

Setanta EAFE Equity Strategy (USD)

December 2020

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.

Investment Philosophy

We in Setanta do not believe the market is efficient. Our aim is to purchase and own assets at a price below a reasonable assessment of their worth. This is where we focus our resources. Our process is akin to assessing a part ownership of a business rather than trading a security. This assessment of value must always encompass a thorough understanding of where this value is derived. We have a long term investment horizon and risk management is always central. We regard risk as the potential for permanent impairment of value. Integrity is a key tenet of our professional DNA and we embrace a culture of continued learning.

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

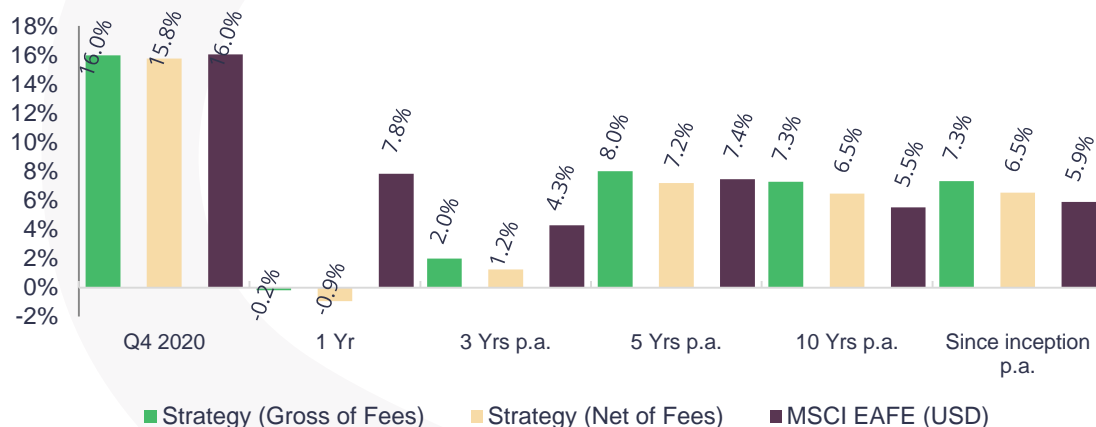
Businesses we own must have strong balance sheets

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 December 2020

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%

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 0.7849294. 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).

Portfolio Valuation Statistics

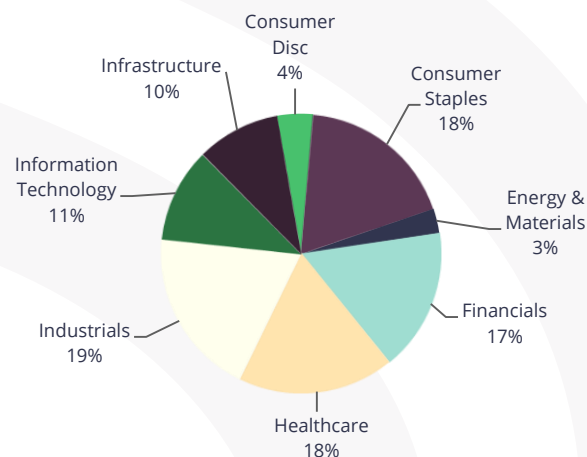
PRICE/BOOK	1.7
PRICE/EARNINGS RATIO (FY 1)	15.7
DIVIDEND YIELD %	2.4
AVERAGE MARKET CAP \$BN	46.6
NO. OF HOLDINGS	34
DEBT/EQUITY %	65.9
ACTIVE SHARE %	94.1

Top 10 Holdings

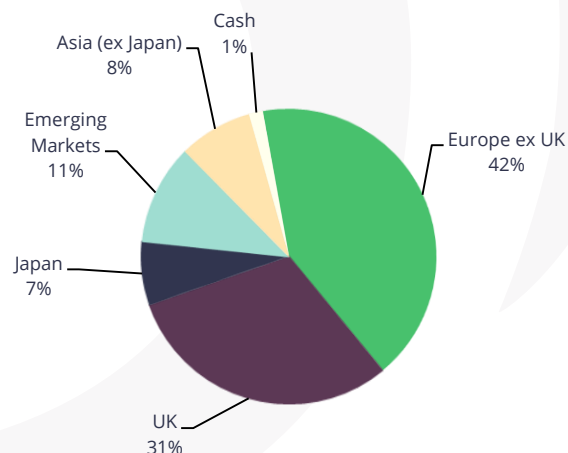
COMPANY	SECTOR	WEIGHT
GPE BRUXELLES LAMBERT	FINANCIALS	6.4%
COCA-COLA AMATIL	CONSUMER STAPLES	6.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	5.8%
DCC	INDUSTRIALS	4.9%
ALCON AG	HEALTHCARE	4.4%
UNILEVER PLC	CONSUMER STAPLES	4.1%
RYANAIR DAC	INDUSTRIALS	4.0%
ALFRESA HOLDINGS	HEALTHCARE	3.9%
THAI BEVERAGE PCL	CONSUMER STAPLES	3.9%
NOVARTIS AG	HEALTHCARE	3.7%

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.

Sector Distribution



Geographic Distribution





Strategy Commentary

What an eventful year 2020 has been. We experienced the onset of the COVID-19 pandemic, the UK's protracted departure from the European Union and, the sharp collapse in global stock prices in March followed by an astounding recovery which saw the MSCI World Index return 67% from its lows.

Unfortunately 2020 was also a year in which we underperformed our benchmark. Our disciplined risk averse approach naturally steers us away from the high growth, high momentum segments of the market, those same segments which rebounded the strongest and led the charge as the MSCI EAFE benchmark returned +7.8% (USD terms) for the year. We are clearly disappointed to have under-performed significantly in 2020, the EAFE Equity Strategy generated returns of -0.2% (USD terms; Gross of Fees) underperforming our benchmark by -8.0%, marking our worst one year relative return since the strategies inception. But we will remain disciplined and true to our philosophy and process that has served us and our clients very well over the longer term. We believe that this is the right course of action especially at a time when so many market participants have become ill-disciplined, are acting irrationally and chasing momentum.

Snake Oil

In thinking about the current behaviour in markets I often wonder if there are aspects of today's market which are reminiscent of the late 19th century and the Snake Oil salesman? A phrase which often conjures up images of seedy profiteers trying to exploit an unsuspecting public by selling it fake cures. In Western movies, the Snake Oil salesman was a travelling doctor with dubious credentials, selling fake medicines with boisterous marketing hype and a shill who would often attest to the value of the product in an effort to provoke buying enthusiasm.

- › Can we draw parallels between the Snake Oil era and what we are seeing in markets today?
- › Do companies like QuantumScape and Nikola have dubious business models generating zero revenues and selling nothing but hope of an as yet unproven technology?
- › Are global central banks with their helicopter money and exploding balance sheets acting as a form of shill instilling a sense of confidence in society to spend and speculate indiscriminately, leading to strong demand for and increased momentum behind cryptocurrencies like Bitcoin, SPAC's and IPO's?

Global central banks have been acting in unison for a number of years trying to stimulate growth by keeping rates low and pumping money into the system. In the same way as the Snake Oil salesman's shill tried to stimulate sales through his miraculous recovery it can be argued that central banks whether intentionally or unintentionally are encouraging market participants to become more frivolous and less risk averse in their attitudes. This attitudinal change has acted as a catalyst for momentum investing where buying begets buying. Rising prices attract new buyers which in turn attracts further buyers leading to a decoupling from fundamentals which is very evident when decomposing equity market returns in 2020.

We haven't been able to gather data for the EAFE universe but we believe this data from Bernstein Research is representative of what has happened in EAFE markets. According to Bernstein Research the top 1,500 US companies returned 16.7% in 2020 with 25% of that return coming from multiple expansion and -6.6% coming from earnings growth. Drilling down even further into individual sectors it shows that the Technology sector returned 43.8% with 30% points coming from multiple expansion and 10.6% coming from earnings growth. We do recognise the impact lower rates for longer has on the multiples market participants are willing to pay for companies, especially companies with growth well into the future. Nonetheless it's difficult to fathom how any rational investor would be willing to pay 25% more for an asset over the space of one year, especially when the earnings growth for that asset has declined.



Strategy Commentary

If we couple that with the IPO market we can't help but feel that there is some level of irrationality at play in markets today. According to the WSJ, companies raised \$167.2bn through 454 IPO offerings in 2020 compared with the previous full year record of \$107.9bn in 1999.

So while equity markets in 2020 have not been kind to us or our clients we do feel strongly that our disciplined approach in seeking out quality companies that are trading at fair prices is the best long term strategy. We will not be buying any Snake Oil.

2020 Portfolio Review

The Setanta EAFE Equity strategy is a concentrated bottom up portfolio comprising of what we believe are mispriced high quality companies. For this reason we tend not to pay much attention to sector or geographic attribution. However, our risk averse nature naturally leads us to be mindful of our exposures to various different industry sectors and geographies and it also helps us explain our performance.

Stock Attribution

Our top 5 positive contributors for 2020 were Samsung, Coca Cola Amatil, Ericsson, Alcon and Ryanair.

- › Samsung with its market leading position in DRAM memory is a clear beneficiary of the growth in digitisation and cloud computing and with COVID-19 accelerating the trend for both it resulted in strong share price performance for Samsung in 2020.
- › Coca Cola Amatil as discussed further on in the report is the subject of a takeover bid.
- › Ericsson is benefitting from the launch of 5G as well as reduced competition due to government restrictions on Huawei and poor execution by Nokia.
- › Ryanair has surprised us in 2020. 1) In a year in which travel related companies got hit hard, Ryanair initially sold off aggressively only to rebound even stronger. And 2) As the market leading low cost carrier with the strongest balance sheet we believe it is primed to come out of this crisis in an even stronger position.
- › Alcon is an extremely high quality company in a market which we believe is relatively immune to economic shocks. This has played out in 2020 and despite the stock initially selling off it rebounded strongly and finished the year +6.5% in local currency.

The 5 largest detractors to strategy performance in 2020 were Melrose, Merlin Properties, Bank of Ireland, DCC and Bank Leumi.

- › Melrose is in a tough spot at the moment with high debt levels post the acquisition of GKN and exposure to segments like Aerospace and Auto's which have been hit hard due to COVID-19. Hence the material underperformance of the shares. However we believe the balance sheet can be strengthened with the sale of Nortek Air which we hope will be completed in 2021 and there is a strong management team in place who are good stewards of capital.
- › Merlin Properties is no longer a portfolio holding. It was sold at a steep loss in Q3 as we believe that the longer term consequences of COVID-19 will have a material impact on the value of Merlin's property assets. Changing habits brought about by COVID-19 like increased working from home and accelerated growth of ecommerce are not conducive to a company with almost 70% of its assets in commercial and retail real estate.



Strategy Commentary

- › The market is presently unsure of how DCC will navigate the pending energy transition from fossil fuels to greener technologies over the coming years. This has led to downward pressure on the share price but from our perspective we continue to see DCC deploy capital in areas where they can generate mid double digit returns and believe the market may be overestimating the impact energy transition will have on their business.
- › Bank of Ireland and Bank Leumi are both primarily domestic banks with strong market positions in their respective markets. Banks have remained in the value camp for the past few years and as 2020 saw the largest divergence between growth and value both banks materially underperformed. The prospect of increased loan impairments, lower interest rates for longer and slower loan growth due to COVID-19 provided a tough backdrop for bank shares in 2020. They both have strong brands and are investing to ensure they remain strong in the midst of increased competition from neo banks and the growth in digital banking.

As mentioned, sector and geographical exposure are outputs of our bottom up stock picking strategy but we highlight below some of the more pertinent areas which have impacted performance over the past year.

- › Our largest sector overweight is in Healthcare, a sector which performed strongly relative to the MSCI EAFE benchmark (+5% relative). However stock specific issues at Alfrexa and GlaxoSmithKline impacted our performance in this sector.
- › Energy is our lowest sector weight with only one company, ENI, making up 0.9% of the strategy. Energy was also the sector which underperformed the most relative to the MSCI EAFE benchmark so this was a marginal positive for the year.
- › Industrials also performed strongly (+3% relative to the benchmark). However, as mentioned above, Melrose and DCC meant we didn't fair out so well.
- › Geographically speaking our largest underweights, Japan and Germany were two of the stronger performing markets which didn't help us throughout the year. We are actively looking for companies in both markets but we are yet to find a company to add to our existing investments in these countries.
- › Unfortunately the UK was one of the weakest performers in 2020 and it's also a market in which we have been materially overweight (+10% relative) for quite some time. We believe we own high quality UK domiciled companies that are presently mispriced and we expect that over time these companies will perform strongly for us.

Portfolio Activity in Q4 2020

There was some minor portfolio activity during Q4 where we added marginally to some companies as well as trimming back others. Of more significance is our new position in Adidas as well as the proposed acquisition of portfolio company Coca Cola Amatil by Coca Cola European Partners.

We have built up our knowledge base of Adidas over the past 10 years. It also forms approximately 20% of the NAV of another portfolio company, Groupe Bruxelles Lambert. It has become apparent to us that the sports footwear/apparel market is increasingly becoming a duopoly where the two largest players, Nike and Adidas continue to take share in a growing market and where their scale allows them to dominate branding for major sports teams and stars across many different codes. This makes it very difficult for competition to enter and gain a foothold. On top of this, the route to market is also changing with the COVID-19 pandemic bringing forward digitisation and large branded goods companies now going direct to



Strategy Commentary

consumer. We believe this direct to consumer model can help improve profitability as well as improving operational efficiency and inventory management.

Coca Cola Amatil has been a portfolio holding since January 2018. In October 2020 Coca Cola European Partners offered to buy Coca Cola Amatil in a deal worth A\$12.75 per share for ordinary shareholders. We are of the opinion that A\$12.75 undervalues Amatil and as one of their larger shareholders we have been in ongoing discussions with the board and their investment bankers in relation to achieving a higher price for shareholders. We believe CCEP are being very opportunistic attempting to acquire a high quality asset at a time when the share price is depressed due to COVID-19 and earnings are at an unsustainably low level.



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IMPORTANT INFORMATION

The EAFE Equity Strategy is managed by Setanta Asset Management Limited. The performance shown is the performance of the lead CAD portfolio of the EAFE Equity Strategy. This account has the longest performance track record. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.

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