

Setanta EAFE Equity Fund (CAD)

Q1 2024

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

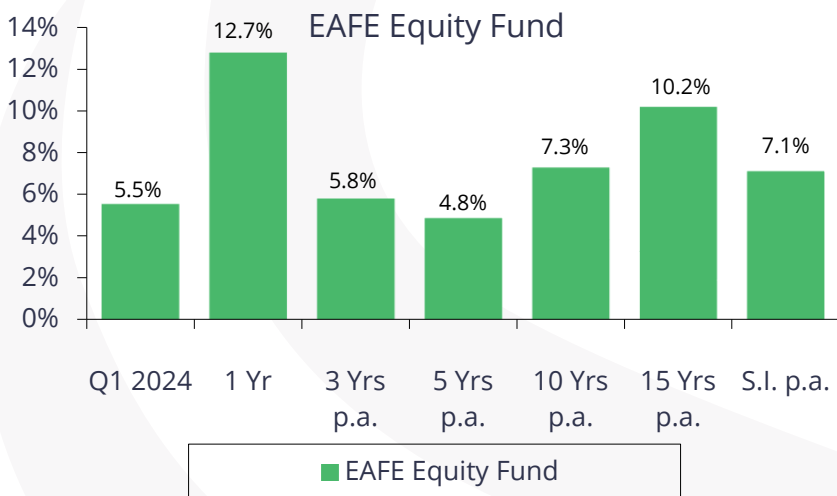
We consider scenarios rather than making forecasts

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 – 31.03.2024 (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. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

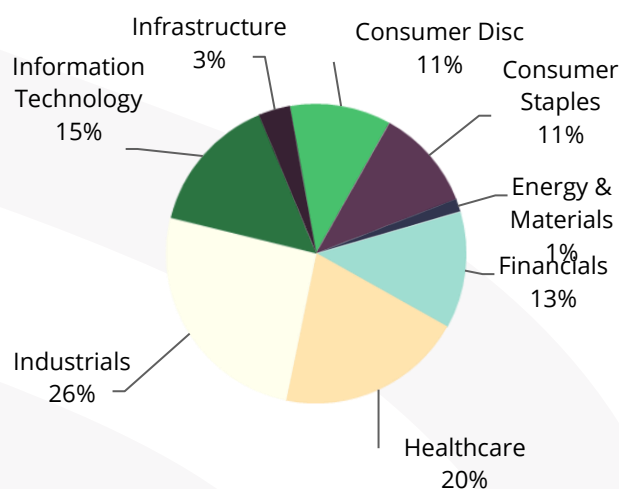
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
SAMSUNG ELECTRONIC	information Technology	6.3%
RYANAIR	Industrials	5.6%
ESSILORLUXOTTICA	Consumer Discretionary	5.1%
DCC ORD	Industrials	5.0%
ALCON AG	Health Care	5.0%
CRH PLC	Industrials	4.3%
ADIDAS	Consumer Discretionary	3.8%
DEUTSCHE BOERSE	Financials	3.6%
SANOFI	Health Care	3.5%
FERGUSON PLC	Industrials	3.4%

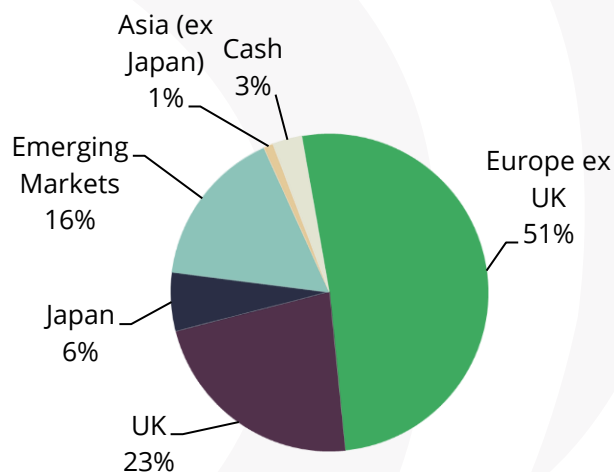
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	14.7
DIVIDEND YIELD %	2.9
AVERAGE MARKET CAP C\$BN	100.7
NO. OF HOLDINGS	39
DEBT/EQUITY %	55.6
ACTIVE SHARE %	92.0

Sector Distribution



Geographic Distribution





Q1 2024 Commentary

Q1 Recap

Equity markets got off to a strong start to 2024 with the MSCI EAFE index up 8.6% in CAD in the first quarter. The Setanta EAFE Equity Fund delivered 5.5% in CAD in the period. Hopes have risen of a soft economic landing in the US with positive repercussions for the rest of the world. According to Baird, high growth and high quality were outperforming factors in Q1 in the US with valuation not a big determinant either way. Our sense is that similar factors were at play in Europe and Asia. We believe that value is more than a number but also look to remain disciplined on the price we pay for stocks.

In addition, we have seen excitement continue to rise around Artificial Intelligence (AI) applications, obesity drugs and corporate governance reform in Japan. In fact, Bloomberg data suggests that three stocks which play on these themes – ASML, Novo Nordisk and Toyota respectively – made up c30% of the MSCI EAFE Index's advance in the first quarter. We do not own any of these names which was a headwind to relative performance. Much has been written about the rise of the Magnificent 7 and the narrowness of the US market's advance in 2023. Bloomberg data suggests that just 36% of stocks outperformed the MSCI EAFE Index in Q1 2024 with that measure dropping to 29% for the Topix Index in Japan.

Looking at each theme in turn, Taiwan Semiconductor is a beneficiary of the rising demand for AI applications and was our strongest performer in the period. We also added to our position in Samsung Electronics. The supply / demand picture is looking much healthier for its semiconductor memory chips. Having initially lagged in the field of High Bandwidth Memory which benefits from AI demand, it appears that Samsung have caught up and will be gaining orders from NVIDIA. Samsung's valuation looks attractive versus long term averages at a time when peers SK Hynix and Micron are trading well above similar measures. While our exposure to the obesity theme is limited, our new holding in Roche (detailed later) does offer a cheap option with a pipeline drug which the market is affording little value to. We are exposed to plays on deterioration in vision (Alcon, Essilor Luxottica) and hearing (Sonova) which we also see as having very healthy long term demand trends. We have previously mentioned that we are encouraged by Tokyo Stock Exchange reforms encouraging management teams to address stock prices below book value and place greater emphasis on shareholder value. We have been spending more time looking at Japanese names and Nabtesco was added to the portfolio during the quarter.

From a performance perspective, positive contributors included Taiwan Semiconductor (positive demand implications from the aforementioned AI theme), CRH (healthy pricing outlook for aggregates and cement), Ryanair (air fares trending higher as travel demand remains healthy and manufacturing issues constrain airplane supply) and Essilor Luxottica (positive North American demand trends and reaffirmed long term margin expansion targets).

Detractors from performance included Alfresa (end market constrained by restrictive government policy on pharmaceutical pricing), Swatch (demand moderation, Swiss Franc strength and frustration with management execution), Ericsson (weak investment spend by mobile network operators) and Sonova (some softness in retail channel and China, new platform launch from competitor and FX headwind).

Portfolio Activity

It was a particularly active quarter for portfolio activity with four new additions (Roche, Nabtesco, Kingspan and Legrand) and two exits (Novartis and Astellas) during the period.



Q1 2024 Commentary

Roche is a Swiss pharmaceutical company focused on biopharmaceuticals and diagnostics. It has had a particular strength in oncology historically while also boasting a good presence in neurology and immunology. Management continues to invest significantly in R&D but market expectations around the pipeline are low. New products due to launch, mainly in oncology and neurology, should help support reasonable earnings growth over the coming years. Roche also has drugs in development in two major categories, Alzheimer's and Obesity, which the market is attributing little value to. We feel these represent cheap options. Operating margins of 25% suggest scope for further efficiencies when compared to peers. The business is generating strong cash flow and currently offers a 4% dividend yield. On balance, we feel that Roche is similarly positioned to Novartis while trading at a valuation discount which prompted our decision to make the switch.

Nabtesco is a Japanese industrial conglomerate focused on motion control technology. The key attraction for us is the market leading position (60% global share) in precision reduction gears which are used in the joints of medium and large payload industrial robots. Japan and China are key end markets with many of the leading robot manufacturers hailing from Japan. The high level of precision required and customer requirement for lengthy continuous working hours are significant barriers to entry. Nabtesco also has other businesses with strong market positions including hydraulic excavator components, railroad vehicle door and brakes systems, flight control actuation systems, automatic doors for buildings and fill / seal packaging machines. Near term demand is weak but we believe we are at a low point in the capex cycle and longer term trends should be more favourable driven by increased factory automation. Valuation multiples look attractive versus history and there is good potential for demand recovery.

Kingspan is a global leader in high performance insulation products with a focus on new build non-residential buildings such as distribution centres, warehouses, data centres and offices. The company has additional offerings in roofing and waterproofing, daylight and ventilation solutions and raised access flooring. It operates in over 70 countries. Improved energy efficiency and decarbonisation required by regulations and building standards supported by government funding provide an attractive demand backdrop over the medium term. Kingspan can benefit from increased penetration of insulation panels over competing forms. Management have proven to be good capital allocators over many years and have grown the company successfully via acquisition. There is a significant runway for further growth, both organic and inorganic, facilitated by a strong balance sheet. The final outcome of the UK government inquiry into the Grenfell fire tragedy of 2017 is expected later this year. While Kingspan's insulation product was used on the building, experts at the inquiry have stated that cladding panels from another manufacturer were the most important contributor to the spread of the fire. While there are near term concerns about softer construction markets, and commercial and industrial new build in Europe in particular, the longer term outlook is positive.

Legrand manufactures low voltage electrical equipment globally and sells through distributors. End markets break down roughly as follows: New Build 55%, Renovation 45%; Residential 40%, Non-Residential 35%, Data Centres 15% and Infrastructure / Industrial 10%. There are varying national product standards for these types of products giving rise to multi-local markets. Legrand is a Number 1 or 2 player across two thirds of its sales. Installers, product specifiers and distributors play key roles in this industry with product quality, reliability and ease of installation prioritised which drives a preference for leading brands. Faster growing segments – energy efficiency, data centres and connected products – are accounting for an increasing percentage of sales. The company has also grown successfully via acquisitions and a long tail of smaller players offers further opportunities facilitated by a healthy balance sheet. This is a resilient business with attractive margins and strong cash flow generation. There are near term concerns about office / commercial and residential end market weakness which has driven a de-rating of the stock but we see the business well positioned over the longer term.



Q1 2024 Commentary

As previously mentioned, the Roche purchase was financed by selling out of our holding in Novartis. Management has done a decent job in disposing of Alcon, Sandoz and its stake in Roche while pursuing a cost efficiency programme and delivering reasonably well on its pipeline. In light of a number of patent expiries later in the decade, we felt that the valuation looks a little stretched by comparison with Roche.

In the case of Astellas, our original investment case was predicated on revenue growth and cost restraint driving material margin expansion. Revenue growth from existing products, especially cancer drug Xtandi, underwhelmed and cost trends have disappointed. Initial sales of menopause drug Fezolinetant have been weak. The company acquired Iveric Bio for \$6bn in the second half of last year. Its ophthalmic drug is performing well but there are questions over the duration of its IP. As the Xtandi patent expiry nears, we grew increasingly concerned about the risk of a future potentially value destructive acquisition.

We also trimmed our positions in GSK, Amada, DCC and Ferguson as well as adding to Samsung and Haleon.

Closing Remarks

We are very grateful to all our investors for your continued support. We continue to be consistent in our philosophy and process and firmly believe this positions us well to deliver good returns over the medium and long term.

Conor Walshe
Co-manager, Setanta EAFE Equity Strategy



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IMPORTANT INFORMATION

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