Setanta EAFE Equity Strategy (USD)
March 2021

Strategy Description

The **EAFE Equity Strategy** ('the Strategy') is managed by Setanta Asset Management Limited ("Setanta"). The Strategy is available to US Investors on a separate account basis.

The Strategy is an actively managed equity portfolio, with a long-term investment horizon. Our aim is to invest in EAFE (Europe, Asia and Far East) companies that are trading below their intrinsic value. Our investment process seeks to invest in companies that exhibit a combination of low financial risk, low operational risk and low valuation risk.

We believe that if we can invest in companies that possess these characteristics then we can reduce the risk of a permanent loss of capital and enhance our chances of outperforming our benchmark over the long term. The investment objective of the Strategy is to outperform the MSCI EAFE index over the long term.

Strategy 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.

(Strategy Commentary continued on Page 3)

Portfolio Managers

Rowan Smith; Fergal Sarsfield, CFA & Conor Walshe



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

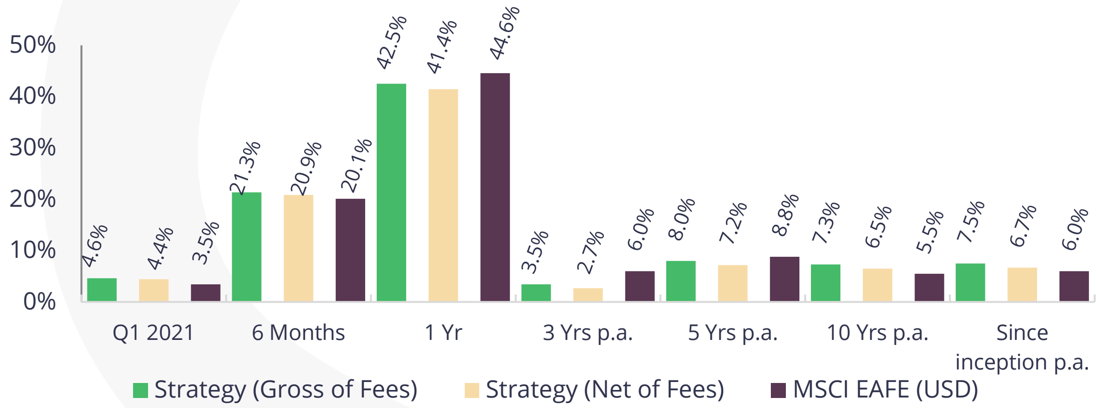
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Performance and Strategy data as at 31st March 2021

Strategy Performance (USD)



Yearly Performance (USD)

	2016	2017	2018	2019	2020
Strategy (Gross of Fees)	10.8%	24.9%	-10.7%	19.1%	-0.2%
Strategy (Net of Fees)	10.0%	24.0%	-11.4%	18.2%	-0.9%
MSCI EAFE (USD)	1.0%	25.0%	-13.8%	22.0%	7.8%

Portfolio Valuation Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	17.9
DIVIDEND YIELD %	2.4
AVERAGE MARKET CAP $BN	46.6
NO. OF HOLDINGS	35
DEBT/EQUITY %	61.8
ACTIVE SHARE %	94.4

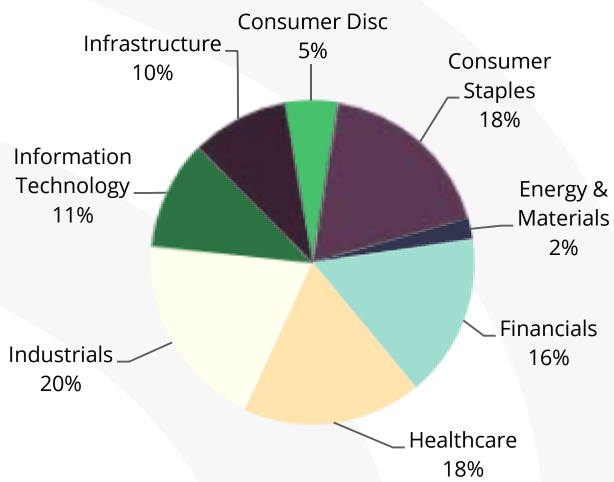
Top 10 Holdings

COMPANY	SECTOR	WEIGHT
COCA-COLA AMATIL	CONSUMER STAPLES	6.4%
GPE BRUXELLES LAMBERT	FINANCIALS	6.4%
DCC	INDUSTRIALS	5.6%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	5.3%
ALCON	HEALTHCARE	4.2%
LSL PROPERTY SERVICES	INFRASTRUCTURE	3.8%
ALFRESA HOLDINGS	HEALTHCARE	3.7%
THAI BEVERAGE	CONSUMER STAPLES	3.7%
RYANAIR	INDUSTRIALS	3.6%
ERICSSON(LM)TEL	INFORMATION TECHNOLOGY	3.6%

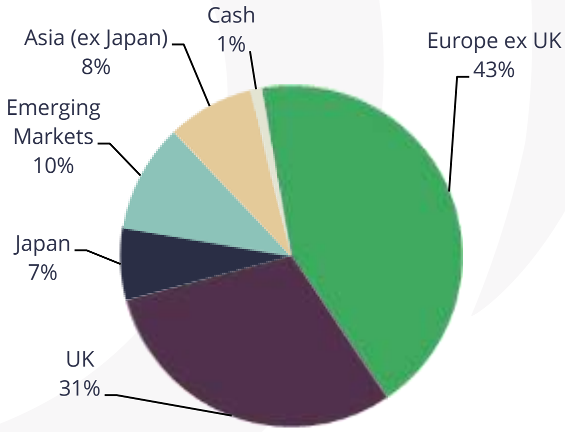
Holdings Source: Setanta. Sector allocations based on invested portfolio only (excludes cash), of the lead CAD account of the EAFE Equity Strategy. **Portfolio Valuation Statistics Source:** Bloomberg, based on the lead CAD account of the EAFE Equity Strategy, shown in USD.

Performance Source: Setanta Asset Management Limited. The returns stated are based on the movements in the unit prices of the lead CAD portfolio of the EAFE Equity Strategy, which has been converted to USD at FX rate 0.795640. The gross performance will be reduced by the impact of management fees paid, the amount of which varies. Net of Fees performance is calculated based on an AMC of 0.75%, which is based on a minimum portfolio size of USD25m. Inception date: January 2004. **Benchmark:** MSCI EAFE (USD).

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 and consumer staples, which declined in the period. However, stock selection more than offset this, resulting in the strategy outperforming the MSCI EAFE Index in the first quarter *(USD terms; Gross of fees).*

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 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. This backdrop remains favourable and we think results could be very strong for the next few years. However, management's plans to shift the mix of business somewhat more towards lines that require less equity capital and are less volatile but are more attritional (with generally higher underwriting costs) has caused some concern and confusion among investors. We don't think that the investment case has changed materially but we will be watching developments closely over the next year or two. **Samsung Electronics**' stock took a breather after a strong move last year. 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.

During February Coca-Cola European Partners (CCEP) announced that it would increase its offer to acquire the shares of minority shareholders in **Coca-Cola Amati**l (CCL). The new offer of A$13.50 was increased from an initial offer of A$12.75. We see this higher offer as more reasonable and we intend to tender our shares in Q2. This boost helps vindicate our efforts, led by Fergal Sarsfield, to persuade the board of CCEP to improve on its initial offer and it is pleasing that the time and effort invested in this process was rewarded. We would like to thank the management of CCL for the terrific job it did in running the business over the years. In particular, management's handling of the challenges presented by the pandemic deserves great respect.

Notwithstanding the recent rotation, market valuation levels seem to us to be broadly high. Consider that the generally cyclical MSCI EAFE Industrials and Consumer Discretionary indices are 14% and 20% respectively above the 2019 closing levels in US dollar 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.

Recently I read The Rise And Fall Of The Great Powers, by Paul Kennedy. It is a monumental effort to describe global economic and military change over the five hundred years from 1500 AD. The book was published in 1988 and the author concludes by engaging in some conjecture about what the subsequent few decades might hold for each of the world's great powers. I was reminded about how seemingly widespread the belief was in the late 1980s that Japan would very likely continue to out-grow its major developed market rivals in the subsequent decades because of numerous strengths it seemed to possess at the time. Amongst other factors, these strengths included: strong positions in the information technology sector, including computing and semiconductors, with a determination to succeed in software; assertive moves into other high-tech fields, including nuclear power technology and aviation; the strategic direction provided by Japan's revered Ministry of International Trade and Industry (MITI); the high domestic savings rate, enabling the provision of cheap capital to industry via its formidable financial sector; the highly educated, loyal and productive workforce.

Three decades or so later, Japan remains a very rich country. However, there is no doubt that its economic performance in the intervening period will have been viewed as very disappointing when measured against the bullish forecasts of the late 80s. Japan's economy has lagged that of many of its main rivals over the period and returns from the local stock market have been abysmal. Several of the aforementioned advantages didn't play out as expected. For example, while the workforce has remained highly productive and loyal, Japan ultimately lost share in computing and semiconductors and never made telling inroads in the software or aviation spheres and its financial sector has encountered numerous difficulties, with many self-inflicted wounds. There are all kinds of other reasons that might help explain why the optimistic forecasts failed to materialise but here is not the place for that. Nothing here tells us much about Japan's prospects. Rather the experience shows how hard it is to predict the future, even when a firm trend seems to be in place. For this reason, we try not to rely on economic predictions. Rather we consider a range of potential future scenarios that could impact the industries in which we might invest, and we aim to have a portfolio with balanced economic exposures that we think should serve our investors reasonably well over the long-term.

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. 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.

Commentary

With this in mind, 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 e-commerce 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 this 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.

Rowan Smith, Co-Lead Portfolio Manager

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IMPORTANT INFORMATION

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