

# Setanta European Equity Fund (CAD)

Q4 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 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

This past year has been the most eventful year in my lifetime. The onset of a global pandemic, conclusion of Brexit and a polarising US election contributed to what seemed like a never ending news cycle of sensational headlines.

*(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

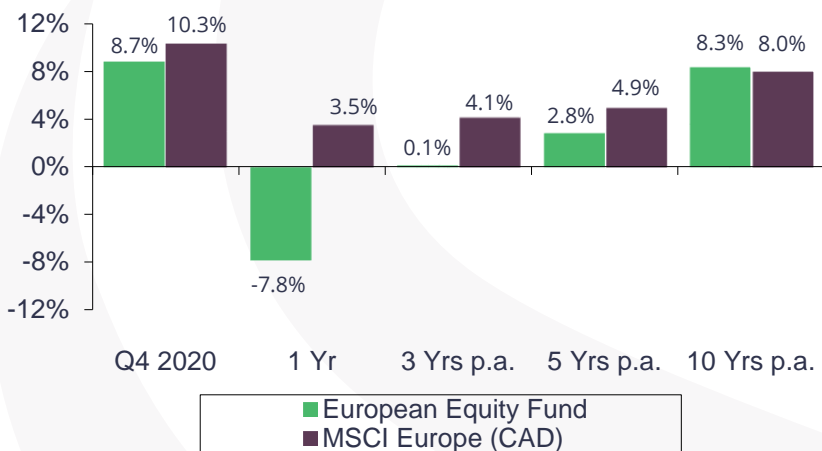
We consider scenarios rather than making forecasts

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 – 31.12.2020 (CAD)



## Yearly Performance

Year %	2016	2017	2018	2019	2020
<b>Fund</b>	-0.8	15.3	-4.3	13.8	-7.8
<b>Benchmark</b>	-3.9	17.3	-7.2	17.5	3.5

**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 amount of which varies. **Benchmark:** MSCI Europe (CAD). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

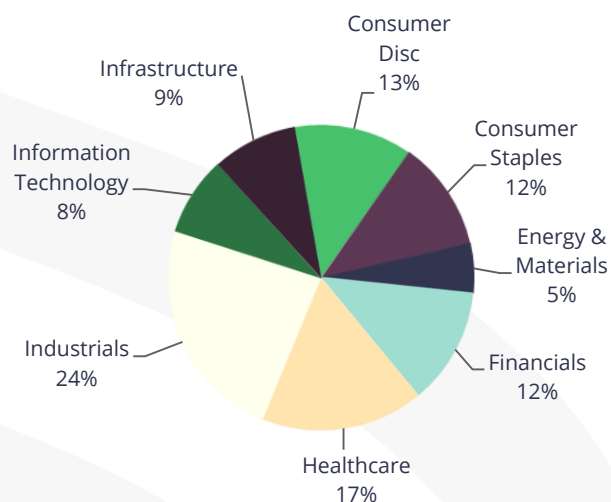
## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	6.3%
CRH	INDUSTRIALS	6.2%
GPE BRUXELLES LAMBERT	FINANCIALS	6.1%
UNILEVER PLC	CONSUMER STAPLES	5.5%
ERICSSON	INFORMATION TECHNOLOGY	5.3%
NOVARTIS AG	HEALTHCARE	5.1%
GLAXOSMITHKLINE	HEALTHCARE	4.7%
SANOFI	HEALTHCARE	4.5%
DIAGEO	CONSUMER STAPLES	4.4%
LANCASHIRE HOLDINGS	FINANCIALS	4.1%

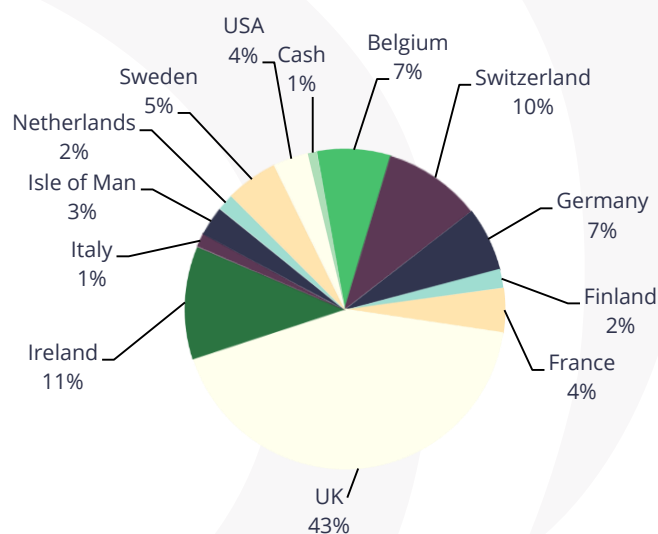
## Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	18.4
DIVIDEND YIELD %	2.3
AVERAGE MARKET CAP C\$BN	56.7
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	90.5
DEBT/EQUITY %	86.7

## Sector Distribution



## Geographic Distribution





# Commentary

Stock markets collapsed in March but swiftly recovered in anticipation of a snapback in economic activity, with leading global indexes up 67% from their March lows at year end. Economies around the world have been rattled and are still struggling with the effects, both human and economic, of the COVID19 pandemic. Governments have swiftly stepped in with their fiscal and monetary toolkit to keep the economic system from collapse.

Unfortunately 2020 was also a year in which we underperformed our benchmark. Our disciplined risk averse approach naturally steers us away from the high growth, high momentum segments of the market, those same segments which rebounded the strongest and led the charge as the MSCI European benchmark returned -3.5% (CAD Terms) for the year. We are clearly disappointed to have underperformed significantly in 2020, our European fund generated returns of -7.8% (CAD Terms) underperforming our benchmark by 11.3% marking our worst one year relative return since the funds inception. But we will remain disciplined and true to our philosophy and process that has served us and our clients very well over the longer term. We believe that this is the right course of action especially at a time when so many market participants have become ill-disciplined, are acting irrationally and chasing momentum.

To be clear, we think the general level of the market is priced highly, offering low prospective future returns. However, there are pockets of the market relating to new technologies, particularly electric cars and new types of energy, trading excessively often with little or no relation to fundamental economics. The fund has no exposure to these type of names which has hurt relative returns last year.

## 2020 Portfolio review

The Setanta European equity fund is a concentrated bottom up portfolio comprising mostly of what we believe are mispriced high quality companies. For this reason we tend not to pay much attention to sector or geographic attribution. However, our risk averse nature naturally leads us to be mindful of our exposures to various different industry sectors and geographies and it also helps us explain our performance.

Ericsson has performed well with networks around the globe getting ready to launch 5G services, poor execution by Nokia and restrictions on Chinese telecom equipment supplier provided a great backdrop for Ericsson to execute. CRH's end markets in both Europe and the US held up relatively well as construction as a whole was largely able to operate as the pandemic spread. Unilever performed well as most of their portfolio of brands benefited from the shift to consumption at home. Liberty Global announced a deal to combine their UK operations with O2 that should complete in 2021. The competitive environment was also more benign in their key markets as less people changed broadband providers than expected. Alcon is an extremely high quality company in a market which we believe is relatively immune to economic shocks. This has played out in 2020 and despite the stock initially selling off it rebounded strongly and finished the year +6.5% in local currency

Our largest detractors were Melrose, Merlin, Glaxo, DCC and Bank of Ireland. Melrose is in a tough spot at the moment with high debt levels post the acquisition of GKN and exposure to segments like Aerospace and Auto's which have been hit hard due to Covid-19. Hence the material underperformance of the shares. However we believe the balance sheet can be strengthened with the sale of Nortek Air which we hope will be completed in 2021 and there is a strong management team in place who are good stewards of capital.





# Commentary

Merlin Properties is no longer a portfolio holding. It was sold at a steep loss in Q3 as we believe that the longer term consequences of Covid-19 will have a material impact on the value of Merlins property assets. Changing habits brought about by Covid-19 like increased working from home and accelerated growth of ecommerce are not conducive to a company with almost 70% of its assets in commercial and retail real estate.

The market is presently unsure of how DCC will navigate the pending energy transition from fossil fuels to greener technologies over the coming years. This has led to downward pressure on the share price but from our perspective we continue to see DCC deploy capital in areas where they can generate mid double digit returns and believe the market may be overestimating the impact energy transition will have on their business.

Over the past few years Glaxo has focused efforts on drug development that has yet to bear fruit. The stock is lowly rated and could recover meaningfully should the late stage pipeline bring through some successful drug candidates.

Bank of Ireland is primarily a domestic bank with a strong position in the Irish market. Banks have remained in the value camp for the past few years and as 2020 saw the largest divergence between growth and value both banks materially underperformed. The prospect of increased loan impairments, lower interest rates for longer and slower loan growth due to Covid-19 provided a tough backdrop for bank shares in 2020. They both have strong brands and are investing to ensure they remain strong in the midst of increased competition from neo banks and the growth in digital banking.

## Transactions during the Quarter

We initiated a position in Adidas in the fourth quarter. We have built up our knowledge base of Adidas over the past 10 years. It also forms approximately 20% of the NAV of another portfolio company, Groupe Bruxelles Lambert. It has become apparent to us that the sports footwear/apparel market is increasingly becoming a duopoly where the two largest players, Nike and Adidas continue to take share in a growing market and where their scale allows them to dominate branding for major sports teams and stars across many different codes. This makes it very difficult for competition to enter and gain a foothold. On top of this, the route to market is also changing with the Covid 19 pandemic bringing forward digitisation and large branded goods companies now going direct to consumer. We believe this direct to consumer model can help improve profitability as well as improving operational efficiency and inventory management.

*David Byrne, CFA – Portfolio Manager*



## Contact Details:

Suite S8-17,  
Eight Floor,  
190 Simcoe Street,  
Toronto,  
Ontario,  
M5T 2W5.

Rocco Vessio, (T) 416-552-5061 , (M) 647-823-4813

E-mail: [rocco.vessio@setanta-asset.com](mailto:rocco.vessio@setanta-asset.com)

[www.setanta-asset.com](http://www.setanta-asset.com)

## 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 (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.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland and has been granted the International Adviser exemption from registration in Manitoba, Ontario, Quebec, British Columbia and Alberta. This exemption enables it to provide advisory services to clients in these provinces in accordance with the applicable securities legislation of Manitoba, Ontario, Quebec, British Columbia and Alberta. Setanta, who is an investment sub-advisor to a number of Great-West Life Group companies, does not trade on its own account. Units in the Canadian segregated and mutual funds are not offered for sale by Setanta but may be acquired by prospective investors via the relevant Great-West Life Group company. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above. Setanta Asset Management Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the "SEC") - CRD# 281781 / SEC# 801-107083.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

**WARNING:** Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance