Setanta European Equity Fund

Q1 2021

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

Stock markets continued to advance in Q1. However, there was something of a change in market leadership with "value" out-performing "growth" and cyclicals out-performing defensives. As our tagline goes, "value is more than a number" so we have limited respect for the substance of the various "value" or "growth" indices prepared by the index providers.

(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

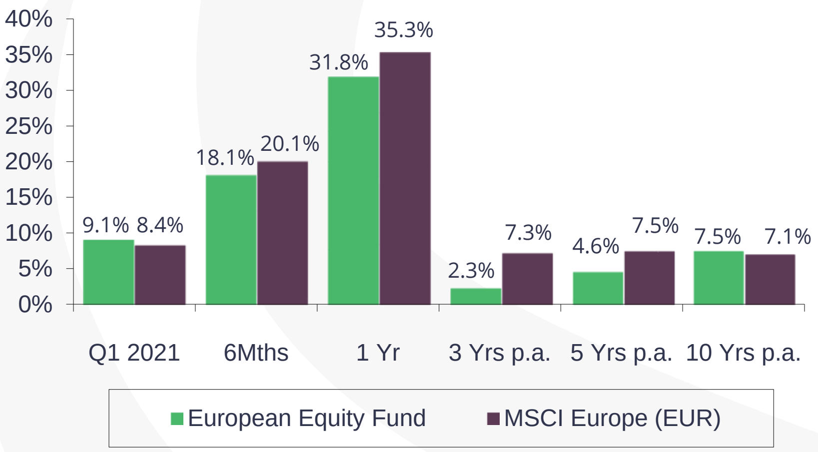
We consider scenarios rather than making forecasts

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 – 31.03.2021 (EUR)



Yearly Performance

Year %	2016	2017	2018	2019	2020
Fund	4.8	8.3	-7.3	21.5	-14.0
Benchmark	2.6	10.2	-10.6	26.0	-3.3

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.

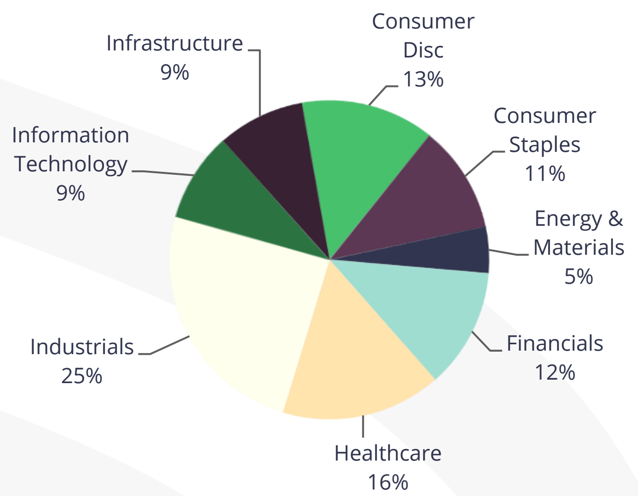
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	7.3%
CRH	INDUSTRIALS	6.5%
GPE BRUXELLES LAMBERT	FINANCIALS	5.9%
ERICSSON	INFORMATION TECHNOLOGY	5.6%
UNILEVER PLC	CONSUMER STAPLES	4.7%
SANOFI	HEALTHCARE	4.4%
DIAGEO	CONSUMER STAPLES	4.4%
GLAXOSMITHKLINE	HEALTHCARE	4.3%
NOVARTIS AG	HEALTHCARE	4.3%
LIBERTY GLOBAL PLC	CONSUMER DISCRETIONARY	4.0%

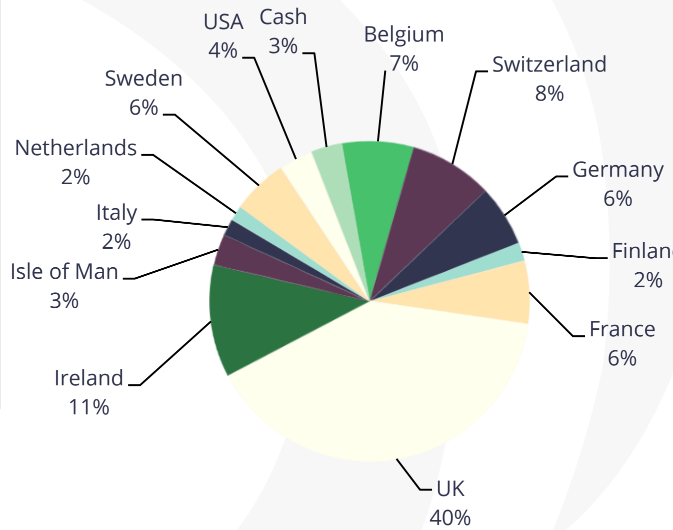
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	19.2
DIVIDEND YIELD %	2.0
AVERAGE MARKET CAP €BN	38.9
NO. OF HOLDINGS	30
ACTIVE SHARE RATIO %	89.2
DEBT/EQUITY %	79.8

Sector Distribution



Geographic Distribution



SETANTA Asset Management

It might simply be that we have witnessed what has largely been a rotation into Banks, Energy/Commodity stocks and other cyclicals because of an expectation of rapid demand recovery and a change in inflation expectations. It is not as obvious that value, as we judge it anyway, is out-performing in all sectors. Time will tell how this trend plays out. Our sector allocation detracted from performance since we are underweight financials, energy and commodities, which performed very strongly; and overweight healthcare which declined in the period. However, stock selection more than offset this, resulting in the fund outperforming the MSCI European Index in the first quarter.

Bank of Ireland continued its rebound from very depressed levels with confidence rising that loan impairments will prove manageable, that Ireland's economic recovery should gather pace in 2021 and that cost reduction trends have been solidified by measures introduced to counteract the pandemic. **DCC's** business has performed well during the pandemic, but the stock was left behind in 2020 and we have seen some catch up in the stock in the early part of 2021. **GEA Group's** shares also outperformed. The processing equipment company's results have weathered the pandemic well thus far and management's confident tone suggests that the margin improvement program is progressing nicely.

Lancashire, the specialist insurance company, has seen its stock perform poorly recently. Last summer the company raised equity capital to fund an expansion in business, on foot of firming pricing across the industry. In light of this, forward guidance provided by management at its 2020 results looked disappointing. Having clarified some things with management, we still believe the backdrop remains favourable and we think results could be very strong for the next few years. We will be watching developments closely for evidence of this. **Unilever's** shares lagged, as they did in 2020. The company has significant exposure to emerging markets, which given the relatively slow rollout of vaccines in Asia and Africa, leaves those markets relatively poorly positioned for the next year or so. There has also been some investor frustration that group revenue growth has been on the low side of expectations in recent years. As management invest more to accelerate revenue growth, this will impact profit margins somewhat, but we continue to like the story.

Notwithstanding the recent rotation, market valuation levels seem to us to be broadly high. Consider that the generally cyclical MSCI Europe Industrials and Consumer Discretionary indices are 12% and 17% respectively above the 2019 closing levels in Euro terms. There seems to be a fairly widespread belief that, given all that the market has absorbed in the past year or so, it simply won't (or won't be allowed to) decline. We don't share this view, but with hindsight, perhaps we should have been more aggressive in deploying the modest amount of cash we had last spring when prices were much lower. Assertive action at points of stress has served us well over the past fifteen or so years but the threat presented by the pandemic was quite unique. Frankly we weren't sure what we were dealing with and we thought the potential for severe economic damage was unusually high. Based on our research at the time, the odds of a roll-out of effective vaccines within one year seemed somewhat remote. In light of that view, valuations didn't seem, to us anyway, sufficiently stressed. Regrettably we misjudged that backdrop but since then, our focus has been on looking forwards rather than backwards.

Early economic indicators, and earnings reports, suggest that developed market economic growth could be very strong this year. This shouldn't be a shock given 2020's depressed base and the enormous stimulus injected into the global economy to counteract the pandemic. However, given the natural operating leverage in most business models and the difficulty analysts can have in modelling such leverage, we could see earnings substantially over-shooting "street" estimates this year. This thinking has under-pinned the "reflation trade" of Q1 2021 with leveraged cyclical stocks performing very well in that period. But what comes next? One or two years of really strong earnings growth doesn't really change the valuation case very much for most companies and it seems unlikely that very high GDP growth can be sustained for very long. So this backdrop is not changing how we are thinking about the portfolio.

Commentary

We continue to try to consider a range of potential future scenarios and to seek a balance of economic exposures for the portfolio so that, despite the inevitable uncertainty, we hope to deliver good returns for our clients over the long run.

Transactions during the Quarter

We added a new position in Q1; **EssilorLuxottica**. The company was formed by the 2018 merger of Luxottica, the world's largest producer of frames for glasses, and Essilor, the world's largest producer of lenses for glasses. We have followed the industry for many years and have been observing the merged company for the past two years, as it operated essentially as two separate businesses during that period. Integration is now properly underway, and we believe there is significant cost and revenue synergy potential for the coming years. We believe that the combined expertise and R&D capabilities will offer EssilorLuxottica an opportunity to increasingly differentiate itself from the competition and we think demand for its products will continue to grow as the population ages. We are especially intrigued by the potential to tap the ecommerce channel, something that the company is investing significantly behind. Today, e-commerce represents under 10% of revenues but we think this channel will grow and if the company can execute here there could offer considerable scope to increase profit margins. We don't believe there is a lot in the price for success in this channel which provides us with an opportunity we are happy to take.

We would like to thank all of our clients for their continued support.

David Byrne, CFA – Portfolio Manager

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