Setanta
ASSET MANAGEMENT

Setanta EAFE Equity Fund (CAD) – Q2 2018

Fund Description

The **EAFE Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the EAFE Equity strategy.

The Fund 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 possesses 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 Fund is to outperform the MSCI EAFE index over the long term.

Fund Commentary

While renewed talk of global trade wars and political uncertainty in Italy and Spain caused some very short lived bouts of volatility, the second quarter was a relatively calm period for markets. We can't tell when the next bout of market stress will occur but such times can be rewarding. Indiscriminate selling can allow us to buy into quality companies which were previously too expensive for our liking. Recent experience could lull one into a false sense of steadily rising equity markets being the norm. However, these times of stress happen more often than you'd think. Between 1980 and 2017, an exceptionally positive period for equities, the average intra-year drawdown for the S&P 500 was almost 14%. At a stock level, that volatility can obviously be much higher.

Fund Commentary continued on Page 3)

Portfolio Managers

Rowan Smith, Fergal Sarsfield CFA & Conor Walshe



Investment Principles

- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- We invest where we see value and are not afraid to be contrarian and swim against the tide.
- We don't make forecasts, we consider scenarios.
- We demand financial strength from the companies we invest in.
- We will act with integrity and communicate with our clients in a manner representative of our investment style.
- We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study.

Irish Pensions AWARDS 2015
WINNER
Equities Manager of the Year

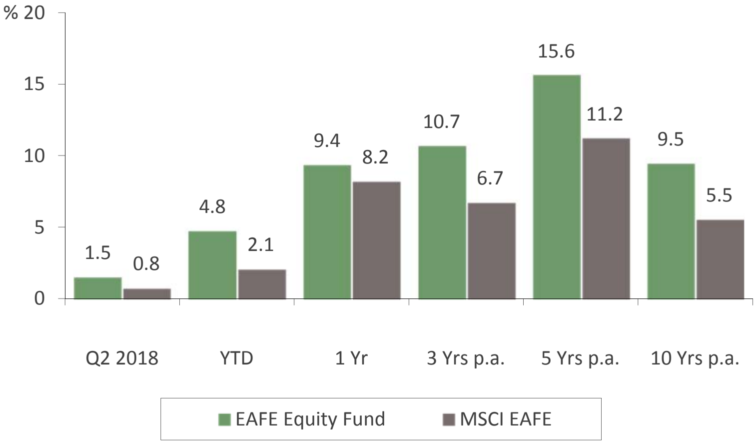
Irish Pensions AWARDS 2016
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

FUND PERFORMANCE (CAD) – 30.06.18



YEARLY PERFORMANCE

Year %	2012	2013	2014	2015	2016	2017
Fund	19.6	35.8	4.5	25.2	7.0	16.7
Benchmark	14.7	31.0	3.7	19.0	-2.5	16.8

Performance Source: Setanta Asset Management Limited. Benchmark: MSCI EAFE Index (100% CAD). The Fund returns since 30.09.07 are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The unit prices prior to this are derived from a net of fee price, adjusted for the management charge to be representative of the gross of fee performance. **Fund Statistics Source**: Bloomberg

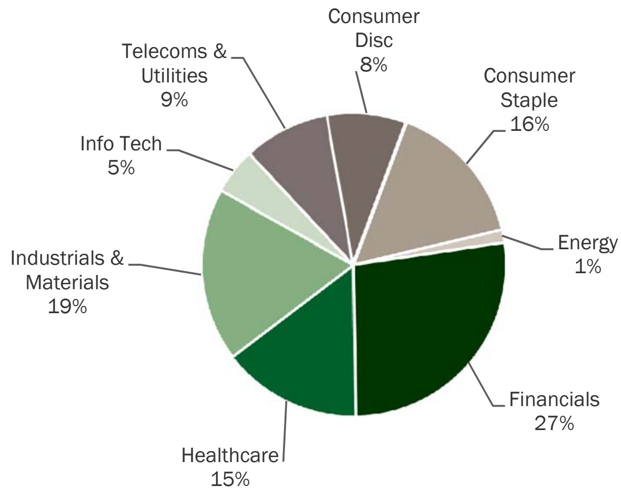
TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
GROUPE BRUXELLES LAMBERT	FINANCIALS	5.6%
DCC	INDUSTRIALS & MATERIALS	4.8%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	4.5%
SWATCH GROUP	CONSUMER DISCRETIONARY	3.9%
DIAGEO	CONSUMER STAPLES	3.8%
KDDI CORP	TELECOMS & UTILITIES	3.8%
LSL PROPERTY SERVICES	FINANCIALS	3.7%
SANOFI	HEALTHCARE	3.6%
ERICSSON	INFORMATION TECHNOLOGY	3.6%
UNILEVER	CONSUMER STAPLES	3.6%

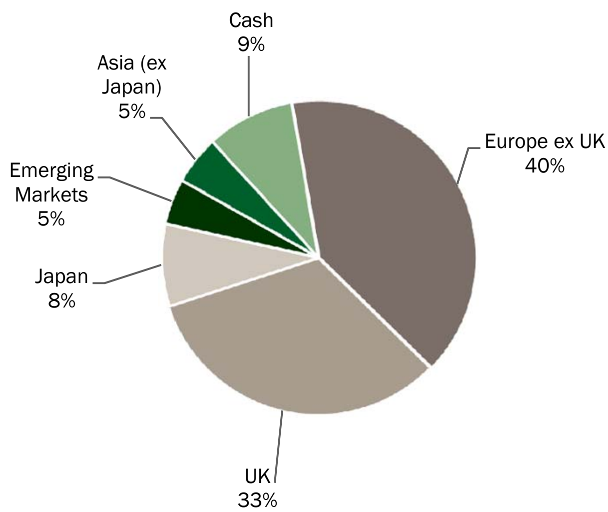
FUND STATISTICS

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	14.3
DIVIDEND YIELD %	3.3
AVERAGE MARKET CAP C$BN	52.4
NO. OF HOLDINGS	34
DEBT/EQUITY %	48.4
ACTIVE SHARE %	88.8

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



During the second quarter, we sold out of our position in **Fenner** which proved to be a very successful investment for us. It is a good example of how we look to be opportunistic at times of stress and the fact that short term concerns can sometimes blind the market to attractive underlying business characteristics.

We built our position in Fenner over the course of the second half of 2015 when worries about the Chinese economy and the capital positions of European banks were uppermost in investors' minds. Fenner supplies conveyor belt products and services to the mining industry. It also sells polymer based products to a variety of end markets. A fall-off in demand from coal miners had triggered significant share price underperformance prior to our purchase.

But there was much to like here. Its products are mostly consumable and demand would eventually have to re-emerge. The belting industry is concentrated at the higher end of the market with Fenner a strong No.2. Meanwhile, the polymer based products are typically low cost and high consequence – an example being performance critical seals in oil drilling applications – so there is little incentive for customers to switch. The chairman had overseen the right-sizing of the business through previous downturns and we believed management would drive the necessary actions again. There was risk around the length of the commodity downturn but we were confident the financial position was robust enough to weather this and Fenner was still generating cash. On normalised through the cycle earnings, the stock looked cheap to us.

We can't claim to be perfect timers and the stock continued to fall after our initial purchase at around 200p in mid-2015. Importantly our research gave us the resolve and confidence to add to our position at lower prices. As management cost cutting actions began to come through and the demand cycle began to turn, the share price rebounded sharply on improved results. We reduced our position over time as the risk-reward profile appeared less attractive. Finally this year, Fenner's management agreed to a takeover bid of 610p from Michelin. Opportunism provided a very handsome return.

We also sold out of our position in **C&C** during the period. Unfortunately, this was a less rewarding experience than Fenner. The investment case was predicated on what we felt were strong alcoholic beverage brands in Ireland and Scotland combined with good cash flow generation, a strong balance sheet, management with aligned interests and a valuation at a significant discount to large global peers. Ultimately, those core markets of Ireland and Scotland proved less defensible than hoped with the Irish market in particular suffering from Heineken's launch of a competing cider brand. The UK has continued to be highly competitive. An ill-judged entry into the US cider market showed no signs of recovery. The recent acquisition of UK distributor Matthew Clark Bibendum prompted a share price rally following a period of weakness and we took the opportunity to exit.

We initiated a new position during the quarter. As it is incomplete, we will provide further details on this at a later date.

Setanta 1: Big Data 0 (with a tip of the hat to the on-going soccer World Cup)

In last quarter's report we highlighted an investment proposition that we had considered but decided not to pursue. To refresh readers, the company in question was Sigma Pharmaceutical, one of the big three drug distributors in Australia. We described how the stock screened as attractive based on a variety of quantitative measures (step forward, Big Data) but we decided against pursuing it based on qualitative risk factors that we felt were troubling, including the potential for a substantial contraction in profits should Sigma lose its largest customer; a possibility that looked very real to us. In the first week of July, that reality came to pass when management confirmed that the customer in question was not renewing its contract. The share price has fallen by 50% from the level at which we reviewed the investment case; a decline more or less in line with the contraction in profit now expected by management as a result of the contract loss. This case reinforces the critical importance of the qualitative analysis of a business, particularly with respect to risk.

Conor Walshe – Portfolio Manager

COMMENTARY

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IMPORTANT INFORMATION

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