Setanta European Equity Fund (CAD)
Q4 2019

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 in the European region. 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 two portfolio managers, who also look to leverage off the experience and knowledge of their 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

Benchmarks in Europe and across the globe posted remarkable gains in 2019. MSCI World was up 21.2% (CAD terms) and MSCI Europe was up 17.5% (CAD terms). This is on top of a decade of strong gains. The Setanta European Equity Fund was up 13.8% (CAD terms).

(Fund Commentary continued on Page 3)

Portfolio Managers

Fergal Sarsfield, CFA & 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

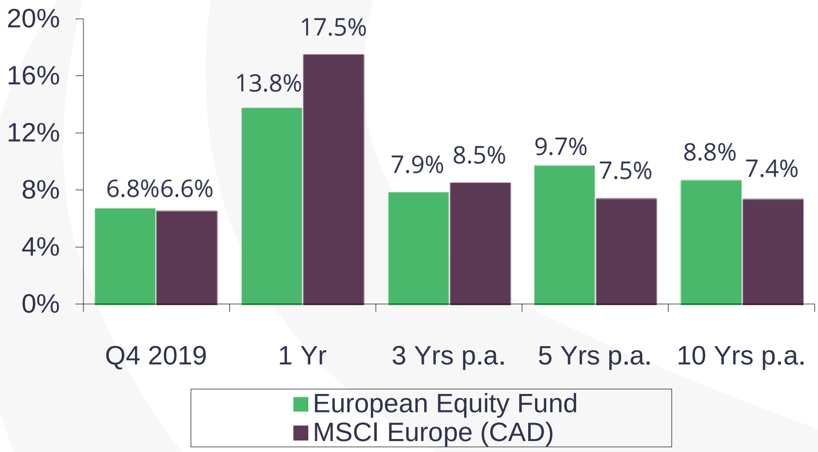
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.19 (CAD)



Yearly Performance

Year %	2015	2016	2017	2018	2019
Fund	27.7	-0.8	15.3	-4.3	13.8
Benchmark	16.5	-3.9	17.3	-7.2	17.5

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

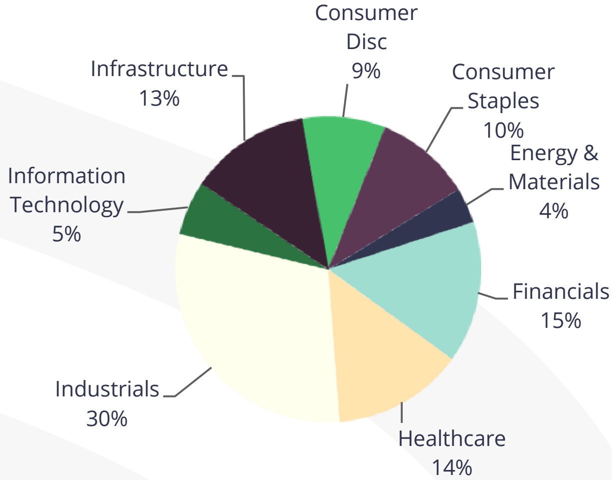
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
MELROSE INDUSTRIES	INDUSTRIALS	6.9%
DCC	INDUSTRIALS	6.0%
GPE BRUXELLES LAMBERT	FINANCIALS	5.1%
GLAXOSMITHKLINE	HEALTHCARE	4.7%
CRH	INDUSTRIALS	4.7%
UNILEVER	CONSUMER STAPLES	4.1%
RYANAIR	INDUSTRIALS	4.1%
NOVARTIS	HEALTHCARE	4.0%
SMITHS GROUP	INDUSTRIALS	4.0%
SANOFI	HEALTHCARE	3.8%

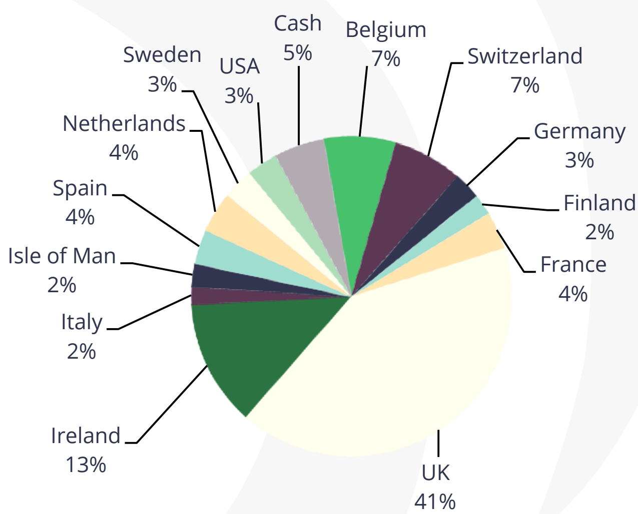
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	15.9
DIVIDEND YIELD %	3.1
AVERAGE MARKET CAP C$BN	58.3
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	86.8
DEBT/EQUITY %	69.4

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

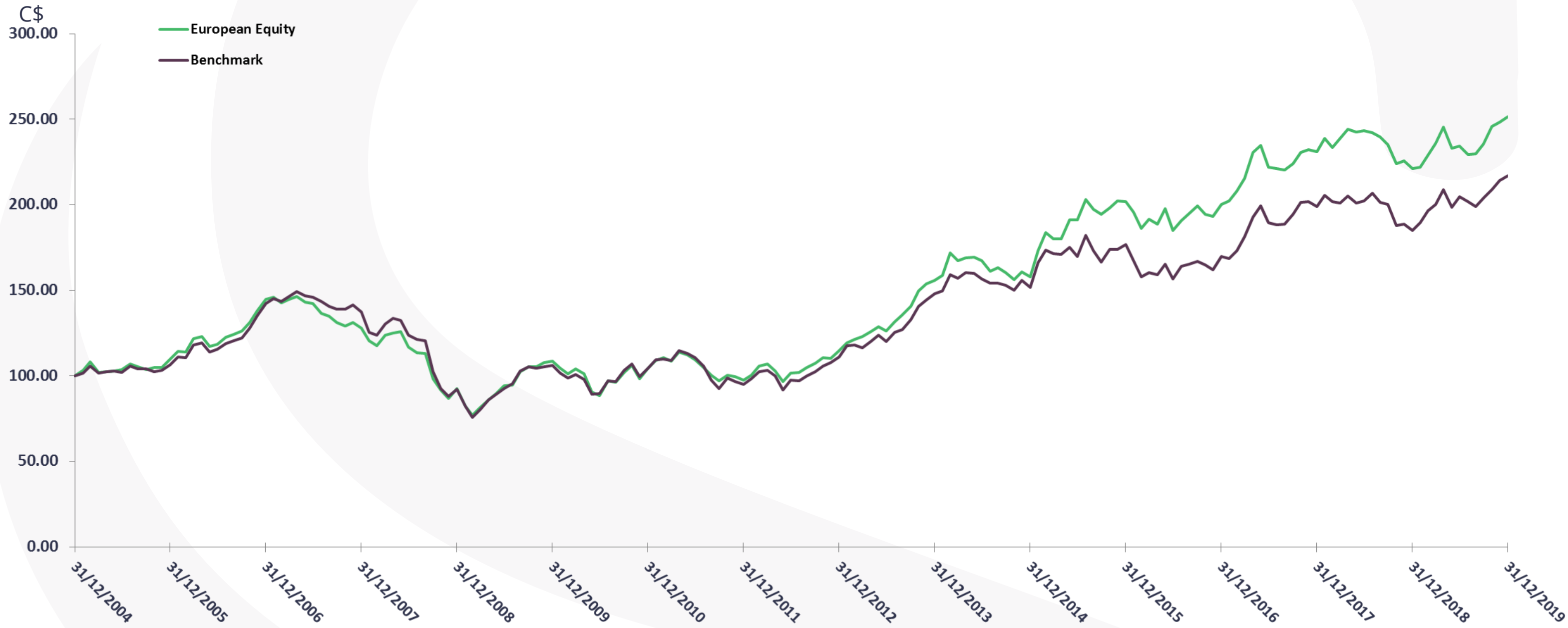
Although the Fund underperformed by almost 4 percentage points we are reasonably satisfied with the performance of most businesses in the Fund. We might expect to underperform slightly in such a strong up market. Diageo, DCC and Unilever (some of our bigger weights) lagged the benchmark, detracting from relative performance. We are happy that these are conservatively run businesses, that are well invested, have strong balance sheets, strong market positions and reasonable relative valuations that should bode well for the future.

The index we are trying to outperform had some very strong performers in 2019 e.g. ASML +82%, LVMH +52%, adidas +50% (all CAD terms). It is difficult to keep up when the big weights in the index are posting such strong gains. Even though we believe all three are likely fine businesses with decent balance sheets the case for their relative valuation becomes harder to argue at these levels. Indeed, we were surprised to see adidas up so strongly as sales growth decelerated with renewed competition from their biggest rival Nike. In fact we had some small exposure to the adidas gains through our holding in GBL[1]; it seems they too were surprised and decided to sell down some of their stake. We also had exposure to part of the LVMH conglomerate (Moët Hennessey) through our holding in Diageo[2]. Sales in the Leather goods division of the LVMH conglomerate have been very strong over the last few years as Asian consumers continue to consume these products at a ferocious rate. The incremental margin on leather goods is huge and as long as they stay on trend good cash earnings numbers are likely. We think the strong performance of LVMH may be somewhat more justified given their sales growth and profitability that follows from selling such high margin product through a network of directly operated stores. We have exposure to the Asian luxury consumer through our holding in Swatch. As a reminder the big earnings drivers in Swatch are through their luxury watch brands Omega and Longines. Sales have been sluggish as demand has been weak possibly as a result of market saturation, growing competition from smartwatches and some brand mismanagement. Earnings have suffered as a result. We'll continue to monitor developments here.

Rounding out the decade however, we are somewhat pleased with performance in what proved a difficult decade for active managers to outperform (see the long-term performance below). We must remind clients that we favour strong businesses with good balance sheets at decent prices. It's rare to get all three variables favourably at any one particular point in time. Competition for these assets usually means such opportunities do not exist for long. Today, we think, the portfolio is weighted mostly toward good businesses with decent balance sheets at acceptable valuations. The challenge then for the next year and beyond is to see if we can pick up some good assets at better valuations. The broader Setanta team has accumulated a lot of knowledge over the last decade and hopefully we can put this to use as opportunities arise over the coming decade.

[1] adidas represented approximately 20% of GBL's NAV on 20.09.2019
[2] Diageo own a 34% equity stake in Moët Hennessey

Commentary



Source: Setanta. Cumulative performance based on the CLA CA European Equity Fund [IEC11002] in CAD, gross of fees. Benchmark: MSCI Europe (CAD)

Key contributors

CRH was our largest contributor last year as the stock rebounded +48% (CAD terms) from a poor performance in 2018 (-18%, CAD terms). Late last year there were fears of a global slowdown; Emerging markets were weak and there were lingering Brexit concerns possibly affecting sentiment on the stock. CRH has a diverse mix of assets but the biggest contributors are their US and European infrastructure divisions. End markets for both had improved during the year. Although input costs were a challenge, positive pricing in their major markets helped the business expand margins and free cash flow. If end markets continue to hold up CRH should be in a position to expand margins further. If they can do that we think the stock is reasonable value here.

Melrose was our second largest contributor returning 48% (CAD terms). It's notable that Melrose also recovered from a poor performance in 2018 (-19%, CAD terms). Melrose is a publicly listed business that operates like a private equity vehicle. They seek to buy obviously underperforming assets, improve margins and sell these businesses at opportune times. Last year we believe the stock was hit as some end markets for their latest acquisition, GKN, began to slow. As a reminder, GKN supplies components mainly to the auto and aerospace industries. As the year progressed although sales in the auto division of GKN were impacted by the industry backdrop, profit margins were better than expected. The aerospace division has also been performing well. We are hopeful the industry backdrop will remain favourable and the business can continue to exceed expectations. Furthermore, 2020 may present an opportunity for Melrose to dispose of some or all of their Nortek division.

Commentary

Key detractors

Origin was our worst performer in 2019 declining by over 36% (CAD terms). Origin is an agri-services business that provides products (primarily seeds, crop protection chemicals and fertilizer) and agronomy services to customers mainly in Europe. Historically, it has had a strong position in the UK and Ireland and has used that as a platform to expand into Eastern Europe and more recently Brazil. Over our period of ownership the business has encountered several problems. Farm incomes have been under pressure meaning customers have had spending constraints. As farmers have focused on more commodity type solutions pricing competition in the market has intensified. The acquisitions in Eastern Europe (Poland and the Ukraine) have underperformed as the management team has failed to get to grips with the local market structure in each region. Although the performance of the business has been disappointing we think the stock is lowly rated and there are some self-help measures that can be implemented. The stock could offer meaningful upside if these are implemented successfully.

Swatch was another large detractor. As noted previously some categories in the luxury sector are thriving but luxury watches are struggling as a whole. Swatch CEO Nick Hayek operates a strategy of overproduction, keeping production levels higher than demand. In years gone past this strategy worked well as they were able to gain a foothold in China with their power brand Omega. However, as demand has fallen off they run the risk of tarnishing the brand with excess supply in the channels. Rolex and Patek Phillipe seemed to have mastered the art of restricting supply to meet demand. At some point we think Swatch will have to do the same. For now the stock is lowly rated and could rebound swiftly if management tackle the supply/demand imbalance.

Once again, on behalf of Fergal and I, we'd like to thank you for your continued support throughout the year and over the last decade.

Transactions during the Quarter

There were no transactions during the quarter.

David Byrne – Portfolio Manager

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