Setanta European Equity Fund (CAD) – Q2 2018

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

While renewed talk of global trade wars and political uncertainty in Italy and Spain caused some very short lived bouts of volatility, the second quarter was a relatively calm period for markets. We can't tell when the next bout of market stress will occur but such times can be rewarding. Indiscriminate selling can allow us to buy into quality companies which were previously too expensive for our liking. Recent experience could lull one into a false sense of steadily rising equity markets being the norm. However, these times of stress happen more often than you'd think. Between 1980 and 2017, an exceptionally positive period for equities, the average intra-year drawdown for the S&P 500 was almost 14%. At a stock level, that volatility can obviously be much higher.

(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.

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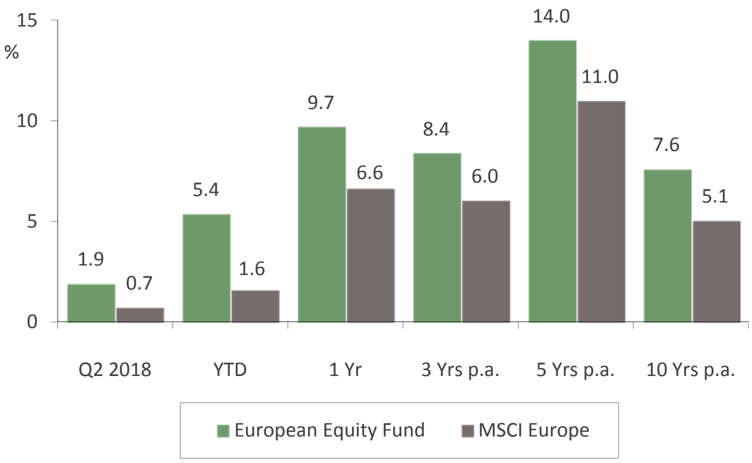
FUND PERFORMANCE – 30.06.2018 (CAD)



YEARLY PERFORMANCE

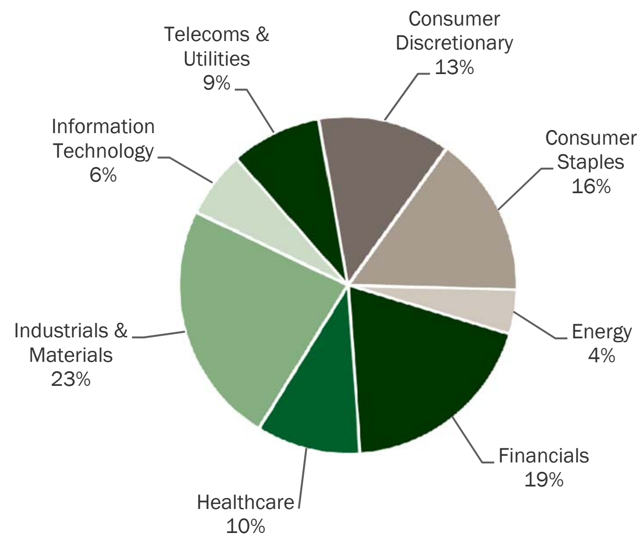
Year %	2012	2013	2014	2015	2016	2017
Fund	18.0	35.8	1.3	27.7	-0.8	15.3
Benchmark	16.5	33.6	2.3	16.5	-3.9	17.3

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

FUND STATISTICS

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	15.4
DIVIDEND YIELD %	3.2
AVERAGE MARKET CAP C$BN	56.8
NO. OF HOLDINGS	27
ACTIVE SHARE RATIO %	80.6
DEBT/EQUITY %	56.4

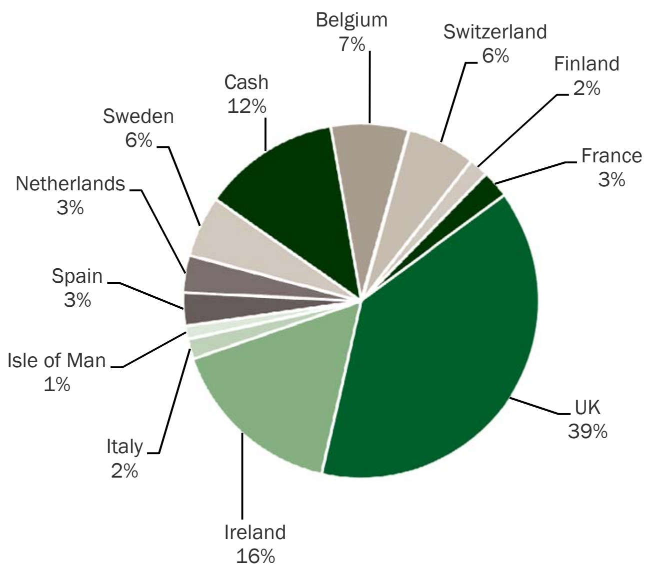
SECTOR DISTRIBUTION



TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DIAGEO	CONSUMER STAPLES	6.5%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	5.8%
GPE BRUXELLES LAMBERT	FINANCIALS	5.6%
ERICSSON	INFORMATION TECHNOLOGY	5.6%
DCC	INDUSTRIALS & MATERIALS	4.9%
CRH	INDUSTRIALS & MATERIALS	4.0%
ORIGIN ENTERPRISES	CONSUMER STAPLES	3.7%
SWATCH GROUP	CONSUMER DISCRETIONARY	3.5%
GLAXOSMITHKLINE	HEALTHCARE	3.5%
RYANAIR	CONSUMER DISCRETIONARY	3.4%

GEOGRAPHIC DISTRIBUTION



During the second quarter, we sold out of our position in **Fenner** which proved to be a very successful investment for us. It is a good example of how we look to be opportunistic at times of stress and the fact that short term concerns can sometimes blind the market to attractive underlying business characteristics.

We built our position in Fenner over the course of the second half of 2015 when worries about the Chinese economy and the capital positions of European banks were uppermost in investors' minds. Fenner supplies conveyor belt products and services to the mining industry. It also sells polymer based products to a variety of end markets. A fall-off in demand from coal miners had triggered significant share price underperformance prior to our purchase.

But there was much to like here. Its products are mostly consumable and demand would eventually have to re-emerge. The belting industry is concentrated at the higher end of the market with Fenner a strong No.2. Meanwhile, the polymer based products are typically low cost and high consequence – an example being performance critical seals in oil drilling applications – so there is little incentive for customers to switch. The chairman had overseen the right-sizing of the business through previous downturns and we believed management would drive the necessary actions again. There was risk around the length of the commodity downturn but we were confident the financial position was robust enough to weather this and Fenner was still generating cash. On normalised through the cycle earnings, the stock looked cheap to us.

We can't claim to be perfect timers and the stock continued to fall after our initial purchase at around 200p in mid-2015. Importantly our research gave us the resolve and confidence to average down. As management cost cutting actions began to come through and the demand cycle began to turn, the share price rebounded sharply on improved results. We reduced our position over time as the risk-reward profile appeared less attractive. Finally this year, Fenner's management agreed to a takeover bid of 610p from Michelin. Opportunism provided a very handsome return.

We also sold out of our position in **C&C** during the period. Unfortunately, this was a less rewarding experience than Fenner. The investment case was predicated on what we felt were strong alcoholic beverage brands in Ireland and Scotland combined with good cash flow generation, a strong balance sheet, management with aligned interests and a valuation at a significant discount to large global peers. Ultimately, those core markets of Ireland and Scotland proved less defensible than hoped with the Irish market in particular suffering from Heineken's launch of a competing cider brand. The UK has continued to be highly competitive. An ill-judged entry into the US cider market showed no signs of recovery. The recent acquisition of UK distributor Matthew Clark Bibendum prompted a share price rally following a period of weakness and we took the opportunity to exit.

We initiated a new position in **Playtech** during the quarter. Playtech is the largest global provider of software and gaming content to the online gambling industry. It's business model is to provide content and IT infrastructure to online gambling operators and in return they receive a percentage of the gross gaming revenue generated by the operator. With online gambling penetration continuing to increase and more and more global markets regulating online gambling Playtech is in a prime position to benefit from these structural tailwinds. It's healthy balance sheet, strong dividend and attractive valuation all combined to warrant an investment in this market leading company.

David Byrne – Portfolio Manager

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

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