Setanta European Equity Fund (CAD)

Q4 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 which holds c.30 stocks in the European region. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile.

The fund is managed by two 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 investment objective of the Fund is to outperform the MSCI Europe index 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

Fergal Sarsfield, CFA & David Byrne, CFA

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

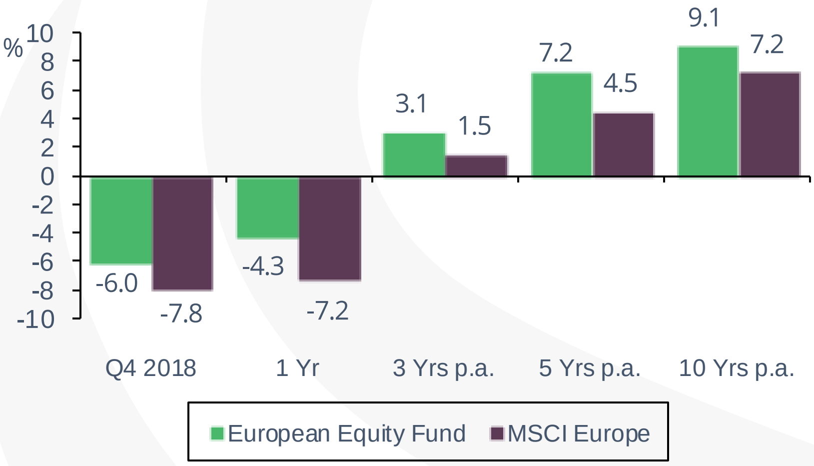
We consider scenarios rather than making forecasts

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

Fund Performance – 31.12.18



Yearly Performance

Year %	2014	2015	2016	2017	2018
Fund	1.3	27.7	-0.8	15.3	-4.3
Benchmark	2.3	16.5	-3.9	17.3	-7.2

Performance Source: GWL Unit Prices. Based on CLA European Equity (SF037). Returns are in CAD and are gross of management fees. Benchmark is MSCI Europe. The performance will be reduced by the impact of management fees paid, the amount of which varies.
Fund Statistics Source: Bloomberg

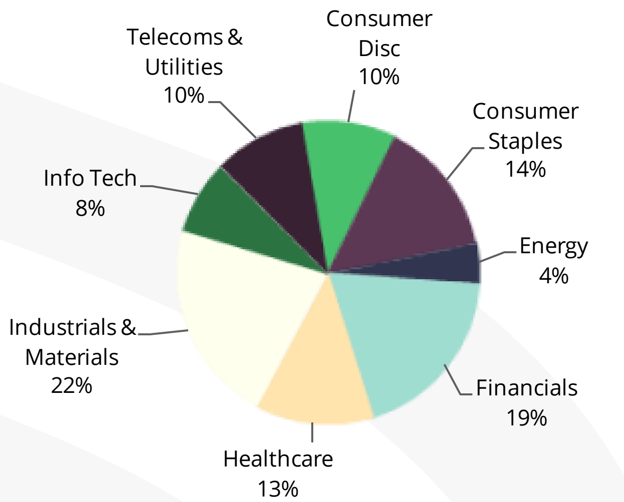
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	5.8%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	5.5%
GPE BRUXELLES LAMBERT	FINANCIALS	5.4%
DIAGEO	CONSUMER STAPLES	5.2%
ERICSSON	INFORMATION TECHNOLOGY	4.9%
UNILEVER	CONSUMER STAPLES	4.2%
GLAXOSMITHKLINE	HEALTHCARE	4.2%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.0%
NOVARTIS	HEALTHCARE	3.9%
LANCASHIRE HOLDINGS	FINANCIALS	3.7%

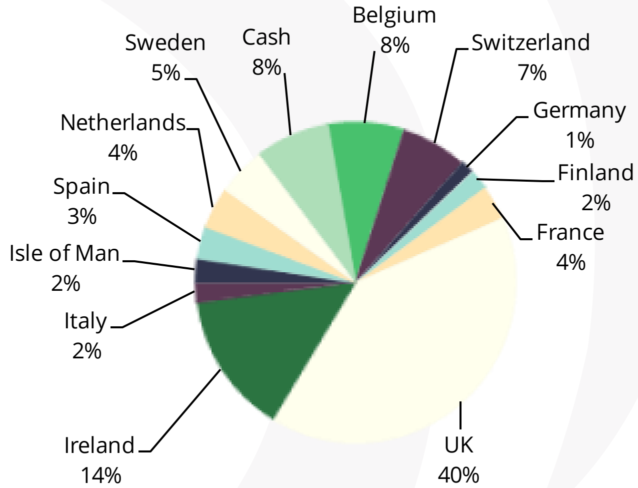
Fund Statistics

PRICE/BOOK	1.5
PRICE/EARNINGS RATIO (FY 1)	13.4
DIVIDEND YIELD %	3.7
AVERAGE MARKET CAP C$BN	53.4
NO. OF HOLDINGS	28
ACTIVE SHARE RATIO %	84.9
DEBT/EQUITY %	64.0

Sector Distribution



Geographic Distribution



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 Europe market index declined by 7.2% in CAD. The Setanta European Equity fund declined by 4.3% in CAD over the same period. Returns were widely dispersed across the fund. The standout winner was Ericsson, which rose by over 40% in CAD 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.

Sanofi and GSK both performed quite well, returning circa 13% and circa 22% in CAD, 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 50% between May, when the stock was added to the fund, and year-end. See more on Playtech in the transactions section, below.

Bank of Ireland performed very poorly, down circa 27% in CAD 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.

Transactions during the year

We sold two positions during 2018, C&C group 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 also purchased 2 new positions during 2018, GEA Group in Q4 2018 and Playtech in H1 2018.

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.

We purchased **GEA Group** in October 2018. GEA Group is a German industrial company which provides processing equipment for the food and beverages industry. It has high market share positions in each of its niche markets and has strong brand loyalty as customers are reluctant to switch from trusted providers given their focus on product quality and safety. However, internal issues surrounding failed restructuring plans and poor integration of acquisitions has meant that profitability has suffered. A new CEO has recently been announced and with the addition of an activist investor on the shareholder register we believe the company may finally begin to look internally at its cost structure and look to address this as a means to improving profitability. An improvement in margins will be very welcomed and we don't believe any of this improvement is currently discounted in the share price.

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. 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.

Contact Details:

Suite S8-02,
Eight Floor,
190 Simcoe Street,
Toronto,
Ontario,
M5T 2W5.

Rocco Vessio, (T) 416-552-5061 , (M) 647-823-4813
E-mail: rocco.vessio@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The Strategy is managed by Setanta Asset Management Limited. The Strategy is available on a separate account basis to institutional investors. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.
Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland and has been granted the International Adviser exemption from registration in Manitoba, Ontario, Quebec, British Columbia and Alberta. This exemption enables it to provide advisory services to clients in these provinces in accordance with the applicable securities legislation of Manitoba, Ontario, Quebec, British Columbia and Alberta. Setanta, who is an investment sub-advisor to a number of Great–West Life Group companies, does not trade on its own account. Units in the Canadian segregated and mutual funds are not offered for sale by Setanta but may be acquired by prospective investors via the relevant Great–West Life Group company. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above. Setanta Asset Management Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the "SEC") - CRD# 281781 / SEC# 801–107083.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance