

Setanta EAFE Equity Strategy (USD)

Q2 2024

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

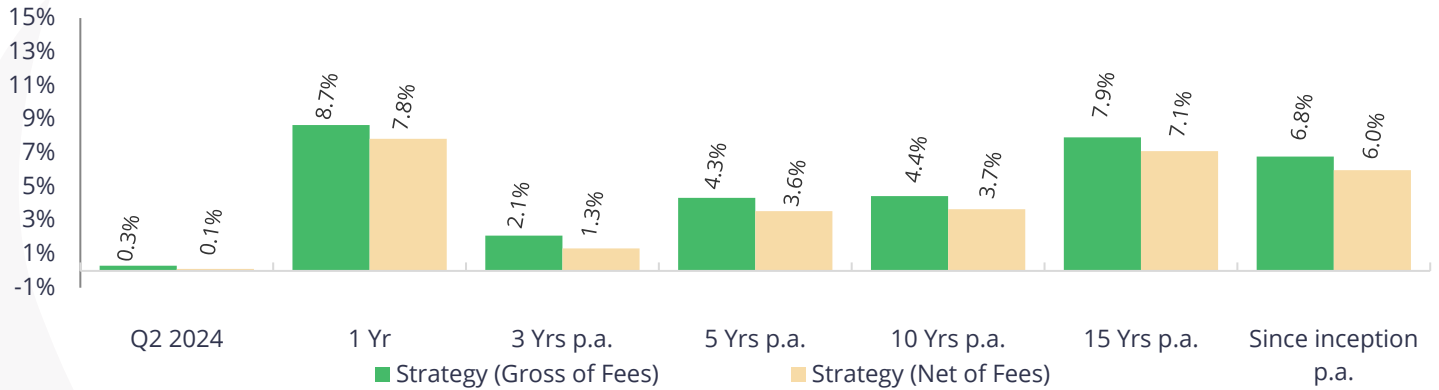
Portfolio Managers

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



Performance and Strategy data as at 30th June 2024

Strategy Performance (USD)



Yearly Performance (USD)

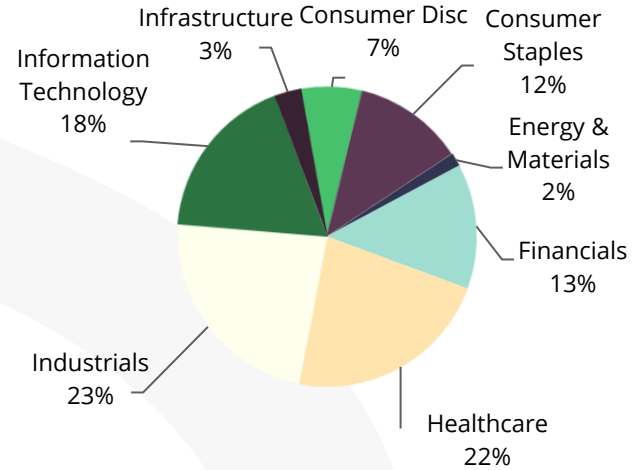
	2019	2020	2021	2022	2023
Strategy (Gross of Fees)	19.1%	-0.2%	12.5%	-16.0%	18.3%
Strategy (Net of Fees)	18.2%	-0.9%	11.6%	-16.6%	17.5%

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 0.7390. 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.

Portfolio Valuation Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	14.7
DIVIDEND YIELD %	2.9
AVERAGE MARKET CAP \$BN	74.3
NO. OF HOLDINGS	36
DEBT/EQUITY %	55.6
ACTIVE SHARE %	93.4

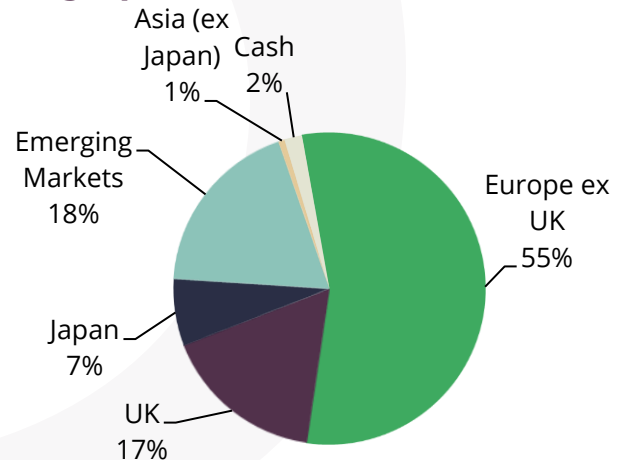
Sector Distribution



Top 10 Holdings

COMPANY	SECTOR	WEIGHT
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	6.3%
DCC	INDUSTRIALS	5.0%
ALCON	HEALTH CARE	4.5%
TAIWAN SEMICON	INFORMATION TECHNOLOGY	4.2%
ESSILORLUXOTTICA 8	CONSUMER DISCRETIONARY	4.0%
RYANAIR	INDUSTRIALS	3.8%
CRH	INDUSTRIALS	3.8%
TENCENT HLDGS	INFORMATION TECHNOLOGY	3.7%
DEUTSCHE BOERSE	FINANCIALS	3.7%
ROCHE HLDGS	HEALTH CARE	3.6%

Geographic Distribution



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.

Q2 2024 Commentary

EAFE Q2 2024 Report

Markets rose modestly in Q2 adding to the gains from the first quarter. The MSCI EAFE benchmark has returned 3.1% (USD gross of fees) in the first six months of the year, while the EAFE Equity fund returned 5.3%.

Local currency returns were higher but were somewhat impaired by recent softness of the Euro, and the more sustained weakness of the Yen. Market returns remain bifurcated with large stocks generally out-performing smaller stocks. This has been a feature of the market in recent years, creating a statistically more challenging backdrop for active managers. For example, we estimate that from 2011 to 2018 the MSCI EAFE index out-performed the median index constituent by about 1% p.a. on average. From 2019 to June 2024, this gap has widened to about 5.2% p.a. As of the end of June 2024, just 35% of MSCI EAFE index constituents are outperforming the index on a year-to-date basis versus 49% from 2011-2018.

Novo Nordisk is the largest stock in the benchmark and has continued to out-perform the market meaningfully as its one of two companies currently dominating the GLP-1 category. We admire the company greatly, but regrettably have never felt the valuation looked appealing enough to invest in the business. This has been an error of omission. In recent years, with each incrementally positive GLP-1 clinical datapoint, the earning potential of the business rose, pulling the stock higher. We reviewed the investment case again late last year and concluded that while the outlook for the business looks very strong, expectations implied in the valuation were equally high and the business is ultimately dependent on a single molecule ("semaglutide", the active ingredient in both Wegovy and Ozempic) which creates a concentration risk. So far, with the stock up close to 50% again in 2024, this judgement looks off. However, its share price in our view is currently incorporating very lofty expectations, with little room for error and we remain concerned about a few potential risk factors. These include:

- potential production problems, given the enormous scaling required to meet the substantial demand
- the health risks associated with bone and muscle loss that accompanies the significant weight loss derived from the drugs' usage
- the potential for higher-than-expected drug discontinuation rates given side effects and the fact that the drugs need to continue to be taken even after weight loss ceases
- valid questions around cost/benefit assessment which could cap insurance coverage
- the potential threat from new competitors in the category in the outer years when the semaglutide patents begin to expire.

We are continuing to monitor these developments closely.

Key stock contributors during Q2

TSM performed very strongly during Q2 as the foundry to the world continues to see robust demand from AI related chips. AI chips, like the Hopper family of chips from Nvidia, are power and compute hungry and therefore require the most advanced production technologies to make them efficient. TSM is the market leading foundry with advanced node production accounting for 66% of revenues. We were initially attracted to TSM as it has scale and technology advantages with increased digitisation (IoT, electric vehicles, 5G, factory automation) acting as a boon for long term demand. More recently the secular theme of AI has made the company even more attractive, serving as an additional growth driver and we believe this will act as a strong tailwind for demand for many years to come.

Chip manufacturing has evolved over the past 20 years, Integrated Device Manufacturers (IDM's) previously designed and manufactured their own chips but with the cost of building an advanced fab close to \$20bn many IDM's pulled back from manufacturing and outsourced to the likes of TSM. This has allowed TSM to focus on its core competency of chip manufacturing while allowing their customers to focus on chip design. The net result is it doesn't matter to TSM who wins the AI race, so long as there's demand for AI chips there is a very high probability that TSM will be the manufacturer of these chips. The foundry of the world will win so long as demand is there!

There is undoubtedly huge momentum and perhaps some froth around companies exposed to AI. According to Bernstein, Nvidia with its share price appreciating 160% YTD is responsible for 94% of the YTD performance of the top 1500 tech companies in the US. While TSM has performed very strongly YTD, +85%, we don't believe valuation is excessive either in absolute or relative terms. With its dominant market position and strong growth outlook we believe with the stock trading on only a 20x P/E based on 2025 EPS that the risk reward is very firmly in our favour. Additionally, from a valuation perspective we take great comfort from the fact that TSM is also trading on a >20% discount to the Philadelphia Semiconductor Index (SOX).



Q2 2024 Commentary

Another of our technology holdings, Tencent, was a strong performer in Q2. Tencent management have looked inwards over the past several quarters, focusing on profitable growth and retrenching from non-core and unprofitable projects. Despite the lacklustre economic backdrop Tencent was still able to post 6% revenue growth in Q1 coupled with a very impressive 38% growth in operating profit as a more streamlined organisation benefitted from operational leverage. The macro issues in China over the past several quarters are well known and understood which makes Tencent's ability to grow revenues at mid to high single digits even more impressive. Despite being more focused on profitability Tencent is still extremely innovative, bringing to market new products which are resonating with users. DNF mobile game was launched recently and is the top grossing game this year, while user time spent on Video Accounts grew >80% in Q1. We must give credit to the management team for continued growth in a tough economic backdrop and are confident that when the Chinese economy does rebound that Tencent will achieve even higher revenue growth which will be rewarded by the market.

Shares in **Alcon** and **EssilorLuxottica** have continued to perform well. Both businesses are beneficiaries of the strong secular demand trends in the eyecare industry and the management team in each of the two businesses continue to execute well. Similarly, shares in **Bank of Ireland** have continued to gain reflecting continued good earnings delivery.

After a strong run, shares in **Ryanair** fell sharply during the quarter. The operating environment has remained buoyant for European airlines since the post-pandemic reopening. Consumer demand has remained robust and yields (fares) have increased, reflecting higher costs but also tight supply. In 2023, Ryanair's group profits reached an all-time high and 2024 is expected to be better again. However, there are some indications that fare increases have moderated recently, and investors have taken fright. This reaction is perhaps not surprising since this is a cyclical industry and near-term earnings estimates might come under pressure. However, we continue to like Ryanair's investment proposition. The company remains the European airline with the lowest cost structure and possesses a flexible fleet that is amongst the most energy efficient in the industry. Industry supply should remain constrained in the coming years, and we expect to see Ryanair's capital expenditure decline, freeing up significant cash flow that can be returned to shareholders. The balance sheet is pristine and the stock is trading on little over ten times earnings.

Shares in **Ferguson** and **CRH** both declined during the second quarter, having performed very strongly over the preceding year or so. Both companies have significant exposure to the US construction industry and recent trends in the residential and commercial construction markets are not particularly encouraging. With interest rates remaining stubbornly high, near term earnings estimates might come under pressure but we continue to find the longer-term prospects attractive. The US seems quite clearly short of housing and the combination of reshoring, infrastructure investment and retrofitting should drive longer term demand for each company's products over the medium term.

Emerging markets stocks have continued to lag their developed market counterparts, in part reflecting currency softness. There are few clearer examples than the ongoing weakness in Thai stocks. Although Thai Beverage PCL is listed in Singapore it is largely dependent on Thai consumer spending and the company's post-pandemic recovery has been held back by a fairly soft recovery in GDP growth, with weakness in inbound tourism not helping. The local political backdrop remains messy with unease between factions of the governing coalition. Foreign investors have been withdrawing funds from the market. As a business, **Thai Beverage PCL** has been performing reasonably well against this backdrop and profits are higher today than pre-pandemic levels despite the difficult backdrop. The company retains its very high market share in both its beer and spirits businesses. The dividend yield is now 5% and the stock is trading on about ten times earnings. At these prices, we see the macro concerns as exaggerated and we have been adding to the position.

Changes to the portfolio

The fund held a small position in Hong Kong property company, **Great Eagle**, for some time. We got this one wrong. The stock started cheap and got cheaper so although the company paid out substantial dividends, this investment didn't work out. In recent times we have become more concerned about the potential longer-term effects on the Hong Kong economy of China's tightening grip on the island's politics. Our confidence that management would take steps to maximize shareholder value against that backdrop was diminished. We sold the small remaining position in the second quarter.



Q2 2024 Commentary

We opened a modest new position in **Coloplast**. Coloplast is a Danish company that is the global market leader in both the Ostomy and Urology chronic care categories. Coloplast supplies ostomy bags to patients across the world who have a stoma (a surgically created hole in the intestines, often related to cancer treatment). Coloplast also supplies intermittent catheters to patients who require assistance in emptying their bladders, often due to severe injury or paralysis. We estimate these two business lines account for over 70% of the company's profits and Coloplast has a global market share of about 40% in each of these categories. These products are consumable in nature producing a reliable profit stream. We have followed the company for well over a decade and in our view, Coloplast is by far the strongest operator in the industry, and we think the company will continue to gain market share in the longer term. This business model is highly profitable and cash generating, enabling a combination of high dividend payouts and strong growth. We funded this investment by trimming both Alcon and EssilorLuxottica, which have performed well.

We opened a small position in **Nestle**. We have been following the company for some time and view recent under-performance of the stock as a good opportunity to start a position with the shares now trading at under twenty times earnings and with a dividend yield of over 3%. Nestle is a global packaged food and drinks company headquartered in Switzerland. It provides products across a range of categories but we particularly like its position in coffee and petcare which account for close to half of the group's global revenues. We also like the company's balanced geographic exposures with almost half of global revenues coming from emerging markets. The company also owns 20% of skin care company L'Oreal.

Consumer stocks were generally soft in the quarter, but **Adidas** bucked the trend and we reduced the position during the period. After a difficult few years, the company is now in the midst of an earnings upgrade cycle with very strong demand for its range of terrace shoes, including Samba, Gazelle and Spezial, helping to increase revenue and profit margins. We continue to believe that the company is in a strategically strong position in the athletic footwear/apparel industry, where longer term demand trends are supported by favourable attitudes towards healthy living and greater female participation in sports. The reduction in the position reflects portfolio risk management after a very strong run up in the shares.

Commensurately, we increased the fund's investment in Legrand. Legrand, headquartered in France, supplies low voltage equipment primarily to the construction industry globally. The company sells into both residential and commercial channels and satisfies a mix of new build and renovation demand. The company has an impressive track record, growing profits and cash flows nicely, while demonstrating resilience in recessions. We believe the company may be able to accelerate growth in the future thanks to two potential drivers; (1) an increase rate of retrofitting of residential and commercial properties to enable greater energy efficiency; (2) data centres account for about 15% of the business and spending here could grow at an above average rate in the future.

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IMPORTANT INFORMATION

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