

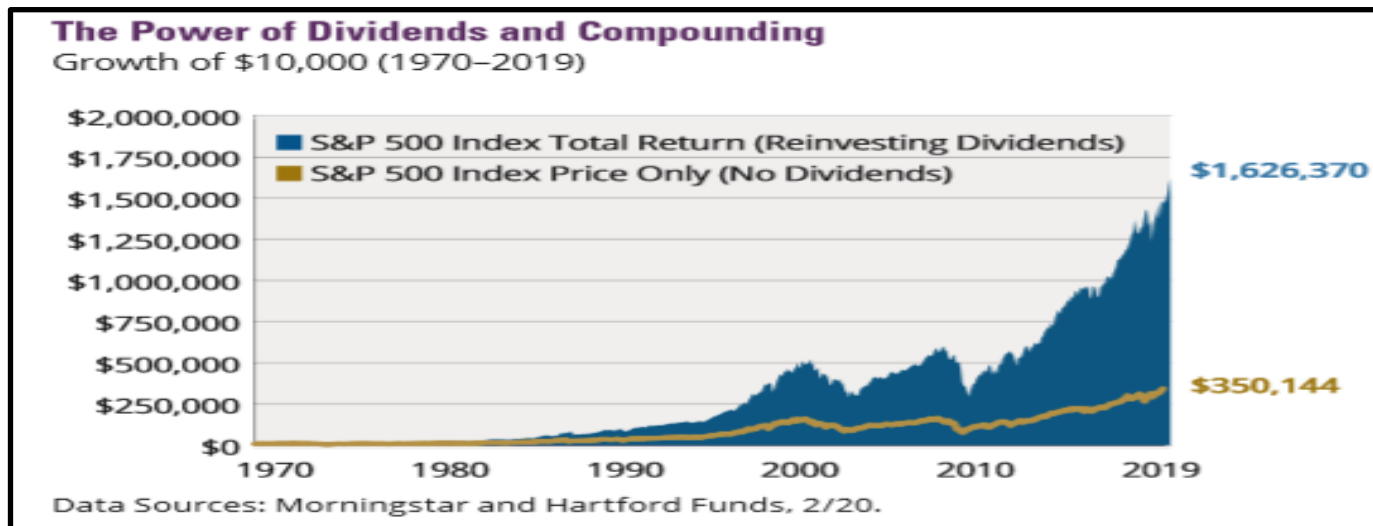
Appian
Asset Management

Delivering sustainable growth

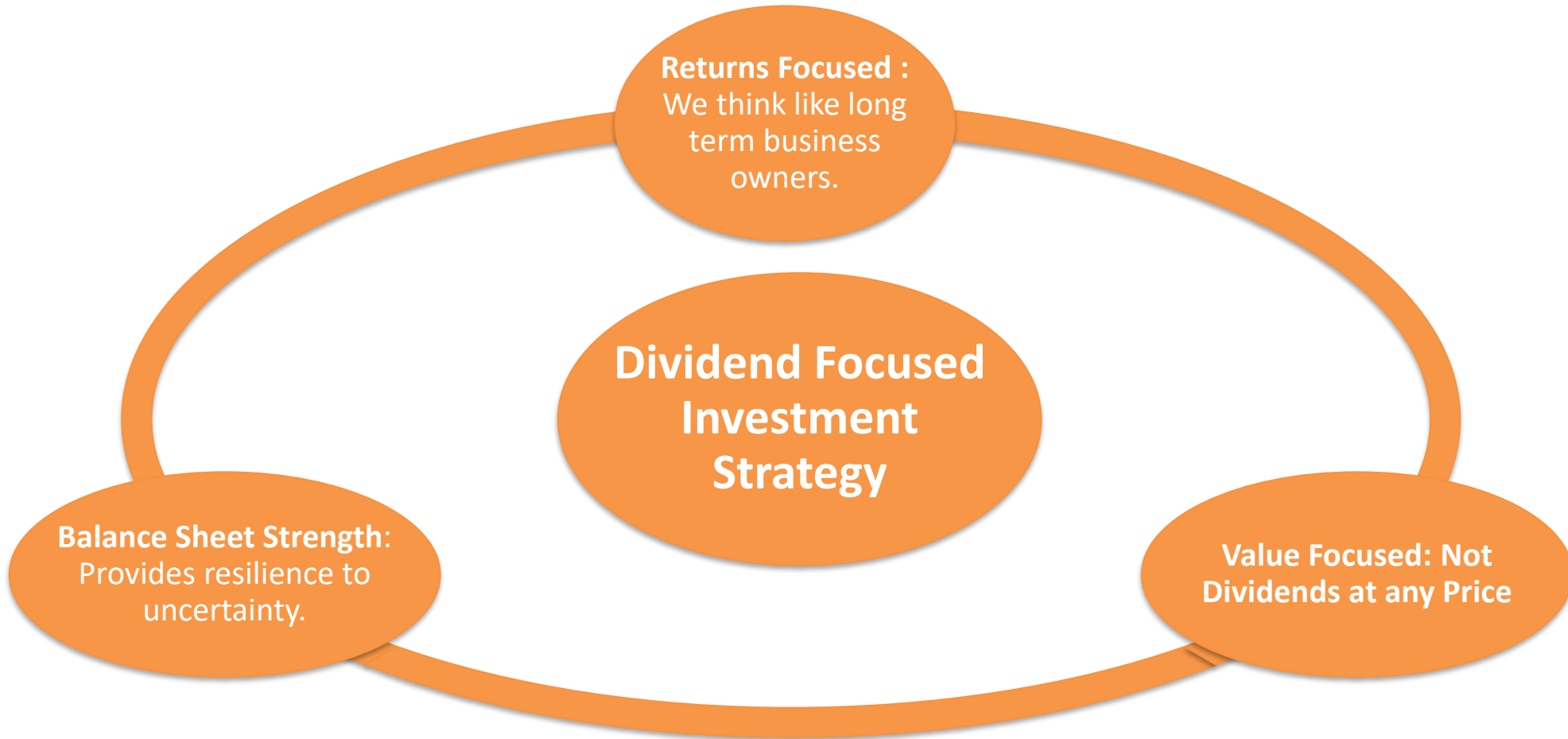
Appian Dividend Growth Fund: Where do Dividend Investors go from Here? November 13th 2020

Why Does a Dividend Focused Strategy Work?

- Over 5 year periods, dividends and dividend growth account for over 75% of Equity returns.
- Dividend payers and growers deliver superior returns.
- Focusing on dividends and dividend growth ensures we take a Long Term View.
- **Dividend Growers with Quality attributes frequently become mispriced.** Investors overpay for excitement.
- **Dividends impose management discipline.** Poor capital allocation is an investment risk, dividend payment reduces this risk.



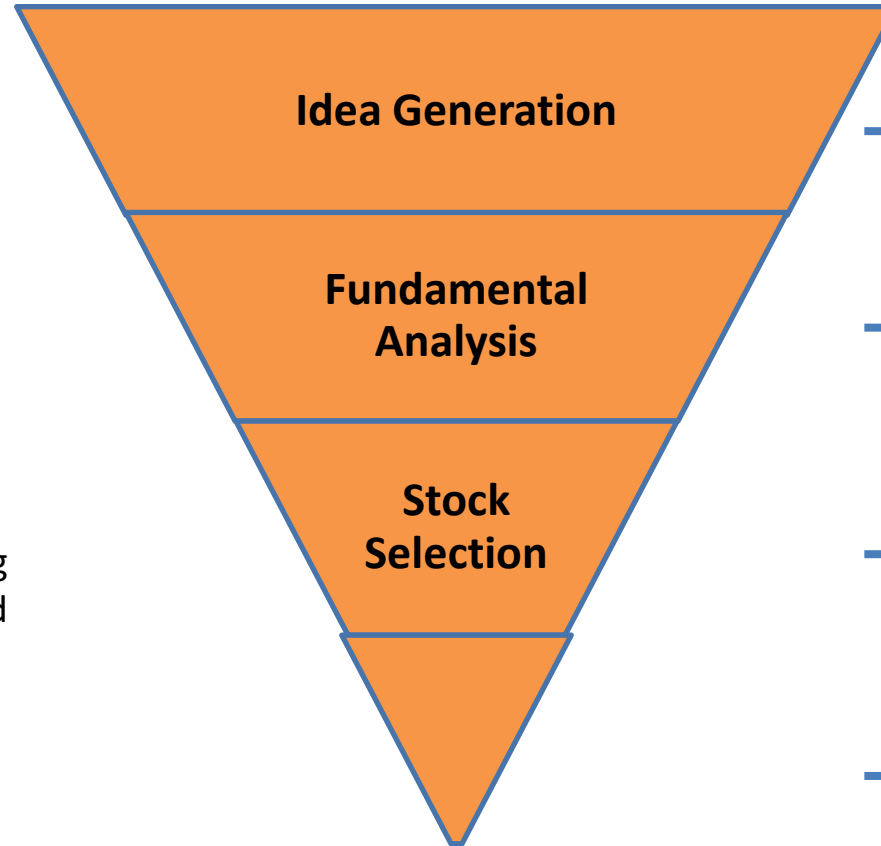
A Dividend Focused Philosophy



A Dividend Focused Process

Objectives:

- Identify Quality Companies trading at a discount to their intrinsic valuation.
- Holistic understanding of the company/industry and the long term outlook for earnings power.
- Sensible capital allocation and growing cash flows that can drive dividend growth over time.
- High Active Share, High Concentration.



Process:

Screens/Research/Competitor Analysis/Organic Idea Generation

- Dividend
- Valuation
- Strategy/Operational Quality
- Management
- Financials Deep Dive

Internal Debate/Devil's Advocate
Analyst Meetings
Company Meeting

Portfolio Construction, 30-40 Names.
Disciplined Selling:

- Balance Sheet Deterioration,
- Valuation
- Fundamental change to investment thesis
- Better Opportunities

A Dividend Focused Outcome

➤ **Fund Remains Dividend Focused:**

- Over 5 year periods dividends account for 75% of Equity Returns.
- Current Dividend Yield on the Portfolio is 3.7% after “Pandemic Dividend Cuts”

➤ **High Returns Businesses Drive EPS and Dividend Growth**

- Last 10 years Average Earnings Growth 8.5%
- Last 10 years Average Dividend Growth 8.4%

➤ **Balance Sheet and cash Flow Focused**

- Median net debt to EBITDA - 1.3X
- “Pandemic” Free Cash Flow Yield - 5.4%

➤ **Value Focused**

- Price/Earnings Multiple of 13.4X – 6% discount to long run average
- Market Price/Earnings Multiple 26.7X – 65% premium to long run average

Avoiding the twin bubbles
of Bond Proxies at any
price and Technology at
any price.

Source: Canaccord Quest 9/11/2020

A Tough Year for Fundamental Investors

- As the Pandemic hit, companies with earnings and dividends got punished whilst companies with future promised earnings prospered as long-term interest rates fell.
- Stocks that lost money in 2019 that had a market cap over \$1 billion (261 stocks) are up 65% so far this year (as at October 31st).
- We believe we are in a speculative mania. Earnings, Cash Flows, Dividends have become irrelevant – Glamour is in.
- We Believe 2020 was a year when investors were driven by fear

Are Fundamentals about to reassert themselves?

A Tough Year for Dividend Investors

- **Temporary Dividend Pain**
 - Financials: Regulators imposed dividend curtailment despite strong balance sheets and continued profitability.
 - Non Financial Companies: Dividend holidays as demand went to zero and staff placed on furlough schemes – Shareholders had to share the pain.
- **Dividends of this fund fell 13% as earnings fell 20%.**
 - Next year the expectation is for **earnings recovery of 35%**.
 - We think the **dividend recovery follows** (Business Models and Balance not impaired, unlike post GFC)
 - **and then dividends grow through the next cycle.**
 - Fiscal and monetary policy dedicated to restoring the Global economy

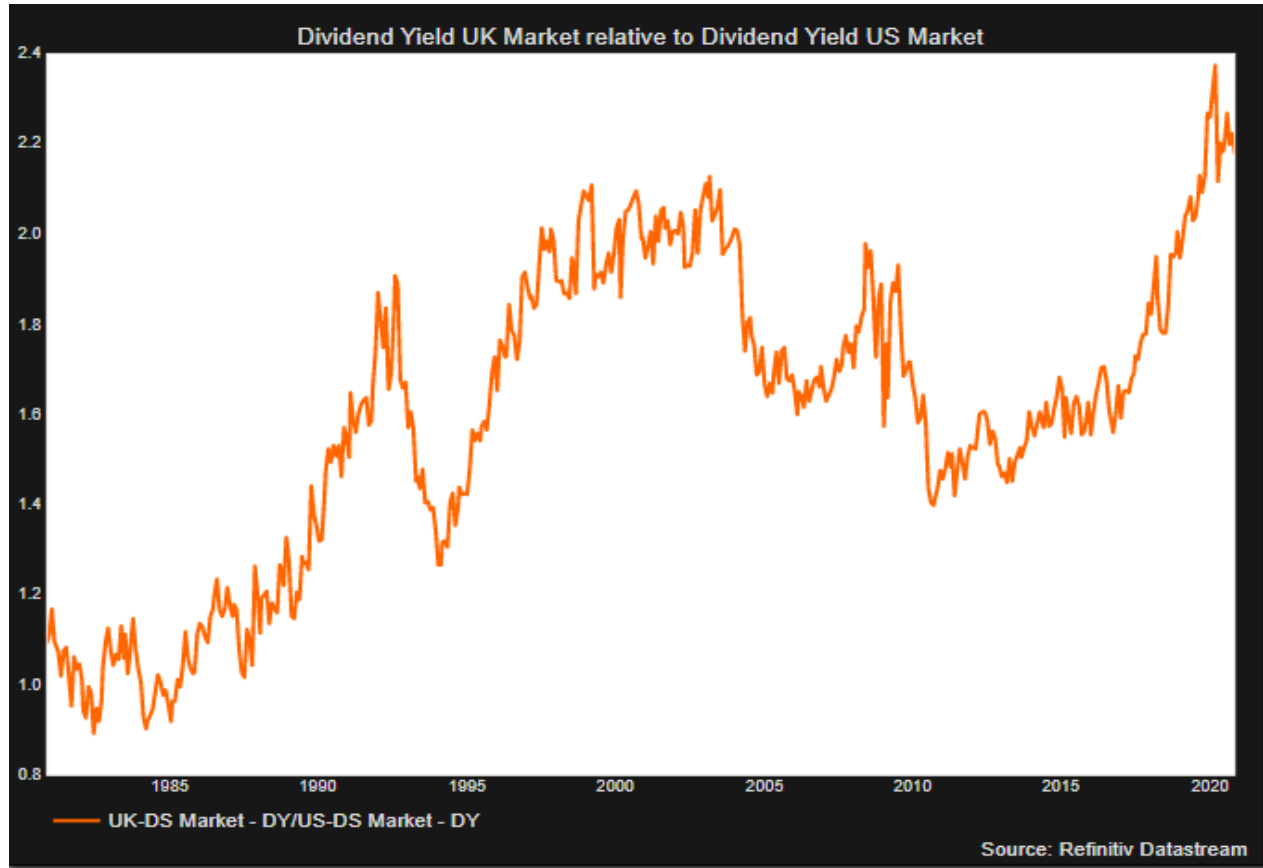
Dividends are Set to Return

Positioning for the Future

- **UK over US**
 - UK Markets represents the best value of Global Developed markets, the US represents the worst.
- **Materials Sector over Technology Sector**
 - Whilst the Technology Sector is starting to look like 1999 TMT, unloved Material stocks look like the opportunity of a lifetime. This holds particularly true if Central Banks are successful in restoring inflation.
- **Value over Quality and Growth**
 - Potential valuation collapse of expensive parts of the equity market makes them un-investable today.

UK Opportunity: Greatest in 40 Years

Highest Dividend Yield Relative to the US Market in 40 Years



Country Weightings

	Weight	Div. Yield	CHARACTERISTICS		
			P/E - Fwd	PTBV	P/CF
	100.00%	4.14	13.17	1.22	7.95
U.K.	44.33%	4.75	13.89	1.31	8.82
Spain	4.75%	3.76	10.79	1.53	2.84
Norway	2.61%	4.27	10.89	1.23	6.04
Netherlands	2.02%	4.12	12.11	1.80	5.02
France	4.24%	9.59	7.99	0.68	8.68
Ireland	3.81%	2.54	14.72	1.49	7.03
U.S.A.	16.32%	2.41	13.55	1.28	7.68
Germany	4.11%	2.67	12.87	0.91	9.71
Italy	2.56%	7.45	19.42	0.55	2.14
Switzerland	11.53%	3.83	12.80	1.48	4.94
Denmark	1.89%	1.21	30.11	3.67	17.60
Cash & Equivalents	1.83%	0.00			

Case Study: Associated British Food

Buying on the Canons: Brexit and Lockdowns

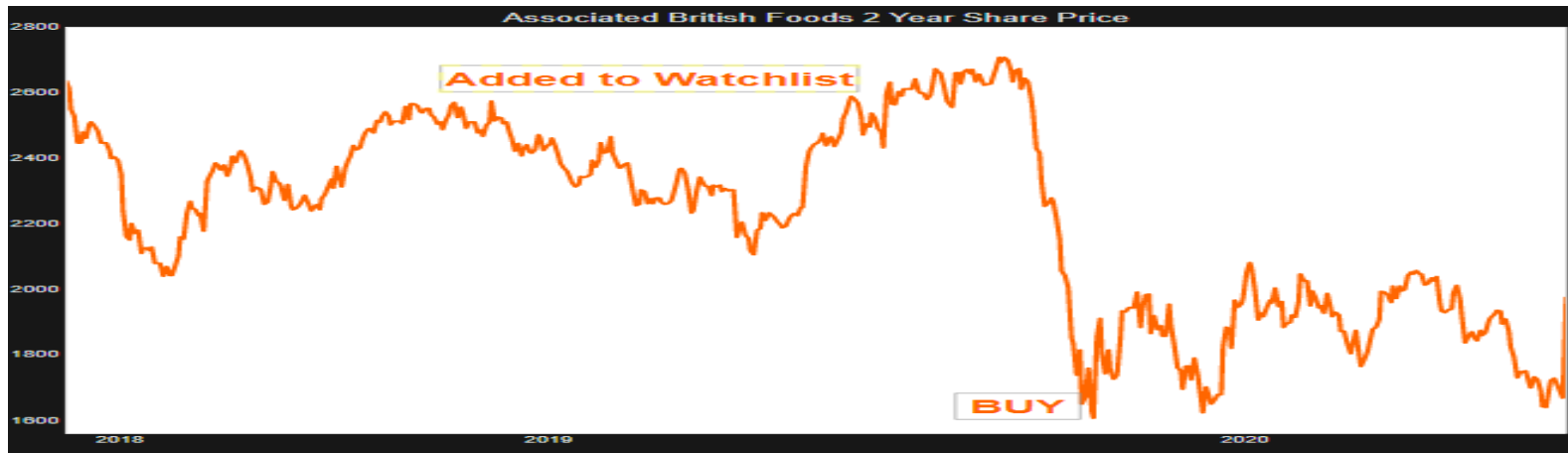
Investment Thesis:

- *Primark unit economics remain best in class.*
- *Superior volumes and sales density drive EBIT margin.*
- *There is a significant runway for growth.*
- *Resilience and returns of non-retail business under appreciated.*

Key Metrics:

- *Valuation: EV/EBITDA – 6.9X.*
- *Balance Sheet: Net Debt/EBITDA - <1X.*
- *Operational Quality: Normalised ROCE - 17%*
- *Free Cash Flow Growth – 8% p.a.*

ABF: 2 Year Price Chart



Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020

PENNEYS

Case Study Barratt Developments

Buying on the Canons: Brexit and Lockdowns

Investment Thesis:

- *Under supply issue remains.*
- *Mortgage financing at attractive levels.*
- *Cash flow under-appreciated.*
- *Room for capital to be returned to shareholders*

Key Metrics:

- *Valuation: Price to NAV – 0.9X, P/E – 10X.*
- *Balance Sheet: No Debt.*
- *Operational Quality: Normalised ROCE - 12%*
- *6% top line growth.*

Barratt Developments : 2 Year Price Chart



BARRATT
DEVELOPMENTS PLC
BUILDING EXCELLENCE
SINCE 1958

Case Study: UPS

Selling on the Trumpets: Stay at Home forever and Only Shop online

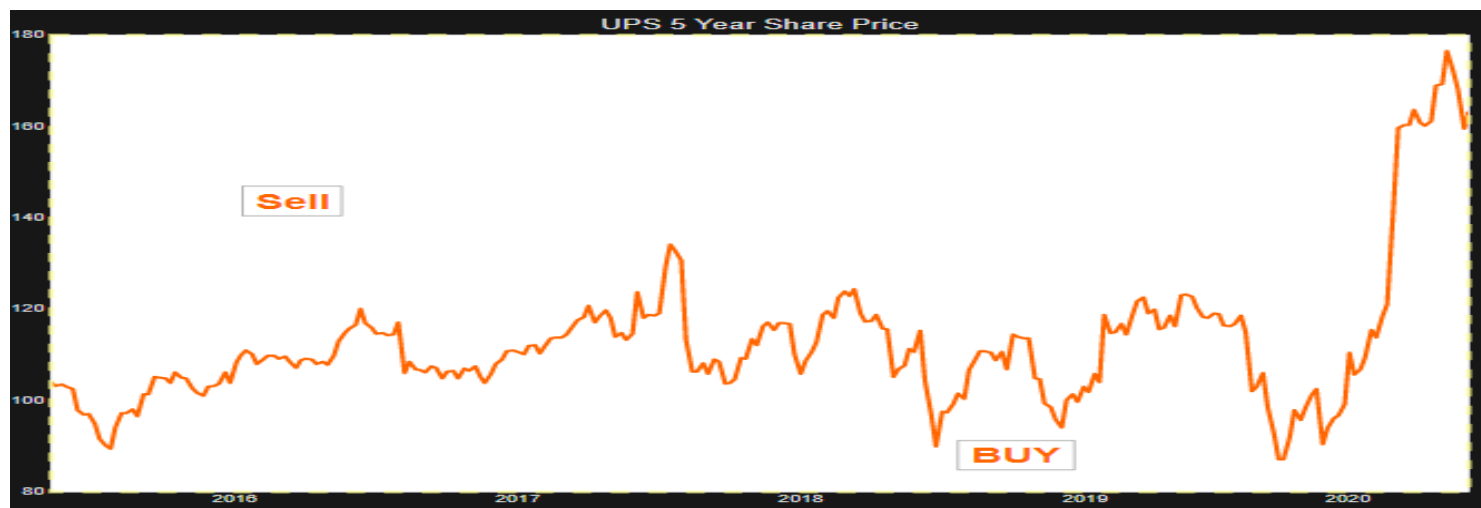
Original Buy Thesis:

- *Structural growth opportunity.*
- *Additional capacity in place.*
- *Sensible capital allocation and return focused management.*

Sell Rationale:

- *P/E rose from 16X to over 32X.*
- *Remains a quality company.*
- *Added to watchlist should share price fall.*

UPS: 5 Year Price Chart

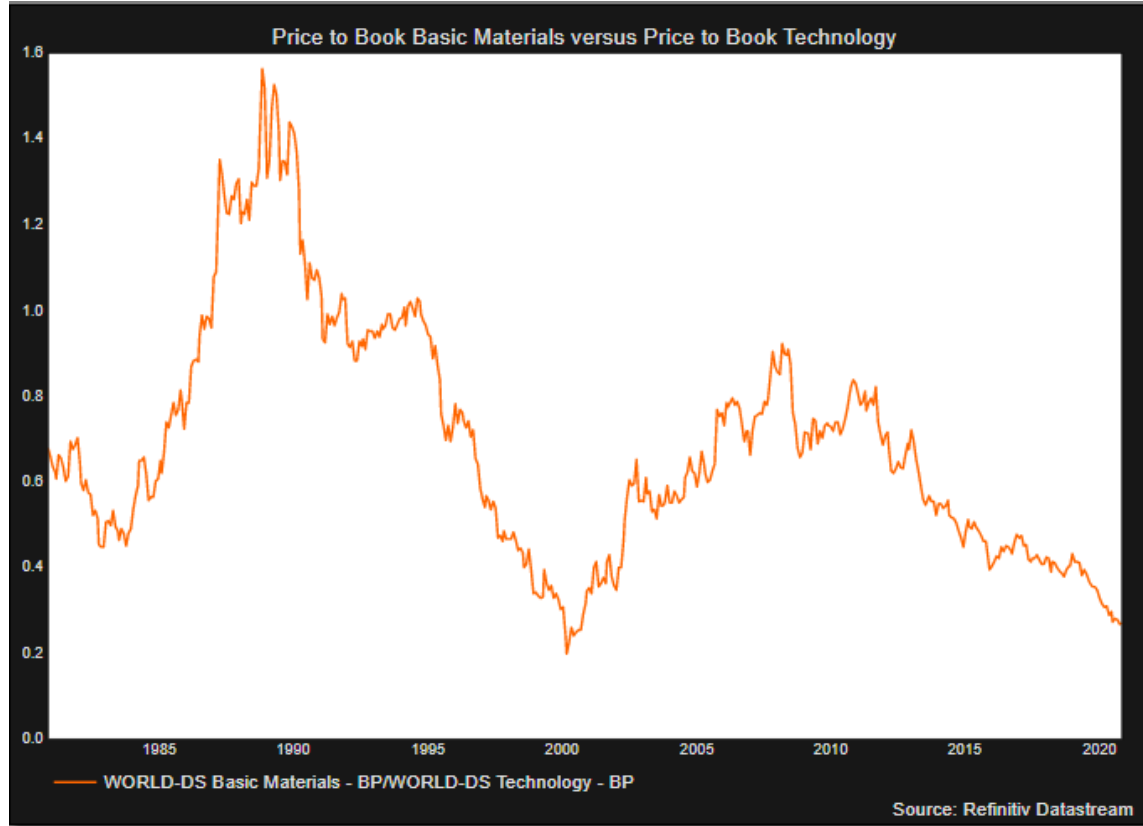


Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020



Materials over Technology – Almost at 1999 Levels

40 Years Price to Book of Materials Sector versus Technology



Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020

Sector Weightings

	Weight	Div. Yield	CHARACTERISTICS		
			P/E - Fwd	PTBV	P/CF
	100.00%	4.14	13.17	1.22	7.95
Financials	19.73%	3.95	10.91	0.84	4.35
Health Care	13.21%	2.64	14.52	2.94	16.12
Energy	7.90%	8.29	15.71	0.59	2.11
Industrials	17.32%	2.79	18.68	2.11	10.82
Materials	16.70%	3.57	13.10	1.76	6.75
Consumer Discretionary	11.44%	4.28	13.08	1.20	12.97
Consumer Staples	8.78%	4.30	13.54	1.68	7.01
Real Estate	2.28%	14.67	5.93	0.44	4.90
Communication Services	0.81%	9.21	8.62	4.12	6.52
Cash & Equivalents	1.83%	0.00			

Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020

Materials – The Beginning of a Secular Bull Market



Source: Stiefel, November 9th 2020

The next commodity super-cycle will be driven by improving demand combined with structural under-supply. Investors are not positioned for this meaning the price move could be significant.

Demand: Leading indicators are pointing to a cyclical upturn. China has proven robust, and long-term structural demand growth from India and Indonesia will help further.

Supply: There has been a capital expenditure deficit for almost a decade. Low inventories mean prices are more responsive to a demand pick-up. The lag from new supply coming online to a mine generating cash can be five years.

Rio Tinto

A Long Term Holding

Investment Thesis:

- *Transformed from an over-leveraged and ill-disciplined player in to the number 1 commodity company globally.*
- *Low cost position ensures good cash flow through the cycle.*
- *Committed to disciplined capital allocation.*

Key Metrics:

- *Valuation: P/E – 9.5X.*
- *Balance Sheet: No Debt.*
- *Operational Quality: CFROC – 9.3%.*
- *Dividend Yield – 6.6%.*

Rio Tinto: 5 Year Price Chart



Source: Refinitiv Datasteam, Appian Asset Management, 10/11/2020

Antofagasta

A Long Term Holding

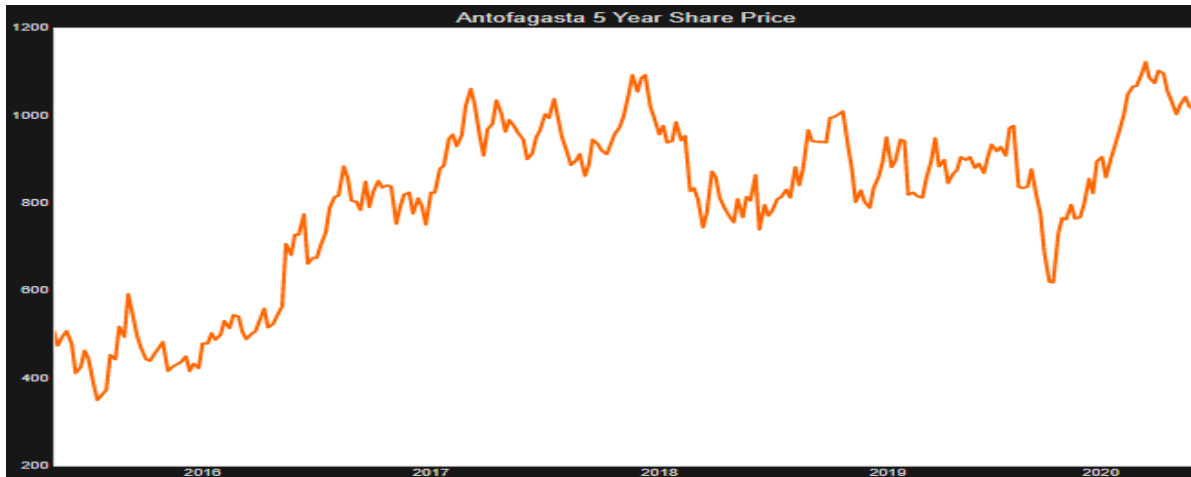
Investment Thesis:

- *We are entering the age of copper.*
- *Policymakers are creating permanent demand in renewable energy and EV-related (electric vehicle) infrastructure*
- *EVs use 4x more copper.*
- *Solar panels and wind turbines require 12x more copper*

Key Metrics:

- *Valuation: Price to NAV – 0.9X, P/E – 10X.*
- *Balance Sheet: No Debt.*
- *Operational Quality: Normalised ROCE - 12%*
- *6% top line growth.*

Antofagasta: 5 Year Price Chart

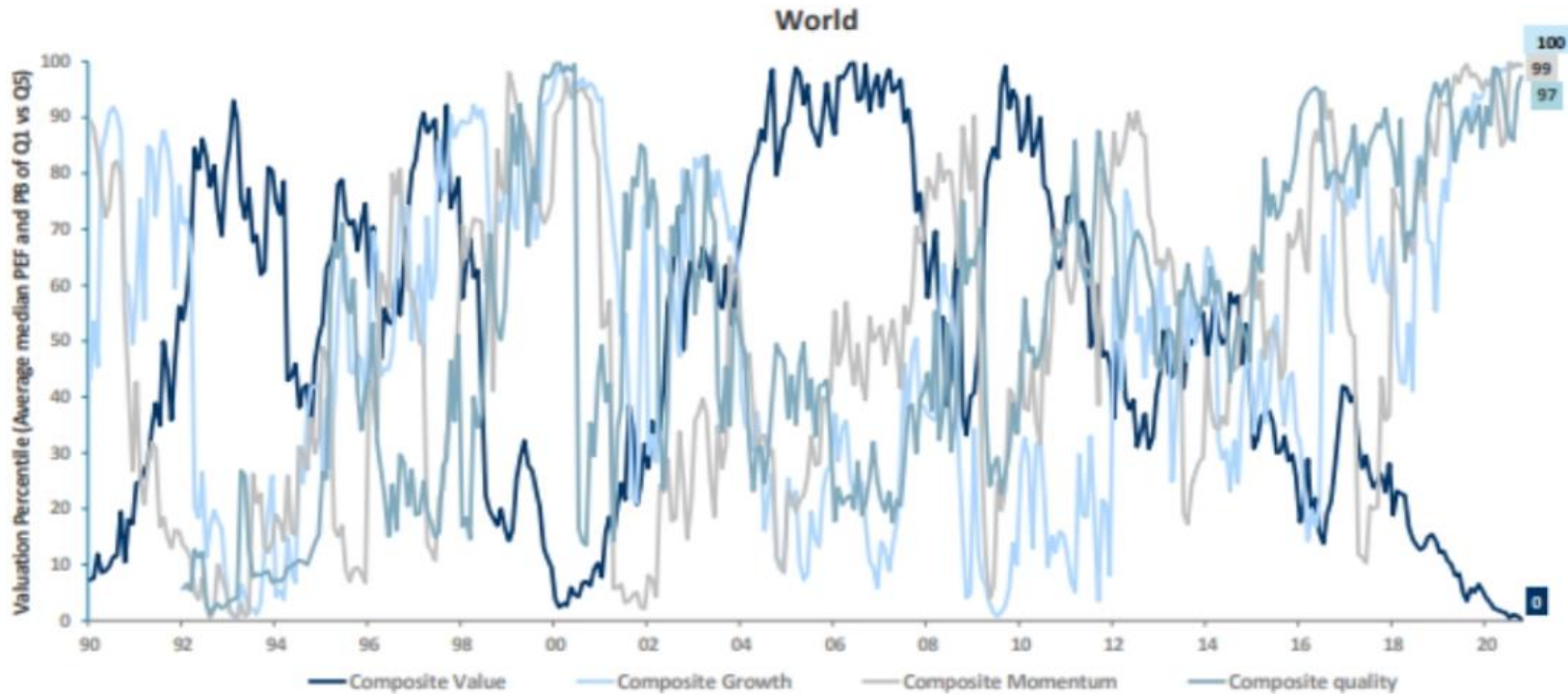


Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020



A polarised Equity Market

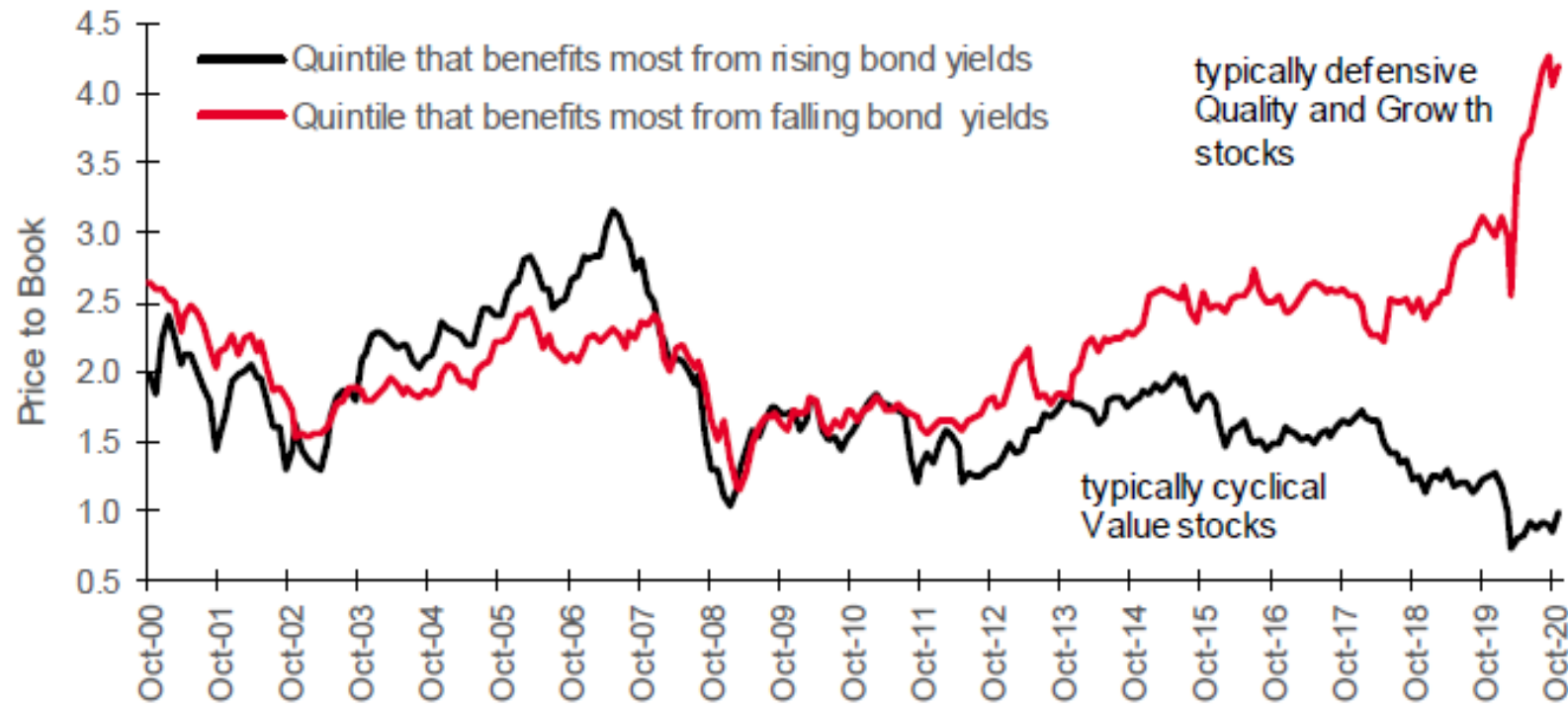
Exhibit 7: Percentile Valuation of Factor in MSCI World since Dec-89



Source: FactSet, Morgan Stanley Research. Pctl % of average median P/FE & P/B of Q1/Q5. The factors are the top versus bottom quintile from MSCI World.

- Quality Stocks, Growth Stocks and Momentum Stocks at valuation highs.
- In a Polarised Equity Market, there is no middle ground.
- Value Stocks at their cheapest since the TMT Bubble

Fear Has Been Driving Equity Markets



A rush into Equities that look like Bonds and away from Equities that look like EQUITIES

Source: Societe Generale, 11/11/2020

Value Stocks Have Been Forgotten

Its Always Darkest Before the Dawn



Source: Refinitiv Datateam, Appian Asset Management, 10/11/2020

Nobody likes Financial company dividends

Investing is not a Popularity Contest



Source: Refinitiv Datastream, Appian Asset Management, 10/11/2020

BUT:

- **Robust Balance Sheets: No Financial Crisis**
- **Steepest Yield Curve in 2 years as we enter the next economic cycle**
- **Rock bottom valuations**

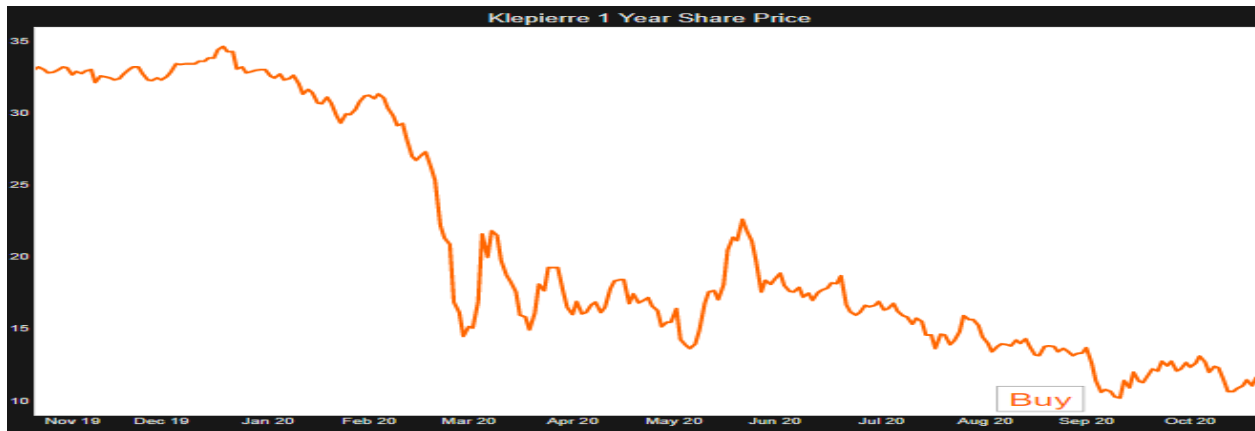
Klepierre

A Once in a Lifetime Opportunity

Investment Thesis:

- Valuation implies situation similar to the UK Malls. However, Klepierre's assets are superior. There is also significant structural differences including rates and contract terms.
- Valuation opportunity is very rare. On a DCF Klepierre could rally 100% and still be undervalued.

Klepierre 1 Year Price Chart



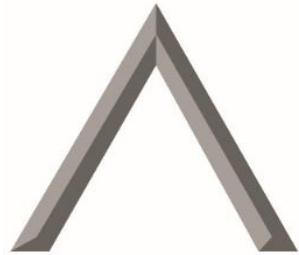
Key Metrics:

- Valuation: 100% upside on DCF. Normalised FCF Yield – 20%.
- Balance Sheet: LTV – 45%.
- Operational Quality: Normalised ROE – 10%.
- Bought at €10.50, currently €17 – still plenty of room to run.



Conclusion

- Is been a tough year for Fundamental Investors as the COVID pandemic increased fear in markets, propelling the twin bubbles of Bond Proxies stocks and Technology stocks higher.
- This has created huge opportunities for investors willing to think about the future as opposed to the past.
- There have been three structural bull markets in Value Equities in the last 50 years. All three occurred when valuation dispersion reached extremes. We are at that point.
- Our disciplined Dividend driven style of Investing will enable us grasp this opportunity.

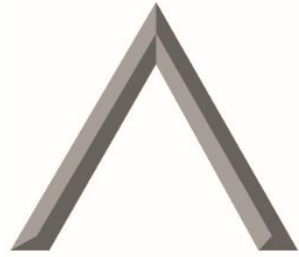


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- **Past performance is not a reliable guide to future performance**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up**

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