a substantial body of research that has failed to show any link between the active ingredient (ranitidine) and cancer. We will continue to monitor but expect this litigation to play out over coming months and years (as has been the case with many other pharma companies). Sanofi shares also reacted negatively to news that a clinical study for a promising pipeline drug (amcenestrant for breast cancer) was halted. Despite the litigation risk and pipeline setback, our current outlook is for the continued successful execution of the company's strategy, including pipeline investment and development, supporting an attractive and growing dividend as well as share repurchases. Analog Devices is a developer of analog integrated circuits and digital signal processors. Analog has a history of technological innovation and driving sales into adjacent markets. Shares underperformed during the month on a disclosure that there were a few customer cancellations during the past quarter, causing investors to reevaluate the health of the current semiconductor cycle. Analog, however, should hold up well with their low relative exposure to consumer goods, which appear to be most at risk of demand softness. Analog Devices has a history of returning cash to shareholders through a combination of dividends, share repurchases, and debt reduction.

Positions were closed in McDonald's and Assicurazioni Generali to fund more attractive shareholder yield opportunities.

#### 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 (Unhedged) Fund.**

#### FUND FACTS

**APIR CODE**

GSF0002AU

**MFUND CODE**

GSF02

**INCEPTION DATE**

15 May 2008

**DISTRIBUTIONS**

Quarterly

**INVESTMENT MANAGER**

Epoch Investment Partners Inc.

**RESPONSIBLE ENTITY**

GSFM Responsible Entity Services Ltd

**MANAGEMENT FEE**

1.25% 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)

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