Setanta European Equity Fund (CAD) – Q2 2017

Setanta
ASSET MANAGEMENT

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 development of financial theory in universities in the 1950s and 1960s suggested that the best way to model financial decisions was in neat linear equations similar to those found in physics textbooks. More recently markets and economies have been described as complex adaptive systems more comparable to systems found in a biology textbook. We prefer to think of markets as a complicated system with millions of decision makers, with each decision maker constantly evolving and adapting to the world around them, very much in the mould of how Charles Darwin and Alfred Russell Wallace viewed the world. Today, we think it is impossible to come up with an exact roadmap of how markets and economies will develop. We can, however, come up with a framework for examining businesses that we think will lead to successful investment outcomes.

(Fund Commentary continued on Page 3)

Portfolio Managers

Fergal Sarsfield CFA & David Byrne CFA

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.

Irish Pensions AWARDS 2015
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2016
WINNER
Equities Manager of the Year

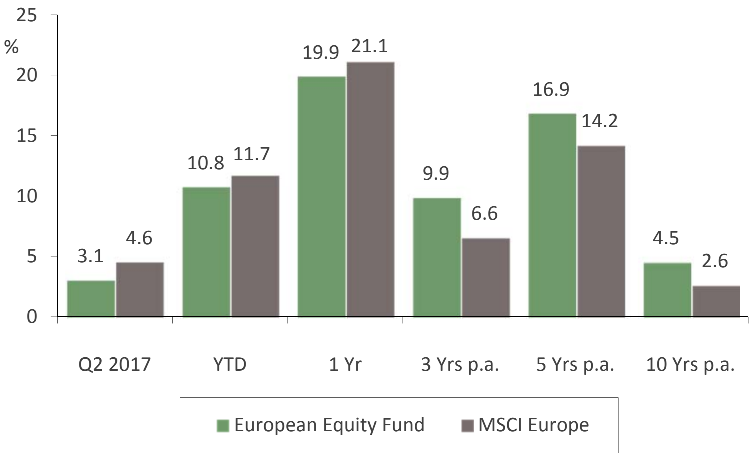
Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

Setanta ASSET MANAGEMENT

FUND PERFORMANCE – 30.06.17 (CAD)



FUND STATISTICS

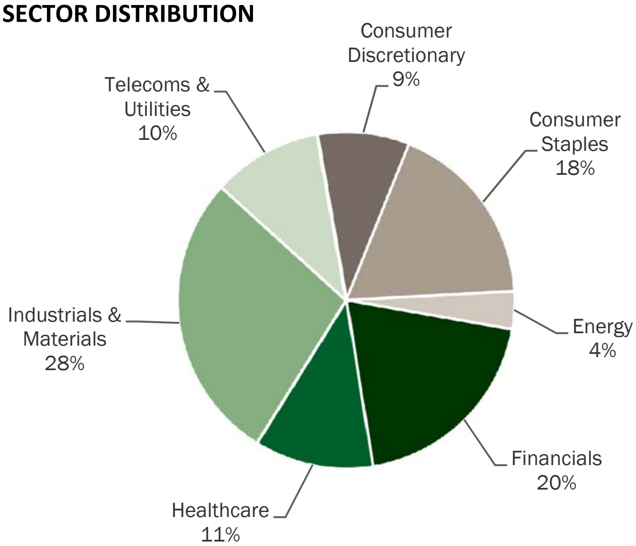
PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	16.8
DIVIDEND YIELD %	3.3
AVERAGE MARKET CAP C$BN	52.9
NO. OF HOLDINGS	28
ACTIVE SHARE RATIO %	89.3
DEBT/EQUITY %	65.2

YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016
Fund	18.0	35.8	1.3	27.7	-0.8
Benchmark	16.5	33.6	2.3	16.5	-3.9

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

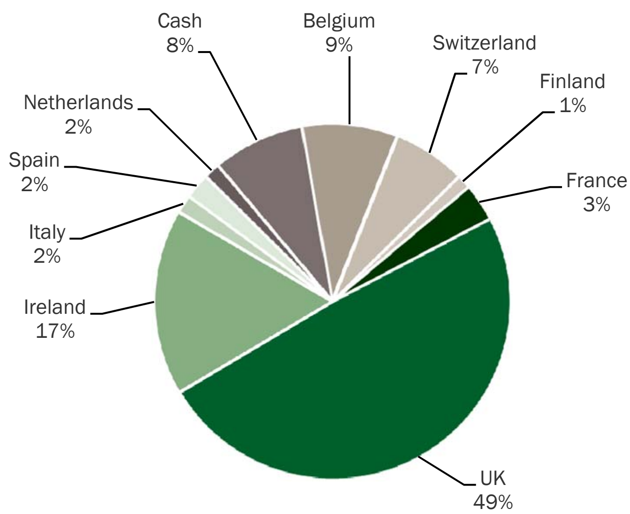
SECTOR DISTRIBUTION



TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	7.4%
DIAGEO	CONSUMER STAPLES	6.3%
GPE BRUXELLES LAMBERT	FINANCIALS	6.2%
DCC	INDUSTRIALS & MATERIALS	6.1%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.8%
LSL PROPERTY SERVICES	FINANCIALS	4.1%
VODAFONE GROUP	TELECOMS & UTILITIES	3.8%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.7%
NOVARTIS	HEALTHCARE	3.5%
GLAXOSMITHKLINE	HEALTHCARE	3.5%

GEOGRAPHIC DISTRIBUTION



At Setanta, we can think of the investment endeavour as the interaction and analysis of four main sub disciplines; business analysis, industry analysis, management analysis and valuation analysis. Businesses, industries and management teams are changing all of the time sometimes in ways that we can't even imagine. However, that is not to say the pursuit of superior investment returns is futile. Our focus is on businesses, industries and management teams with favourable characteristics that are likely to exhibit favourable characteristics for some time to come[1]. Ultimately, though for each potential investment we estimate a forward rate of return or intrinsic value for each business analysed. A second vital consideration is how likely we are to achieve this return. We can put a higher weight of certainty in businesses and industries that are more stable. The same goes for superior management teams.

For us, business analysis starts with straightforward considerations; What product does the company make? How much does it cost to produce each unit? How much profit can each unit make? Basic questions. The next batch of questions and considerations are more subjective and difficult to answer. Why are customers buying these products? Are they likely to be repeat purchasers? How many competing products are available? Are they better? Etc.

Industry analysis can be even trickier. While we can appraise the past fairly accurately, it is impossible to know future supply for most industries. We simply don't know where competition is going to spring up. To do so, we would have to read the minds of all potential capital expenditure decision makers in an industry. However, we can tilt the odds by favouring industries that tend to exhibit attractive supply dynamics (as long as valuation is reasonable).

Consider two industries, the spirits industry (and a further sub industry, the Scotch whisky industry) and the retail industry. We can estimate supply capacity for many spirits categories as certain drinks must be produced in a geographic region to be called as such e.g. Scotch whisky or Cognac. As well as other regulations, to be called Scotch the liquid must be aged in Scotland for at least 3 years. While these regulations don't completely control supply they do provide a dampening down effect. We can have reasonable confidence in our estimation of supply for 3-5-10 years. The retail industry is an entirely different beast. The retail industry has a much higher tendency to be overbuilt versus Scotch whisky capacity. There are hundreds of retailers that are looking to grow space. Most retail models benefit from scale economics which encourages growth. Furthermore governments love the short term jobs boost that retail construction provides and often local authorities get sustained revenue uplift from retailers in the form of taxes and rates. Given this backdrop today, we can have much more confidence in our earnings estimates for our branded spirits manufacturer than most retailers. Each and every day we come to the office keen to learn from these complex adaptive systems, perhaps we will see more favourable industry conditions in the retail industry in the future. For now, we prefer spirits.

[1] For a more thorough explanation of our research process, see our global equity commentary for Q2 2017

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