

Setanta EAFE Equity Fund (CAD)

Q4 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

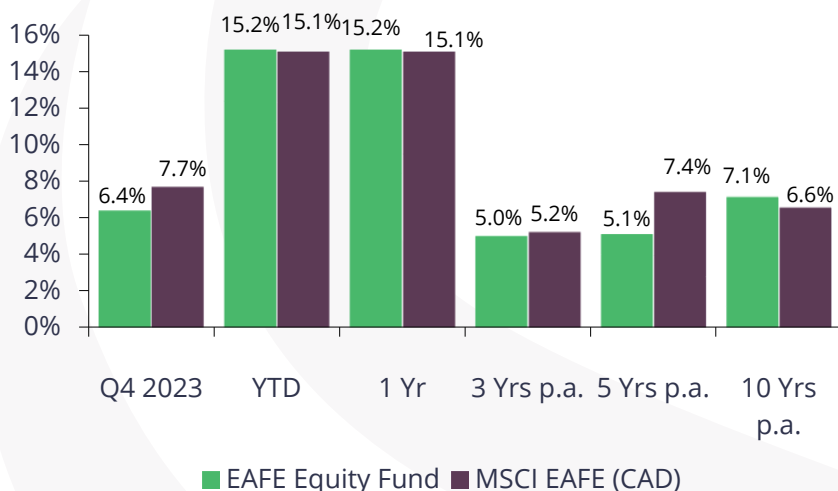
We consider scenarios rather than making forecasts

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 – 31.12.2023 (CAD)



Yearly Performance

Year %	2018	2019	2020	2021	2022	2023
Fund	-2.7	13.1	-1.9	11.5	-9.9	15.2
Benchmark	-6.0	15.8	5.9	10.3	-8.2	15.1

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.

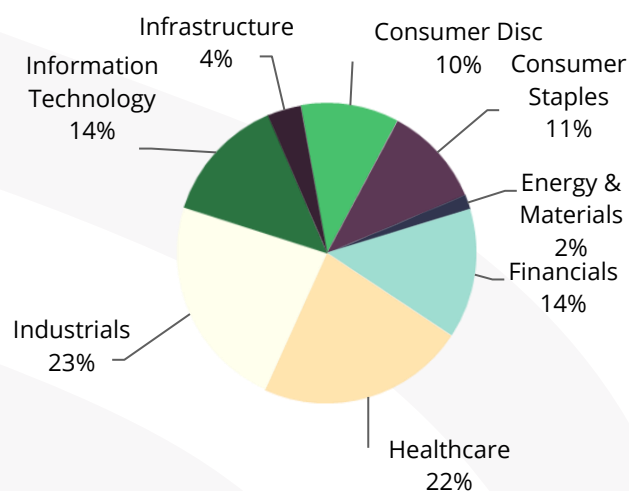
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	6.2%
SAMSUNG	INFORMATION TECHNOLOGY	5.4%
RYANAIR	INDUSTRIALS	5.2%
ALCON	HEALTH CARE	4.8%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	4.6%
FERGUSON	INDUSTRIALS	4.0%
DEUTSCHE BOERSE	FINANCIALS	3.7%
NOVARTIS	HEALTH CARE	3.6%
SANOFI	HEALTH CARE	3.6%
ADIDAS-SALOMO	CONSUMER DISCRETIONARY	3.6%

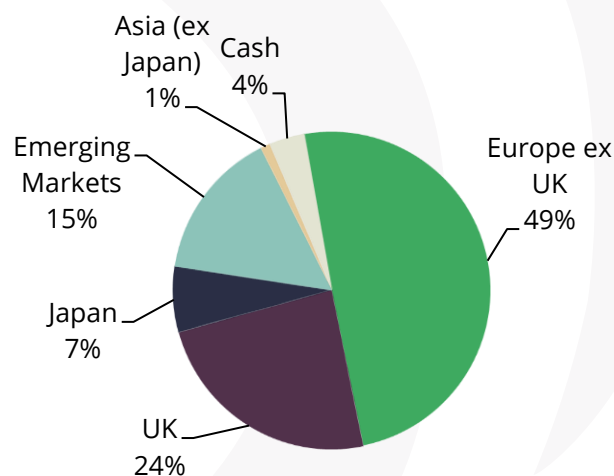
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	18.9
DIVIDEND YIELD %	2.8
AVERAGE MARKET CAP C\$BN	91.7
NO. OF HOLDINGS	36
DEBT/EQUITY %	53.8
ACTIVE SHARE %	92.6

Sector Distribution



Geographic Distribution





Q4 2023 Commentary

Process Accountability versus Outcome Accountability

Traditionally at this time of year fund managers write a review of fund performance over the prior calendar year, highlighting investments that worked and sometimes highlighting investments that detracted from fund performance.

As knowledge workers we are paid to make judgements and decisions and what better way to evaluate these than via fund performance or in other words, outcome accountability? After all, it's the cleanest and most accurate way of evaluating a fund's performance relative to a given benchmark and consequentially the performance of the fund manager. But what this doesn't capture is the role luck plays in determining performance in any given year.

Fund performance = investment philosophy + consistent investment process + luck

Luck is an uncontrollable in the above equation and impacts fund performance primarily over the shorter term. But, with an investment philosophy and process, applied consistently over longer periods, the role luck plays in determining performance can be reduced. So, with this in mind, can it be argued that a better evaluation of fund managers should be based on 1) fund performance over the longer term and 2) process accountability and how we finetune our investment process to increasingly tilt the odds of success in our favour?

Essentially, instead of evaluating fund managers based on outcome accountability, fund managers should be evaluated based on process accountability as well as fund performance over the longer term and therefore removing the element of luck in determining outcomes.

Thankfully, over the long term the Setanta EAFE Equity fund has created value for our clients. The fund has compounded at a rate of 7.1% in Canadian dollars over the past 10 years compared to the MSCI EAFE benchmark compounding at 6.55% and MSCI ACWI Ex US at 6.1%. We believe that the combination of our value-oriented investment philosophy and an investment process which we are constantly seeking to fine tune have enabled us to generate this level of relative outperformance for our clients. While luck is uncontrollable, we can control our investment beliefs and investment process. We are constantly looking to improve upon our process and measure ourselves as much on process accountability as we do outcome accountability.

As fund managers, decision making and the psychology of decision making are critical components of our investment process. Adam Grant is an organisational psychologist and professor at the Wharton School of University of Pennsylvania. He is the author of 5 books, including the New York Times bestseller, Think Again. In it, he puts forward the case for rethinking, the ability and willingness to pivot one's thinking, and views based on new information coming to light. Rethinking is effectively code for learning and learning works best when there is a high level of intellectual humility. To be a good learner means acknowledging what one doesn't know and being curious about what one doesn't know. If one doesn't have a high level of intellectual humility the rethinking process will succumb to an overconfidence cycle where new information doesn't gain the attention it deserves and is dismissed too quickly because one believes they are already in total command of the situation.



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This is something that we strive to avoid. What we embrace and have worked hard to become better at, is to possess higher levels of intellectual humility. So, as we evaluate investment theses, we subject ourselves to a rethinking cycle - taking on board new information, especially new information which goes against our initial thinking, critically evaluating that information and being humble enough to ensure that we take action based on this new information. This all points to being more flexible, adaptable and open minded in how we manage our client's capital and how we make investment decisions.

In evaluating ourselves on process accountability what we are striving to get better at is holding our convictions more lightly rather than holding them tightly. This means that as we undertake the rethinking process on every investment thesis, we are in a better position to act rather than being wedded to a particular view. Effectively, we believe that to make the right decisions we must be willing to change our minds. This is something we feel we are putting into practice more. Deutsche Boerse and Nexon are two good examples of how we are applying the rethinking process.

In Q1 2023 we initiated a new position in Deutsche Boerse, the German provider of financial market infrastructure including Xetra stock exchange, Eurex derivatives franchise, EEX the largest power trading platform globally as well as ISS, the leading provider of corporate governance and responsible investment solutions for the investment management industry. Then in April they announced a large, expensive acquisition of SimCorp which took us into a rethinking process. The market's initial reaction was to mark Deutsche Boerse stock price down by 10% as it was viewed as a large, expensive acquisition with questionable synergies. But with deeper analysis and understanding of the SimCorp business we concluded that the addition of SimCorp to the existing Deutsche Boerse franchises helps position Deutsche Boerse very well for the future. More data and touch points with their existing customer base should ensure stronger franchise value and more sustainable earnings growth over the long term. With this in mind, we took advantage of the short-term correction in the share price and increased our position.

In Q3 2023 we initiated a new position in Nexon Co Ltd, the Japanese listed video gaming company. Nexon is unusual in that it is South Korean domiciled, Japanese listed and run by an American CEO, Owen Mahoney. Over many years it has successfully developed massively multiplayer online role-playing games (MMORPG) and has built a loyal following mainly in China and South Korea. Our investment thesis was based on our belief that the company will continue to develop successful IP across various gaming platforms and the monetisation of this IP would accrue to shareholders over the medium to long term. The corporate strategy led by Owen Mahoney was a differentiator - long-term thinking and building IP that will be monetised for many years rather than looking to maximise profits over the short term. With a cash rich balance sheet and attractive valuation, we felt it was worthy of a position in the portfolio. However, shortly after building a position it was announced that Owen Mahoney was leaving the company. Thus began the rethinking process. Owen Mahoney, we felt was instrumental to the successful strategic execution at Nexon and without him there was a greater risk of mis-execution. Fortunately, the share price reacted positively to the CEO transition but because there was a deviation from our initial thesis and as we held our conviction lightly, we sold out of our position in Nexon in November. Without a willingness to be openminded and holding our convictions lightly it would have been a much more difficult decision to sell something so soon after first buying it.

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Outcome Accountability – 2023 Performance Review

While the above is a discussion about what we are doing to make ourselves better, we know our clients also appreciate some granular details on how we performed with their capital over the course of the year. The Fund increased in value by 15.2% in Canadian dollars over the course of the year. This was marginally better than the MSCI EAFE benchmark which returned 15.1% and a very strong outturn compared to the MSCI ACWI ex US benchmark which returned 12.5% for the year.

The 3 largest contributors to fund performance in 2023 all increased in value by more than 50%. These 3 companies were also the largest contributors to fund performance.

Stock	Absolute Performance	Contribution to Fund Performance
Ryanair Holdings	+74%	+2.5%
DCC PLC	+52%	+2.3%
Ferguson PLC	+51%	+1.7%

The businesses we invest in are durable and are worth 20-plus years of cash flows, the longer-term trend in revenue growth and profitability is what ultimately determines share price performance. In Ryanair, DCC and Ferguson we believe we have high quality compounders with strong market positions in growth areas, quality management teams, conservative balance sheets and attractive valuations. Yes, there will always be bumps in the road and we experienced that in 2022 with DCC but by rethinking and being humble enough to question our convictions, we believe it helps our decision-making process and the decision to retain DCC during a weak 2022 has paid dividends with a strong share price performance in 2023.

Speaking of bumps in the road, the 3 largest detractors to fund performance in 2023 were.

Stock	Absolute Performance	Contribution to Fund Performance
Thai Beverage	-21%	-0.9%
Diageo	-17%	-0.7%
Bank Leumi	-0.8%	-0.5%

We don't believe the investment theses for any of these companies is broken. There have been idiosyncratic issues at play with Diageo and Bank Leumi while Thai Beverage saw somewhat of a reversion to the mean after outperforming by 23% points in 2022.



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Diageo has been a strong relative performer for the fund over the past several years. The company has a stellar product portfolio and is very well positioned in key growth areas of scotch whisky and tequila. Management did a good job of managing the business through Covid and have executed their premiumisation strategy very well. However, demand weakened in 2023 in many of its markets and in Q3 the LATAM region, which had held up quite well, saw a material fall off in demand which surprised management as well as investors. The rethinking process is ongoing, while we continue to like the business we did reduce our position in Diageo during the year to better reflect the nearer term risks to demand.

Like Diageo, Bank Leumi has been a strong relative performer for the fund over the past several years, outperforming the benchmark by 5% points per annum in Canadian dollars over the past 10 years. The Hamas attacks on Israel in early October have led to a severe escalation in fighting and an aversion to risk for companies exposed to the region. Bank Leumi as the second largest bank in Israel has been sold off aggressively as investors adjusted their risk tolerance levels. Our rethinking process resulted in the same conclusion, and we reduced our weight in Bank Leumi shortly after the onset of fighting. We didn't fully liquidate our position as we believe Bank Leumi is a supremely well-run bank with one of the lowest cost/income ratios among banks globally and is attractively valued. Upon any cessation in fighting, we expect Bank Leumi to perform very well but as with any conflict the timing of a resolution is very much uncertain.

We are very grateful to all our investors for your continued support. We firmly believe that our philosophy and process remain fully intact and positions us to achieve our objective of beating the MSCI EAFE and MSCI ACWI ex US benchmarks over the medium to longer term.

Fergal Sarsfield
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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.

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