Setanta European Equity Fund
Q2 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 manager seeks 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 the lead portfolio manager, who also looks to leverage off the experience and knowledge of his 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

The European Equity Fund outperformed it's benchmark, MSCI Europe, marginally in the 2nd quarter this year. However, for H1, the Fund lagged the benchmark by 6.0% as a result of the significant underperformance in the first quarter.

(Fund Commentary continued on Page 3)

Portfolio Manager
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

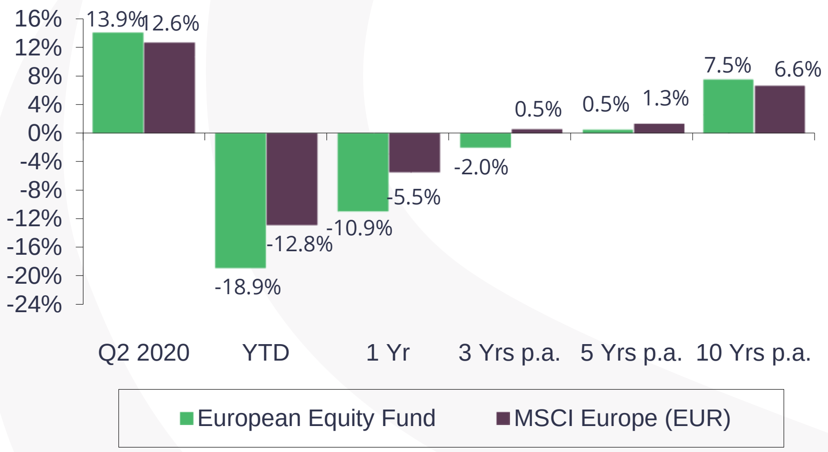
We consider scenarios rather than making forecasts

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 – 30.06.2020 (EUR)



Yearly Performance

Year %	2015	2016	2017	2018	2019
Fund	19.8	4.8	8.3	-7.3	21.5
Benchmark	8.2	2.6	10.2	-10.6	26.0

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI European Equity Fund [IEC7002] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** MSCI Europe (EUR). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

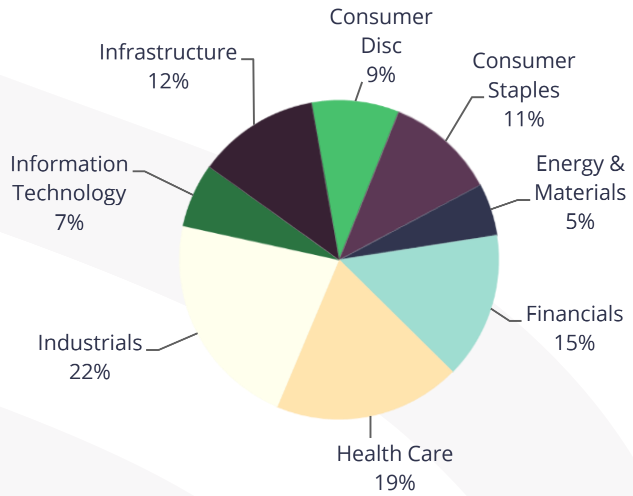
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	7.6%
GPE BRUXELLES LAMBERT	FINANCIALS	5.6%
GLAXOSMITHKLINE	HEALTHCARE	5.4%
UNILEVER	CONSUMER STAPLES	5.2%
CRH	INDUSTRIALS	5.1%
SANOFI	HEALTHCARE	5.0%
NOVARTIS AG	HEALTHCARE	4.8%
LANCASHIRE HOLDINGS	FINANCIALS	4.5%
ERICSSON	INFORMATION TECHNOLOGY	4.2%
LIBERTY GLOBAL	CONSUMER DISCRETIONARY	3.9%

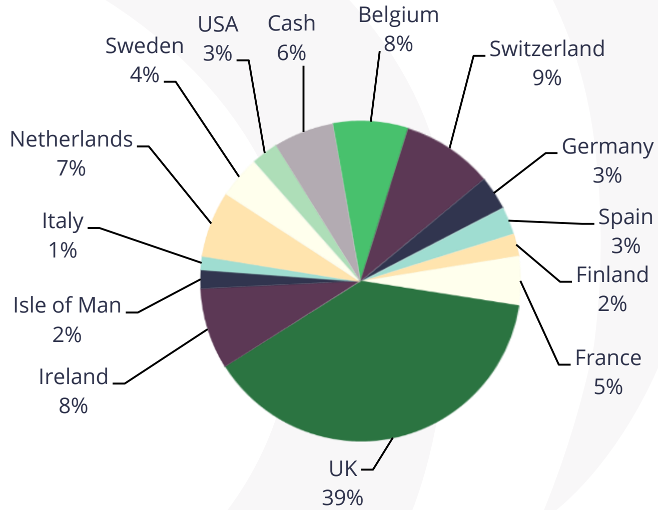
Fund Statistics

PRICE/BOOK	1.6
PRICE/EARNINGS RATIO (FY 1)	18.3
DIVIDEND YIELD %	2.5
AVERAGE MARKET CAP €BN	34.1
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	86.7
DEBT/EQUITY %	75.7

Sector Distribution



Geographic Distribution



Commentary

Equities in Europe recovered some of their lost ground in the second quarter, with the market returning 12.6% in the quarter but still -12.8% down for the year. Although large parts of the economy were shut, governments and central banks around the globe intervened in size and speed to keep the economic system from collapse. As the pandemic unfolded it became clear that many people and businesses would struggle to make rent and interest payments. Governments used all the fiscal and monetary tools available to them to prevent widespread defaults. Even though this was necessary it's difficult to anticipate the consequences this has for asset prices and equity prices in particular. We are working hard to position the portfolio in the face of this uncertainty.

At the start of the year, we felt the general pricing environment for equities in Europe was high while preparing for a possible slowdown in economic activity. For the most part we felt the Fund was positioned in more conservative businesses than the market. We had a large weighting in Healthcare and Consumer Staples businesses and less in Materials. We also had a high weighting in cash.

This slowdown was unusual in that there was an abrupt halt to economic activity across large parts of the economy. Even some of our more reliable businesses have been impacted heavily. For instance, **Diageo's** on-trade sales channel and travel related business have been largely shut since the pandemic hit. The Fund was impacted by it's relatively large exposure to travel related businesses, **Booking Holdings** and **Ryanair**. We had low exposure to two areas of the market that have performed well in the downturn. Some technology businesses have benefited from the shift to work from home and some healthcare niches, relating to diagnostics and vaccine development, have performed well.

Zeroing in on the stock level, two positions in the fund in particular – **Melrose** and **Bank of Ireland** – have had a significantly negative impact on performance in the first six months of 2020 and are worth examining in a little more detail.

Since its first deal in 2005, Melrose's management team has established a strong track record in acquiring underperforming businesses, improving them and then selling at a higher valuation. This year, the company has been hit by a perfect storm. The GKN deal brought significant exposure to the aerospace and automotive industries which have been particularly badly hit by the coronavirus outbreak. Asset sales planned for 2020 have been delayed and balance sheet leverage has exacerbated the weak trading environment. We believe this is a strong management team that has proven adept at taking out costs in the past. Capex and working capital actions are already delivering cash savings. Such preservation actions mean that £1bn of committed bank facility headroom in place at the start of year is still expected to be there at the end of the first half. The next bond refinancing is not until September 2022. While it will take time, we expect the aerospace and automotive industries to recover in due course. Melrose's management team can ensure it is in a position to capitalise on this healthier backdrop in the future.

Bank of Ireland has been hit by concerns over the potential for a sharp increase in non-performing loans, declining net interest margin, weak loan growth and a highly uncertain economic outlook. There is no doubt that the trading outlook is tough but we feel this is more than reflected in the large discount to book value which the company currently trades at. It is in a much better capital position than when entering the Global Financial Crisis and without the large property developer exposure. Risk weighted asset requirements for capital purposes are already much higher for Irish banks relative to their European peers. We are hopeful that lessons have been learned from past experience and that lending practices have been prudent over the last 10 years. The formation of a government in Ireland at the end of June opens the way for improved business support schemes. Recent credit issuance from the two leading Irish banks has attracted strong interest from investors in contrast to the underperforming equities.

Commentary

Underperforming is difficult but we are determined to keep our discipline and search for attractively priced investments in this strange environment. We are actively looking at a number of names across the firm that may merit inclusion in the portfolio at some point. The huge central bank interventions and uncertain operating conditions for the economy will hopefully give us a chance to strengthen the portfolio in the coming months.

Transactions during the Quarter

We sold our position in **Origin Enterprises**. Origin is an agri-services business that provides products (primarily seeds, crop protection chemicals and fertilizer) and agronomy services to customers mainly in Europe. Historically, it has had a strong position in the UK and Ireland and has used that as a platform to expand into Eastern Europe and more recently Brazil. Over our period of ownership the business has encountered several problems. Farm incomes have been under pressure meaning customers have had spending constraints. As farmers have focused on more commodity type solutions pricing competition in the market has intensified. The acquisitions in Eastern Europe (Poland, Romania and the Ukraine) have underperformed as the management team has failed to get to grips with the local market structure in each region. The performance of the business has been disappointing during our ownership period and although the stock is lowly rated we had to opportunity to switch into Heineken Holdings on a more favourable risk/reward profile.

Having admired **Heineken** from afar for a long time we were recently given the chance to invest in this business at what we think was an attractive valuation. Heineken is the world's second largest brewer that brews and sells more than 300 brands in 190 countries. The company sells beer across the price spectrum but profits come more from the premium category with the Heineken brand being the top seller here. The company has a diversified geographic footprint with roughly 60% of profits coming from emerging markets. Even though near term profits are likely going to be impacted with the on-trade channel down significantly this year, we think the business has many likeable traits that should stand to it in the long term. It has strong well invested brands, strong distribution capabilities, a strong balance sheet and demonstrates excellent cash conversion. Management have shown themselves judicious allocators of capital over the course of their history. As the market rebounded, Heineken Holdings didn't participate in the rally as much so we think the stock should give us more than a respectable return.

David Byrne is the lead Portfolio Manager on the European Equity Fund. The European Equity and EAFE Equity teams collaborate closely in implementing the firm's value based investment philosophy.

Fergal Sarsfield who was the co-lead on the strategy will continue to support in his capacity as senior portfolio manager of the EAFE Equity Fund.

David Byrne, CFA

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IMPORTANT INFORMATION

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 (ILA/CLI European Equity Fund [IEC7002]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. 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' below.

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