Setanta Global Equity Fund (CAD)

Q3 2022

Fund Description

The **Global Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Global Equity strategy. The Fund is an actively managed equity portfolio which holds c.80-100 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy by a team of eight global sector specialists, overseen by two lead portfolio managers. The aim is to achieve a sensible level of diversification on a sector and geographic basis. Reflecting this, portfolio sector weights are generally set so as broadly similar to the sector weights in the benchmark. Within each sector, stocks are chosen through bottom-up analysis, based on investment merit. Rather than focusing on the historic level of volatility of an asset, the portfolio managers regard the probability of permanent impairment of capital as the most relevant measure of risk. In doing so, they seek to maximise downside protection by understanding the risks posed by the valuation, financial, and operational characteristics of the asset. The investment objective of the Fund is to outperform the MSCI World index over the long term.

Fund Commentary

Global stock markets were broadly flat (in Euro-terms) during the third quarter, with a rally into mid-August followed by a decline into quarter end as a combination of inflation, energy supply, war, higher interest rates, currency moves, a cautious consumer and slowing economies began to weigh more heavily on investors.

(*Fund Commentary continued on Page 3)*

Portfolio Managers

David Coyne & Sean Kenzie, 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

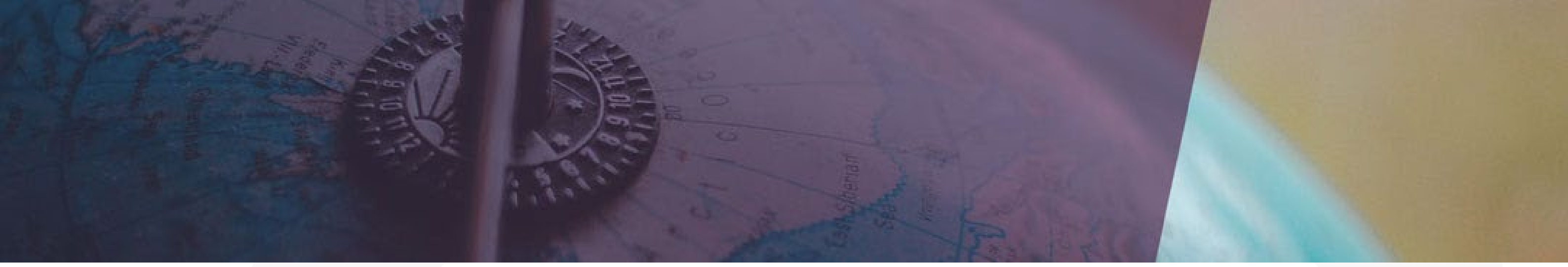
We are not afraid to swim against the tide

We consider scenarios rather than making forecasts

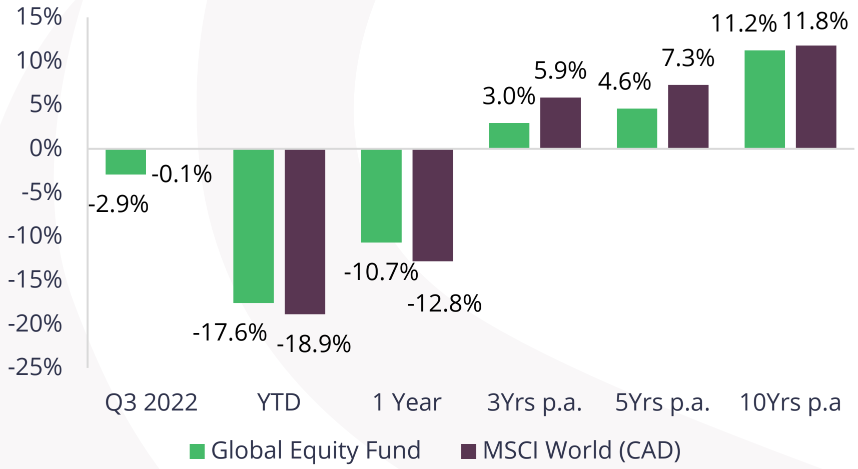
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do



Fund Performance – 30.09.2022 (CAD)



Performance Source: Setanta Asset Management Limited. The Fund returns are based on the movements in the unit prices of the London Life Global Equity Fund (S034) 4.03SAM [IEC15001] 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 World (CAD). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

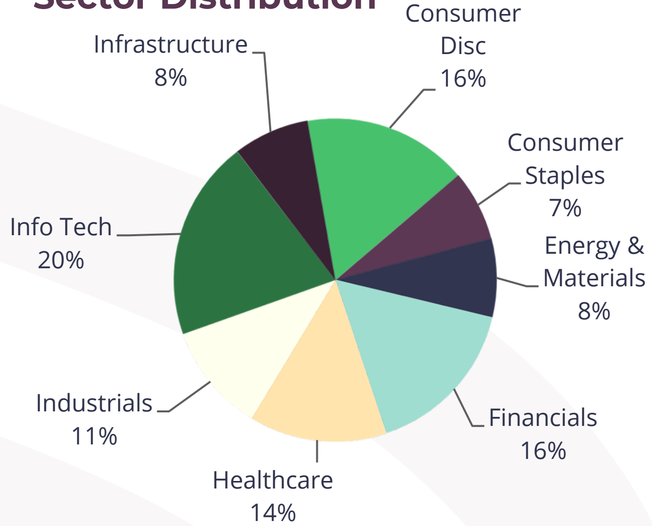
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	4.5%
BERKSHIRE HATHAWAY	FINANCIALS	3.7%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	3.1%
ALPHABET INC	CONSUMER DISCRETIONARY	3.0%
JOHNSON & JOHNSON	HEALTHCARE	2.8%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	2.8%
ORACLE CORP	INFORMATION TECHNOLOGY	2.6%
KEYSIGHT TECH	INFORMATION TECHNOLOGY	2.3%
JOHNSON CONTROLS	INDUSTRIALS	2.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.0%

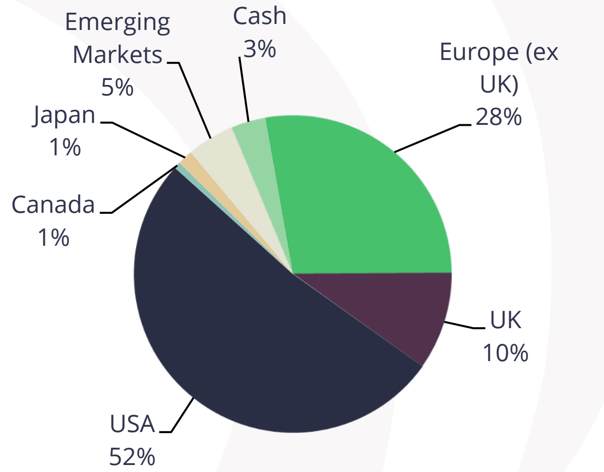
Fund Statistics

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	14.0
DIVIDEND YIELD %	2.1
AVERAGE MARKET CAP C$BN	164.0
NO. OF HOLDINGS	78
ACTIVE SHARE %	83.6
DEBT/EQUITY %	46.9

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund	16.1	2.3	0.1	13.4	38.5	15.3	15.8	9.7	15.8	-0.7	13.8	3.4	22.1
Benchmark	10.4	5.9	-3.2	13.3	35.2	14.4	18.9	3.8	14.4	-0.5	21.2	13.9	20.8

SETANTA Asset Management

With such a range of problems to juggle, many companies will find the operating environment very difficult to navigate and we would not be surprised to see an elevated level of corporate profit warnings in the coming reporting periods. In addition, the soured interest rate and funding environment has the potential to be tricky for indebted companies. We expect that stronger businesses with low financial indebtedness, led by skilled management teams – companies that we like to own – should be able to navigate these troubles better than most.

Fund performance

The fund lagged the benchmark during the period by ~2.9%, a combination of our underweight in US stocks which outperformed the rest of the world by around 5%, as well as stock selection. In many cases market skittishness caused a number of share prices to move sharply up or down on little or no news; we hope to recover unjustified lost ground in coming quarters. Although disappointing to see, we caution against reading too much into performance over a short period of time and we remind you that the fund is still ahead of benchmark year-to-date.

In is worth mentioning that some UK stocks were particularly badly hit, even in cases where they have little domestic exposure, as investors lost confidence in a government whose mini budget plan will see a sharp widening of the country's budget deficit to as high as 8%. We admit to being worried about the deterioration in the UK's long-term governance, competitiveness and relevance. The fund has a 7% exposure to stocks quoted in the UK, against a benchmark weight of 3.5%. However this overstates the fund's exposure to the domestic UK economy, which we believe to be closer to 3% and includes specialist lender Close Brothers, regulated utility infrastructure provider National Grid, supermarket Tesco, 60% of brewer C&C Group, and around 40% each of Irish-listed DCC and Bank of Ireland.

Among the fund's best performers during Q3 were Constellation Energy, Keysight Technologies, Netflix and Lancashire, which jumped by between 22% and 55%.

Constellation Energy was the best performer in Q3 (+46%, US Dollar) and second best in the year-to-end September (+58%, US Dollar). Recall that Constellation was a spin out from US utility company Exelon, with Constellation taking ownership of all the cyclical electricity generation assets and Exelon retaining ownership of the stable, regulated infrastructure assets. High electricity prices are good for Constellation's profits because around 85% of its electricity is generated from nuclear, the cost of which is unaffected by high gas prices. The market had been assuming those windfall profits would be temporary in nature (and hence not especially valuable), but during the quarter US legislators passed the Inflation Reduction Act (IRA). The Act included provisions that will underpin the economics of existing nuclear assets even if there is a return to a low gas price environment, as well as providing a framework for the development of new nuclear facilities. This is a substantial turnaround, as only a few years ago there was a real likelihood of nuclear plant closures. All told this is very good for Constellation – underpinning the economics of the existing fleet and giving them a more solid case for growth investment. We did not anticipate the news, but gladly accepted it.

US-based electronic measurement and testing company **Keysight** rallied 14% (US Dollar) in Q3, rebounding from a sell-off in Q1 and Q2. During the quarter Keysight reported another good set of results, showing a continued strong backlog from the ongoing rollout of 5G, from semiconductor testing, as well as for Keysight's newer services in areas such as auto and Internet Of Things (IOT).

Keysight is going from strength to strength. In particular, newer applications could meaningfully add to growth in the coming years and help reduce the cyclicality of the company's profits. We think the current valuation is very attractive and hope to see the stock to re-rate higher in time.

Like Keysight, **Lancashire** and **Netflix** also rebounded from previous weakness. Netflix's share price fall in the first half of the year has been well documented, so Q3's +35% rise (US Dollar) was welcome. Lancashire's share price recovered from 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.

The worst performers during the quarter were Melrose, Charter Communications, Tencent, Playtech, Tesco and C&C Group.

Melrose fell 31% (Sterling) and was the fund's largest performance detractor in the review period. By way of background, Melrose's "Buy, Improve, Sell" business model involves buying underperforming engineering or light industrial companies, investing in them for efficiencies and growth, selling out to 3rd parties and returning capital to shareholders, then identifying new opportunities, raising fresh equity capital and repeating the process. In this way, the company has built a strong track record for shareholders since 2003. Melrose's most recent significant purchase was GKN in 2018. GKN was an underperforming UK conglomerate, but it had strong market positions in aerospace and auto components. With restructuring efforts on the GKN businesses now complete, management feels ready to target another acquisition. Alas, with the economic outlook deteriorating, management feels selling assets now would be selling on the cheap.

During September management announced an intention to split the company into two, both of which will become acquisition vehicles in their own right. The market reacted very negatively to this proposal, most fundamentally because it is a change to the business model of returning capital to shareholders in the form of cash – and not via the spin of a relatively small and probably illiquid auto parts company. We are continuing to assess the situation.

Charter Communications fell 35% in the quarter and 53% in the year-to-end September (both US Dollar). Charter provides wired broadband services across the US and we added the stock to the fund in early 2020. Almost immediately COVID gripped the US and the explosion of work-from-home lead to a strong uptick in demand for high speed and reliable broadband. This helped Charter to register an elevated level of new customers and the stock price followed sharply higher (+60% over the next 20 months). Like other COVID beneficiaries, Charter's stock has fallen since economies have reopened. The rate of net new additional customers has slowed, for a few reasons. One, as people have returned to work, a small subset that signed up in the previous 12-24 months have churned away; we believe this factor will soon subside. A second aspect is the growing competition from 5G Fixed wireless operators who are offering a cheaper broadband product and with the current squeeze on consumer incomes this is also likely leading to increased churn. Our research tells us this is less of threat than it appears. For cost, capacity and reliability reasons, wireless spectrum is ill suited to high bandwidth applications and are instead better served by wired connections, of which Charter is the premier provider in the US. Since our initial purchase we believe Charter's intrinsic value has increased, yet its market valuation is lower. We acknowledge the growing competition but believe Charter's infrastructure is technically advantaged over the long-term. We expect the share price to recover when cyclical pressures on customer demand abates.

Tencent fell -25% (HK Dollar) 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 the positive side, tensions between the US and ChinesE regulators eased after agreement was reached allowing the Public Company Accounting Oversight Board (PCAOB) to inspect public accounting firms based in mainland China and Hong Kong.

Commentary

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.

With their large domestic UK economic exposure, **Tesco** and **C&C Group** fell 18-19% (Sterling), as investors fear a double whammy of high energy costs and a spike in mortgage rates will have a marked impact on consumer spending.

Portfolio activity

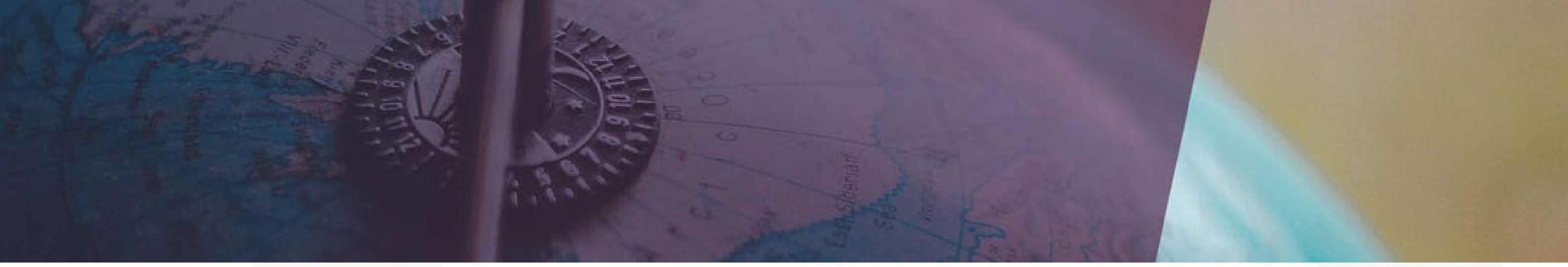
We sold out of Hewlett Packard Enterprises (HPE) and NCR Corp in Q3. These were small positions (combined ~60bps of the fund at end-June).

NCR was first added to the fund in 2010. The company provides transaction management systems including ATMs and point-of-sale scanners. Management had previously communicated a plan to sell part or all of the business to a 3rd party. As a potential deal evaporated, the company announced it will split the business in two, spinning off the slower growing cash cow that comprises the ATM and POS businesses and keeping the faster growing digital services business. The objective is to realise a higher valuation for the two separate businesses but we are generally sceptical such strategies work and so decided to sell the fund's remaining position.

HPE came into the fund in 2015 as a result of our holding in Hewlett Packard. HPE sells PCs, servers and financial services, primarily to corporate customers. The operating environment has become far more challenging for HPE as corporates have shifted from on-prem to off-prem/cloud. While traditional corporate IT departments tended to buy servers from trusted brands like HP, the large cloud providers such as AWS and Azure are willing to buy cheaper, unbranded servers. Management has worked hard to preserve profits against this tough backdrop, but it's not getting any easier for them and we concluded the fund's capital would be better served elsewhere.

No new stocks added to the fund, though we added and trimmed to a few positions as opportunities presented themselves. We topped up **Nike** at the end of the quarter with the stock having fallen 50% year-to-date (US$ terms). While the company is facing near term pressures (a retrenching consumer, excess inventory), we are very confident that the medium- and long-term sales and profit trajectory will be favourable and the valuation is now looking more attractive. This was funded from a small sale of **McDonald's** whose stock had held up much better in the year-to-date (-12%, US$ terms). We also reduced our holding in luxury goods producer **Richemont** (of Cartier fame) – record sales of its jewellery and watches in recent quarters may prove unsustainable – while we added to eyewear manufacturer **Essilor Luxottica** where demand is well underpinned and the valuation is attractive. Elsewhere, in financials we reduced **Bank of Ireland** (+45% year to date, Euro) and asset manager **Federated Hermes** (-15% ytd, US Dollar), and topped up Scandinavian insurer **Tryg** (flat ytd) and financial data and ratings company **S&P Global** (-26% ytd, US Dollar).

David Coyne, Co-Lead Portfolio Manager



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