Setanta EAFE Equity Strategy (USD)
Q2 2023

Strategy Description

The **EAFE Equity Strategy** ('the Strategy') is managed by Setanta Asset Management Limited ("Setanta"). The Strategy is available to US Investors on a separate account basis.

The Strategy is an actively managed equity portfolio, with a long-term investment horizon. Our aim is to invest in EAFE (Europe, Asia and Far East) companies that are trading below their intrinsic value. Our investment process seeks to invest in companies that exhibit a combination of low financial risk, low operational risk and low valuation risk.

We believe that if we can invest in companies that possess these characteristics then we can reduce the risk of a permanent loss of capital and enhance our chances of outperforming our benchmark over the long term. The investment objective of the Strategy is to outperform the MSCI EAFE index over the long term.

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

Portfolio Managers

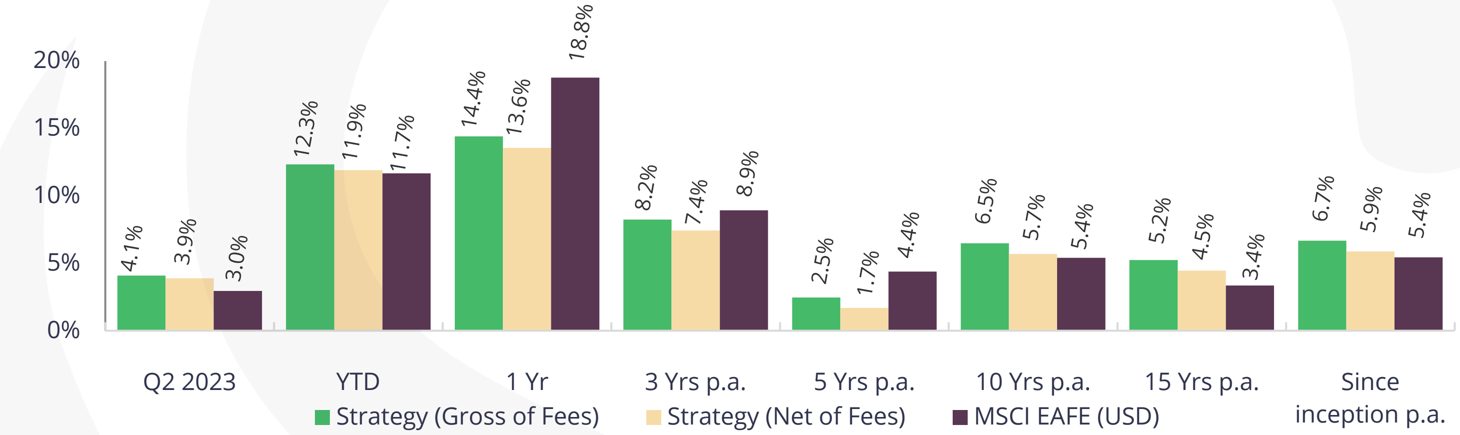
Rowan Smith; Fergal Sarsfield, CFA, Conor Walshe & Tony O'Sullivan, CFA




SETANTA
Asset Management

Performance and Strategy data as at 30th June 2023

Strategy Performance (USD)



Yearly Performance (USD)

	2018	2019	2020	2021	2022
Strategy (Gross of Fees)	-10.7%	19.1%	-0.2%	12.5%	-16.0%
Strategy (Net of Fees)	-11.4%	18.2%	-0.9%	11.6%	-16.6%
MSCI EAFE (USD)	-13.8%	22.0%	7.8%	11.3%	-14.5%

Performance Source: Setanta Asset Management Limited. The returns stated are based on the movements in the unit prices of the lead CAD portfolio of the EAFE Equity Strategy which was CLA CA Managed EAFE Portfolio SF035 [IEC11007] till 09.06.22 and LL EAFE Equity Strategy 6.84 [IEC15004] thereafter, which has been converted to USD at FX rate 0.755715. The gross performance will be reduced by the impact of management fees paid, the amount of which varies. Net of Fees performance is calculated based on an AMC of 0.75%, which is based on a minimum portfolio size of USD25m. Inception date: January 2004. **Benchmark:** MSCI EAFE (USD).

Portfolio Valuation Statistics

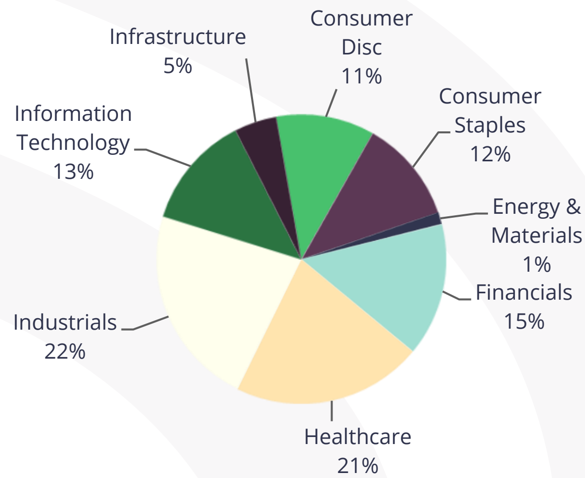
PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	14.7
DIVIDEND YIELD %	2.5
AVERAGE MARKET CAP $BN	68.1
NO. OF HOLDINGS	38
DEBT/EQUITY %	54.5
ACTIVE SHARE %	93.1

Top 10 Holdings

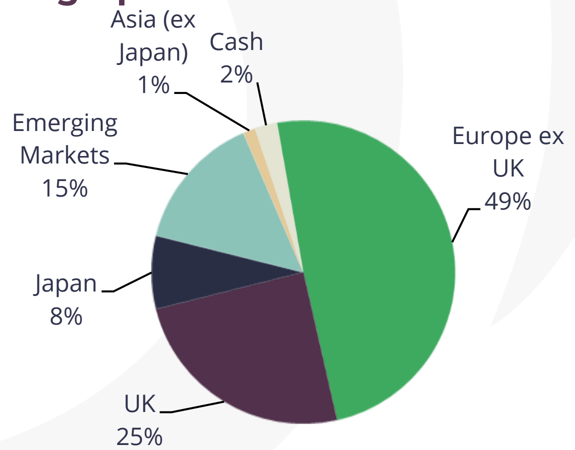
COMPANY	SECTOR	WEIGHT
ALCON AG	HEALTHCARE	5.2%
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	4.9%
RYANAIR DAC	INDUSTRIALS	4.8%
DCC	INDUSTRIALS	4.7%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	4.4%
FERGUSON PLC	INDUSTRIALS	4.2%
ADIDAS-SALOMON	CONSUMER DISCRETIONARY	4.1%
NOVARTIS AG	HEALTHCARE	4.0%
CRH ORD	INDUSTRIALS	3.8%
DIAGEO ORD	CONSUMER STAPLES	3.8%

Holdings Source: Setanta. Sector allocations based on invested portfolio only (excludes cash), of the lead CAD account of the EAFE Equity Strategy. **Portfolio Valuation Statistics Source:** Bloomberg, based on the lead CAD account of the EAFE Equity Strategy, shown in USD.

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Q2 2023 Commentary

Strategy Commentary

Setanta EAFE Strategy Quarterly Report June 2023

The Setanta EAFE Equity Strategy rose **4.1%** in the second quarter, **1.1%** ahead of the benchmark (gross of fees). This leaves the strategy up **12.3%** for the first six months of 2023, **0.6%** of the index (gross of fees). Sector allocation has not had a marked effect on performance in the first half of the year. We are currently overweight the Healthcare, Consumer Staples, Industrials and Technology sectors whilst underweight Materials, Energy and Financials. As ever, this reflects bottom-up stock picking preferences rather than any top-down macro call. The leading contributors to performance in the first six months include Ryanair, Adidas and CRH. Thai Beverage and Bank Leumi have been the biggest detractors.

Low-cost airline Ryanair is benefiting from strong travel demand and rising air fares in the wake of Covid-19 restrictions being lifted. The pandemic also helped to accelerate the demise of some airlines in Europe and drive retrenchment of competitors. The company recently completed a large aircraft order with Boeing which will help deliver growth beyond 2030. We continue to believe that Ryanair boasts a meaningful and sustainable cost advantage over peers. We see a good growth runway at attractive returns on capital through share gains and market growth.

Adidas' share price gains reflect optimism that new CEO Bjorn Gulden can return the company to its former glories after a very difficult period. There are some initial positive signs with improving brand heat around new Samba shoe lines and Chinese celebrities / influencers beginning to re-sign with the company. Ultimately, we feel that Adidas has the brand strength built on decades of investment, marketing resources and distribution capability to restore top line growth and margins to historical levels over the next few years.

CRH is benefiting from a multi-year infrastructure spending programme and onshoring of manufacturing in key strategic industries in the US. While the US residential market is experiencing some weakness, the longer-term prospects should be aided by under-build since the Global Financial Crisis, ageing stock and population growth. A large buyback programme has also underpinned the shares while the transition to a primary listing on the New York Stock Exchange offers potential for a valuation re-rating closer to US peers.

Thai Beverage's share price weakness coincided with disappointing results for the 6 months to March 2023. This was primarily driven by declining beer volumes in their Vietnamese business Sabeco on the back of a weaker economy. Domestic beer and spirit volumes have also been a bit soft. The common theme here is underwhelming economic growth in the South East Asian region, a consequence of China's fairly tepid economic recovery this year. There have also been some concerns about potential for deregulation of the alcohol business in Thailand. While we have been underwhelmed by the company's forays beyond its home market, the domestic Spirits business remains highly resilient and cash generative and the valuation looks undemanding.

By contrast the decline in Bank Leumi's share price has come against the backdrop of impressive reported results. Strong loan growth, a widening net interest margin and a decline in the cost income ratio combined for a very healthy underlying performance in the first quarter of 2023. Political tensions around the government's planned judicial overhaul have weighed on sentiment. We continue to monitor developments but believe that Bank Leumi boasts a strong position in an Israeli bank market which has traditionally been well behaved and well regulated. The shares are back trading below book value.

Strategy Commentary

Artificial Intelligence

It has been difficult to avoid the hype surrounding Artificial Intelligence (AI) in recent times. Bill Gates has said that generative AI is one of the most revolutionary technologies he has ever seen. It took ChatGPT just two months to reach 100 million Monthly Active Users, compared to TikTok which took nine months to reach a similar level or Instagram which took two-and-a-half years. Generative AI is also rapidly capturing the attention of companies who are looking to use it to innovate, to speed up workflows and processes, to collaborate with humans to provide better outcomes and to provide faster and more comprehensive data processing. The most critical stumbling block for investors is that we can't be sure how these models will ultimately work, which makes it extremely difficult to identify the implications of AI applications. The speed at which the technology is adopted is also very unclear, as is the regulatory environment which will govern it.

While we are by no means AI experts, its potential has helped underpin our confidence in structural growth trends supporting our holdings in Samsung Electronics and Taiwan Semiconductor. Samsung should benefit from rising demand for higher value-added memory products such as High Bandwidth Memory (HBM) and Double Data Rate 5 (DDR5) memory. Its foundry business could also be a beneficiary in time. In the case of Taiwan Semiconductor, the fact that AI tasks require large amounts of data processing and complex solutions feeds into demand for specialised chips which require advanced process nodes and thus play to its strengths. We will continue to monitor developments in this fast-changing field with interest.

Improving Corporate Governance in Japan

Our analyst, Tony O'Sullivan, recently returned from a trip to Tokyo, Hong Kong and Singapore where he met a wide range of companies. The Japanese stock market has recently hit a 33-year-high. In part, this has been helped by reforms introduced by the Tokyo Stock Exchange in January 2023, whose aim is to encourage sustainable growth via;

1. Increased management attention to the cost of capital and share price: The 'Prime' index contains 1,832 of the largest listed companies in Japan. As of June 2023, circa 45% are trading on a price-to-book ratio of less than 1 and 49% have a Return on Equity (ROE) of less than 8%. To address this low return profile, the Tokyo Stock Exchange has outlined steps that management teams need to take for their respective companies, including assessing the cost of capital, assessing profitability via metrics such as ROE and Return on Invested Capital (ROIC), and understanding how these financial metrics relate to its company's current market valuation. Management then needs to plan and implement specific initiatives which address suboptimal capital allocation.

2. Encouraging proactive engagement with shareholders and improved quality of corporate governance disclosures. Many companies in Japan are not proactively engaging with shareholders and the disclosures can be limited in terms of the breadth of explanation and detail provided, especially compared with peers listed in Europe and the US. The exchange is trying to encourage a greater level of dialogue with market participants and for companies to provide value added information in their disclosures, rather than perceive it as a 'tick the box' exercise.

3. Enhanced English disclosures: One obvious but important hurdle to international investment in Japan is having adequate English disclosures. For example, there remains some large Japanese companies who do not publish an English translated annual report with an audit opinion. The exchange is aware of this and is encouraging companies to improve the availability of English financial disclosures.

Strategy Commentary

We think these reforms are helpful, and although they are not a legal requirement, they have been taken seriously by market participants. No company wants to be left behind, which has facilitated the announcement of material share buybacks and increases in dividends in the past six months. We have seen this dynamic amongst our own holdings in Japan with Alfresa, Amada, Astellas and KDDI all committing to share buybacks this year.

Portfolio Transactions

We initiated the sale of our holding in UK regulated water company United Utilities at the end of June. We completed the exit shortly after quarter end. Our decision followed reports of financial difficulties at Thames Water which serves 15 million people in and around London. The problems arose due to a highly leveraged balance sheet, exposure to inflation linked debt and rising operating costs. While acknowledging United Utilities' balance sheet is in a relatively healthier condition, the negative headlines around Thames Water prompted concerns about 1) potential sector requirements for equity injections or dividend payment restrictions 2) greater scrutiny of allowed returns given there is already talk of bills going up 40% to address investment requirements and inflation amid public anger over sewage flooding into rivers and leakage rates 3) a potential air pocket as inflation linked debt hurts before being recaptured in water bills 4) upside looks more limited given lower dividend yield appeal in a higher interest rate environment and private equity takeover interest in the sector is likely lower 5) the risk of renationalisation, while unlikely, rises and 6) the leveraged nature of the business. The proceeds were spread across a number of holdings in the strategy.

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