Setanta European Equity Fund
Q3 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

The European equity fund outperformed it's relevant benchmark, MSCI Europe by 2.36% in Q3. A large part of this was due to a sentiment change in large index weightings in the luxury sector and a strong performance from booking holdings (described below). The most notable development during Q3 was the rise in long-term interest 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

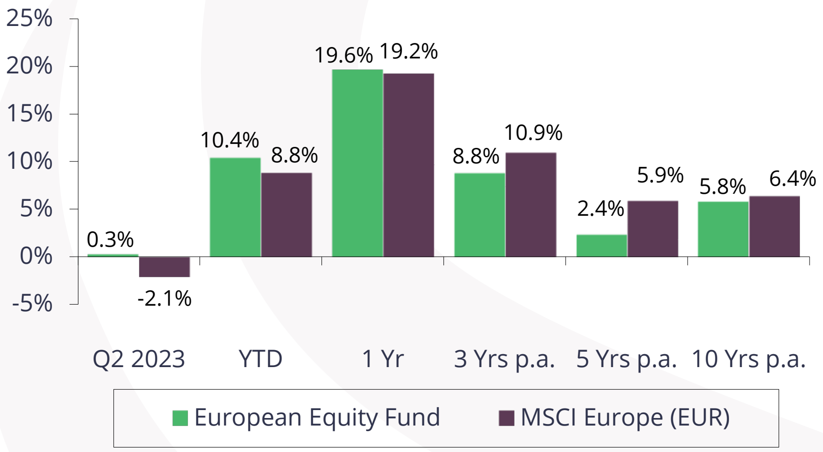
We consider scenarios rather than making forecasts

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 – 30.09.2023 (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.

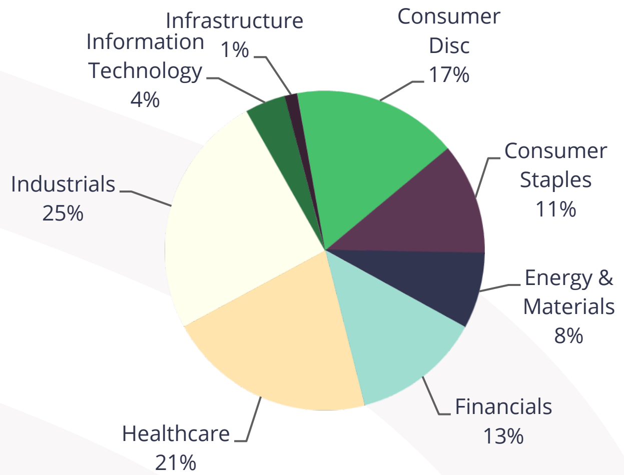
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CRH	INDUSTRIALS	8.7%
NOVARTIS	HEALTH CARE	5.9%
SANOFI	HEALTH CARE	5.4%
DCC	INDUSTRIALS	5.2%
BOOKING HLDGS	CONSUMER DISCRETIONARY	5.1%
DIAGEO	CONSUMER STAPLES	4.4%
GEA GROUP	INDUSTRIALS	4.1%
GSK PLC	HEALTH CARE	3.9%
BANK OF IRELAND	FINANCIALS	3.8%
ALCON AG	HEALTH CARE	3.5%

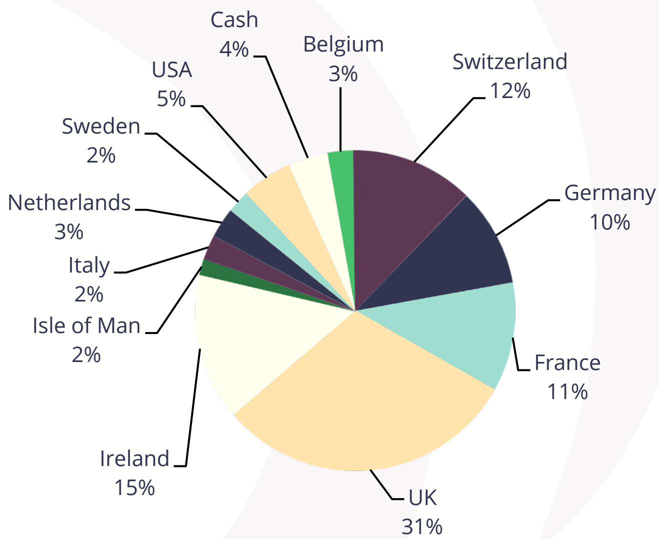
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	14.1
DIVIDEND YIELD %	2.3
AVERAGE MARKET CAP €BN	45.4
NO. OF HOLDINGS	30
ACTIVE SHARE RATIO %	87.5
DEBT/EQUITY %	56.1

Sector Distribution



Geographic Distribution



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Commentary

As I write this, the 10-year US Treasury and 10-year German Government bond yields are 4.8% and 3% respectively, up from 3.5% and 1.9% at the beginning of 2023 and 0.5% and -0.6% at their lows around 2020. These benchmark rates are the lingua franca for investors of all stripes, ultimately determining how global assets are valued. Yields are up because inflation has remained high and investors fear that short term interest rates will remain higher for longer.

One can say that interest rates have simply reverted towards their long-term average. And yet it would be something of a minor miracle if interest rates could rise so far and so quickly and for there not to be some fall out, somewhere. Save for consumers cutting back on some discretionary purchases, to date there are few signs of economic strain. The big drivers – employment, house prices – continue to hold in well for now and financial markets are relatively calm.

The Setanta investment approach has always emphasized balance sheet strength as a protective shield for the equity holder. The current crop of investments in the European equity fund, we think for the most part, exhibit this trait. If we examine the names exposed to the consumer, we can see demonstrable balance sheet strength in adidas, Booking holdings, Swatch, EssilorLuxottica and Heineken. Diageo, a 4.5% position, has some financial debt (2.6X Net debt/EBITDA), but has a portfolio of strong spirits brands with rich heritage and very attractive economics that should be able to service this debt should market conditions deteriorate

Performance review

Booking Holdings, the parent of Booking.com, was strong, as the stock rose 14% in Q3 and over 50% in the year to end September. The company takes a percentage of the spend on hotel room nights booked on its platform and has particular strength in Europe. Consumers are choosing “experiences over things”, which is good for the travel sector. The strong US dollar has also helped, boosting inbound tourism from the US into Europe. Booking expects to make record profits in 2023. We really like the business longer term, but there is a question mark over whether current demand will be sustained into 2024 because we have seen dampened demand across a number of consumer companies, as highlighted by a couple of the fund’s consumer staples holdings below. In light of this we are keeping an eye on Booking’s valuation.

Diageo was down circa 10% during Q3 despite informing the market that they are well positioned to deliver their medium term sales guidance in the range of 5-7%. This was likely due to peer Pernod Richard’s cautious tone when they reported results. Although Pernod and Diageo have different geographic footprints and product categories they could be described as very similar businesses. There has been a general slowdown in the US spirits market where Diageo has a strong market presence (making just over half of their operating income in 2022). We could say there was some irrational exuberance in the spirts (and broad alcohol) category throughout the pandemic and that is “normalizing” somewhat. As happens in the course of business there are ebbs and flows. Diageo’s end markets are in somewhat of a destocking phase but we think the long term outlook for them is positive.

Transactions during the Quarter

The position in **United Utilities** was sold during the quarter. 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.

Commentary

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 increasing by 40% to address investment requirements and inflation amid public anger over sewage flooding into rivers and leakage rates 3) a potential financial “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.

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