

## 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

I think it’s very apt to include the following lengthy extract from the Chairman’s statement of the Smiths Group annual report 2017. Smiths Group is a core holding of the Setanta Europe fund and we admire and applaud the way they as a board and management team conduct their business and think about the long term sustainability of their business.

As investors in the Setanta Europe fund hopefully it will not scare you too much but it most certainly serves as a graphic illustration of the concerns, challenges and threats facing companies on a daily basis as well as the multiple factors we as investors need to take into consideration as we invest your capital.

*Fund Commentary continued on Page 3)*

## Portfolio Managers

Fergal Sarsfield CFA & David Byrne CFA

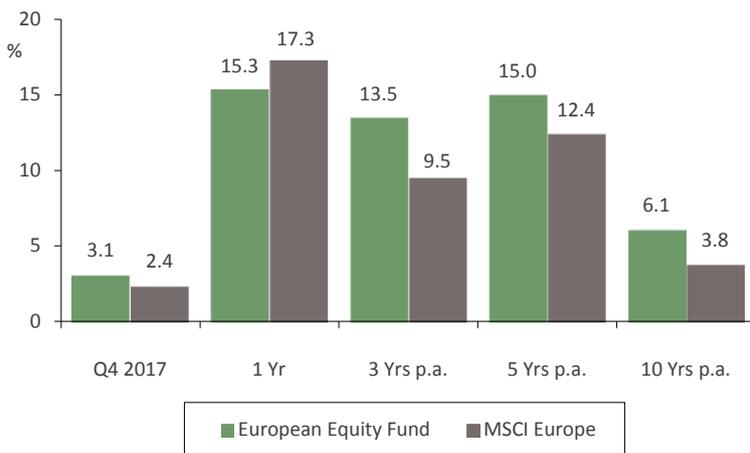


## Investment Principles

- 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.



## FUND PERFORMANCE – 31.12.17 (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

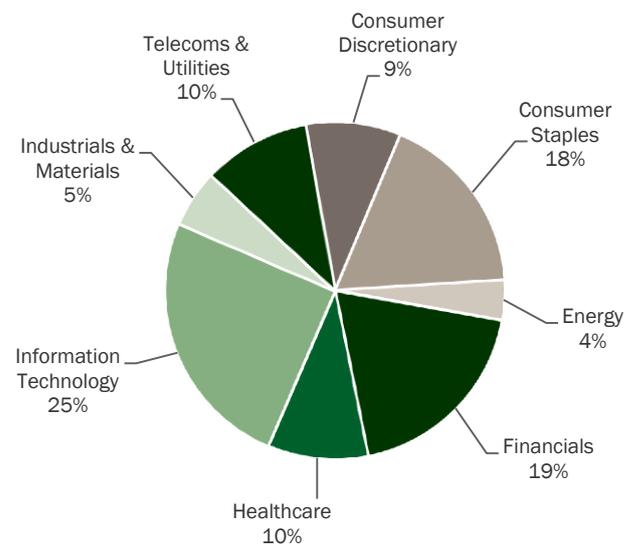
## TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DIAGEO	CONSUMER STAPLES	6.9%
GPE BRUXELLES LAMBERT	FINANCIALS	6.1%
DCC	INDUSTRIALS & MATERIALS	5.8%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	5.4%
ERICSSON	INFORMATION TECHNOLOGY	5.0%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.3%
VODAFONE	TELECOMS & UTILITIES	3.8%
FENNER	INDUSTRIALS & MATERIALS	3.5%
LSL PROPERTY SERVICES	FINANCIALS	3.3%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.1%

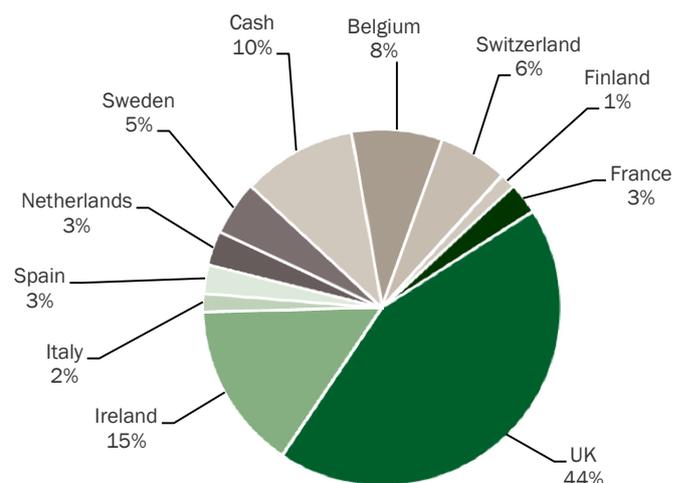
## FUND STATISTICS

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	17.4
DIVIDEND YIELD %	3.0
AVERAGE MARKET CAP C\$BN	53.3
NO. OF HOLDINGS	28
ACTIVE SHARE RATIO %	82.3
DEBT/EQUITY %	64.8

## SECTOR DISTRIBUTION



## GEOGRAPHIC DISTRIBUTION



*“As individuals or as companies, we can either create the future or we can be visited by it – and who is to say that if we just wait for it, whether we’ll like that future visit when it arrives?”*

*It’s clear from the challenging experiences of many great companies in recent years, that unless we prepare properly for the future, the one we want probably won’t be there when we need it. It reminds me of the old saying “the best time to replace the roof is when the sun is shining.”*

*There are, in fact, many possible ‘futures’ that can be created for a company. So it’s far better that it’s one we intentionally design ourselves, rather than an accidental one we may not like when it arrives. That’s the fundamental job we have to do as a leadership team and as a Board, ie to create a new sustainable and viable future for Smiths, one which creates more value for our shareholders and more opportunities for our employees. By design, it will be one which is much better than if we had simply waited at the bus-stop of opportunity for something serendipitous – or not- to come along.*

*A fact which is rarely acknowledged by observers is that the core of every company is slowly dying. This includes even the most ‘modern’ companies such as those focusing on software, social media and the internet.*

*The core of every company is being constantly attacked by competition, by end-of-life technology, product substitution, regulation and cannibalisation, and also by changing customer preferences and performance expectations. The core of every company is trickling away like a melting ice cube in the hot sun.*

*The rate at which this decay or attrition happens can be surprisingly high, depending on the type of end market being served. So clearly, there is no way to succeed in the competitive game by simply standing still. The only way to overcome this natural attrition problem is by continually replacing the core business with new products, new customers, new technologies and new markets. If a company wants to grow faster than the market, it has to make this replacement at a rate which well exceeds the natural rate of core attrition. While this may seem to be an obvious statement, you’d be surprised by how few companies recognise this problem and address it head on. We will not make this mistake at Smiths.”*

*Sir George Buckley, Chairman, Smiths Group*

So much of what Sir George Buckley speaks about above resonates very well with us here in Setanta. Our primary focus is to invest in good companies, for us good companies will have the following characteristics

- Low risk of obsolescence
- Stable financial structure
- Long term business planning
- Trustworthy management with shareholder focus

While we can never be certain about what a business will look like in 20 years’ time we take comfort when we hear management speak openly about these concerns and the willingness to invest to ensure their sustainability. Without investment “the core of every company is dying” and with it their earnings power and cash flow generating ability. If we can find good companies with strong management teams who have a willingness to invest sensibly to ensure the sustainability of their earnings power then we believe we will continue to put ourselves in a position to deliver strong investment returns for our investors.

While the fund was up a very credible 15.3% in 2017, unfortunately we underperformed the MSCI Europe benchmark by 1.7%. Despite the disappointing year in 2017 we are still proud of our longer term outperformance and would ask our investors to look to the longer term rather than focusing on one marginally disappointing year.

We had some very strong performers in the fund over the course of the year but we also had some disappointing distractors to performance. As we depart 2017 we thought it might be a good idea to inform our investors of what worked well for us during the year and what didn't go so well.

### Top Performers during 2017

Company	2017 Absolute Performance
Fenner	+75%
Kingspan	+51%
Unilever	+38%

### Fenner

Fenner has done a remarkable job over the past several years of adjusting their cost base to reflect the reduction in demand for their conveyor belt products mainly sold into the coal and mining industry. They right sized their ECS business while investing in the growing AEP segment. In 2017 as demand for ECS products rebounded modestly and the investments in AEP began to bear fruit Fenner experienced a substantial improvement in profitability and the share price followed suit rising over 70%.

### Kingspan

The Kingspan management team have proven to be exceptionally shrewd business operators; through organic investment in technology and astute acquisitions they've cemented their position as the market leader in insulation products. They continue to lead the market with the development of new more energy efficient products while bolstering growth via acquisitions which fit neatly into their existing business model. With strong end markets and a proven business model Kingspan have been able to double revenues over the past 5 years and in turn increase profitability threefold as increased scale brought about improved margins. All of this has been rewarded by the market with the shares up over 50% in 2017.

### Unilever

In early 2017 Kraft Heinz made an unsolicited approach to acquire Unilever, the approach was rebuffed by the Unilever management and board and instead Unilever CEO Paul Polman agreed to embark on a cost cutting and portfolio pruning exercise with the intention of achieving above market growth and improving margins from 15% to 20% by 2020. The disposal of their Spreads business was completed in December 2017 and it's widely expected that Unilever will reinvest the €6bn proceeds into faster growing segments of the personal care sector. The approach by Kraft was the catalyst for a change of pace at Unilever and with it came an almost 40% appreciation in share price.

**Worst performers during 2017**

Company	2017 Absolute Performance
C&C Group	-18%
Tesco	-13%
Glaxosmithkline	-9%

**C&C**

C&C has continued to face significant competition from Heineken's cider offering Orchard Thieves in the Irish market, particularly in the on trade. The wholesale business in Ireland and Scotland remains competitive and price sensitive. The UK has always been a tough market given the importance of the pub chains and supermarkets. C&C has taken a minority stake in the Admiral Pub Group to boost its position there. Sterling weakness has also had a markedly negative impact on reported profits from Scotland and England. The Pabst distribution deal has failed to revive the fortunes of the US business thus far. We continue to hold the stock given the significant discount to alcoholic beverage peers, strong cash flow generation, attractive dividend yield, healthy balance sheet and management whose interests are aligned with ours through their investment in the company.

**Tesco**

The UK supermarket industry remained a highly competitive space in 2017 with the German discounters, Aldi and Lidl, continuing to take market share. Food retailers operate on razor thin margins and any lost sales reduce profitability significantly due to the high fixed costs in this business (mainly labour and property). CEO Dave Lewis appears to be doing a decent job in moving to address pricing, reducing the number of SKUs, repairing supplier relationships and effecting disposals to fix the balance sheet. Ultimately, however, the industry dynamics caused us to sell out of this position in the Europe fund in the third quarter.

**Glaxo**

CEO Emma Walmsley's desire to retain strategic flexibility has raised some investors' concerns about the possibility of a dividend cut. Pfizer's Consumer Health business has been touted as a potential acquisition target prompting fears of over-payment. More generally, consumer health businesses are experiencing a slowdown in growth and Glaxo has not escaped this trend. The respiratory franchise continues to see some pressure but the Pharmaceuticals business is largely through the patent cliff. The Vaccines and Consumer businesses remain attractive. With a solid financial position, attractive dividend yield, recent history of avoiding large scale M&A and a reasonable valuation, we retain our position.

**There were no new transactions during Q4 2017**

On behalf of David and I, I'd like to thank all our investors for your continued support throughout the year and we look forward to satisfying your investment needs in the years to come.

*Fergal Sarsfield – Portfolio Manager*

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