Setanta EAFE Equity Fund (CAD)

Q1 2023

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

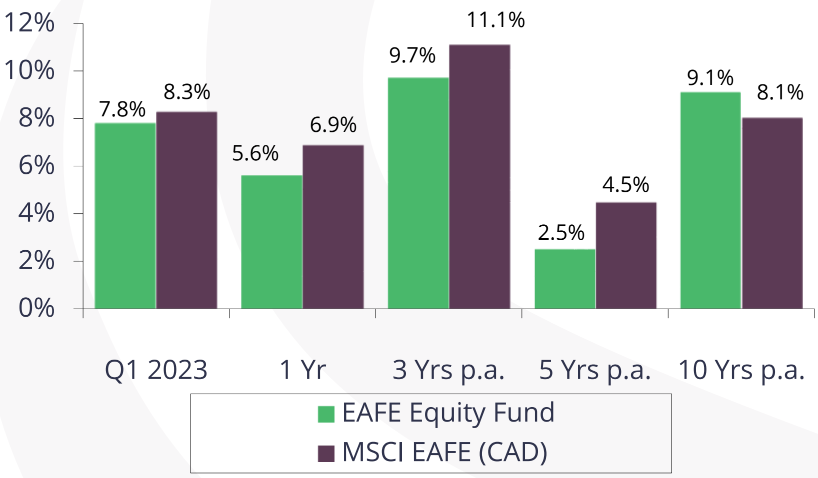
We consider scenarios rather than making forecasts

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

Fund Performance – 31.03.2023 (CAD)



Yearly Performance

Year %	2018	2019	2020	2021	2022
Fund	-2.7	13.1	-1.9	11.5	-9.9
Benchmark	-6.0	15.8	5.9	10.3	-8.2

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.

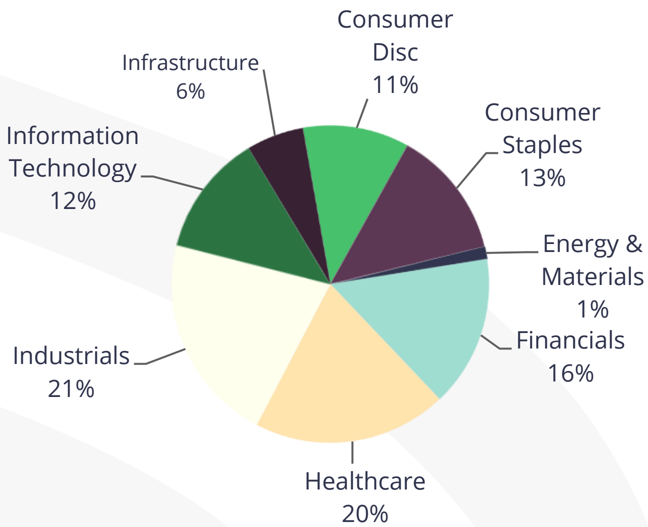
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	5.0%
DIAGEO ORD	CONSUMER STAPLES	4.5%
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	4.4%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	4.2%
RYANAIR DAC	INDUSTRIALS	4.1%
ALCON AG	HEALTHCARE	3.9%
SANOFI	HEALTHCARE	3.8%
THAI BEVERAGE	CONSUMER STAPLES	3.8%
ADIDAS-SALOMON	CONSUMER DISCRETIONARY	3.8%
UNILEVER PLC	CONSUMER STAPLES	3.7%

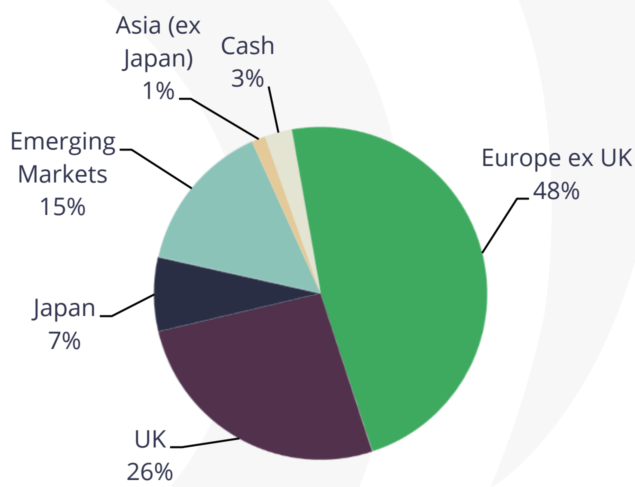
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	14.3
DIVIDEND YIELD %	2.4
AVERAGE MARKET CAP C$BN	91.7
NO. OF HOLDINGS	38
DEBT/EQUITY %	50.7
ACTIVE SHARE %	93.0

Sector Distribution



Geographic Distribution



SETANTA
Asset Management

Fund Commentary

Business through the prism of risk

At Setanta, we have a long-standing belief that managing risk is central to managing our client's capital and it's a fundamental cornerstone in how we analyse companies. We seek to invest our client's capital in companies that we expect will generate a satisfactory required rate of return over the long term, but we also know that this return is not free. There are risks that we overpay, i.e. valuation risk, as well as risks that our analysis is wrong or the investment thesis changes for the worse through our holding period.

We also believe that businesses can be viewed through the prism of risk. The business of business is to undertake an activity (value proposition) which provides a solution for someone (value delivery) while generating a return for the owners of that business (value capture). In finance parlance, value capture equals return. But, to reiterate, returns aren't free, and one way we look to understand the cost of doing business is through the prism of risk.

For every company we invest in we need to understand the specific risks applicable to that company. Broadly speaking, we bucket these risks into:

- Operational risks – short term day to day risks
- Strategic risks – long term business modelling and planning
- People risks – the ability of management to execute over the long- and short-term and the ability of the Board to govern the execution of the corporate strategy

Strong corporate governance and culture are important control mechanisms in mitigating many of the above risks. It's why in Setanta we have always placed significant emphasis on governance. Many companies have a clear and convincing corporate strategy to generate long term returns but if the management team can't walk the walk and execute the strategy it will fall by the wayside and returns won't accrue.

The recent issues which have come to light in the banking sector are great examples of how strategic issues have been compounded by a lack of governance and inadequate risk management frameworks. SVB's Balance Sheet mismanagement and Credit Suisse's seemingly endless list of scandals are representative of inadequate risk management controls and/or poor strategic thinking.

The rhetorical questions we have for the Boards of these 2 companies are:

"do you think you have effective risk management committees of suitably qualified and competent directors? More generally, do you believe there is a culture of effective risk management in the company?"

The following piece from our colleague David Coyne, is a great synopsis of the events that have unfolded in the banking sector over the past several weeks and our biases when it comes to investing in banks.

Global banks in focus

On Thursday 9th of March California-based SVB Financial Group, the holding company of Silicon Valley Bank, said it needed to raise $2bn of equity capital to cover losses in its bond portfolio. The following day it was ordered to shut down. While the record books will mark SVB's death in 2023, its death note was written in 2020 when management decided to buy a large portfolio of fixed, long duration bonds (a yield pick-up on short-term bonds). This was a monumentally bad decision, made possible by a watering down in 2017 of the post-GFC Dodd-Frank Act for banks under $250bn in assets.

Q1 2023 Commentary

Fund Commentary

The consequences of this original mistake took a few years to emerge. The US Federal Reserve raised interest rates in 2022 to combat inflation and SVB's long duration bonds fell in value by 17% or $15bn by year-end 2022, as disclosed in its 10-K annual filing. On a fair value basis, the bank's equity was almost zero, but a well-meaning accounting convention allowed the bank to classify the bonds as Held-To-Maturity and value them at cost – giving SVB the appearance of being well capitalised. And so, investors and depositors largely carried on unaware or unconcerned. There was a wrinkle, however. The vast majority of SVB's depositors were uninsured, so if any liquidity or solvency concerns were to emerge, depositors would run for the exits, which would force the bank to sell HTM assets at prevailing market prices. And the sale of even one of its HTM bonds would lead to a revaluation of the whole $90bn portfolio. You know what happened next: a $211bn asset bank up in smoke!!

Despite government reassurances and interventions, SVB's collapse caused the Banking Fear-O-Meter to spike, leading to deposits being pulled from a host of other regional banks in the US. For much the same reasons, New York's Signature Bank failed a few days later while First Republic Bank (assets $212bn) was teetering on the edge at the time of writing. SVB and Signature – somehow deemed by lawmakers too-small-to-be-fully-regulated – had a whopping $320 billion of assets between them. For context, this is the equivalent of Sweden's leading bank Handlesbanken or – closer to home – Ireland's two large lenders Bank of Ireland and AIB combined. Bigger news was to follow in Europe when confidence drained from Switzerland's Credit Suisse ($580bn in assets) and over a weekend it was frog-marched into a wedding with UBS (a marriage both banks have shunned for decades). Remarkably, the MSCI World Banks Index fell just 5% in Q1 (Euro-terms) as nerves were steadied by Central bank actions, but in our opinion confidence remains brittle and further problems cannot be ruled out.

The case of SVB is particularly interesting because its unrealised losses were disclosed and the casual observer might wonder how so many sophisticated investors could have been caught off guard. The primary problem is that banks are highly levered and their complexity means it can be very hard to see what's going on from the outside. Disclosures about interest rate hedges – which, if in place, could offset bond losses suffered by SVB and others – are generally lacking. And the consequences of asset revaluations are magnified by the leverage. Investing in banks requires discipline, an understanding that there is a higher level of complexity in their business models with operational leverage overlaid with financial leverage.

Our long-held approach to investing in banks is one of extreme caution, an understanding that things can go wrong quickly. However, we don't think it makes sense to rule them out of bounds. They do have unique advantages. They have the privilege of taking in deposits, which can be loaned out at higher rates, and if depositors panic and want their money back in a hurry, banks can depend on Central Bank liquidity support so long as they've behaved competently on the asset side of the balance sheet. The necessary but not sufficient attributes of a good bank investment are stable and rational competition, a (relatively) simple business model, competent management that prioritises its reputation and its balance sheet at all times, and government policies and regulations that try to prevent excesses.

In the Setanta EAFE Equity Fund, we own 3 "national champion" banks – Bank of Ireland, Bank Leumi of Israel and Bangkok Bank of Thailand. They are all conservatively managed banks with market leading positions in their domestic markets. They have relatively simpler business models than larger global franchises, are not empire builders with aggressive plans to expand into other markets and are well capitalised with liquid Balance Sheets. The risk levels associated with these businesses we believe is much lower than it is for larger global peers but the returns profiles are commensurate.

Fund Commentary

Transactions during the quarter

We invested in 2 new positions, Deutsche Boerse and Sonova Holdings during Q1 2023. There were no outright sales with both investments funded by trimming existing positions.

Deutsche Boerse is one of the largest providers of market infrastructure worldwide. Its business spans much more than a traditional stock exchange. As well as owning Xetra; the dominant exchange for German equities and European domiciled ETFs, they also own Eurex; the leading European derivatives franchise, EEX; the largest power trading platform globally, ISS; a leading provider of data solutions for the investment management industry, Investment Fund Services; a fund distribution platform and Clearstream; an International Central Securities Depositor (ICSD). In each business unit they are a market leading provider with a strong regulatory backdrop creating a natural barrier to entry. These business units also require scale to operate effectively and once achieved it serves as another barrier to entry. Scale begets scale and this gives us confidence that Deutsche Boerse's business model is both robust and sustainable and will facilitate continued growth in the future. Revenues have compounded at 8% pa over the past 10 years with cash flow primarily being reallocated into acquisitions in adjacent markets as well as a healthy return to shareholders via dividends. We believe we are being given the opportunity to invest in a high-quality compounder at reasonable valuations.

We have also dipped our toe in the water and acquired a small position in **Sonova Holdings**. Sonova is a market leading provider of hearing aids globally. These products are medical devices that typically require a prescription from a trained medical professional, such as an audiologist. Sonova has a vertically integrated business model, designing, manufacturing and selling their own branded hearing aids as well as selling their products through a large network of independent audiology practices. Sonova benefits from a positive demographic tailwind as well as a significantly under-penetrated market due to the stigma associated with wearing a hearing aid. The stigma associated with wearing a hearing aid has capped the industry's growth potential. We think this stigma could reduce over time, as devices become more aesthetically pleasing, thereby boosting growth potential. One concern is the potential for disruption stemming from cheaper over the counter products in the US. Having looked at similar developments in other markets in the past we think the risk is limited. This gives us confidence in the brand value associated with Sonova products, which in turn should provide a sustainable runway of growth over the coming years. The other partial negative is valuation, which is higher than we would ideally like, hence the small position. We will grow our knowledge base further and ideally would like to increase our holding at lower price levels.

Fergal Sarsfield
Co-manager, Setanta EAFE Equity Fund

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.

SETANTA
Asset Management