Setanta EAFE Equity Fund (CAD)

Q4 2021

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 which holds c.30-50 stocks in the European, Australasian and Far East regions. The portfolio is managed in accordance with the Setanta investment philosophy. The Fund is managed by three 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 Fund can hold up to 10% cash where investments of sufficient quality cannot be found.

The investment objective of the Fund is to outperform the MSCI EAFE benchmark over the long term.

Fund Commentary

The Setanta EAFE Equity Fund enjoyed a positive close to the year, rising 5.0% and outperforming the MSCI EAFE benchmark by 2.6% (in CAD-terms) in the final quarter. For 2021 as a whole, the fund was up 11.5% outperforming the benchmark by 120bps (in CAD-terms). Later in this update, we look at some of the main stock drivers of the fund's performance for both Q4 and 2021 in full.

(Fund 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

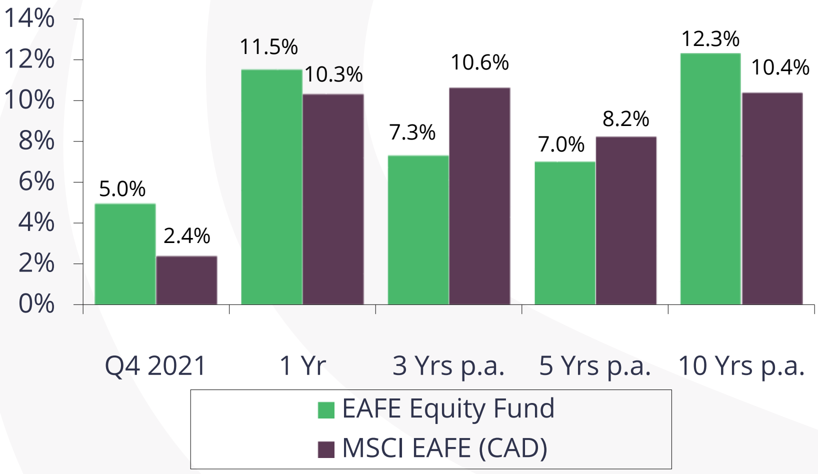
We consider scenarios rather than making forecasts

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

Fund Performance – 31.12.2021 (CAD)



Yearly Performance

Year %	2017	2018	2019	2020	2021
Fund	16.7	-2.7	13.1	-1.9	11.5
Benchmark	16.8	-6.0	15.8	5.9	10.3

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the CLA CA Managed EAFE Portfolio SF035 [IEC11007] 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 EAFE (CAD) **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

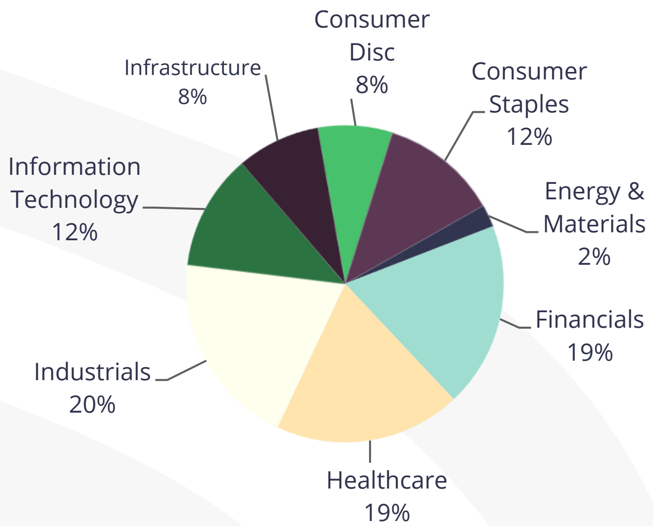
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
GPE BRUXELLES LAMBERT	FINANCIALS	6.7%
DCC	INDUSTRIALS	5.2%
ALCON AG	HEALTHCARE	5.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	4.9%
DIAGEO	CONSUMER STAPLES	4.6%
BANK LEUMI	FINANCIALS	4.3%
GEA GROUP AG	INDUSTRIALS	4.3%
LSL PROPERTY	INFRASTRUCTURE	4.0%
GLAXOSMITHKLINE	HEALTHCARE	4.0%
UNILEVER PLC	CONSUMER STAPLES	3.4%

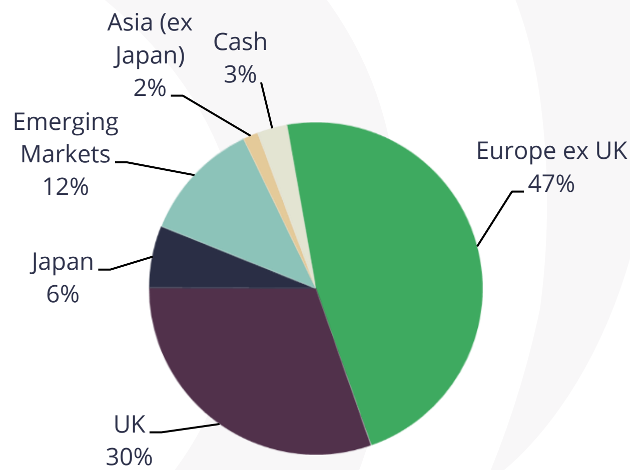
Fund Statistics

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	14.6
DIVIDEND YIELD %	2.5
AVERAGE MARKET CAP C$BN	79.6
NO. OF HOLDINGS	36
DEBT/EQUITY %	41.2
ACTIVE SHARE %	92.9

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Q4 2021 Commentary

The year just gone was certainly an eventful one. On the economic front, two significant new COVID 'waves' Delta and Omicron held back economies from fully realising their potential output in 2021, although rising high vaccination rates are helping to decouple the link between infection and hospitalisation. With demand strong and supply constrained, inflation spiked to around 5% in the US and Europe, the highest levels in some time. It's unclear how much this is the result of (i) temporary supply side factors that will naturally correct; (ii) transient excess demand resulting from strong consumer balance sheets; (iii) years of ultra-loose monetary policy; or all three. In any case, it would appear that the global interest rate cycle is on an upward path.

It was also a notable year in financial markets as central banks' stimulus, government fiscal supports and historic low interest rates paved the way for record levels of global M&A ($5.8 trillion according to Refinitiv, easily surpassing the previous record of $4.4 trillion set in 2007) and IPO capital raising (Bloomberg reported $600bn, around 40% higher than in 2007). Special purpose acquisition companies (SPACs) alone were responsible for c$160bn of the total raised according to Refinitiv. This embracing of risk has not always served investors well however. The Defiance NextGen SPAC Derived ETF (SPAK US), the main SPAC exchange traded fund, was down -26% last year. The Renaissance IPO ETF (IPO US), which holds a portfolio of the largest most liquid newly-listed U.S. IPOs, declined -10% over the course of 2021. On January 6th, Bloomberg reported that roughly 4 in every 10 companies on the NASDAQ Composite Index have seen their market values fall by at least 50% from their 52-week highs.

We have often talked in the past about risk aversion being one of the key pillars of Setanta's approach. For much of the last 21 months, this has felt like it ran against the prevailing speculative mood in markets. Through this time, we have remained consistent in our approach and were glad to see some reward for this in the fourth quarter.

Q4 Performance Drivers

Leading contributors to the fund in the fourth quarter included Playtech, Bank Leumi and GEA. Playtech was the subject of a takeover bid from Australian firm Aristocrat Leisure in October. The stock has since traded above the £6.80 per share offer as two other prospective bidders subsequently entered the fray. Gopher Investments, which has already agreed to buy Playtech's financial markets division Finalto, considered making a full offer for the company before withdrawing its interest. In November JKO Play Limited, a consortium led by former Formula 1 team boss Eddie Jordan and an ex-Scientific Games executive, made its interest known. Talks are progressing and JKO has until January 26th to announce a firm intention to make an offer for Playtech. A vote on the Aristocrat Leisure bid has been adjourned until early February. Setanta, led by Fergal Sarsfield, has actively engaged with Playtech management and the board during our period of ownership to improve governance, financial disclosure and the quality of the board. We assisted in the selection process for a new Chairman as well as the addition of two new independent directors while encouraging a focus on core markets and growth opportunities. The takeover approach is a strong endorsement of Setanta's "engage-ivist" approach.

Bank shares in general benefited from the prospect of rising interest rates which has positive repercussions for net interest margins. Bank Leumi reported strong Q3 results in November boosted by loan loss provision writebacks and good revenue momentum. The latter was driven by strong loan growth, a positive CPI effect on net interest income and healthy fee momentum. Positive operating leverage continues to come through as the company benefits from digital investments made over the last few years. The dividend was reinstated after central bank restrictions were removed.

Q4 2021 Commentary

At GEA, CEO Stefan Klebert has successfully delivered on his turnaround plan with clearer P&L responsibility at business unit level, increased operational efficiency, net working capital optimisation and some portfolio pruning. At its Capital Markets Day at the end of September, the company released new targets for 2026 pointing to healthy organic top line prospects and further margin expansion. The company sees good growth opportunities in the "New Food" and service areas. ROCE was guided to above 30% as the big gains made on net working capital have transformed the economics of the business. Management has a built a lot of credibility through delivery to date and these targets look achievable. Q3 results reported in November saw strong order intake and leave the company on track to achieve the higher end of its 2021 guidance. We have recently trimmed our positions in both Bank Leumi and GEA on share price strength but both remain core holdings in the fund.

Detractors from fund performance in Q4 included Alfresa, Ryanair and Adidas. Alfresa issued a profit warning in November. The gross margin for the Ethical Pharmaceuticals business is expected to decline again in FY3/22. The COVID pandemic brought on intense competition and pricing and margins have been slow to recover as pharmacies and hospitals grapple with reduced volumes and minimal support from the Japanese government. On a positive note, management announced a share buyback of up to 5.2% of the shares outstanding. Later in November, Alfresa was the subject of a new onsite inspection in the Kyushu region for suspected violation of the Anti-Monopoly Act by the Japan Fair Trade Commission. Six wholesalers in total including the other three large national drug distributors received such visits. This was a disappointing development given the time that has elapsed since the topic of collusion first came to light in late 2019. While we can't be sure of the timing, we see scope for margin recovery at Alfresa given the relatively consolidated nature of the Japanese drug distribution industry and the important role these companies fulfil. The cash-rich balance sheet also offers significant optionality.

Ryanair issued a profit warning in December. The rapid spread of the Omicron variant and the accompanying introduction of some travel restrictions across Europe negatively impacted passenger numbers in the key Christmas period. The January schedule is being cut by a third and further capacity reductions in the near term are possible given the hit to bookings and a significant lack of visibility. Net loss guidance for the year to March 2022 is now €250-450m from €100-200m previously. Longer term, we believe Ryanair has the balance sheet to come through the pandemic and has scope for significant market share gains as weaker competitors retrench. Fares should recover as the pent-up appetite for travel is eventually released. On the expense side, the new 737 Max aircraft are delivering the expected fuel efficiencies and industry weakness is a positive for staff and airport costs.

Adidas tweaked down full year net income guidance to the bottom of the €1.4-1.5bn range as supply chain issues in Vietnam and demand weakness in China weighed on Q3 results. The capacity loss is expected to hit sales by €1bn across Q4 2021 and Q1 2022 with no significant impact thereafter. Adidas, along with a number of Western brands, began to suffer sales weakness in China in the first half of 2021 after historic statements from a fashion industry sustainability group about boycotting cotton sourced from Xinjiang came to light amid concerns expressed about the treatment of Uighur Muslims in the region. Adidas saw no material recovery in Chinese demand in Q3 as local athletes and celebrities remained reluctant to co-operate with the affected brands as they had in the past. Local competitors such as Anta and Li Ning have benefited. We are hopeful that this will resolve itself over time. Adidas is well placed to benefit from the shift to Direct to Consumer to drive margin expansion while also reinvesting to further reinforce its strong market position and drive strong top line growth as athleisure trends remain firmly in place. We recently added to our position on weakness.

2021 Review

As highlighted at the outset, the Setanta EAFE Equity Fund rose 11.5% in 2021, outperforming its benchmark by 120bps (in CAD-terms). Leading contributors to the fund's performance in 2021 included Bank Leumi, GEA, Diageo and Alcon. The first two are addressed in the preceding section. Diageo has capitalised on structural tailwinds including premiumisation and spirits taking share from beer and wine. Management has successfully shifted the portfolio into faster growth categories and higher price points over the last 5 years. With tequila brands like Don Julio and Casamigos, they have shown an ability to rapidly grow acquired businesses under their stewardship. The company continues to eke out cost efficiencies that are re-invested in brand building and marketing to drive further top line growth. Alcon delivered well on commercial execution and new product launches across both its Surgical Products and Vison Care divisions in 2021. Having emerged from a difficult period under the ownership of Novartis, results during the year provided ongoing evidence that management have done a good job of rebuilding the pipeline and improving marketing and customer relationships. End demand will remain healthy as many eye diseases are age related and treatment rates should improve over time in emerging markets.

The largest detractors from performance in 2021 included Alfresa, Lancashire, Samsung and Adidas. Alfresa and Adidas were discussed in the Q4 segment. Specialty insurer Lancashire has suffered as industry losses have been well above normal in four of the last five years amid floods, winter storms, wildfires and hurricanes. Global warming is front and centre in the debate over whether insurance pricing is adequate, even after substantial price increases since 2019. Are weather-related events more frequent and more powerful? Or is it simply a case of bad luck, a clustering of losses that has happened plenty of times in the past? Lancashire is diversifying away from natural catastrophe losses into less capital-intensive lines of business. We see potential for a large uplift in profits if industry losses normalise. Management will need to deliver following what is likely to be another loss year in 2021.

Samsung Electronic's weakness appears to have been primarily driven by concerns around a downturn in its semiconductor memory businesses. The shares do not look expensive at current levels. The structure of the memory market has changed dramatically over the years. It is now much more consolidated which should mean less severe peaks to troughs than in the past. There are also new structural demand drivers including data centre demand, artificial intelligence and internet of things applications. In the foundry business, Samsung appears to be the only viable competitor to Taiwan Semiconductor in the market for sub 10 nanometre nodes. The mobile business continues to be pretty resilient.

During the course of 2021, we added Essilor Luxottica, Taiwan Semiconductor and Astellas Pharma to the portfolio. While we trimmed a number of positions, there was only one full exit which came in the second quarter when Coca Cola Amatil was acquired by Coca Cola European Partners in a cash offer.

Conclusion

As we face into 2022, uncertainty abounds on inflation, the future path of interest rates, monetary and fiscal stimulus and the pandemic. Predicting exactly how this will all play out is a futile task. We believe the portfolio is well positioned with good quality businesses which have the wherewithal to come through whatever the external environment throws up and which we hope can deliver good returns over the long run. We once again would like to thank all of our clients for their continued support.

Conor Walshe, Co-lead Portfolio Manager

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IMPORTANT INFORMATION

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