Setanta Global Equity Fund (CAD)
Q3 2024

Fund Description

The **Global Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Global Equity strategy. The Fund is an actively managed equity portfolio which holds c.80-100 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy by a team of eight global sector specialists, overseen by two lead portfolio managers. The aim is to achieve a sensible level of diversification on a sector and geographic basis. Reflecting this, portfolio sector weights are generally set so as broadly similar to the sector weights in the benchmark. Within each sector, stocks are chosen through bottom-up analysis, based on investment merit. Rather than focusing on the historic level of volatility of an asset, the portfolio managers regard the probability of permanent impairment of capital as the most relevant measure of risk. In doing so, they seek to maximise downside protection by understanding the risks posed by the valuation, financial, and operational characteristics of the asset.

Fund Commentary

Global equity markets rose by 2.1% in Q3, while the fund rose by 4.6%. Technology and "momentum" stocks that had done well in the first six months of the year generally underperformed while healthcare and financial services companies outperformed. The shift in focus from a narrow set of companies to a more broad-based performance was also helpful for fund performance.

At quarter end, the fund lagged the benchmark by 4% on a year-to-date basis, of which Nvidia (+145% in the year to September and in which we hold no position) contributed a negative 3.2%.
(Continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie, 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

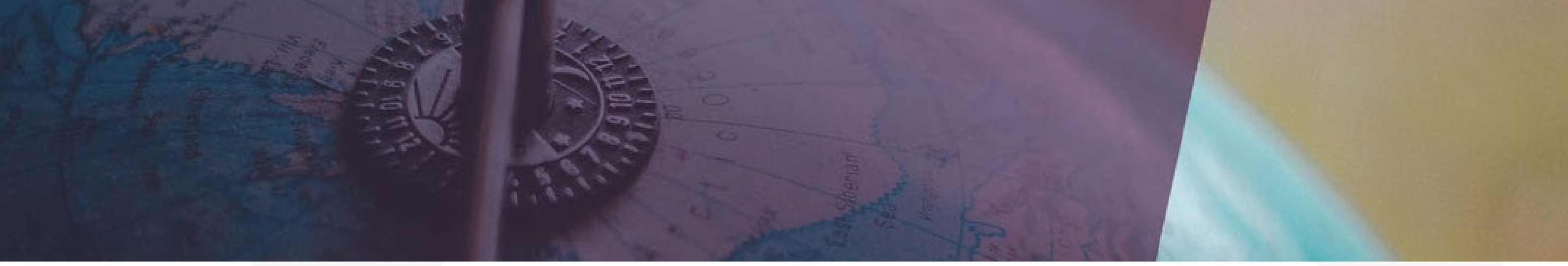
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

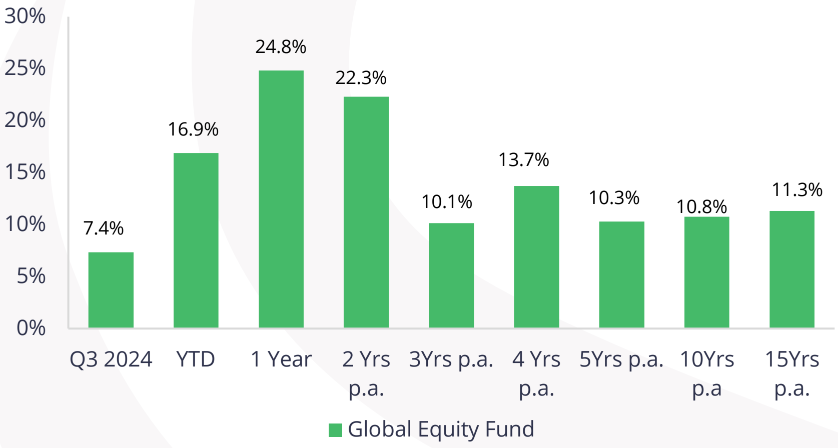
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management



Fund Performance – 30.09.2024 (CAD)



Performance Source: Setanta Asset Management Limited. The Fund returns are based on the movements in the unit prices of the London Life Global Equity Fund (S034) 4.03SAM [IEC15001] 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.

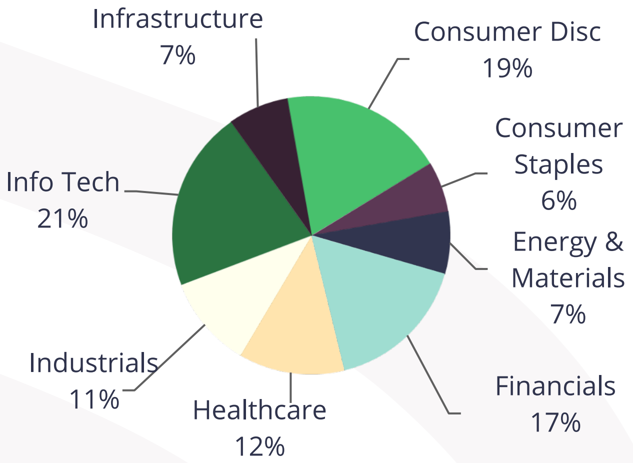
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
ORACLE	INFORMATION TECHNOLOGY	4.7%
MICROSOFT	INFORMATION TECHNOLOGY	4.3%
BERKSHIRE HATHAWAY	FINANCIALS	4.3%
ALPHABET	CONSUMER DISCRETIONARY	3.8%
BOOKING	CONSUMER DISCRETIONARY	3.4%
TAIWAN SEMICON	INFORMATION TECHNOLOGY	2.8%
S&P GLOBAL	FINANCIALS	2.8%
NIKE	CONSUMER DISCRETIONARY	2.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.1%
CRH	INDUSTRIALS	2.1%

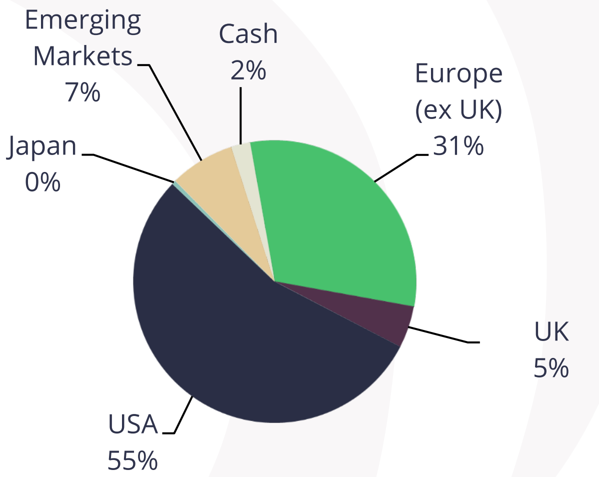
Fund Statistics

PRICE/BOOK	2.8
PRICE/EARNINGS RATIO (FY 1)	17.6
DIVIDEND YIELD %	1.9
AVERAGE MARKET CAP C$BN	290.3
NO. OF HOLDINGS	76
ACTIVE SHARE %	82.2
DEBT/EQUITY %	41.9

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	16.1	2.3	0.1	13.4	38.5	15.3	15.8	9.7	15.8	-0.7	13.8	3.4	22.1	-7.2	13.6

SETANTA Asset Management

Significant portfolio movers and contributors to performance

Oracle (+19%, local currency), **Berkshire** (12%), **CRH** (+16%) and **Playtech** (+65%) were the most significant contributors to fund performance in Q3.

Oracle released results in the quarter that showed continued business momentum, notably in its cloud services business, which is now its largest segment. Oracle also held a financial analyst day in September where management outlined the group's medium-term targets. The highlight was that solid double-digit gains in revenue are achievable over the medium term. Business momentum seems to be building and after announcing a partnership with Amazon, they now offer a secure, scalable cloud offering in partnership with the three major cloud providers (Amazon, Microsoft and Alphabet).

Playtech rose strongly during the quarter following the announcement of the sale of its Italian business, Snaitech, to Flutter Entertainment for €2.3bn. This represents the majority of Playtech's value. The company plans to distribute the proceeds to shareholders in cash when the deal closes in 2025. We took the opportunity to exit our position.

Other notable positive performers were **PayPal** and **Kerry Group** (+33% and +27% respectively). Both stocks are "value" names that have been very out of favour with investors. For PayPal there is growing confidence in the new management team and some early evidence that new initiatives are inflecting revenue and profit expectations. Kerry Group's taste and nutrition volumes are accelerating, setting the scene for mid-single digit revenue growth and margin expansion next year.

Among the largest detractors were **Samsung** (-21%) and **Alphabet** (-10%). Both fell in sympathy with the general technology sector weakness but there were some stock specific factors at play too. Samsung's near-term prospects are less favourable due to weakening demand for memory chips, the business that accounts for the majority of the group's value. The stock has been a very disappointing performer in 2024 and is down 20% since mid-2021, the peak of the last memory cycle. There continues to be surplus memory supply and Samsung to date has been behind the curve in developing HBM3 memory used with gen-AI chips, a very bright spot in an otherwise difficult industry in recent years. This is a cyclical business and Samsung has the balance sheet and the staying power to emerge a long-term winner. The stock is lowly rated and has the potential to earn outsized returns if they can regain some of their lost business momentum.

Weakness in Alphabet could be attributed to a Department of Justice (DOJ) ruling that Google had been engaging in illegal monopoly behaviour in the online search market. Alphabet will likely appeal the findings but it's possible that Google will have to alter their business practices in a meaningful way. This could centre around Google's business relationship with Apple, where it pays large amounts to be the default search provider across Apple devices. While we have not made any changes to Alphabet's position in the fund, we are monitoring developments here.

Other notable underperformers were US refiner **HF Sinclair** and **Cognex** (machine vision systems). HF Sinclair fell 17% in the quarter. After running up in the first quarter of the year, US refining margins trended lower through 2024 as demand slowed and more capacity became available. Cognex's revenue growth is likely to come under pressure due to weakening end markets, but we feel very positive about the company's medium- and long-term potential to automate and improve efficiencies across its manufacturing and warehouse customers.

Q3 2024 Commentary

Portfolio activity

There were 76 stocks in the fund at quarter end, with an average weight of 1.3% and a median weight of 1.1%. At quarter end the top 10 holdings accounted for 33% of the fund. The largest stock was Oracle (4.7%), while 13 stocks were weighted at 0.5% or less. These smaller weights are typically ones we are exiting or have taken an initial position with a view to increasing it in the future. The number of stocks in the fund may slightly reduce over the coming quarters as some smaller weights are sold.

We continue to upgrade the quality and prospects of the fund. During this quarter we bought three new stocks (Meta, L'Oreal and Legrand) which are discussed below, and exited two existing holdings (Playtech and C&C Group). You should consider this an output of our regular research effort, some of which results in portfolio action and some of which helps compile a bench of potential investments in the future. In the three years to September 2024 the fund sold out of 26 positions (and which made up 23% of the fund by weight 3 years ago) and bought 19 new ones (equal to 19% of the fund at Q3:24). We believe this level of turnover strikes a good balance, where existing holdings are given enough time to demonstrate their positive underlying fundamentals while new investment ideas provide healthy competition for capital.

We initiated a position in **Meta**, a business we've followed very closely for several years. Meta's prime assets are what it calls its family of apps, consisting of Facebook, Instagram and WhatsApp. The real crown jewels are Facebook and Instagram that boast billions of users that use the apps daily, primarily through their mobile phones. They have a strong presence all over the world, except for China which has its own native app ecosystem. The apps are essentially a modern-day equivalent of a TV broadcast network but with two added strengths. The first is that it's a global system and secondly users have control over the content that they consume, both of which drive increased consumption of the media. Layered on top of this ecosystem is a very well-oiled advertising function and this is how Meta makes its money. Consumption on the apps (or engagement as they term it) is remarkably stable and has been going up in recent years, which in turn drives advertising revenues. The platforms are a very effective way to reach customers, particularly for businesses that sell physical things like retail, consumer packaged goods and health and beauty products. At the time of purchase the stock was trading on a forward FCF/EV of greater than 4%, with excellent growth prospects. It also has a rock-solid balance sheet, another trait that we find very appealing. The position was funded from a sale of our remaining position in Playtech, following a circa 60% rise in its share price during the quarter.

L'Oreal is the global leader in the cosmetics industry, owner of a diversified portfolio of desirable brands, from premium (e.g. Yves Saint Laurent), mass market (e.g. Garnier), dermatological (e.g. CeraVe) and professional products sold into hair salons (e.g. Redken). L'Oreal earns high teens operating margins and over the past 15 years has grown sales at an organic rate of 5% p.a. There are credible reasons to expect the cosmetics market to continue to outgrow the broader consumer sector and for L'Oreal to outgrow the cosmetics industry. Management is excellent and the organisation focuses on a few key factors that have helped their success: a diversified portfolio approach, scale and R&D capability, acquisitions and a winning culture. On acquisitions, L'Oreal has a successful track record of acquiring niche brands and scaling them up. CeraVe is an excellent example of this. Acquired in 2017 for $1.3bn with revenues of U$168m, CeraVe today has revenues of over $1.5bn and the RoIC has gone from 3% in the year of purchase to >20%.

L'Oreal was purchased for the fund on a P/E of circa 28x, in line with its 10-year average but below where it has been trading at in more recent years. The drivers of this decision were two-fold. One was the near 20% fall in L'Oreal's share price since June (weak Chinese consumer) and the other was the continued rise in the valuation of existing portfolio holding Costco. Retailer Costco is a wonderful company, but at circa 50x P/E today (above its 10-year P/E of 35x) it is no longer deserving of an above-average weight in the fund.

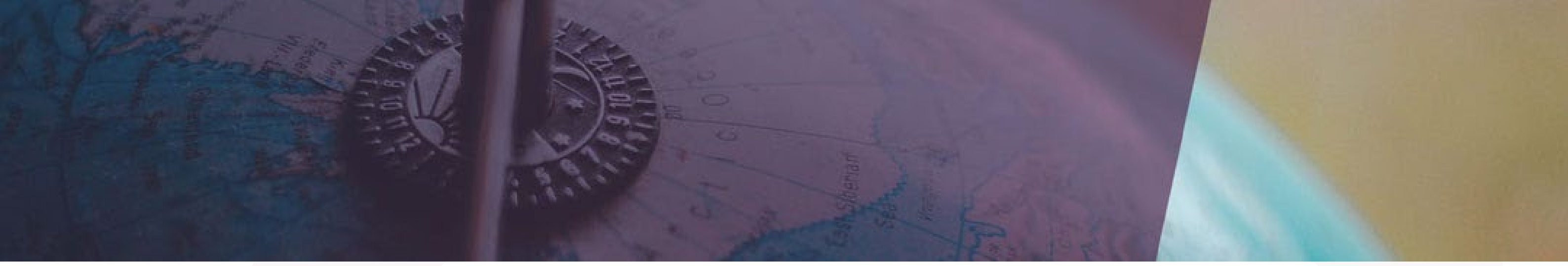
Legrand manufactures and sells low voltage electrical equipment globally. Around 40% of sales is to residential customers, 35% to non-residential, 15% to data centre 10% to industrial / infrastructure customers. Renovation accounts for 45% of sales and the rest is for new build.   Legrand is the number 1 or 2 player for two-thirds of its sales. This is a local business and having strong brands that distributors must stock, and electrical installers like to use, begets pricing power and high, stable operating margins (circa 20% over the last decade or more). Legrand's end markets tend to grow at a low single digit rate, but we are hopeful that demand might tick up in future due to the fast growth in data centres and more renovation works to facilitate meeting decarbonisation targets. Organic performance will likely be enhanced by value-additive acquisitions. Around 50% of earnings are used to buy leading local companies operating in niches or in new territories, which they are typically able buy at attractive valuations.

We have been following Legrand for some years but decided against taking a position due a high valuation. The current low 20s valuation is an attractive entry point, funded by a partial sale of Melrose.

Melrose was first added to the fund in 2014. Its tagline at the time was Buy, Improve, Sell and the business model went as follows: raise capital, buy a poorly managed but fundamentally good company, turn it around and sell at a profit, return the cash to investors, wait for the next opportunity. The formula worked well, and the seasoned management team created a lot of value for investors over several buy, improve, sell cycles.

Fast forward to 2024, the original management team has left (end 2023) and the business model has changed. Following the acquisition of GKN in 2017 and a demerger of the auto parts / powder coatings businesses into Dowlais, Melrose is now an operating company involved in the design and manufacture of aircraft engines for aircraft manufacturers. This is an attractive industry, with good long term growth prospects, a limited number of competitors with high barriers to entry. One of the positive features of this industry is that an engine can have a life of 30 years or more. The downside is that the manufacturer must sink large sums over many years into developing the engine, during which time they receive no revenues. Financial accounts try to smooth out the economics of an engine over its life, arriving at an expected annual profit that over time should equate to the cumulative cash flows. However, this is a complex accounting calculation where small changes in assumptions can lead to a large change in P&L profits. This makes it harder to value the company, a picture that is further complicated by Melrose's ongoing restructuring charges. We concluded it was prudent to reduce the stock's weight in the fund.

David Coyne, Global Equity co-lead portfolio manager



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IMPORTANT INFORMATION

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

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