

## 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, with a long-term investment horizon. Our aim is to invest in European 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 Fund is to outperform the MSCI Europe index over the long term.

## Fund Commentary

### The virtue of simplicity

When we describe the investment theses behind the fund's holdings to external parties, we are aware that sometimes these may sound quite simplistic. Perhaps on occasion the audience is left wondering how something so straightforward could be expected to produce superior investment returns. By contrast, investment theses that appear more complex are perhaps more appealing to some – the audience can perhaps believe that evaluating this investment case requires special skill, skill rare enough so as to exclude most other investors, reducing 'competition' for that investment proposition and positioning the investment manager to earn outsized returns.

Well whether the above is true or not, we plan to continue to avoid complexity, the dangers of which we think are greatly under-appreciated. Complexity, as it pertains to investments, can come in many forms but often it involves the investment case hinging on multiple sub-plots.

*(Fund Commentary continued on Page 3)*

## Portfolio Managers

Fergal Sarsfield CFA & David Byrne CFA



## 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.



WINNER  
Equities Manager of the Year



WINNER  
Equities manager of the year

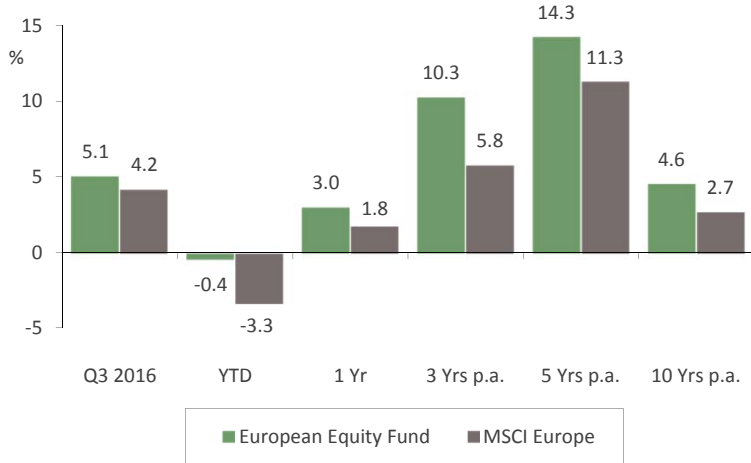


WINNER  
Equities Manager of the Year



WINNER  
Equities Manager of the Year

## FUND PERFORMANCE – 30.09.16



## YEARLY PERFORMANCE

Year %	2011	2012	2013	2014	2015
Fund	-6.5	17.5	23.9	6.1	19.8
Benchmark	-8.1	17.3	19.8	6.8	8.2

**Performance Source:** Setanta Asset Management Limited. Benchmark: MSCI Europe. The Fund returns stated 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 performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

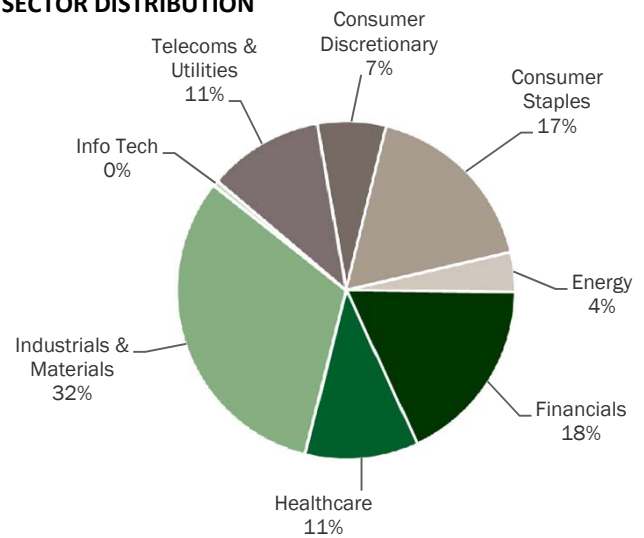
## TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	9.1%
DIAGEO	CONSUMER STAPLES	6.5%
DCC	INDUSTRIALS & MATERIALS	6.3%
GPE BRUXELLES LAMBERT	FINANCIALS	5.9%
CRH	INDUSTRIALS & MATERIALS	5.9%
ORIGIN ENTERPRISES	CONSUMER STAPLES	4.2%
VODAFONE GROUP	TELECOMS & UTILITIES	4.2%
LSL PROPERTY SERVICES	FINANCIALS	4.2%
SMITHS GROUP	INDUSTRIALS & MATERIALS	3.9%
C&C GROUP	CONSUMER STAPLES	3.9%

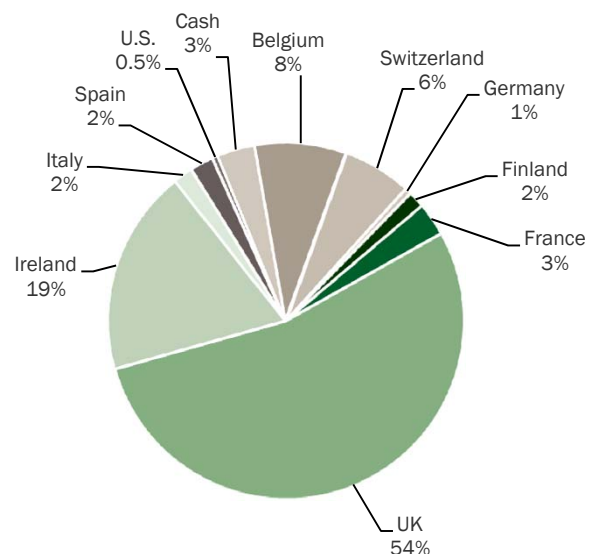
## FUND STATISTICS

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	16.9
DIVIDEND YIELD %	3.2
AVERAGE MARKET CAP €BN	28.0
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	89.6
DEBT/EQUITY %	63.9

## SECTOR DISTRIBUTION



## GEOGRAPHIC DISTRIBUTION



An example will explain further. I am considering an investment in Company A – the success of the investment case is contingent upon the successful resolution of five elements, each of which has a 90% chance of a favourable outcome. Therefore the chance of the investment case playing out as desired is only around 60%. The investment case behind Company B on the other hand depends on just two elements, each of which has a 90% probability of a successful outcome. The chance of this investment case playing out as desired is around 80%. Investment in 'B' is preferable. This example is grossly simplified. In the real world we cannot dissect investment cases into distinct, mutually exclusive elements, never mind allocate accurate probabilities to each. However the principle is rock solid and I think many investors struggle in calibrating comparisons between these kinds of investment opportunities.

Over the years we believe we have been successful in regularly identifying less complex investments that are also more attractively priced than their more complex brethren. In a competitive market where many practicing investors would consider themselves to be quite numerate why might we have had this opportunity? Behavioural Finance might have some light to shine here; investors in general are probably over-confident with respect to their skills and people generally seem to struggle somewhat with probabilities. But there is possibly also something almost instinctively off-putting about simplicity in investing – *“that can't really be a ten euro note on the ground, because if it was real, it wouldn't be there”*. Meanwhile we think many investors are not even thinking about these issues – they are too busy whimsically buying and selling, just trying to make it to the end of the quarter.

To be clear – simplicity should not be confused with ease. As Warren Buffett says, “investing is simple but not easy”. We strive to avoid unnecessary complexity because too often it is not apparent that the potential returns justify bearing this complexity. However investment success is very hard to earn and requires the consistent application of a range of skills honed over many years. Simplicity is an investment virtue hiding in plain sight and we will continue to seek it out.

### **Transactions in the third quarter**

#### ***Melrose PLC***

To refresh the original investment case for Melrose: its strategy is to buy under-performing businesses, improve and then sell them, return the proceeds to shareholders and await the next deal. The businesses Melrose acquires tend to possess good quality, durable assets but have been poorly managed, suffered the effects under-investment, misguided strategy and misaligned staff incentives. By taking the business private, changing personnel and incentives, and improving resource allocation Melrose aims to improve profitability and subsequently sell the revalued business. Melrose's management has an extremely impressive track record in executing its strategy over many years. We initially acquired a position in Melrose in 2014 and the investment case has played out as we expected. In the most recent quarter Melrose announced the acquisition of Nortek, a diversified manufacturer headquartered in the US. We spoke to Melrose management about the opportunities to improve Nortek, and we believe this is a classic Melrose transaction. We participated in the rights issue to fund the acquisition.

#### ***Wincor Nixdorf***

The proposed merger of Diebold and Wincor Nixdorf, the No2 and No3 players respectively in the global ATM market was completed in July 2016. In return for our Wincor shares we received €38.98 in cash plus 0.434 shares of Diebold for every Wincor Nixdorf share we held in the fund. Wincor is a prime example of the Setanta philosophy and process in action. We had the opportunity back in Q4 2008 to invest in a good company at a great price, our thesis played out and we have almost doubled our investment over our holding period which is a markedly better return than the benchmark. We redeployed the cash primarily into Melrose rights issue and we continue to hold a small amount of Diebold shares, representing 0.6% of the fund.

Don't believe everything you're told

CRH ID € ↓ 30.46 - .04 D30.49 / 30.50D 1119x2500  
 At 16:10 d Vol 1,031,075 O 30.42D H 30.57D L 30.25D Val 31.  
 4) Previous 3) Next 60) Send 98) Actions- Ne  
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**CRH Falls to Lowest in Over a Year; ISEQ Index Little Changed**  
 By Bloomberg Automation

Crh Plc fell 77 percent while the country's benchmark index advanced.  
 The shares fell to 7 euros, the lowest level in at least a year, from 30.50 euros. Trading volume was 1.5 times the 30-day average of 681,008 for this time of day.

The above graphic is from a story published by Bloomberg Automation on September 9<sup>th</sup>. It claims that CRH shares, clearly trading at over €30, had fallen 77% to €7 per share. There are at least two lessons from this. Firstly, robots are not yet ready to take over the world. Secondly, don't believe everything you're told.

Fergal Sarsfield – Portfolio Manager

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**IMPORTANT INFORMATION**

The fund has now transferred to Irish Life, investors should contact [www.irishlife.ie](http://www.irishlife.ie) for more details. For this life assurance product, investors should refer to the relevant policy conditions available now through Irish Life. The strategy is also available on a segregated basis or via the Setanta UCITS mutual fund via Setanta Asset Management Funds plc. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

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