

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 possess 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

Volatility and Risk

The first quarter of 2017 saw a notable lack of volatility in stock markets. The Dow Jones Industrial Average had an average absolute percentage daily change of 0.3%, the lowest since the fourth quarter of 1965. The S&P 500 also averaged a daily change of 0.3%, its least volatile since the third quarter of 1967. Modern portfolio theory states that the risk of an underlying asset, be it a stock or portfolio, is measured by its price volatility. Beta, the extent to which a company's share price co-varies with the broader market, is supposed to tell us how risky a stock is. So should we feel relaxed about risk in these becalmed markets?

(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.



WINNER
Equities Manager of the Year



WINNER
Equities Manager of the Year



WINNER
Equities manager of the year

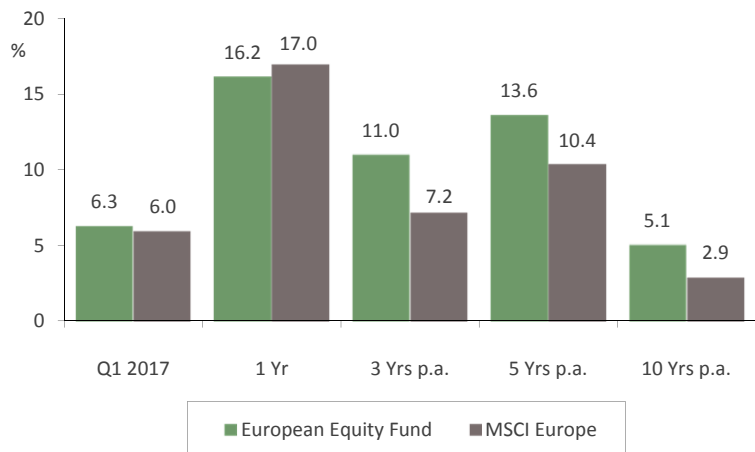


WINNER
Equities Manager of the Year



WINNER
Equities Manager of the Year

FUND PERFORMANCE – 31.03.17



YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016
Fund	17.5	23.9	6.1	19.8	4.8
Benchmark	17.3	19.8	6.8	8.2	2.6

Performance Source: Setanta Asset Management Limited. Benchmark: MSCI Europe. The Fund returns stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

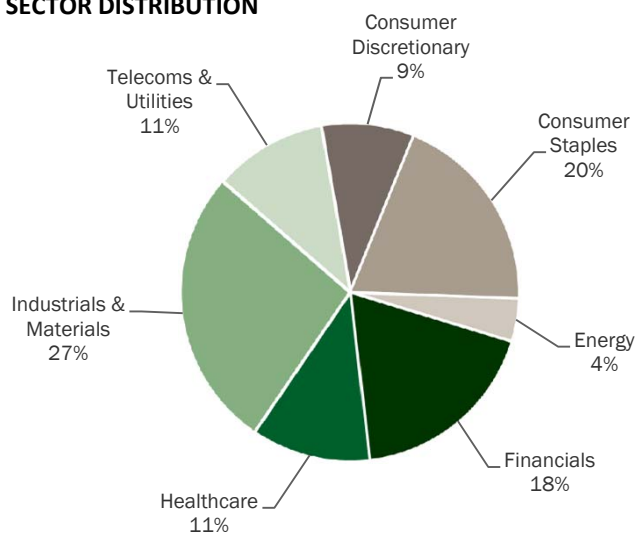
TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DIAGEO	CONSUMER STAPLES	6.5%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	6.3%
DCC	INDUSTRIALS & MATERIALS	6.1%
GROUPE BRUXELLES LAMBERT	FINANCIALS	6.1%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.8%
SMITHS GROUP	INDUSTRIALS & MATERIALS	4.1%
LSL PROPERTY SERVICES	FINANCIALS	3.9%
VODAFONE GROUP	TELECOMS & UTILITIES	3.8%
GLAXOSMITHKLINE	HEALTHCARE	3.7%
LIBERTY GLOBAL	CONSUMER DISCRETIONARY	3.6%

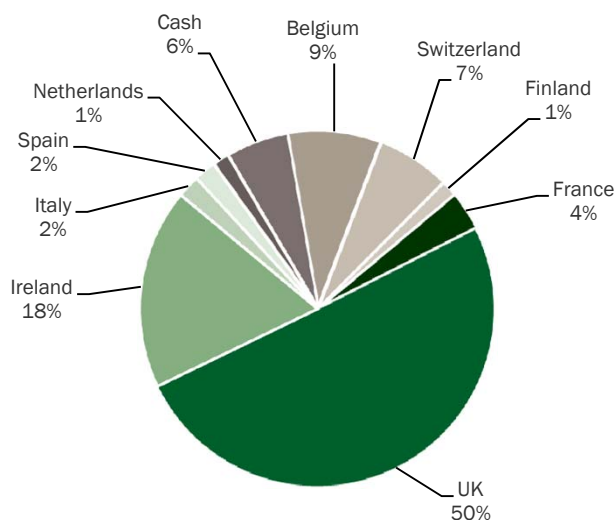
FUND STATISTICS

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	18.0
DIVIDEND YIELD %	2.8
AVERAGE MARKET CAP €BN	36.3
NO. OF HOLDINGS	28
ACTIVE SHARE RATIO %	89.1
DEBT/EQUITY %	71.6

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



Economist Hyman Minsky theorised that a period of stability encourages risk taking which in turn leads to instability. When people aren't afraid of risk, they accept it without being compensated. Warren Buffett memorably summed this up with the line "It's only when the tide goes out that you discover who's been swimming naked". The current era of low "risk-free" interest rates may lead to the return bar being set too low for riskier investments.

We can't tell you whether we are on the verge of a "Minsky moment". What we can say is how we think about risk at Setanta and share price volatility does not figure. In evaluating any investment opportunity, the key to risk is the likelihood of the permanent destruction of capital. Our overarching focus is on avoiding this outcome through trying to understand the underlying fundamentals of the business and the inherent risks; over the years this has led to less downside risk in our strategy.

We sometimes describe our approach as "paranoid" investing. Scepticism is central to our process. Most of our investment case discussions centre on what can go wrong. When considering an investment, we try to consider how a company would perform in a range of possible future scenarios. We try to ensure that we are being compensated for the broad array of risks that the company could face. Focusing on a single most likely outcome as many sell side analysts do fails to capture this risk spectrum. We do not claim to be skilled crystal ball gazers or macroeconomic forecasters, nor are we trying to make explicit detailed projections. Instead by trying to consider the full range of risks facing the company, we are looking to be roughly right rather than precisely wrong.

It is impossible to consider or indeed imagine the full range of potential outcomes. There are "unknown unknowns" as former US Secretary of Defence Donald Rumsfeld once said. The future that actually transpires may be positive or negative for our stocks but we are seeking to ensure that we are being adequately rewarded for that inherent uncertainty. Critically, a business must have the wherewithal to endure a difficult business environment so it can survive and prosper when the backdrop turns more favourable.

This risk focus leads to us to look to avoid companies with any of the following characteristics: a highly indebted leveraged balance sheet; operating in a fast changing industry; expensive growth / speculative stocks; poor or, unpredictable or short-sighted management; an excessively short term focus; opaque or complex business models; convoluted accounting; expensive / speculative stocks. Our preference is for financially strong, durable businesses with capable management who are focused on the long term and shareholder interests.

This approach means we will from time to time miss out on high flying single product biotechnology stocks or hot social media technology companies. While success stories spring easily to mind, the trail of business failures is more easily forgotten. In attempting to build a strong long term track record, avoiding disasters is critically important. If a stock drops 75%, then it must rise 300% to break even. We remain consistent in our approach and seek to avoid letting the "fear of missing out" infect our thinking.

Increased volatility can be very welcome in throwing up opportunities to buy good quality businesses at reasonable prices. Risk is conditional on the price paid. Take a case where a company has suffered a short term setback which leads to a meaningful share price decline but where the long term prospects of the business are relatively unaffected. Financial theory suggests that the increased volatility makes the company riskier. This completely ignores the lower price level which in fact makes the investment less risky.

Recent data from JP Morgan for the 1980-2016 period highlighted that the average intra-year maximum drawdown was -14.2% for the S&P 500. Bear in mind that this has been a very positive time period for equities. The annualised return with dividends re-invested was 11.5%. Even in this current bull market, six of the past eight years have seen double digit peak-to-trough intra-year declines in the S&P 500. Share price moves in the short term may have little to do with the underlying fundamentals of a business. As Benjamin Graham said, "In the short run the market is a voting machine, in the long term it's a weighing machine".

Considering risks to the investment case thoroughly in advance helps to provide the resolve to capitalise on share price weakness where we feel the long term attractions of the business remain intact. At Setanta, we hope that increased share price volatility can in fact afford us lower risk investment opportunities.

Transactions during Q1 2017

During the quarter we initiated a position in Ryanair, the low cost airline. The company boasts a meaningful cost advantage over its competitors including other low cost carriers. The flag airlines, weighed down by inefficient cost structures and institutional resistance to change, are particularly vulnerable to Ryanair's advance. Over the last three years, management has shifted its strategy towards a more customer friendly approach with a greater emphasis on serving primary airports. It has an attractive runway for growth. With a strong balance sheet, these plans can be financed internally. Management have been very judicious allocators of capital in the past, investing in fleet expansion at attractive prices during industry downturns and returning excess cash to shareholders at other times. Ryanair Labs, which seeks to use data mining to sell additional products such as hotel rooms to passengers, offers some optionality.

We also started a position in Unilever. We believe it has evolved into a higher quality company as CEO Paul Polman has shifted the business towards Personal Care and away from Foods through measured M&A. Well-known brands with strong distribution positions, particularly in Emerging Markets, give pricing power and attractive returns on capital. Company programmes focused on optimising pricing, delayering the organisation and responsible zero based budgeting offer scope for margin improvement. The Home Care and Refreshment businesses in particular have margin upside potential. Strong cash flow generation, a decent dividend and a reasonable valuation all added to the attractions. Kraft's takeover interest, which was subsequently rejected, triggered a share price rise which has prevented us from building a full position.

We exited our small position in Diebold Nixdorf. We received Diebold Nixdorf shares as part of Diebold's takeover of Wincor Nixdorf last year. We took this opportunity to take a fresh look at the combined business of Diebold and Wincor Nixdorf and thought that better opportunities lie elsewhere in the fund.

We sold our remaining position in Rheinmetall. Rheinmetall was initially purchased for the fund in 2013. Both segments of the business, defence and auto parts, have performed better than our initial expectations. However, we think this is fully reflected in the share price today and have exited the position.

David Byrne – Portfolio Manager

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