Setanta European Equity Fund
Q3 2018

Fund Description

The **European Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the European Equity strategy.

The Fund is an actively managed equity portfolio, with a long-term investment horizon. Our aim is to invest in European companies that are trading below their intrinsic value. Our investment process seeks to invest in companies that exhibit a combination of low financial risk, low operational risk and low valuation risk. We believe that if we can invest in companies that possesses these characteristics then we can reduce the risk of a permanent loss of capital and enhance our chances of outperforming our benchmark over the long term.

The investment objective of the Fund is to outperform the MSCI Europe index over the long term.

Fund Commentary

The fund is ahead of its benchmark for the year to date. Good returns from our investments in **Fenner** (as discussed last quarter), **Ericsson** and **Kingspan** largely offset some poor performance from **Melrose**, **DCC** and **Ryanair**. A low weighting to banks versus the benchmark also contributed positively to our slight relative outperformance.

(Fund Commentary continued on Page 3)

Portfolio Managers

Fergal Sarsfield CFA & David Byrne CFA

Our Investment Principles

We do not believe the market is efficient

We aim to make investments at a price below our assessment of intrinsic value

We make an investment in a business rather than trade securities

We believe risk is the possibility of permanent impairment of value

We make investments for the long term

We invest where we see value and are not afraid to be contrarian and swim against the tide

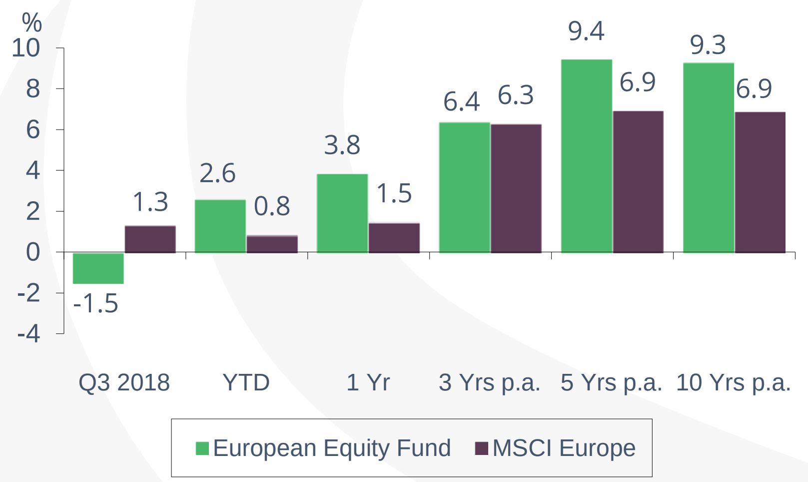
We don't make forecasts, we consider scenarios

We demand financial strength from the companies we invest in

We will act with integrity and communicate with our clients in a manner representative of our investment style

We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study

Fund Performance – 30.09.18



Yearly Performance

Year %	2013	2014	2015	2016	2017
Fund	23.9	6.1	19.8	4.8	8.3
Benchmark	19.8	6.8	8.2	2.6	10.2

Performance Source: Setanta Asset Management Limited. Benchmark: MSCI Europe. The Fund returns stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

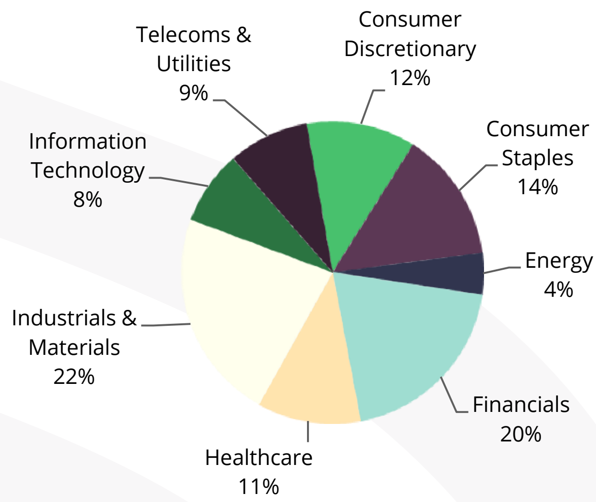
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
GPE BRUXELLES LAMBERT	FINANCIALS	6.1%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	5.9%
DCC	INDUSTRIALS & MATERIALS	5.9%
DIAGEO	CONSUMER STAPLES	5.5%
ERICSSON	INFORMATION TECHNOLOGY	4.8%
RYANAIR	CONSUMER DISCRETIONARY	4.2%
CRH	INDUSTRIALS & MATERIALS	4.0%
GLAXOSMITHKLINE	HEALTHCARE	3.8%
ORIGIN ENTERPRISES	CONSUMER STAPLES	3.7%
UNILEVER	CONSUMER STAPLES	3.7%

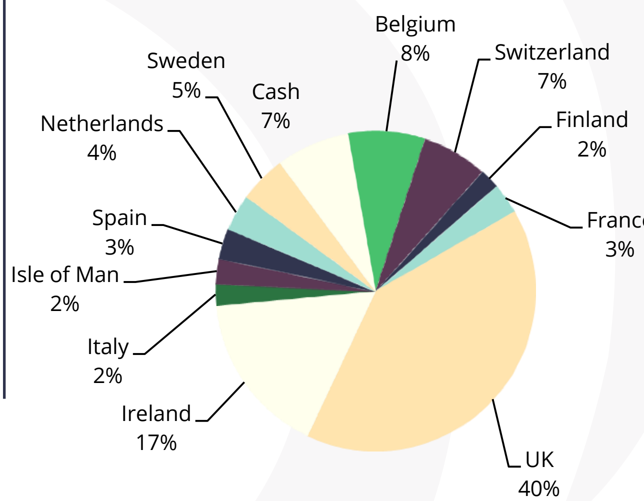
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	14.7
DIVIDEND YIELD %	3.2
AVERAGE MARKET CAP €BN	37.8
NO. OF HOLDINGS	27
ACTIVE SHARE RATIO %	83.3
DEBT/EQUITY %	59.8

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

Ryanair hit the headlines recently as they announced a profit warning. The economics of the Ryanair model work when fuel cost is reasonable, labour disruption is minimized, competition is weaker and customers are willing to fly. There are a lot of variables in this particular economic formula. Ryanair management understands this and has successfully managed this tricky problem for many years. Recently however, Ryanair has had to contend with labour unrest, first with pilots based in Dublin. This then spread to Germany, Belgium and Spain. Ryanair had previously not recognized unions but has since had to start negotiating with them and improve pay and conditions. The process has dragged on longer than we would have liked. There have been strikes across Ryanair's European base impacting service levels. This has created uncertainty among customers and impacted bookings for the summer and winter seasons and possibly beyond. Lower bookings than expected, higher fuel costs and increased labour costs have meant that Ryanair now expect a significant hit to this year's profits. Ryanair has ambitions to grow passengers carried significantly over the next 5 years[1]. To accommodate this growth they will need to have a satisfied staff base to fly the planes and serve customers. Globally, there is a tight labour market in many industries. Businesses with large labour cost components are being pressured to increase pay and offer better conditions for staff. It's likely Ryanair is going to see labour costs rising over the next few years.

Ryanair was purchased for the fund in early 2017 at levels around current prices. As keen observers of Ryanair for many years, both as consumers and investors, we finally debated the merits of the investment just over a year and a half ago. They have built a very successful "point to point" low cost carrier model very much in the mould of Southwest Airlines. They charge low fares, operate on lower costs versus flag carriers and get great utilization from their planes by operating on tight turnaround times and flying on short routes primarily within the European continent. As they grew they used their scale at opportune times to place large orders for planes at fantastic prices further extending their cost advantage. Although Ryanair was earning EBIT per passenger in the region of €13 at the time of our initial investment, we thought that even at normalized EBIT per passenger of about €8 the investment proposition was attractive.

Overall, despite many sensational media articles, we think customers are satisfied with Ryanair's product and low cost offering. It's crucial that potential customers can have confidence that the planes will fly on time. We think, chances are that Ryanair will resolve its labour issues over time and restore customer trust. However, the economic formula for airline profitability can be a tricky one to decipher. The airline industry is competitive and has the potential to have excess supply which is a concern at present. Working out the impact on Ryanair of absorbing both fuel and labour cost increases is fraught with uncertainty. On balance though, we believe there will be continued demand for the air travel product over the long term and if Ryanair can get back to operating on a level consistent with their past, they should gain the trust back from their customer base and provide us with a successful investment at current prices.

Transactions during the Quarter

There were no transactions during the quarter.

David Byrne – Portfolio Manager

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