

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

Valuation

A recent court case brought by former Dell investors who felt they had been short-changed when the company was taken private by founder Michael Dell in 2013 gave an interesting insight into the topic of business valuation. The court relied solely on the Discounted Cash Flow (DCF) methodology as it merited "the greatest confidence within the financial community". Each side relied on prominent academic experts to make their case. The company produced an estimate of \$12.68 per share, suggesting that the \$13.75 per share buyout price paid to shareholders was in fact generous. The calculation on behalf of the disgruntled investors was significantly higher at \$28.61 per share. This implied a \$28bn aggregate valuation difference on a buyout worth only \$25bn!

(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

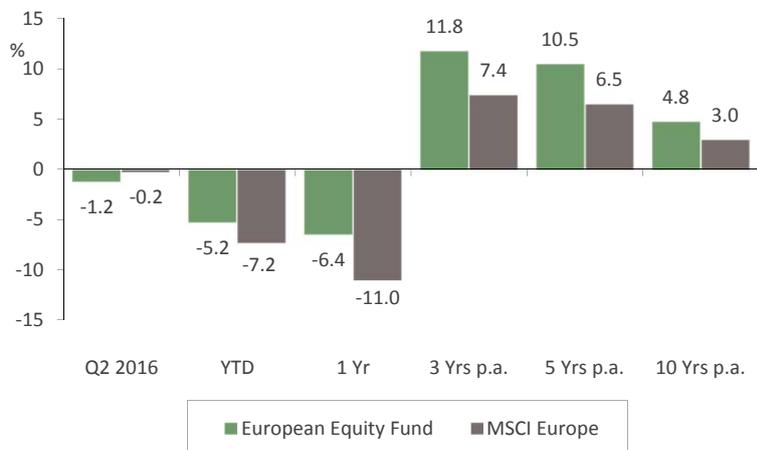


WINNER
Equities Manager of the Year



WINNER
Equities Manager of the Year

FUND PERFORMANCE – 30.06.16



YEARLY PERFORMANCE

Year %	2011	2012	2013	2014	2015
Fund	-6.5	17.5	23.9	6.1	19.8
Benchmark	-8.1	17.3	19.8	6.8	8.2

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

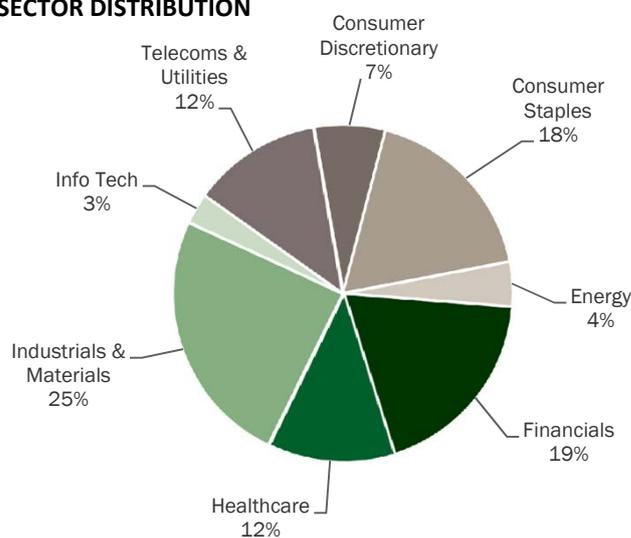
TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	7.3%
DIAGEO	CONSUMER STAPLES	6.4%
CRH	INDUSTRIALS & MATERIALS	5.6%
GRUPE BRUXELLES LAMBERT	FINANCIALS	5.5%
LSL PROPERTY SERVICES	FINANCIALS	4.9%
VODAFONE GROUP	TELECOMS & UTILITIES	4.4%
C&C GROUP	CONSUMER STAPLES	3.9%
GLAXOSMITHKLINE	HEALTHCARE	3.9%
ORIGIN ENTERPRISES	Consumer Staples	3.8%
NOVARTIS	HEALTHCARE	3.8%

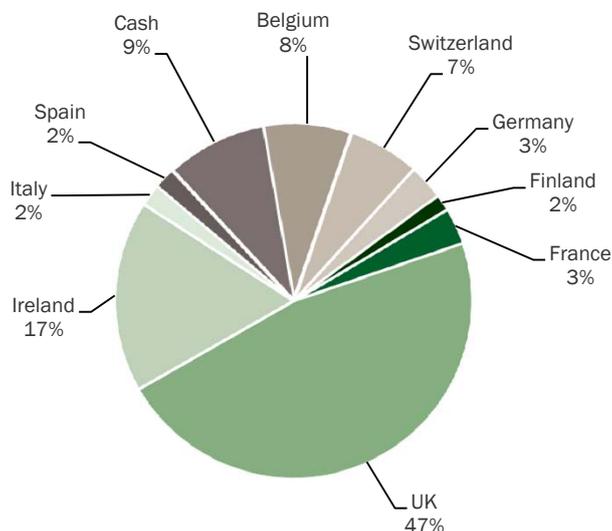
FUND STATISTICS

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	11.0
DIVIDEND YIELD %	3.4
AVERAGE MARKET CAP €BN	29.9
NO. OF HOLDINGS	27
ACTIVE SHARE RATIO %	89.9
DEBT/EQUITY %	44.0

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



At Setanta, we believe value is more than a number and by extension that valuation is more of an art than a science. The skill in valuing a business is not in selecting a particular valuation tool. It is in estimating the correct profit number to use in the valuation tool. There is no magic formula for valuing a company. The critical part is all the work that goes in beforehand in understanding the business, its durability, the threats it faces and assessing what it can reasonably expect to earn over a business cycle. We ask ourselves how a given company has performed through cycles in the past and whether there are structural reasons why this shouldn't repeat.

The level of sustainable cash earnings can be very different to the audited profit reported in a given year or indeed the non-GAAP metrics often highlighted by public companies. Examples of factors that need to be taken into account include the capital structure, the accounting policies used by management, the level of investment spending and where the company is in its business cycle. Again there is no one-size-fits-all approach to making these adjustments. It is only through spending a considerable amount of time in researching and understanding the business that one can sensibly factor in these considerations.

The mechanical valuation exercise is the relatively easy part. To our earnings estimate we apply what we believe is a sensible multiple for that type of business. The sustainability of any competitive advantage, the returns on capital the business can generate, its runway for growth and management's ability to allocate capital sensibly all feed into that multiple. Again, this is informed by the hard work already done in researching the business rather than any complex mathematical formula. Our aim is to be generally right rather than precisely wrong.

Nobody can know what the future rate of inflation will be, or the level of interest rates, or the precise level of future earnings so we believe point estimates of stock valuation are misleading. We think of valuation as a range of reasonableness as opposed to attempting to pinpoint precise price targets. Looking to identify a very specific price target risks ignoring the range of possible outcomes that a business can face. We sometimes refer to our approach as "paranoid" investing. We are constantly trying to think of what can go wrong and how a company can operate in that environment. When people aren't afraid of risk, they accept it without being compensated for it. By thinking through these potential scenarios and having done the work to understand the business, this gives the necessary resolve to initiate or add to positions where a stock price is weak based on short term market concerns rather than long term fundamentals. That is the opportunity.

The research effort doesn't stop once we buy a stock. The longer we own a company, the better our understanding and the better we are able to value it. This can sometimes lead us to put a higher valuation on businesses that we gain more confidence in, but it can also lead us lower our assessment of value – or even sell a stock – in businesses that we become less enthused about.

At Setanta, we are typically looking for good quality companies that are durable, financed conservatively, run by executives who are unlikely to do harm and under-appreciated by investors for one reason or another. We hope that these businesses can compound in value over time. Valuation is a key part of the equation. We are looking to buy at a price that over-compensates for the risk in the business. What we pay is critical to the level of risk. There is no such thing as an inherently good or bad investment: the price is key in determining what is a good or bad investment. Buying a high quality business at a very inflated price does not make sense. We would posit that time spent understanding a business and its prospects is far more critical to arriving at a sensible valuation than considering what revenue growth and profit margin to input into Year 10 of a DCF formula.

Brexit

The UK electorate's decision to leave the European Union prompted a sharply negative reaction in global stock markets. While the negotiated terms of the exit and its timing are likely to remain unclear for some time, economic risks in the near term have increased. We are overweight UK listed stocks in our European portfolio versus the benchmark. This is the result of bottom-up fundamental stock picking rather than any top down macro call but nonetheless the fund's UK position is something we have been acutely aware of. Much of this exposure is through multinational companies which earn comparatively little in the UK and whose long term prospects are not affected much by the referendum's outcome in our view. However, we still have greater underlying exposure to the UK economy than the benchmark through some other Irish and UK holdings. Importantly, we have as always remained averse to risk and we believe the portfolio consists of high quality, financially sound businesses which are able to withstand short term pressures and ensure that long term business values are preserved.

Despite the Brexit vote we think it is unlikely that the long-term earnings power – the key driver of business value – of the fund’s holdings has changed significantly. Consequently we remain confident in the fund’s holdings. We have been somewhat concerned about the valuations of many stocks in the market for some time, especially in the context of an uneasy global social/political/economic environment and this is why we have held a larger than normal cash weighting. In this context, volatility may provide us with some good opportunities to put cash to work.

Transactions during Q2 2016

During the quarter we initiated a position in Merlin Properties, a Spanish real estate investment trust. We believe Merlin offers a strong portfolio of assets which is currently trading below book value with the potential for rental growth as Spanish commercial rents currently sit at trough levels following a prolonged period of economic weakness. The management team is highly experienced and a recent deal to acquire commercial properties from Metrovacesa suggests an ability to identify attractively priced deals, which can further enhance the value of the business. Leverage is manageable and costs are closely monitored. The company generates a healthy level of cash flow and offers an attractive yield.

Fergal Sarsfield – Portfolio Manager

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IMPORTANT INFORMATION

The fund has now transferred to Irish Life, investors should contact www.irishlife.ie for more details. For this life assurance product, investors should refer to the relevant policy conditions available now through Irish Life. The strategy is also available on a segregated basis or via the Setanta UCITS mutual fund via Setanta Asset Management Funds plc. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See ‘WARNING’ and IMPORTANT INFORMATION’ below.

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