Setanta European Equity Fund
Q2 2023

Fund Description

The **European Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the European Equity strategy.

The Fund is an actively managed equity portfolio which holds c.30 stocks which are located in or active in Europe. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the manager seeks to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile.

The Fund is managed by the lead portfolio manager, who also looks to leverage off the experience and knowledge of his colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis.

The investment objective of the Fund is to outperform the MSCI Europe index over the long term.

Fund Commentary

European equity markets (MSCI Europe Index) returned 11.1% in H1. The European equity fund was around 100bps behind the benchmark returning 10.1%. The strength in markets is somewhat surprising given the economic backdrop with central banks raising rates around the world to combat stubbornly high inflation rates.

(Fund Commentary continued on Page 3)

Portfolio Manager
David Byrne, 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

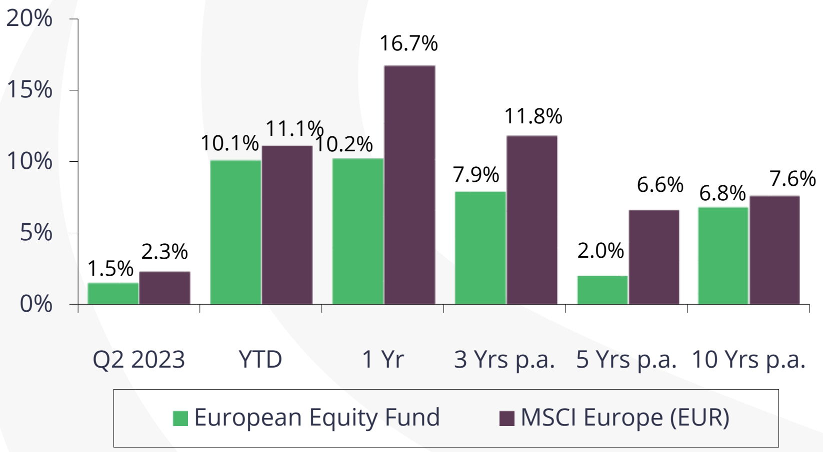
We consider scenarios rather than making forecasts

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 – 30.06.2023 (EUR)



Yearly Performance

Year %	2018	2019	2020	2021	2022
Fund	-7.3	21.5	-14.0	23.5	-12.8
Benchmark	-10.6	26.0	-3.3	25.1	-9.5

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI European Equity Fund [IEC7002] 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 Europe (EUR). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

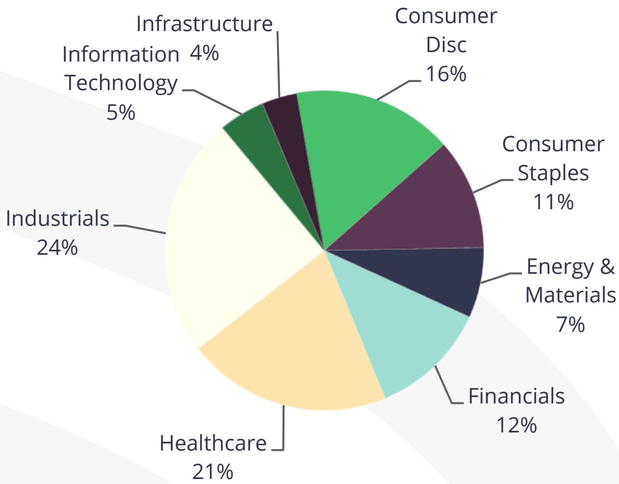
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CRH	INDUSTRIALS	8.3%
NOVARTIS	HEALTH CARE	5.5%
SANOFI	HEALTH CARE	5.2%
DCC	INDUSTRIALS	5.1%
DIAGEO	CONSUMER STAPLES	4.9%
GEA GROUP	INDUSTRIALS	4.5%
BOOKING HLDGS	CONSUMER DISCRETIONARY	4.3%
GSK PLC	HEALTH CARE	3.7%
ALCON AG	HEALTH CARE	3.7%
BANK OF IRELAND	FINANCIALS	3.6%

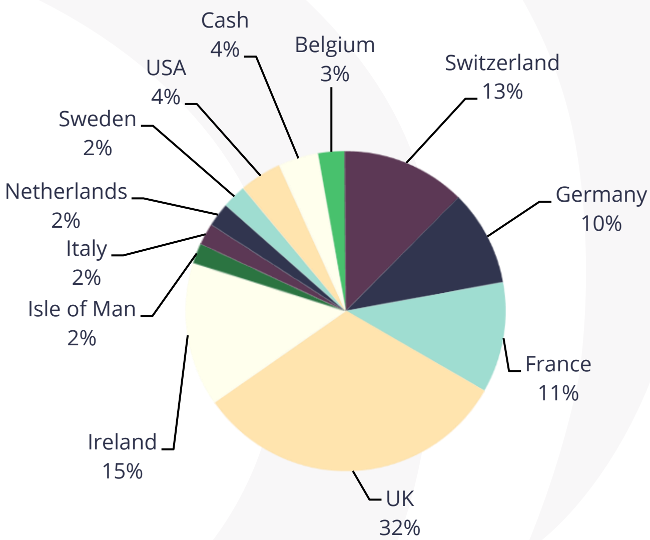
Fund Statistics

PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	15.2
DIVIDEND YIELD %	2.2
AVERAGE MARKET CAP €BN	43.4
NO. OF HOLDINGS	31
ACTIVE SHARE RATIO %	88.0
DEBT/EQUITY %	63.4

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

European Technology and Consumer Discretionary sectors posted the highest returns in H1, helped by large index weights in ASML, LVMH and Hermes. The European Energy and real estate sectors posted negative returns. Consumer staples have been conspicuous in that they have lagged discretionary by a wide margin. The persistence in strength in luxury demand has been surprising indeed, with one broker suggesting that luxury is now seen as a defensive alongside consumer staples and utilities. If the spread in performance between staples and discretionary persists we could see some interesting opportunities present themselves in H2.

Portfolio activity

Proximus is the leading telecommunications company in Belgium. The regulatory backdrop across the continent has been consistently unsupportive of these businesses, despite political rhetoric around the need for investments in communication technologies. We are concerned that the company faces a prolonged period of investment and we don't have the confidence that it will be allowed to earn commensurately. Reflecting these concerns the position was small for some time, but we felt it was time to close the book on the investment in Proximus.

In a similar vein to Proximus we held on to *Vodafone* for far too long hoping that the competitive environment would change as the telecommunication industry consolidated. Although we are seeing consolidation in many markets across Europe, a still favourable regulatory regime for competitors makes it easy for new entrants to impact industry pricing. Put simply, European telcos haven't been able to raise prices enough to fund new investment and offer an attractive return to equity investors. There's a good chance that this situation will continue to exist for the medium term and despite being lowly rated (in P/E terms), telcos are financially and operating leveraged making the outlook for forward returns very difficult to predict.

We acquired a 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.

David Byrne, CFA, Portfolio Manager

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