Setanta EAFE Equity Strategy (USD)

Q4 2018

Strategy Description

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

The Fund is an actively managed equity portfolio which holds c.30-35 stocks in the European, Australasian and Far East regions. The portfolio is managed in accordance with the Setanta investment philosophy. The Fund is managed by three portfolio managers, who also look to leverage off the experience and knowledge of their colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis. The Fund can hold up to 10% cash where investments of sufficient quality cannot be found.
The investment objective of the Fund is to outperform the MSCI EAFE benchmark over the long term.

Fund Commentary

The Santa Claus rally that investors had become accustomed to failed to materialise with markets selling off pretty sharply in December. Investors appear very nervous about the effects of monetary policy normalisation. The political background is hardly supportive and there are tentative signs of a weakening earnings backdrop, with numerous companies, particularly those exposed to the auto sector and the Chinese economy, noting deteriorating trading conditions in recent months.

(Fund Commentary continued on Page 3)

Portfolio Managers

Rowan Smith; Fergal Sarsfield, CFA & Conor Walshe

Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

We are not afraid to swim against the tide

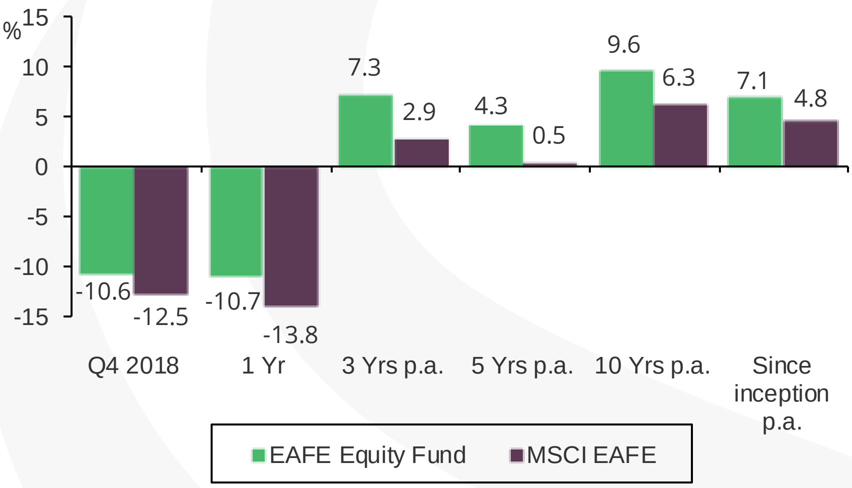
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Strategy Performance (USD) to 31.12.18



Yearly Performance

Year %	2014	2015	2016	2017	2018
Fund	-4.2	4.4	10.8	24.9	-10.7
Benchmark	-4.9	-0.8	1.0	25.0	-13.8

Performance Source: GWL Unit Prices converted to USD at FX Rate 0.7321716; Based on Representative Setanta EAFE Equity Account. Returns are in USD and are gross of management fees. Benchmark is MSCI EAFE. Inception date January 2004. **Fund Statistics Source**: Bloomberg

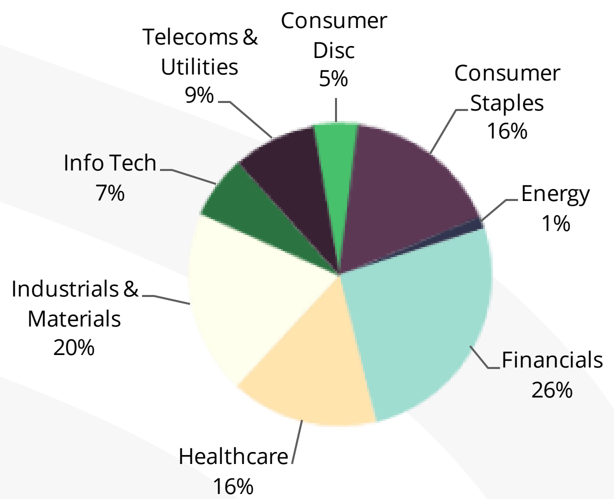
Top 10 Equity Holdings as at 31.12.18

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	5.3%
GPE BRUXELLES LAMBERT	FINANCIALS	5.1%
ALFRESA HOLDINGS	HEALTHCARE	4.3%
UNILEVER	CONSUMER STAPLES	3.8%
SANOFI	HEALTHCARE	3.7%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	3.7%
LANCASHIRE HOLDINGS	FINANCIALS	3.5%
NOVARTIS AG	HEALTHCARE	3.5%
COCA-COLA AMATIL	CONSUMER STAPLES	3.5%
ERICSSON	INFORMATION TECHNOLOGY	3.4%

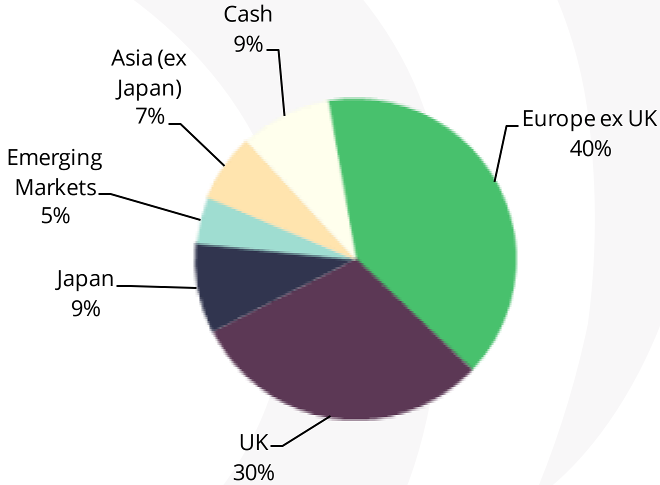
Fund Statistics as at 31.12.18

PRICE/BOOK	1.5
PRICE/EARNINGS RATIO (FY 1)	12.8
DIVIDEND YIELD %	3.7
AVERAGE MARKET CAP $BN	35.6
NO. OF HOLDINGS	35
DEBT/EQUITY %	52.3
ACTIVE SHARE %	89.0

Sector Distribution as at 31.12.18



Geographic Distribution as at 31.12.18



SETANTA
Asset Management

Commentary

The market declines for the year came largely in the final quarter and must be seen in the context of a multi-year bull market, so 2018 was not quite the annus horribilis that it feels to some at the moment. For the full year, the MSCI EAFE developed market index declined by 14% in USD. The Setanta EAFE fund declined by 11% in USD over the same period. Returns were widely dispersed across the fund. The standout winner was **Ericsson**, which rose by over 36% in USD for the year. Under CEO Borje Ekholm the turnaround in the business has been playing out just as we had hoped. Profit margins are recovering from depressed levels due to cost reductions and the exit from uneconomic service contracts. Customers are beginning to spend on 5G infrastructure and Ericsson looks increasingly well positioned here as Chinese companies, ZTE and Huawei, are finding themselves excluded from some projects because of security concerns. We remain invested in Ericsson and don't think the story has fully played out yet.

Alfresa, the largest distributor of drugs to pharmacies in Japan, performed well during the year, returning over 10% in USD. The market background has been supportive with demand for pharmaceuticals steady and the big four distributors behaving rationally and avoiding unnecessary price wars. So cash flow has been healthy and the balance sheet remains very cash rich. Encouragingly the company has been buying shares, which we think makes sense and applaud.

Sanofi and **GSK** both performed quite well, returning circa 5% and circa 12% in USD, respectively for the year. Both stocks entered 2018 with supportive valuations and their robust cash flows likely proved attractive to investors seeking shelter from the volatility during the closing months of the year.

On the negative side, **Playtech**, the leading provider of online gambling software worldwide, performed very poorly, down approximately 52% between May, when the stock was added to the fund, and year-end. See more on Playtech in the transactions section, below.

Thai Beverage, the largest producer of alcoholic drinks in Thailand, declined approximately 33% in USD 2018. We have been invested in the company for over ten years and both the business and stock price have been stellar performers over that time. The company's key business is the production and wholesale of white and brown spirits. This business has performed very poorly this year. Management believe this is temporary and is related to generally weak consumer trends as rural customers have been hampered by low soft commodity prices. Additionally investors are concerned about the price Thai Beverage paid to acquire a controlling stake in Sabeco, the largest brewer of beer in Vietnam. We believe some concern is warranted on both fronts. We have reviewed the position and have decided to retain the investment but we will be watching developments closely.

Bank of Ireland performed very poorly, down circa 34% in USD for the year. There are a few likely explanations. Brexit is a risk, not only because of the potential impact on its UK operations, but also the potential knock-on impact on its more important operations in Ireland. The other likely contributor has been the persistent negative headlines about Ireland's high mortgage interest rates and the discussion in the press and in parliament about how consumers are being exploited by the banks. Investors are concerned about the potential for political action, or market-based action in the form of new competition, that might put profit margins under pressure. We believe there are good reasons why mortgage rates are comparatively high in Ireland, namely high capital requirements and the inability of banks to repossess the homes of defaulting borrowers. We don't believe Bank of Ireland is over-earning. We are hopeful that reason prevails and believe the stock is good value, trading currently at a 40% discount to book value.

Commentary

Transactions during the year

There were no new additions or disposals in the fourth quarter. We sold three positions during 2018, C&C group, NTT Docomo and Fenner plc. The rationale for each was outlined in quarterly reports published earlier in the year. The investment in Fenner plc was a considerable success that contributed to the fund's out-performance in 2016, 2017 and 2018. We would like to acknowledge the excellent work of Mark Abrahams, who returned as CEO of Fenner during a difficult trading period in 2016 and steadied the ship before the company was acquired by Michelin in 2018.

We purchased five new positions during 2018, KDDI (a direct swap for Docomo), Ultra Electronics, GEA Group, Playtech and Coca Cola Amatil. The rationale for each of the first three was outlined in prior reports. Playtech and Coca Cola Amatil were not discussed since we were in the process of building the positions at the time of initial investment.

Coca Cola Amatil is the dominant producer, bottler and distributor for Coca Cola in Australia, New Zealand, Indonesia, Fiji, Papua New Guinea and Samoa. Although there are legitimate concerns about the long-term growth prospects in the carbonated soft drinks business, Amatil should benefit from Coca Cola's efforts to reorient its portfolio towards low sugar and other healthier drinks. We view Amatil's network infrastructure as critical for its suppliers and very difficult to replicate. The company is managed and financed quite conservatively. As such we think the business is strong and undervalued.

We purchased a small position in **Playtech** in the first half of 2018. Playtech is the leading global provider of online gambling software allowing operators to run best of breed software including CRM systems, compliance and regulatory software without the significant upfront capital investment. Operators pay Playtech based on a % of their gross gaming revenues. We believe this business is nicely profitable and sticky. Playtech also provides game-only content to some customers. We view this other business as profitable but much less sticky. Our thesis was that this is a nicely cash generative business with a strong position in its market, providing products that customers need. However in July 2018 the company announced a profit warning on foot of weak sales of its gaming products in China. We had always considered this particular segment as less durable so we viewed this update as very unfortunate but not completely shocking. Having reviewed the position we believe the business in China has stabilised and we continue to believe its software businesses in the rest of the world is strong. As such we don't consider this deterioration to be terminal and believe the overall business remains well positioned and undervalued currently.

Summary

The market backdrop remains very challenging. There has been a sharp correction recently in parts of the market which might ordinarily provide a raft of opportunities. However, whilst we are finding a few potentially interesting opportunities we are proceeding cautiously. Investors have been conditioned, like Pavlov's dog, to "buy the dip". This mentality is dangerous – we believe many companies may be over-earning significantly because of cyclical factors and the depressed level of interest rates.

Furthermore earnings estimates and consequently the PE multiples quoted on Wall Street and in the press are often highly flattering, in our opinion.

Commentary

Managements' window dressing of earnings is a pervasive problem and one in which Wall Street is complicit. Many companies have increased the level of debt on their Balance Sheet in recent years, which will make them more vulnerable to any deterioration in the business environment or investors' attitudes to corporate valuation in general. In short, the valuation of many companies is a lot higher and the underlying business more risky than the financial media would have you believe. We remain wary.

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