Setanta European Equity Fund

Q4 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.

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

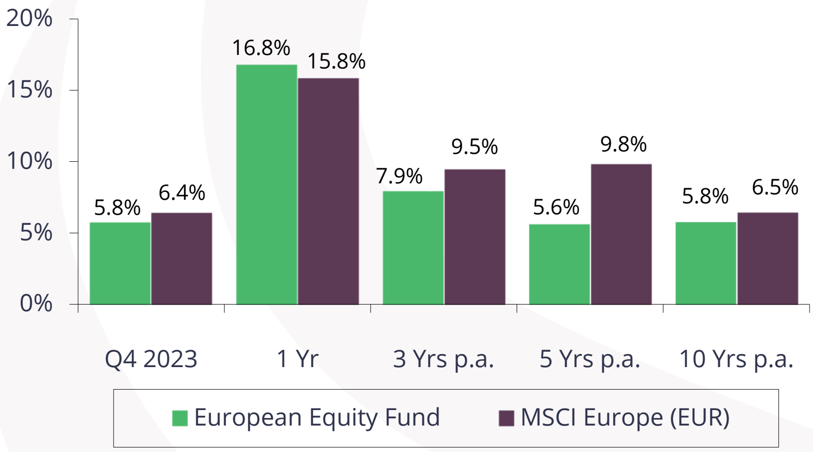
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.2023 (EUR)



Yearly Performance

Year %	2019	2020	2021	2022	2023
Fund	21.5	-14.0	23.5	-12.8	16.8
Benchmark	26.0	-3.3	25.1	-9.5	15.8

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.

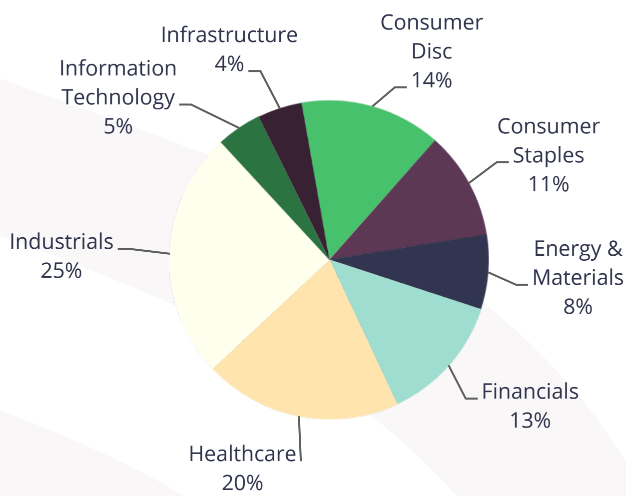
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CRH	INDUSTRIALS	6.9%
DCC	INDUSTRIALS	6.6%
BOOKING HLDGS	CONSUMER DISCRETIONARY	5.7%
NOVARTIS	HEALTH CARE	5.6%
SANOFI	HEALTH CARE	4.8%
GEA GROUP	INDUSTRIALS	4.4%
DIAGEO	CONSUMER STAPLES	4.2%
GSK PLC	HEALTH CARE	3.9%
FERGUSON PLC	INDUSTRIALS	3.7%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	3.7%

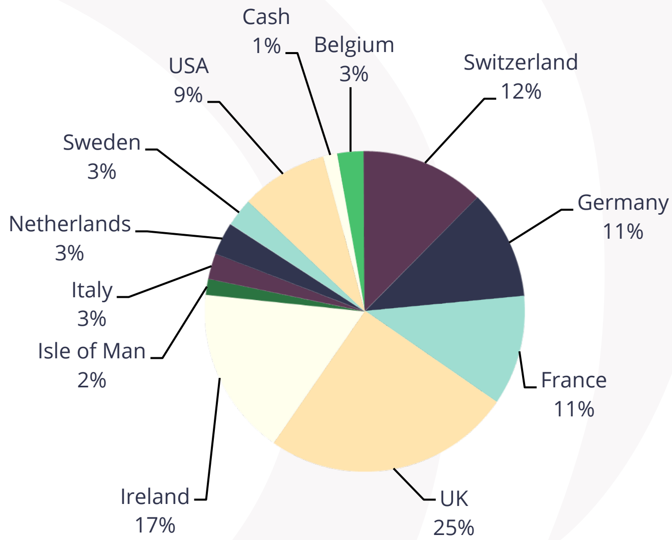
Fund Statistics

PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	14.5
DIVIDEND YIELD %	2.5
AVERAGE MARKET CAP €BN	46.8
NO. OF HOLDINGS	29
ACTIVE SHARE RATIO %	89.5
DEBT/EQUITY %	58.3

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Commentary

The European equity fund outperformed it's relevant benchmark, MSCI Europe by 1.0% for the year 2023. The fund returned 16.8% with the benchmark returning 15.8%. The mood of the market could be characterized as one of elevated animal spirits. The traditional safe haven type sectors underperformed and more cyclical sectors outperformed. The strongest performing sectors were information technology and industrials. Energy, healthcare and consumer staples posted the lowest returns. Economic activity broadly held up, probably better than expected as central banks raised rates in an attempt to tame persistently high inflation. Early indications are that they've won the first battle and inflation is dropping to a more palatable level. For now economic activity hasn't been impacted too much although time will tell if there are any skeletons in the closet. Bond markets are anticipating that the Federal Reserve and ECB will start implementing cuts to interest rates in 2024. At an aggregate level, from what we can see, equity markets seem broadly to be pricing in a stable environment for the next year.

Most of our time is spent on the micro economic analysis of our holdings. We assess the individual business and economic characteristics of each holding and their position within their respective industries. We examine the financial statements; income statement, cash flow and balance sheets to come up with a range of estimates for a range of scenarios for each holding. Combining these 2 elements we think we can come up with forward return estimates for each holding keeping in mind their financial position and the various pathways that an economy/industry can take over the short, medium and long term. The aggregate sum of this analysis, we think, gives us the ability to assess where expectations are at and what the market may be "pricing in". The last 3 years have shown us that in markets, anything really can happen. This recent volatility has arguably thrown up some dislocation in asset prices and is forcing us to consider new opportunities to improve our expected forward returns of our collective holdings. We made some improvements in 2023 and expect to continue and perhaps accelerate activity for 2024.

2023 Performance Review

The following is a list of the largest positive contributors to fund performance in the year:

2023 Top 5 Contributors to Performance	Sector	Contribution, EUR	Performance, EUR
CRH	Materials	2.6%	39%
DCC	Industrials	2.6%	51%
Booking Holdings	Discretionary	2.5%	70%
Ryanair	Industrials	1.4%	72%
Ferguson	Industrials	1.4%	50%

Commentary

Long time holding **CRH** performed very strongly during the year. Increasingly the business has been allocating capital to the United States where economic fundamentals look to be on a better footing than Europe. Over 70% of the business is exposed to infrastructure and residential end markets. The US government is engaging in various investment programs to try and update it's creaking infrastructure underpinning industry demand, which should be a medium to long term tailwind. It's also probable that we've seen a long period of underbuilding in residential which should also bode well for future investment spend in that market.

Booking Holdings (discussed in our Q3 2023 report) capitalized on a buoyant travel market, particularly in Europe it's stronghold. In addition to a favourable demand backdrop they managed to increase share of bookings through their direct channels helping margins. Longer term they are slowly gaining share in the United States and Asia as well as increasing penetration in flights and other activities creating a more sticky travel ecosystem.

DCC started off the year with a low rating and low sentiment around the stock likely related to perceived weakness in healthcare and technology and a more uncertain outlook in the energy division and how it's going to be impacted in the transition to a "greener" future. The group committed to a number of acquisitions in it's energy division, including Progas, an LPG distributor in Germany that looks like a very attractive deal. In addition to solid business performance the market may have reassessed DCC's role in the transition and that it's "legacy" energy assets will have a part to play in the years to come.

In a similar vein to Booking Holdings, **Ryanair** capitalized on the very favourable demand environment for European travel. Pricing and load factors were strong throughout the year. Aircraft supply in the short haul European market struggled to keep up with demand for the last couple of years as COVID waned. Ryanair played offence scooping up new routes as capacity came out as weaker players folded. As always with airlines there is a wrinkle. The Ryanair fleet of aircraft is a "Boeing fleet", so ongoing issues with the new max plane is an unwelcome distraction. The direct impact is low for now but a situation we are monitoring.

Ferguson started off the year with a very low rating for what we thought was a very decent distribution business with potentially multiple tailwinds at it's back including positive market backdrop, pricing, further market share gains and an underlying business with excellent through the cycle returns on capital. Ferguson's primary listing was in the United Kingdom and they changed that to the United States during the year perhaps catching the attention of the investor community. The repair and maintenance and new build market for plumbing fixtures was reasonably resilient throughout 2023, allaying fears high interest and COVID pull forward would severely impact demand. Still, we have concerns a near term air pocket might materialize but the long term picture for Ferguson looks positive.

2023 Bottom 5 Contributors to Performance	Sector	Contribution, EUR	Performance, EUR
Diageo	Staples	-1.00%	-18%
Liberty Global	Communications	-0.55%	-15%
Bank of Ireland	Financials	-0.13%	-5%
Swatch	Discretionary	-0.08%	-6%
Unilever	Staples	-0.06%	-3%

As mentioned in our Q3 report **Diageo's** share price suffered throughout the year as spirits demand in it's major markets "normalized" after a period of outsized growth around the pandemic. In their latest update they also informed the market that they saw a sharp deterioration in volumes in South America.

The management team admitted that they had limited visibility into how much stock there was in the distribution channel in this region. It's probable that sales will be subdued in this region for 2024 and if other areas exhibit similar characteristics (ie too much stock in the channel) this will not bode well for near term earnings. Hopefully whatever near term hiccups they have they can work through. The long term picture for Diageo looks favourable with an attractive category and a portfolio of well-regarded spirts brands by consumers.

Liberty Global have executed a number of transactions over the years with a common theme, "fixed mobile convergence". Essentially this combines fixed broadband networks with mobile networks in an effort to extract cost synergies and reduce churn, a killer in a high fixed cost business. They struggled to add new customers in 2023 impacting cash flow. Whilst the strategy of combining the 2 types of network makes sense, the competitive backdrop for European communications businesses has been brutal for a long time. We've slowly been exiting similar businesses and will consider the fate of Liberty Global over the coming months.

Swatch had satisfactory business performance during the year although it is heavily exposed to China where it's flagship brands Omega and Longines are well positioned. The Chinese consumer had slowed spending in the second half of the year and has not showed the spending confidence that was apparent pre-pandemic. Many years ago, Swatch invested heavily in the Chinese consumer building out a store network (mainly Omega) and wholesale partners for their collection of other brands. It's difficult for Swatch to perform if the Chinese consumer is subdued.

For the last couple of years **Bank of Ireland** benefitted from the ECB's abrupt turn in monetary policy helping net interest margins and net income. Attention likely turned to the possibility and magnitude of a change in course in monetary policy and the likely impact that could have on earnings of banks. In addition Bank of Ireland is likely sitting on excess capital which they could deploy into share buyback or increased dividends. The market is perhaps a little frustrated that there is not a firmer commitment on their capital allocation strategy.

Unilever has struggled on a number of fronts over the last few years. Competition from private label has been a particular thorn in Unilever's side. Retailers across the world, but particularly in Europe, have been offering better and better private label products over the last number of years. Generally, private label products do not have a big advertising budget but instead have a lower price than branded products. As product quality has gotten better in this segment they've gained share putting Unilever in a bit of a bind. Personal care and laundry have historically been better insulated to private label competition but food and snacks have faced tougher competition the last few years.

Transactions during the Quarter

There were no transactions during the quarter. Please see previous commentaries for commentary on buys and sells throughout the year.

As always, Thank you for your continued support.

David Byrne, CFA, Portfolio Manager

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