

Setanta EAFE Equity Strategy (USD)

Q2 2019

Strategy Description

The **EAFE Equity Strategy** ('the Strategy') is managed by Setanta Asset Management Limited ("Setanta"). The Strategy is available to US Investors on a separate account basis.

The Strategy is an actively managed equity portfolio, with a long-term investment horizon. Our aim is to invest in EAFE (Europe, Asia and Far East) 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 Strategy is to outperform the MSCI EAFE index over the long term.

Fund Commentary

Squaring the Circle

How can an asset manager "labelled" as a value manager outperform consistently over the past 10 years at a time when growth stocks have trounced value stocks?

Simple Answer: Stock Picking

(Fund Commentary continued on Page 3)

Portfolio Managers

Rowan Smith; Fergal Sarsfield, CFA & Conor Walshe



Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

We are not afraid to swim against the tide

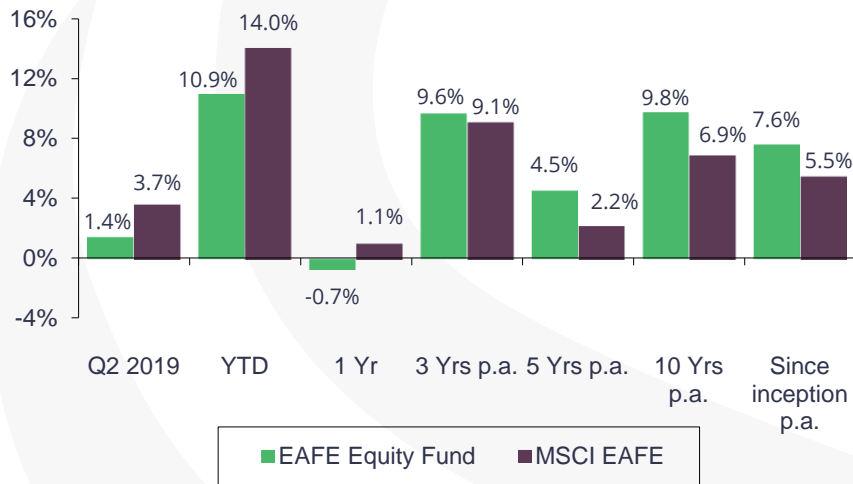
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Strategy Performance (USD) to 30.06.19



Yearly Performance

Year %	2014	2015	2016	2017	2018
Fund	-4.2	4.4	10.8	24.9	-10.7
Benchmark	-4.9	-0.8	1.0	25.0	-13.8

Performance Source: GWL Unit Prices converted to USD at FX Rate 0.765257; Based on Representative Setanta EAFE Equity Account. Returns are in USD and are gross of management fees. Benchmark is MSCI EAFE. Inception date January 2004. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg

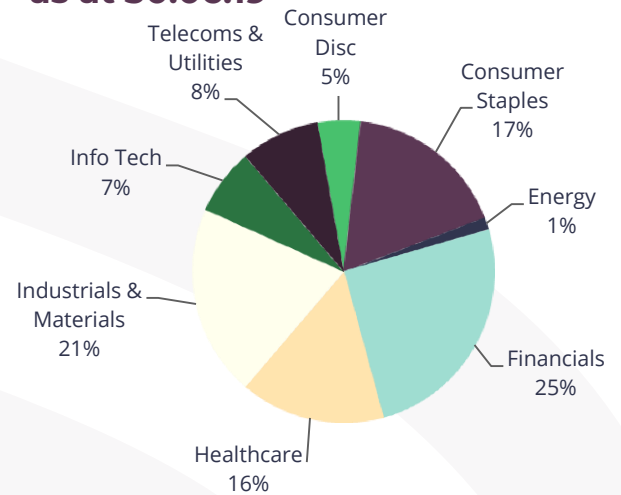
Top 10 Equity Holdings as at 30.06.19

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	5.7%
GPE BRUXELLES LAMBERT	FINANCIALS	5.3%
UNILEVER NV	CONSUMER STAPLES	4.1%
ALFRESA HOLDINGS	HEALTHCARE	4.0%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	3.8%
LANCASHIRE HOLDINGS	FINANCIALS	3.8%
COCA-COLA AMATIL	CONSUMER STAPLES	3.7%
DIAGEO	CONSUMER STAPLES	3.6%
NOVARTIS AG	HEALTHCARE	3.4%
SANOFI	HEALTHCARE	3.4%

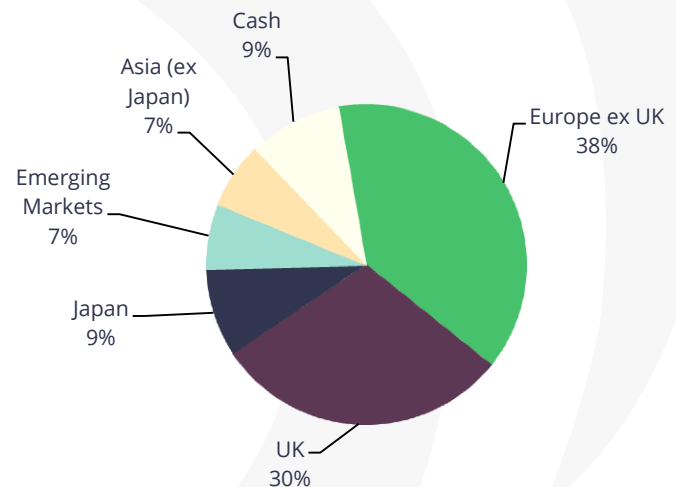
Fund Statistics as at 30.06.19

PRICE/BOOK	1.5
PRICE/EARNINGS RATIO (FY 1)	13.9
DIVIDEND YIELD %	3.4
AVERAGE MARKET CAP \$BN	39.5
NO. OF HOLDINGS	35
DEBT/EQUITY %	61.6
ACTIVE SHARE %	89.7

Sector Distribution as at 30.06.19



Geographic Distribution as at 30.06.19



Commentary

But let me elaborate; firstly by informing you of what has happened over the past 10 years with respect to performance of the so called EAFE Value and Growth Indices and the Setanta EAFE Fund and secondly explaining why it has happened.

PERFORMANCE - 10 YEARS TO 30.06.19	ABSOLUTE	P.A.
Setanta EAFE Equity Fund (USD\$)*	153.7%	9.8%
MSCI EAFE Value Index (USD\$)	83.1%	6.3%
MSCI EAFE Growth Index (USD\$)	129.7%	8.7%

*Based on a representative account for the Setanta EAFE Equity Strategy in USD

As you can see growth stocks have performed very strongly relative to their value brethren, outperforming by 2.4% p.a. over 10 years.

Perhaps this is somewhat unsurprising, over the past 10 years we've had unprecedented quantitative easing on a globally coordinated basis leading to a flood of effectively free money and of course this money needs to be invested somewhere, so in a pro-growth environment where else should one invest but in growth stocks?

The Fund has endured a difficult first half of the year, underperforming our MSCI EAFE benchmark by 3.1% but given the backdrop outlined above its perhaps somewhat surprising to see the Setanta EAFE Equity Fund with its so called value label outperforming both Value and Growth indices over the longer term and returning 9.8%p.a.

So how can this be the case?

Firstly let me say that I believe every investor is at the most basic level a value investor. Every investor invests to create value, it just so happens that different investors adapt different methods of creating value.

In Setanta our primary belief is that investing for the long term (5 years or more) in above average (higher quality) companies at below average (lower relative valuation) prices gives us the best possible opportunity to create value. In short we believe stock picking gives us our edge and good stock picking is done through a combination of rigorous qualitative and quantitative analysis.

It's very important to recognise the link between quality and value and the absence of this linkage when looking at Value or Growth indices.

Commentary

The following are the variables used by MSCI when constructing their MSCI EAFE Value and MSCI EAFE Growth indices.

Value Investment style characteristics	Growth Investment style characteristics
<ul style="list-style-type: none">> Book value to price ratio> 12 month forward earnings to price ratio> Dividend Yield	<ul style="list-style-type: none">> Long term forward earnings per share growth rate> Short term forward EPS growth rate> Current internal growth rate> Long term historical EPS growth trend> Long term historical sales per share growth trend

Unsurprisingly, all of the variables used by MSCI to decide if a particular company belongs to a Value or Growth index are quantitative by nature. Absent is any consideration given to qualitative variables but yet these are the exact variables which we in Setanta place so much emphasis on and it's the combination of these qualitative variables with industry wide quantitative variables which are significant contributors to our strong relative performance.

So don't always judge a book by its cover. Evaluate a fund in the same way as we evaluate our companies, with a deep dive of both the qualitative and quantitative aspects of the Fund. Look at the people managing the fund, their tenure, consistency of process and whether they've stuck to their core principles through both good and bad times.

Transactions during Q2 2019

During the second quarter the Fund inherited a modest position in Alcon Inc. via a full spin off from Novartis AG. Alcon's was a subsidiary of Novartis, in which the Fund is invested. Alcon had been acquired by Novartis in 2011 but it had not been able to get the best out of the business and, wisely in our view, its management decided to spin Alcon off and allow it operate on a fully independent basis. We have followed Alcon for many years both before and subsequent to the acquisition by Novartis. Ahead of the spin we undertook extensive research on the company to reappraise its strategic positioning. Alcon operates two somewhat distinct global businesses. One produces and sells a wide range of contact lenses. The other produces and sells a range of surgical equipment and consumables used by practitioners to treat conditions such as cataract, refractive eye surgery and glaucoma. We believe the company's end markets should continue to grow, driven by rising incomes and developing healthcare infrastructure in emerging markets and ageing and lifestyle changes in developed markets. We also believe that the company's competitive positioning is strong as a result of a number of factors including manufacturing scale and expertise, strong relationships with professional users and an r&d budget vastly larger than virtually all of its competitors. Valuation has restricted us from increasing the position size. So for the moment we have retained a modest position but we will keep this under review.

Fergal Sarsfield – Portfolio Manager



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