

# Setanta European Equity Fund (CAD)

Q2 2024

## 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 managers seek 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

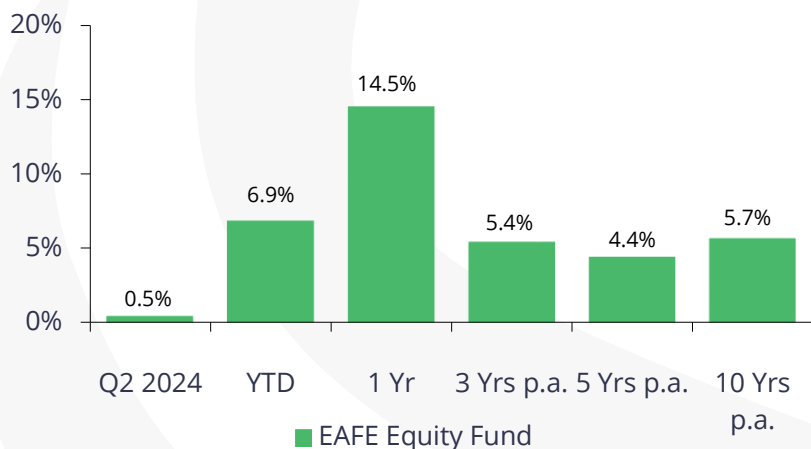
We consider scenarios rather than making forecasts

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

## Fund Performance – 30.06.2024 (CAD)



## Yearly Performance

Year %	2018	2019	2020	2021	2022	2023
Fund	-4.3	13.8	-7.8	14.1	-12.9	17.8

**Performance Source:** Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the CLA European Equity Fund (SF037) [IEC11002] 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.

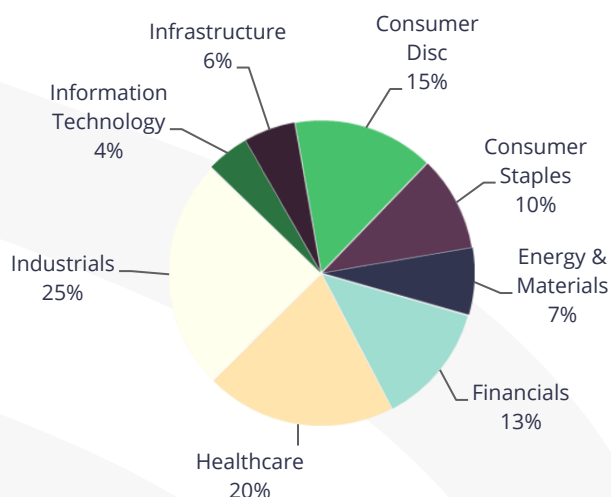
## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CRH	INDUSTRIALS	7.2%
DCC	INDUSTRIALS	6.1%
BOOKING HLDGS	CONSUMER DISCRETIONARY	6.1%
NOVARTIS	HEALTH CARE	5.7%
SANOFI	HEALTH CARE	4.5%
GEA GROUP	INDUSTRIALS	4.3%
GSK PLC	HEALTH CARE	3.9%
BANK OF IRELAND	FINANCIALS	3.8%
ESSILORLUXOTTICA	CONSUMER DISCRETIONARY	3.8%
ALCON	HEALTH CARE	3.8%

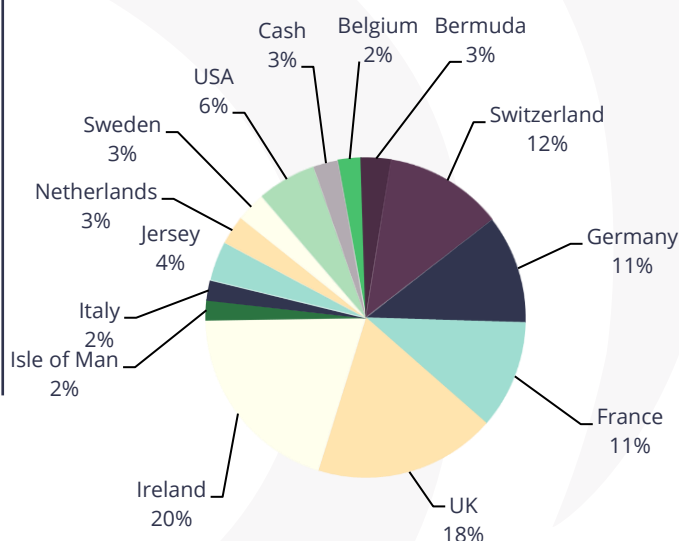
## Fund Statistics

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	15.2
DIVIDEND YIELD %	2.4
AVERAGE MARKET CAP C\$BN	72.0
NO. OF HOLDINGS	29
DEBT/EQUITY %	60.5

## Sector Distribution



## Geographic Distribution



# Q2 2024 Commentary

## European Equity Fund Q2 2024 Report

Markets rose modestly in Q2 adding to gains from the first quarter. The MSCI Europe benchmark has returned +9.8% in Canadian dollar terms in the first half of 2024 while the European equity fund returned 6.9%. In any normal year 6.9% would be regarded as a good return albeit it is disappointing that the fund lags the benchmark. Markets 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. As of the end of June 2024, just 35% of the MSCI Europe index constituents are outperforming the index year to date, compared to 42% from 2013-2018.

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 earnings potential of the business rose, pulling the stock higher. We reviewed the investment thesis 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 concentration risk. So far, with the stock up close to 50% again this year, 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 outer years when the semaglutide patents begin to expire

We continue to monitor these developments closely.

## Key stock contributors in Q2 2024

LSL Property Services has been owned by the fund for over 10 years. They are one of the leading estate agents in the UK and over the years have pivoted their strategy to providing financial services to consumers and using their touch point with homebuyers to add on ancillary financial services. They've also pivoted from owning estate agency branches directly to a franchise model, this has release a lot of capital and reduced the operating leverage of the business to the housing market. with the UK housing market gradually improving and successful execution of their financial services strategy the stock has performed very strongly in 2024. We have used this strength to marginally reduce our position in the stock.



## Q2 2024 Commentary

Ericsson is another company which we've owned for the long term. It was first purchased in 2016 and after initially performing very strongly gave back a lot of those gains as their key US telco customers reduced their capex spend over the past two years. The stock has become very cheap on the back of short term lower growth outlook and with green shoots appearing on the horizon for telco capex spend the share price has begun to experience some positive momentum. Over the past few years Ericsson has also been embroiled in governance and compliance issues due to dubious business practices in 6 countries. Thankfully, these issues have now been cleared up and Ericsson has been given a clean bill of health from the US Department of Justice and the SEC.

On the negative side, we had poor performance from Ryanair, CRH and Ferguson.

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 may 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 a little over 10x earnings.

Shares in CRH and Ferguson 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.

There were no significant transactions in Q2

Once again, we thank our clients for their continue support.



## Contact Details

Suite S8-17,  
Eight Floor,  
190 Simcoe Street,  
Toronto,  
Ontario,  
M5T 2W5.

Rocco Vessio,  
Mobile/Cell: 647-823-4813

E-mail: [rocco.vessio@setanta-asset.com](mailto:rocco.vessio@setanta-asset.com)  
[www.setanta-asset.com](http://www.setanta-asset.com)

## IMPORTANT INFORMATION

\*Source: Stock price and index returns are from Bloomberg.

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