

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

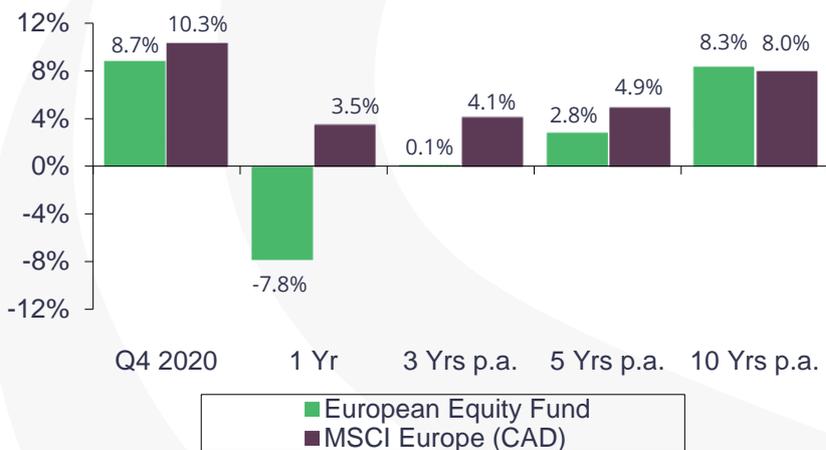
We consider scenarios rather than making forecasts

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
Fund	-0.8	15.3	-4.3	13.8	-7.8
Benchmark	-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.

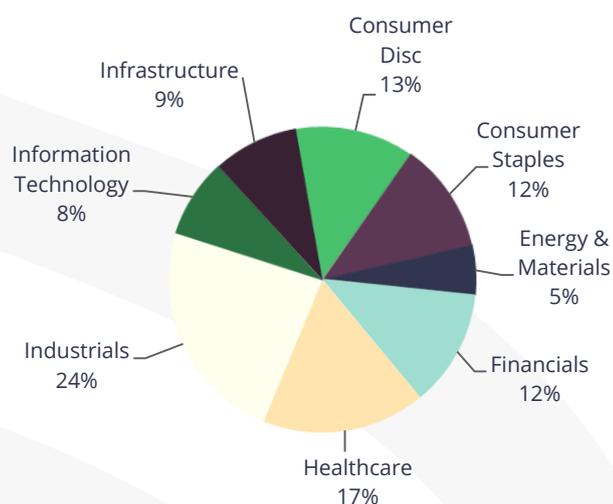
Top 10 Holdings

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%

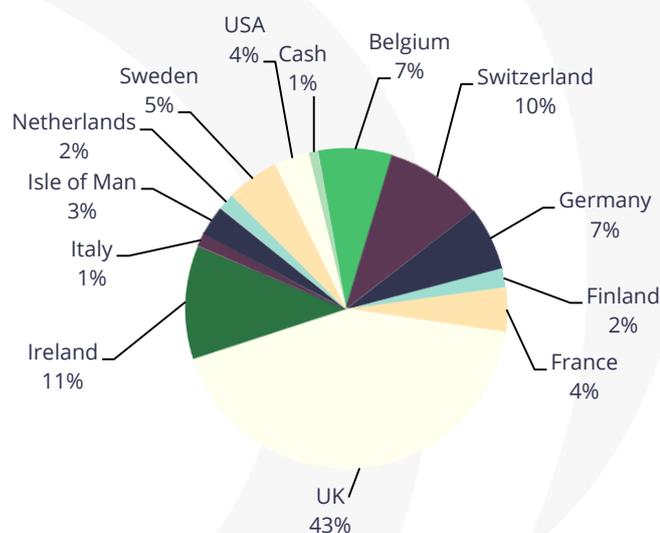
Fund Statistics

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.

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