

# Setanta European Equity Fund (CAD)

Q1 2020

## 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 which are located in or active in Europe. 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

*A date with history*

Firstly to all our clients and readers I hope all of you and your families are staying safe during this difficult time.

*(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

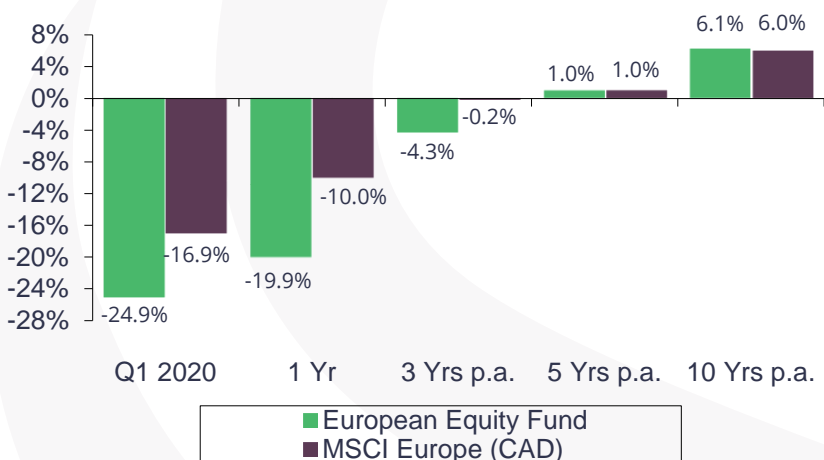
We consider scenarios rather than making forecasts

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 – 31.03.2020 (CAD)



## Yearly Performance

Year %	2015	2016	2017	2018	2019
<b>Fund</b>	27.7	-0.8	15.3	-4.3	13.8
<b>Benchmark</b>	16.5	-3.9	17.3	-7.2	17.5

**Performance Source:** Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the CLA European Equity Fund (SF037) [IEC11002] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the performance will be reduced by the amount of which varies. **Benchmark:** MSCI Europe (CAD). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg

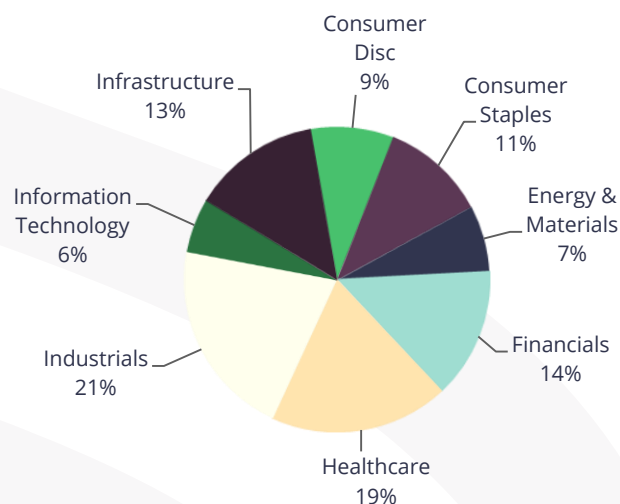
## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	6.6%
GPE BRUXELLES LAMBERT	FINANCIALS	5.8%
GLAXOSMITHKLINE	HEALTHCARE	5.7%
UNILEVER	CONSUMER STAPLES	5.3%
NOVARTIS AG	HEALTHCARE	5.2%
SANOFI	HEALTHCARE	5.0%
CRH	INDUSTRIALS	4.7%
ERICSSON	INFORMATION TECHNOLOGY	4.3%
DIAGEO	CONSUMER STAPLES	4.3%
LANCASHIRE HOLDINGS	FINANCIALS	3.9%

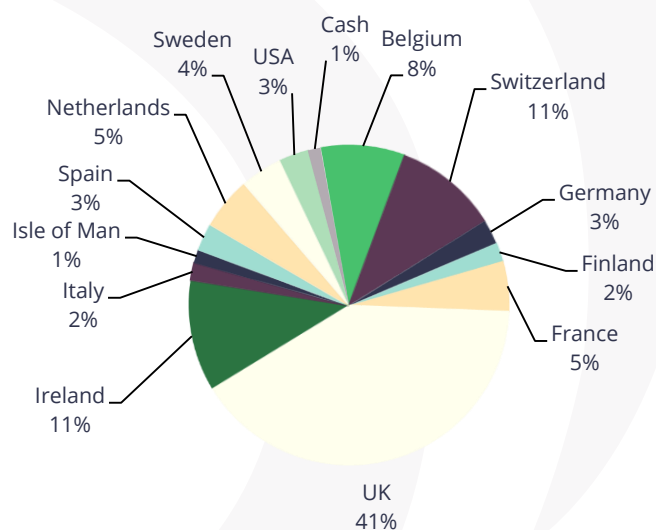
## Fund Statistics

PRICE/BOOK	1.3
PRICE/EARNINGS RATIO (FY 1)	13.5
DIVIDEND YIELD %	4.2
AVERAGE MARKET CAP C\$BN	49.7
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	88.3
DEBT/EQUITY %	63.9

## Sector Distribution



## Geographic Distribution





# Commentary

We are going through strange, worrying and unprecedented times. While I have no doubt that financial markets will recover over time the human impact is much much deeper, there are thousands of families across the world whose lives have changed forever due to COVID19. I think it's fair to say that 2020 will be marked in history books for all the wrong reasons.

One vital lesson we in Setanta have learned over time is to stick within our core circle of competence, to know the areas where we have a core competence and to be honest enough to know the areas in which we are not qualified to speak, comment or pass judgement on. We are not epidemiologists nor experts in disease prevention so we don't believe we can add any value by estimating how long it will take for various countries to flatten the curve, stem the speed of the virus and when this pandemic will end. We just hope it happens sooner rather than later.

Over the past several weeks we have spent a lot of time trying to understand how this crisis is going to impact our portfolio companies. Just to be clear, when it comes to analysing the impact of COVID19 the proverbial rule book has been thrown out the window. As you know we are very risk averse investors and carry out stress testing and scenario analysis on our portfolio companies to see how they may handle a downturn in economic activity. This will typically involve stress testing the financial statements for a 25-30% decline in normal business activity and analyse valuation levels based on this lower level of activity. However the current environment is not like one we nor our portfolio companies have experienced before, COVID19 has caused a huge demand side shock, we now have entire parts of certain economies experiencing a complete shutdown in demand and uncertainty around when they will start firing again. The fact that not since World War II has certain parts of Europe had to turn off the taps of economic activity shows the severity of the situation.

As mentioned, this has forced us to throw the rule book out the window, what we are focusing on now is trying to understand which companies are least/most impacted and what measures they can take to preserve their financial strength at a time when there is no cash coming in but still cash going out. This quote is from the CEO of a consumer staples Setanta holding. A company which ordinarily we would expect to be somewhat resilient but is still facing into a very uncertain time.

"2020 is now a year of protecting the business. It's really quite unthinkable, the speed of the change that's happened.... I think none of us appreciated just how, within the space of a matter of weeks, it would reshape our world."





# Commentary

The financial strength of our portfolio companies has always been a key priority and we have always tried to be predominately invested in companies with strong balance sheets but at times like this even the strongest companies are coming under pressure.

We've spent the past few weeks analysing balance sheets, debt covenants, cash flows and engaging with management teams to better understand where/how they can preserve cash. This process is ongoing and we will endeavour to take action on any holdings that we believe may struggle to maintain their current financial strength.

At the time of writing we have made some modest tweaks to the portfolio but there have been no outright sales as of yet.

## **Transactions during the Quarter**

There were no transactions during the quarter.

*David Byrne – Portfolio Manager*



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The European Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the European Equity strategy. The performance shown is the performance of a representative account (CLA CA European Equity Fund [IEC11002]). The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.

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