

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

As we depart one year and begin another I find it's often a good time for reflection, taking a step back and reflecting on the current businesses we own and re-assessing their long term chances of success.

'Only the Paranoid Survive' by Intel founder, Gordon Moore is one of my favourite books. In a nutshell it's about managing a technology company through choppy waters and uncertain times. It's also a title that is very appropriate for the active investment management industry and especially for how we in Setanta think about investing.

We often call ourselves "paranoid investors" as much of our work revolves around assessing the downside risk for each investment that we analyse and on a continuing basis for each investment that sits in our portfolio.

(Fund Commentary continued on Page 3)

Portfolio Managers

Fergal Sarsfield CFA & David Byrne CFA

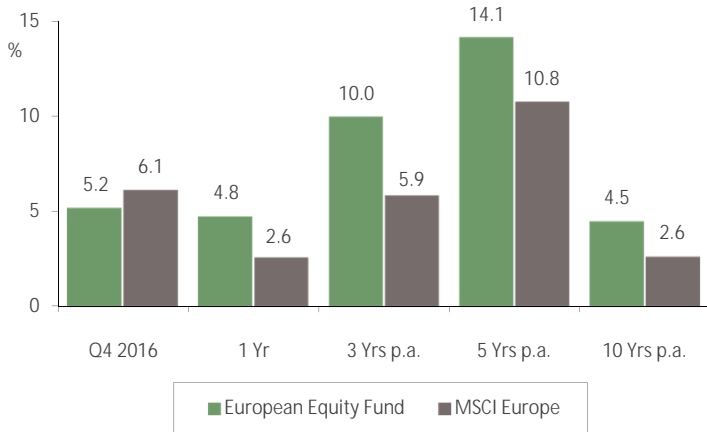


Investment Principles

- 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 – 31.12.16



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

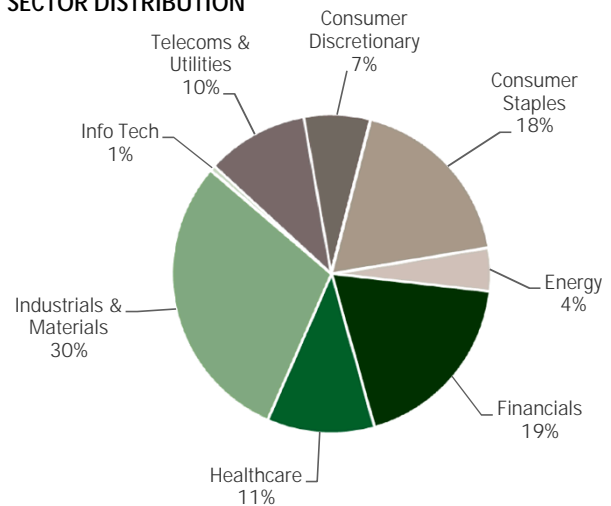
TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	8.0%
DIAGEO	CONSUMER STAPLES	6.1%
GROUPE BRUXELLES LAMBERT	FINANCIALS	5.8%
DCC	INDUSTRIALS & MATERIALS	5.3%
CRH	INDUSTRIALS & MATERIALS	5.1%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.7%
LSL PROPERTY SERVICES	FINANCIALS	4.4%
C&C GROUP	CONSUMER STAPLES	4.1%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.7%
VODAFONE GROUP	TELECOMS & UTILITIES	3.7%

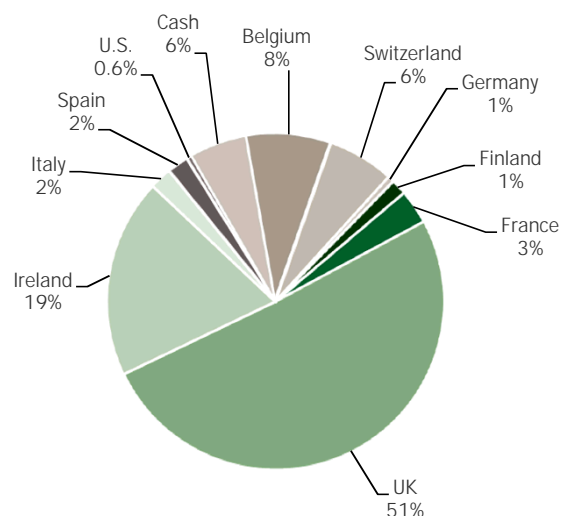
FUND STATISTICS

PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	16.4
DIVIDEND YIELD %	3.5
AVERAGE MARKET CAP €BN	29.2
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	87.4
DEBT/EQUITY %	63.9

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



We ask questions like

- What can go wrong?
- Why might it go wrong?
- What are the likely implications?

The threat of disruption plays a key role in our analysis. Technology itself is disruptive by nature, leading to an ultra-competitive sector and making investing in the sector fraught with danger but of equal importance is the role technology plays in disrupting other sectors in which we invest. Just look at what the internet has done to the newspaper industry, the impact e-commerce has had on bricks and mortar retailing, how social media has forced advertising agencies to adjust their business models and most recently the impact machine learning/artificial intelligence is having on the future of the traditional automotive industry.

With disruption to the fore of our minds let's look at some of our existing holdings and highlight potential disruptive forces and our assessment of such forces. This is not intended to be an in-depth analysis of our thinking but rather to give you a flavour of our thinking around the issues for each of these businesses.

BP, ENI and DCC

BP and ENI are integrated oil companies while DCC derives almost 70% of its earnings from oil and gas distribution.

What is the long term outlook for these businesses if the automobile market moves to electric vehicles?

This is a grave concern for the long term sustainability of the energy sector and a debate that gets lots of air time among the eleven portfolio managers in Setanta. There are lots of unknowns but what we can say is that the level of investment by companies such as Tesla and other traditional automotive makers like VW, BMW and Toyota suggests that alternative powered vehicles will form a much larger part of the market in years to come. What we don't know is when exactly this will occur but we do believe that the valuations for both BP and ENI more than compensate for this risk.

In the case of DCC however, the situation is more complex, DCC's valuation is more expensive than the 2 integrated oil companies but it also has a significant distribution platform and strong relationships with end customers. As the energy needs of their customers change we believe DCC has scope to increase the profit margin they earn on the product they distribute which will help offset the decline in volume as well as potentially modifying their distribution platform to serve the new energy requirements of their customers.

LSL Property Services

LSL is a traditional UK based estate agency business with a vast range of physical estate agencies dotted around the country.

But what if the internet is the conduit for a new way of selling houses?

Purple Bricks is the pre-eminent web-based estate agent in the UK. It has 200 agents relative to the 5000 agents that LSL has and currently commands around 2% of the market. It is yet to make a profit. In total online portals account for 4% of the UK estate agency market. They provide a much cheaper service, average fee of £1,100 but also a much lower value service. Buying or selling a house is likely to be the single biggest transaction the average person will ever undertake. For us we are still unsure if the average person will be willing to sacrifice a superior service and most probably a higher selling price for the sake of saving £1,500 on the transaction costs. At this juncture with our investment in LSL, we have valuation on our side and while online portals have managed to penetrate the market somewhat they are still unprofitable and will continue to require additional capital in order to be a significant threat to the traditional estate agency businesses.

Swatch

The Swiss based manufacturer of mid and high end watches as well as the market leading supplier of Swiss based watch components

But what if wearables make the traditional watch redundant?

The first iWatch was launched in September 2014, with the wearables segment garnering significant attention and furore over the subsequent 2 years. However the evidence paints a different picture. IDC, the market research company with a focus on technology, reported that smartwatch sales were down 52% in Q3 2016 and that Apple Watch sales were down 72% over the same period.

The traditional watch has always been the pre-eminent piece of jewellery for men but we don't disagree that wearables present a challenge for traditional watch makers. We see the benefits of added functionality around health monitoring etc but we are still relaxed about the long term impact wearables will have on traditional mid to high end Swiss watch makers like Swatch.

Swiss made watches have a long heritage and for many wearing a Swiss made watch acts as somewhat of a status symbol. It's for these reasons that we believe the competitive threats from smart watches will be quite benign and why we are confident in the long term success of Swatch.

In Setanta we pride ourselves on honesty, honesty in our analysis, honesty with each other and honesty with our clients. The above is an honest assessment of some of the disruptive risks we see for some of our holdings.

I hope it doesn't serve to worry you about your investment but rather I hope it makes you feel comfortable that the Setanta portfolio managers are leaving no stone unturned in their analysis of potential investments and in our quest to protect and grow your investment.

Fergal Sarsfield – Portfolio Manager

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