Setanta EAFE Equity Fund (CAD)
Q3 2022

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.

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

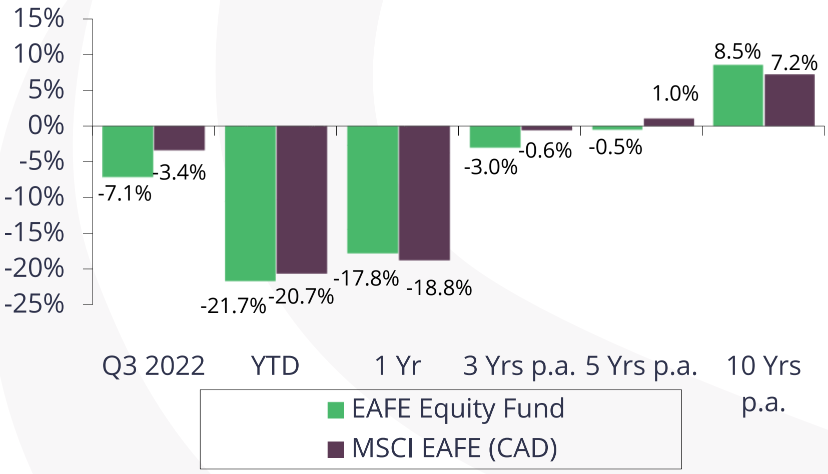
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA
Asset Management

Fund Performance – 30.09.2022 (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] till 09.06.22 and LL EAFE Equity Fund 6.84 [IEC15004] thereafter 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.

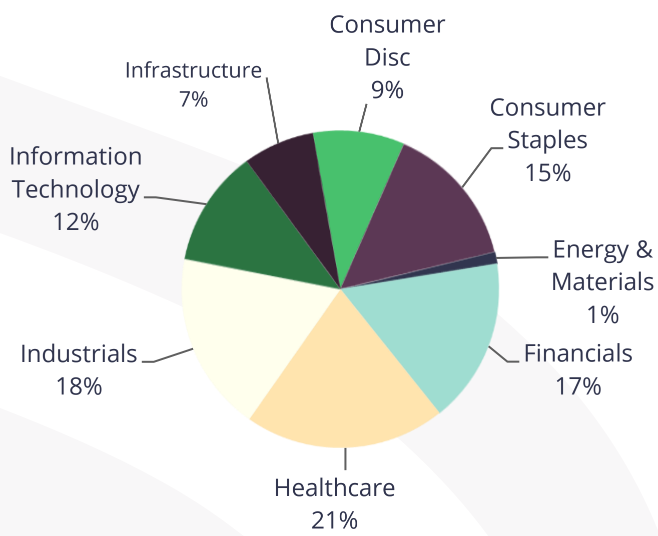
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DIAGEO	CONSUMER STAPLES	4.9%
ALCON	HEALTHCARE	4.8%
DCC	INDUSTRIALS	4.6%
GPE BRUXELLES LAMBERT	FINANCIALS	4.4%
UNILEVER PLC	CONSUMER STAPLES	3.9%
THAI BEVERAGE	CONSUMER STAPLES	3.8%
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	3.8%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	3.7%
NOVARTIS	HEALTHCARE	3.5%
GEA GROUP	INDUSTRIALS	3.5%

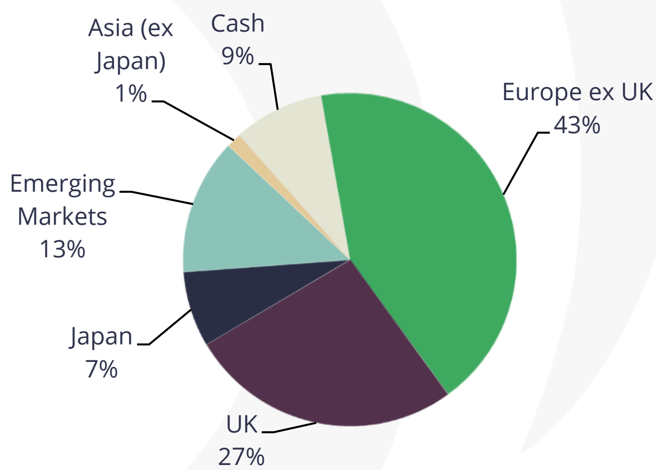
Fund Statistics

PRICE/BOOK	1.4
PRICE/EARNINGS RATIO (FY 1)	11.5
DIVIDEND YIELD %	3.0
AVERAGE MARKET CAP C$BN	73.9
NO. OF HOLDINGS	35
DEBT/EQUITY %	50.7
ACTIVE SHARE %	90.1

Sector Distribution



Geographic Distribution



Fund Commentary

“I can remember previous moments of equal or even greater gravity for the world economy, but I cannot remember moments when there were as many separate aspects and as many crosscurrents as there are right now. Look at what is going on in the world: a very significant inflation issue across much of the world, and certainly much of the developed world; a significant monetary tightening under way; a huge energy shock, especially in the European economy, which is both a real shock, obviously, and an inflation shock; growing concern about Chinese policymaking and Chinese economic performance, and indeed also concern about its intentions towards Taiwan; and then, of course, the ongoing war in Ukraine.”

The quote above from Larry Summers, former US Secretary of the Treasury, captures well the sense of uncertainty pervading the world right now. With such a range of difficulties to cope with, we would not be surprised to see an elevated level of corporate profit warnings in the coming reporting periods. At Setanta, we focus on the long term when investing in quality companies with sensible balance sheets to ensure they have the wherewithal to cope with challenging economic backdrops. We also look for our holdings to have pricing power afforded through some combination of strong market positions, stable industry structures, brands and / or customer switching costs. While the short-term underperformance of the fund in the most recent quarter is disappointing, we feel our companies should be able to navigate the economic environment better than most over the long term.

The UK endured some additional volatility when the new Prime Minister, Liz Truss, and Chancellor of the Exchequer, Kwasi Kwarteng, introduced a mini budget with unfunded tax cutting measures which were poorly received by the markets and required intervention in the gilt market by the Bank of England. We admit to being worried about the deterioration in the UK’s long-term governance, competitiveness, and relevance. While we have an overweight position in UK quoted stocks, this overstates the exposure to the domestic UK economy with holdings like Diageo, GlaxoSmithKline, Ferguson, Lancashire, Unilever and Haleon deriving most of their earnings overseas.

Q3 Performance Drivers

In a time of market turmoil, we would ordinarily look to our Healthcare and Consumer Staples holdings as a source of relative stability. Unfortunately, **GSK** (-27% in Stg), **Sanofi** (-19% in €) and **Haleon** (-9% in Stg) were all caught up in litigation concerns revolving around heartburn drug Zantac. In short, for some years now there have been allegations that an ingredient in Zantac is linked to cancer. We have been following this matter for years and believe the scientific basis of the claims to be weak. We continue to believe the financial costs will be manageable and we were surprised to see this issue resurrected in the minds of investors, seemingly on foot of a broker research note that contained no new information. GSK marketed the original prescription only drug in the US and subsequently participated in an OTC (over the counter) joint venture. From 2000 onwards, the exclusive US OTC rights passed through the hands of Pfizer, Boehringer Ingelheim and latterly Sanofi. Haleon is GSK’s consumer health business which was spun off in July this year.

In 2019, an independent lab identified a substance called NDMA in Zantac. Low levels of NDMA are commonly found in food and water. However sustained exposure to NDMA at high levels creates a potential risk of cancer. A few years ago the FDA ran its own tests on Zantac samples and found NDMA at low levels (similar to that in food and water) and decided to take no action. Subsequent tests confirmed that NDMA levels do increase over time, especially if the product is stored at higher temperatures, which might raise the level of NDMA above the acceptable daily limit. As a result, in April 2020 the US FDA requested that Zantac be withdrawn from sale.

GSK and Sanofi had already begun to exit the market prior to this announcement. A number of other global regulatory authorities including the Canadians and Europeans have followed the FDA's lead and the product is no longer sold in the major markets. GSK, Pfizer, Sanofi and Boehringer Ingelheim have all been sued by people alleging their cancers were caused by Zantac. The companies contend that the scientific basis of the plaintiffs' allegations is highly questionable and there have been several independent studies that seem to support the companies' position. The complex ownership history of the US OTC rights, and the likelihood that various (potentially contested) indemnities have been provided as the rights changed hands over the years makes it very difficult to assess who has the most exposure. The market recently priced in enormous pay-outs relating to the litigation (in the region of $40 billion in total, by our estimation). We see the sell off as overdone.

Adidas declined -30% (in €) in the quarter. The company issued a profit warning in July with Chinese market weakness persisting. The ongoing Better Cotton Initiative controversy has seen domestic brands take market share at the expense of western brands like Nike and Adidas. A weaker consumer backdrop, China's zero-Covid policy and supply chains coming back on line after a period of disruption have all contributed to inventory build-ups across the sporting footwear and apparel sector. Higher markdown activity is necessary to clear through elevated and imbalanced inventory levels. CEO Kaspar Rorsted announced his intention to leave his role in 2023 in a mutual agreement with the board. We have added to our position in Adidas on weakness. Ultimately, we believe there is real heritage in the brand built up over decades of investment and that scale is critical in terms of brand building, sponsorship deals and distribution. Healthy living trends should be supportive of growth over the medium term and a shift to digital potentially allows the company to capture more share and margin.

Tencent fell -25% (in HK$) in Q3. There has been a further contraction in the Chinese economy, brought about by a slowing property market and sporadic Covid lockdowns as the authorities continue to pursue a zero covid policy. Tensions between China and Taiwan / US also ratcheted up a level, with China carrying out military exercises within Taiwanese waters. On a more positive note, relations between the US and Chines regulators appeared to improve after agreement was reached allowing the Public Company Accounting Oversight Board (PCAOB) to inspect public accounting firms based in mainland China and Hong Kong. Many Chinese companies are listed in the US and the SEC has previously threatened to de-list Chinese companies from the US if they didn't comply with rules over access. Although Tencent is not directly impacted by this (it is listed in Hong Kong), investor sentiment towards foreign-listed Chinese stocks can be influenced by US-Chinese tensions.

On a more positive note, **Lancashire** was up +23% (in Stg) as it recovered from share price weakness earlier in the year, spurred on by a low valuation and hope that insurance losses from the war in Ukraine will not be as bad as previously feared. **Bank of Ireland** continued its advance climbing +9% (in €) as it reported reassuring half year results and looks to be on a credible path towards a 10%+ Return on Tangible Equity aided by the market exit of Ulster Bank and KBC, the beneficial impact of rising interest rates on net interest margin and the accretive impact of the KBC loan book and Davy Stockbroker acquisitions. **Diageo** was another relative outperformer in the period rising +8% (in Stg). The company reported impressive results for the year to June 2022 with strong top line growth and margin expansion. Management continues to see benefits from premiumisation trends and has not seen any signs of down trading to date. The spirits category held up relatively well through the Global Financial Crisis and looks to be displaying good resilience once again.

Q3 2022 Commentary

Portfolio Activity

We sold out of our position in **Melrose**, a name we have held in the portfolio since 2014. By way of reminder, the company's model is based on acquiring under-performing industrial / manufacturing businesses, improving them, selling at a higher valuation, and returning proceeds to shareholders before starting the process all over again. Management established a strong track record of value creation through a number of transactions since their first in 2005. Their most recent significant deal was the 2018 acquisition of GKN which makes parts for car companies and aircraft manufacturers and had continually missed margin targets in the years preceding Melrose's takeover. While restructuring efforts have proceeded as planned under Melrose's stewardship, the Covid-19 pandemic, supply chain difficulties and macroeconomic concerns have given rise to a weak aerospace and automotive demand backdrop negatively impacting profits. In September, management announced its intention to split the business into two separately listed entities, focused respectively on Aerospace and Automotive, both of which will become acquisition vehicles. They do not wish to sell assets now on the cheap but see this move as facilitating new deals. We were concerned by the change in business model away from returning capital to shareholders and being left with a relatively small, potentially illiquid auto parts stock. Notwithstanding management's track record prior to GKN, we decided to exit the position. Proceeds were reinvested across several holdings in the portfolio.

In July we inherited a small position in **Haleon** as a result of GSK spinning off its consumer health business. The company holds leading positions in Over the Counter, Vitamins, Minerals & Supplements and Therapeutic Oral Health. Their top selling brands including Sensodyne, Voltaren, Centrum, Polident, Advil, and Panadol. These categories offer decent growth prospects. With increased investment in Advertising & Promotion and renewed focus on brand building, management is targeting 4-6% top line growth and moderate margin expansion. Within weeks of the spin, Haleon was hit bit by the Zantac litigation news discussed earlier. We continue to hold the position.

Conclusion

We are facing into a period of significant uncertainty on several fronts. 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 our clients for their continued support.

Conor Walshe,
Co-Lead Portfolio Manager

Contact Details:

Suite S8-17,
Eight Floor,
190 Simcoe Street,
Toronto,
Ontario,
M5T 2W5.

Rocco Vessio, (T) 416-552-5061 , (M) 647-823-4813
E-mail: rocco.vessio@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The EAFE Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the EAFE Equity strategy. The performance shown is the performance of a representative account CLA CA Managed EAFE Portfolio SF035 [IEC11007] till 09.06.22 and LL EAFE Equity Fund 6.84 [IEC15004] thereafter. 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.

Setanta Asset Management Limited ("Setanta") is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland and is relying on the "International Adviser" exemption from registration in Manitoba, Ontario, Quebec, British Columbia and Alberta. This exemption, subject to certain requirements, allows Setanta to provide advisory services to clients in these provinces who are "permitted clients" in accordance with the applicable securities legislation of Manitoba, Ontario, Quebec, British Columbia and Alberta, as applicable. Setanta, who is an investment sub-advisor to a number of Great–West Life Group companies, does not trade on its own account. Units in the Canadian segregated and mutual funds are not offered for sale by Setanta but may be acquired by prospective investors in accordance with regulatory requirements in the particular province through registered dealers including the applicable Great–West Life Group company. This factsheet, which is for information purposes only, does not form part of any contract. This document (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.. Setanta Asset Management Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the "SEC") - CRD# 281781 / SEC# 801–107083.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance.