

Setanta European Equity Fund

Q2 2019

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 which holds c.30 stocks in the European region. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile.

The fund is managed by two portfolio managers, who also look to leverage off the experience and knowledge of their colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis.

The investment objective of the Fund is to outperform the MSCI Europe 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

Fergal Sarsfield, CFA & David Byrne, CFA



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

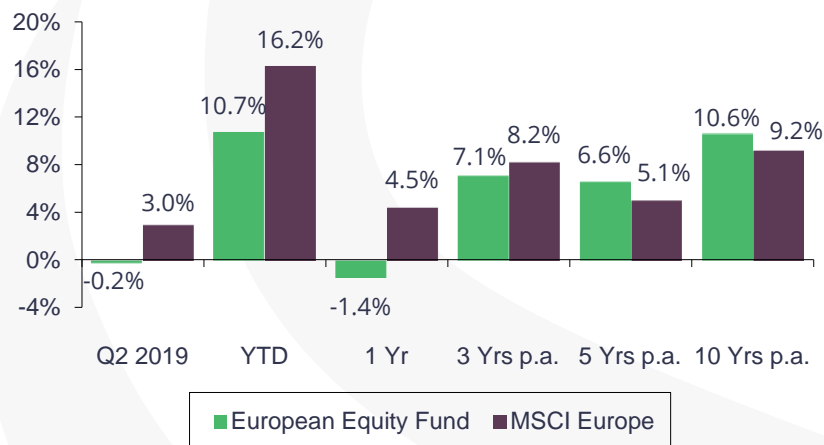
We consider scenarios rather than making forecasts

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

Fund Performance – 30.06.19



Yearly Performance

Year %	2013	2014	2015	2016	2017	2018
Fund	23.9	6.1	19.8	4.8	8.3	-7.3
Benchmark	19.8	6.8	8.2	2.6	10.2	-10.6

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. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

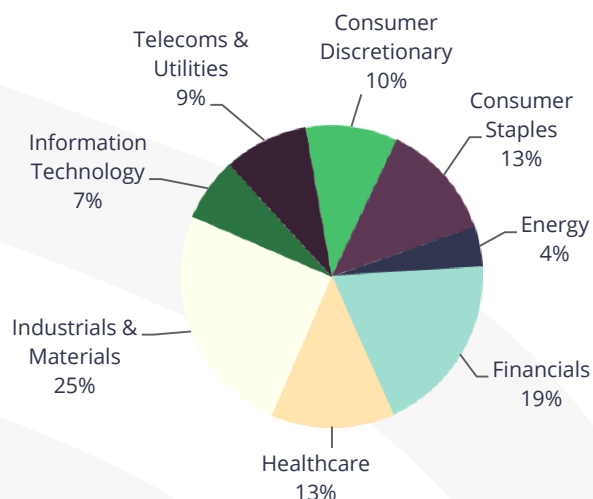
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	6.5%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	5.9%
GPE BRUXELLES LAMBERT	FINANCIALS	5.8%
DIAGEO	CONSUMER STAPLES	4.8%
UNILEVER NV	CONSUMER STAPLES	4.7%
GLAXOSMITHKLINE	HEALTHCARE	4.3%
LANCASHIRE HOLDINGS	FINANCIALS	4.1%
NOVARTIS AG	HEALTHCARE	4.0%
CRH	INDUSTRIALS & MATERIALS	4.0%
ERICSSON	INFORMATION TECHNOLOGY	4.0%

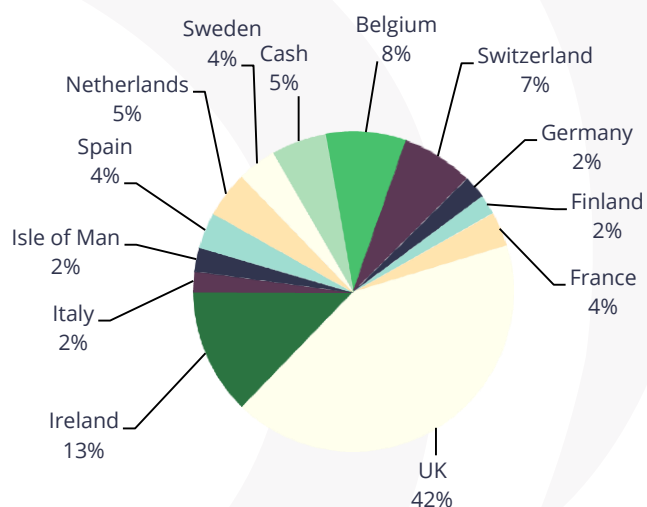
Fund Statistics

PRICE/BOOK	1.6
PRICE/EARNINGS RATIO (FY 1)	14.9
DIVIDEND YIELD %	3.4
AVERAGE MARKET CAP €BN	36.8
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	87.4
DEBT/EQUITY %	64.9

Sector Distribution



Geographic Distribution



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 Europe Value and Growth Indices and the Setanta Europe Fund and secondly explaining why it has happened.

PERFORMANCE - 10 YEARS TO 30.06.19	ABSOLUTE	P.A.
Setanta Europe Equity Fund (CAD\$)*	150%	9.6%
MSCI Europe Value Index (CAD\$)	98%	7.1%
MSCI Europe Growth Index (CAD\$)	169%	10.4%

*Based on a representative account for the Setanta European Equity Strategy in CAD

As you can see growth stocks have performed very strongly relative to their value brethren, outperforming by 3.3% 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?

And given this backdrop its perhaps somewhat surprising, given its so called value label, to see the performance of Setanta Europe Equity fund more closely aligned with the performance of MSCI Europe Growth Index than with the MSCI Europe Value Index.

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 Europe Value and MSCI Europe 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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