Setanta EAFE Equity Fund (CAD)
Q4 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, & Tony O'Sullivan

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

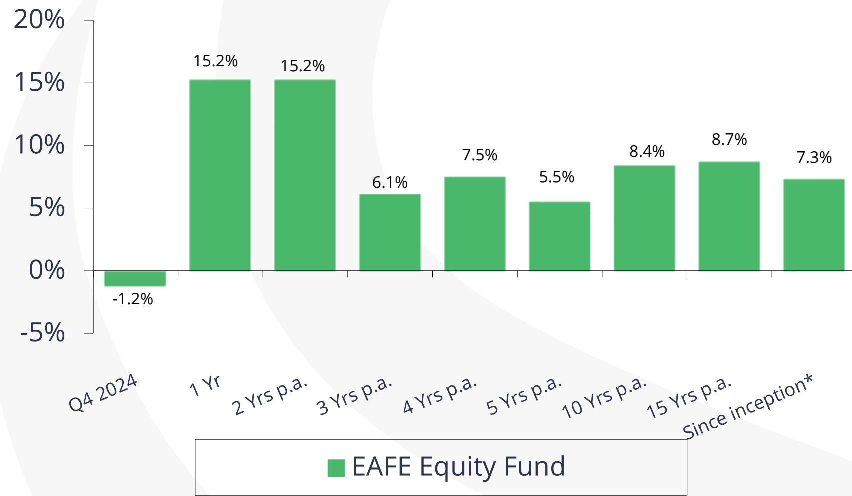
We consider scenarios rather than making forecasts

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 – 31.12.2024 (CAD)



Yearly Performance

Year %	2019	2020	2021	2022	2023	2024
Fund	13.1	-1.9	11.5	-9.9	15.2	15.2

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.

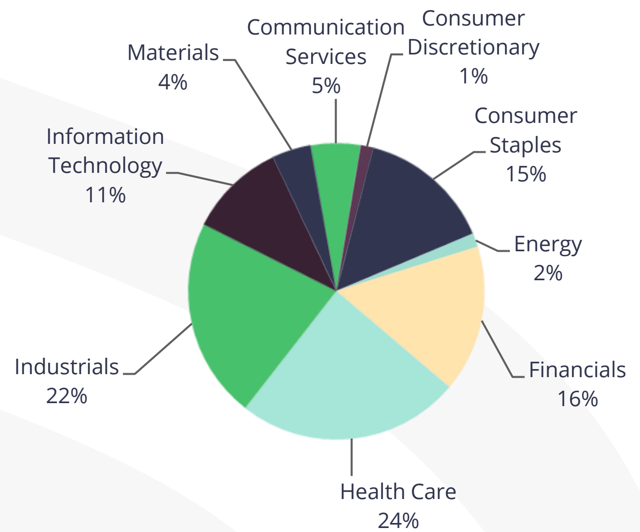
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
TAIWAN SEMICON MAN	INFORMATION TECHNOLOGY	4.6%
DCC ORD	INDUSTRIALS	4.3%
THAI BEVERAGE PCL	CONSUMER STAPLES	4.3%
CRH PLC	MATERIALS	4.2%
TENCENT HLDGS	COMMUNICATION SERVICES	4.1%
DEUTSCHE BOERSE	FINANCIALS	4.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	3.8%
ALCON AG	HEALTH CARE	3.7%
RYANAIR	INDUSTRIALS	3.5%
ESSILORLUXOTTICA	HEALTH CARE	3.5%

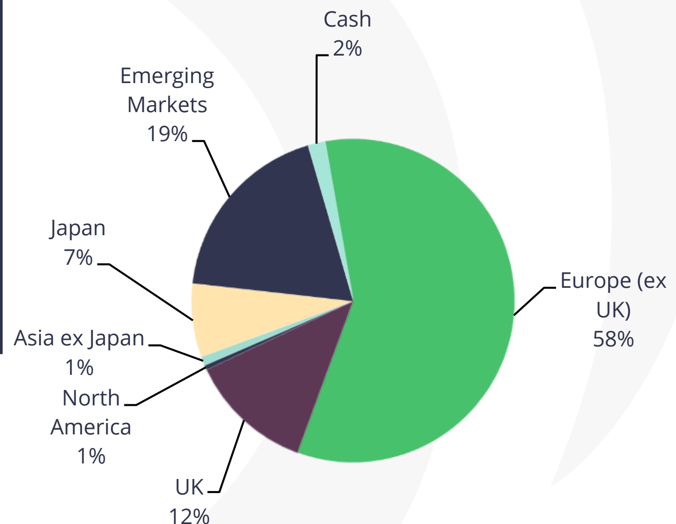
Fund Statistics

PRICE/BOOK	2.7
PRICE/EARNINGS RATIO (FY 1)	15.7
DIVIDEND YIELD %	2.9
AVERAGE MARKET CAP C$BN	124.2
NO. OF HOLDINGS	38
DEBT/EQUITY %	62.3
ACTIVE SHARE %	92.0

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Q4 2024 Commentary

Local market returns across the EAFE region were healthy in 2024. These were supported by broadly resilient economic conditions, underpinned by strength in the US, and the general decline in interest rates across the world. For companies with US exposure, the translation of earnings denominated in the strong US dollar also helped.

Surveying the market by sector, there was a pro-cyclical bias to market returns with Industrials, Financials and IT out-performing the traditionally defensive sectors, including Utilities, Consumer Staples and Healthcare. With commodity prices broadly subdued, materials and energy stocks were also under-performers. By region, Japan outperformed in 2024 and so the fund's underweight position here was a modest headwind, but this was more than offset by strength elsewhere in the portfolio.

Overall, it was a good year for the fund and its out-performance was broad-based with stocks across a range of sectors delivering strong returns over the year. Commentary on key contributors and detractors can be found later in the report.

Value: often not what it seems

Several of the holdings in the portfolio trade on valuation multiples that are higher than one might traditionally expect to see in a "value" portfolio. This partly reflects general multiple inflation across the market over the past decade or so; we are essentially fully invested in a market that has become more expensive. It also partly reflects that our companies are generally clean financial reporters, who don't tend to inflate published results by means of "adjustments" of questionable merit. The window dressing of earnings has become a more prominent feature in the market over the course of my career and we try to avoid companies whose management take liberties here. Furthermore, it is our view that the valuation multiples published in the financial media often give a misleading impression of the true value proposition of the security, portfolio or index in question.

Delving into this latter point, we see lower multiple stocks are currently skewed towards certain pockets of the market. These pockets include Banks and Utilities, Energy and Resource companies and an eclectic mix of other smaller sectors including Autos and Retailers. These sectors are certainly not devoid of good investment ideas but, in our view, many of the stocks in these industries are trading more expensively than they appear at first glance. There are two principal reasons for this;

1. Many of these companies carry considerable debt or debt-like liabilities. Such leveraged capital structures raise the financial risk for equity investors which means that the stock in question needs to trade on a lower multiple simply to compensate for the extra financial risk in the capital structure. So, part or in some cases most, of the apparent valuation discount can merely reflect compensation for higher financial risk borne by the shareholder invested in the "value stock."
2. Many companies in some of the aforementioned sectors are facing brutal competition and/or critical strategic challenges. These situations often initiate scenarios that result in a leakage of profit before shareholders can get to it. Such leakage happens because management is taking desperate measures to try to insulate the business from unrelenting problems. Some symptoms of this issue include:
    - Periodic restructuring programs to restrain the expense base; these programs are costly, but these costs are added back to "adjusted" earnings, as if they never occurred.
    - Acquisitions that later prove over-priced and poorly integrated; the true cost is only recognised years later in the form of low earnings growth and asset impairments.
    - Losses incurred in exiting business lines that have become unattractive: again, added back as a "one off"
    - Expensive and often unsuccessful expansion projects outside the company's areas of competence, later followed by further impairments and low profit growth.

Each one of these can be individually excused as one off, but they have a habit of recurring regularly at weaker and financially challenged companies that are much more prevalent in the “cheaper” parts of the market than in the niches we spend most time on.

We invest considerable effort to assess the earnings quality and earnings risk of each company before we make an investment. We don’t get this right all the time, but we think this type of analysis is critical. To be clear, the price paid for an investment matters a great deal and we believe we can justify the prices paid for those investments that trade on what look like higher multiples. This is because these companies have unusually attractive combinations of low financial risk, and high earnings quality that can be delivered to shareholders through future earnings growth achieved from attractive reinvestment opportunities. These companies can make better investments on behalf of shareholders because they have strong competitive positions, and management is not continually having to fire fight or take risky bets out of desperation. Many weaker, “cheaper” companies by contrast can be expected to routinely leak profits as they battle for mediocrity.

Key contributors to and detractors from performance in 2024

Taiwan Semiconductor (TSM) was the standout performer for the fund in 2024 with the share price more than doubling over the course of the year. TSM epitomises everything we look for in a company – strong market share position in a structurally growing market with good stewards of capital who are willing to invest and drive innovation to strengthen their competitiveness. TSM has the scale and intellectual property that makes it the de facto foundry of the world and the go-to partner for leading edge IT companies like Nvidia, Apple and AMD. As the world becomes increasingly more digitised, these customers will continue to rely on TSM to make leading edge chips to power their devices. We believe TSM will continue to see robust revenue and profit growth due to increased digitisation and a lack of credible competitors.

Tencent Holdings, has one of the strongest franchises of any company we have come across. It owns WeChat, often referred to as the operating system of China, with over 1.3bn monthly average users and this network allows it to generate revenue from advertising, gaming, and financial services such as WeChat Pay. The network effect that WeChat has created serves as a compelling moat. As the user base continues to grow, and these users engage more frequently with the app this drives revenue and profit growth and importantly increased stickiness which help ensure its longevity. We believe Tencent has a long runway of profitable growth ahead which is not currently reflected in valuation.

Essilorluxottica, the world’s largest provider of lenses and frames for spectacles, and owner of the RayBan and Oakley sunglasses brands, has continued to execute very well. The company has a quite unique competitive position with its integrated business model positioning the business strongly right across the value chain (Brand owner -> Manufacturer -> Wholesaler -> Retailer). We can see clear evidence of this in the success of its Meta Smart Glasses collaboration with the US tech company, Meta. We don’t believe there is another company in the industry who could have so seamlessly commercialised such a novel product that has been so well received by consumers. At a group level, revenues have continued to grow nicely, and profit margins are expanding while maintaining investment for future growth.

Shares in building materials company CRH PLC performed strongly in 2024 as the company has continued to deliver robust earnings growth. Though based in Ireland, the company's US business accounts for about 70% of group profits and strength in its US operations has more than offset the effects of weaker European end markets. CRH owns amongst the largest reserves of aggregates in the US. Aggregates are used in the construction of buildings, roads and other infrastructure, and we like the business because the quarries from which the aggregates are derived are like local monopolies. These days it is generally very difficult to secure a permit to open a new quarry and the high weight to value ratio makes it difficult to transport aggregates from quarries further afield. Therefore, quarry operators like CRH have demonstrated excellent pricing power which has been a considerable advantage during the recent period of elevated inflation. Furthermore, CRH's integrated building solutions model has been working well. This involves CRH bundling aggregates with other products like cement, concrete and asphalt to provide customers with a more convenient, broader range of products to more easily complete larger projects.

Shares in Unilever PLC gained significantly during the year. We have felt that Unilever's business has been underperforming its potential for some time, but investors have clearly been encouraged by the early indications of improvement under the stewardship of CEO, Hans Schumacher, since his appointment in 2023. A cornerstone of the plan involves a narrowing of focus towards key brands across the Home Care, Beauty, Food and Personal Care categories and a separation of the ice-cream business. There are echoes of P&G's successful turnaround which began around the end of the previous decade. We have already seen a good deal of management turnover and there is now tentative evidence of improved execution with volume growth picking up and market share trajectories improving during 2024. Peer, Nestle SA, has been moving in the opposite direction over the past year or so, presenting underwhelming results and dismissing its CEO in August 2024. Former head of Nestle's American, European and Latin American businesses, Laurent Freixe, has since been appointed group CEO. Recall, the fund opened a small position in Nestle during the second quarter and we have since increased the position as the stock has fallen. Our view is that Nestle's challenges are not terminal, and the valuation has become more attractive.

Shares in Swatch Group were down quite sharply in 2024. Recall that the company is primarily exposed to the luxury watch market through key brands that include Omega and Longines. Shares in luxury goods companies were generally weak in 2024, reflecting a difficult backdrop in China, where consumer spending has remained soft. Most listed luxury goods companies have an outsized exposure to China. Greater China accounts for about one third of Swatch's reported group revenues. Notwithstanding the challenging trading backdrop, we have been extremely disappointed by management execution in recent years, which we see as poor, particularly since management interests are, in theory, aligned with those of shareholders. Recall the company is controlled by the Hayek family, with Nick Hayek Jr the CEO. The reason we have not exited the position is that the valuation looks extremely low. Despite a large net cash position, the stock trades at a price significantly below book value. This is even more striking because we believe that there are property and brands that are understated on the balance sheet. This kind of valuation discount is highly unusual in the luxury goods sector. While we are troubled by management's execution, we see the shares as too cheap to sell currently. We will continue to assess these factors in 2025.

Shares in Alfresa Holdings, the Japanese drug distributor, fell, in part due to the weak Japanese Yen. While earnings continue to recover strongly from the decline during the pandemic years, virtually all the company's revenues and costs are denominated in Yen and so the group has not been a beneficiary of the weak currency in the way that the Japanese exporters have been. Alfresa's management initiated another share buyback in 2024, which we applaud. The shares appear inexpensive on about 14 times earnings, carrying a 3% dividend yield and a cash rich balance sheet. We have continued to encourage management to sustain cash returns to shareholders and will be watching developments on this front in 2025 to support the investment case.

Shares in low-cost airline, Ryanair Holdings also lagged. The business has performed very strongly in the post-pandemic period and achieved record profits in the most recent financial year, ending in March 2024. However, realised airfares were lower than expected through the summer and autumn period of 2024, which caught investors by surprise. We believe this is transitory and we don't see any structural change in the market backdrop; Ryanair retains a market leading cost position, and a comparatively young fleet in an industry where supply should be somewhat constrained over the next number of years.

Despite resilient operational performance, strong strategic execution and astute M&A activity, shares of Kingspan Group declined modestly in 2024. General malaise in global construction markets is acting as a material headwind for Kingspan especially in residential and European commercial markets. Bucking this trend is Kingspan's Data Solutions division which provides cooling systems for Data Centres. This division is growing very strongly and Kingspan continue to deploy capital to satisfy demand for hot aisle containment units. The long-term structural growth opportunity in Data Centres coupled with Kingspan's market leading position in energy efficient insulation products forms the basis of our investment thesis which we believe should help sustain strong revenue and earnings growth over the medium to long term.

2024 was a very disappointing year for Samsung Electronics and its shareholders. The Memory division is the leading profit driver for Samsung and despite a general recovery in this market, Samsung was unable to gain recognition and client qualification in the very hot High Bandwidth Memory (HBM) part of the market. HBM is integral for AI Servers and this market is currently served almost exclusively by SK Hynix. Samsung appears to have mis-executed on its HBM strategy and this raises questions around culture and innovation levels within the organisation. We are cognisant of these issues but believe these are currently more than discounted in current share price. We are constantly looking for tangible evidence to suggest better strategic execution and return on R&D. Absent these we will find it more difficult to retain our position.

Key transactions during the second half of 2024

We fully exited the investment in Adidas AG. The company has enjoyed a stunning resurgence under the stewardship of CEO Bjorn Gulden and the stock has followed. Adidas is a good business, and we could envisage investing in the company again in the future. However, the risk reward balance at the current price does not appear attractive in our view.

We exited the investment in Sonova Holding AG after the stock enjoyed a material re-rating since the investment in 2023. Sonova is the largest hearing aid company in the world, closely followed by Denmark listed Demant A/S. We have followed both companies for years and consider both to be very strong businesses that are strategically well positioned in the hearing aid category. We like the category because we expect the demographic tailwinds to provide strong demand growth in a market that has oligopoly-type characteristics. Demant, like Sonova, operates an integrated business model where it is manufacturer, wholesaler and retailer of hearing aids on all continents. Demant has an excellent long-term track record but has had some recent setbacks in its US business as it is transitioning its brand offering in the private insurance channel. In response to this, its shares have lagged Sonova's materially. We see Demant's issues as transient and the stock as very good value at a little over 20 times earnings – a substantial discount to Sonova's >30x multiple. On foot of these developments, we sold Sonova and made an investment in Demant.

Q4 2024 Commentary

We added a position in Swedish industrial company, Epiroc AB, B shares. Epiroc provides equipment, consumable tools and services to the global mining industry. We have followed Epiroc since its spin from Atlas Copco in 2018. Alongside Sandvik, Epiroc dominates the underground mining equipment market with a combined global market share of more than 70%. Epiroc products, including drilling equipment and consumables, and its servicing of this equipment, allow miners to efficiently extract critical minerals while reducing the total cost of equipment ownership for the customer. With ore grades deteriorating over time, Epiroc solutions are facilitating the extraction of copper and other metals in an increasingly efficient and safe manner. Key products offered here include products that enable remote equipment monitoring, full equipment automation, as well as a wide and expanding range of battery-operated equipment. At just over 20 times our estimate of earnings, Epiroc B shares trade at a sizeable discount to other high grade industrial companies.

The fund made an initial investment in L'Oreal, a company that we have been following for some time. L'Oreal, listed in France is the leader in the global cosmetics market, with a market share of approximately 15%. The company owns a diversified portfolio of well-regarded brands and has been able to successfully integrate numerous attractive acquisitions over the years, further buttressing its strong financial track record. We like the cosmetics category; the product is consumable and so any excess market supply tends to clear quite quickly, and we believe cosmetics are less vulnerable to private label competition than many other consumer categories. We think L'Oreal might be an indirect beneficiary of the widening use of GLP1 medications as users grapple with sagging facial skin (see "Ozempic Face"). As L'Oreal's growth has slowed from the very high levels of recent years, the stock has been derating and recently entered attractive territory, hence the fund's opening position.

The fund sold its remaining position in Playtech PLC during Q4 after a very strong run up in the share price. Recall in 2022, on the back of an offer from Aristocrat to acquire Playtech, we reduced our position by about 2/3rds at around £7.30 per share. We retained a small position purely for optionality as we believed the company was still undervalued. That offer subsequently failed to get support from Playtech shareholders and the share price fell. Upon the announcement in mid-2024 that Playtech was disposing of Snai, its B2C operator in Italy, the share price rebounded strongly and we decided to dispose of the remaining position.

We wish to thank all of our clients for their ongoing 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
www.setanta-asset.com

IMPORTANT INFORMATION

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

The EAFE Equity Strategy is managed by Setanta Asset Management Limited. The performance shown is the performance of the lead CAD portfolio of the EAFE Equity Strategy. This account has the longest performance track record. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing.

Setanta Asset Management Limited ("Setanta") is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland. Setanta Asset Management Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the “SEC”) - CRD# 281781 / SEC# 801–107083.
Setanta is relying on the "International Adviser" exemption from registration in Manitoba, Ontario, Quebec, British Columbia and Alberta. This exemption, subject to certain requirements, allows Setanta to provide advisory services to clients in these provinces who are "permitted clients" in accordance with the applicable securities legislation of Manitoba, Ontario, Quebec, British Columbia and Alberta, as applicable. Setanta, who is an investment sub-advisor to a number of Great–West Life Group companies, does not trade on its own account. Units in the Canadian segregated and mutual funds are not offered for sale by Setanta but may be acquired by prospective investors in accordance with regulatory requirements in the particular province through registered dealers including the applicable Great–West Life Group company.

This factsheet, which is for information purposes only, does not form part of any contract. This document (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. This document is confidential and is not an offer to sell nor a solicitation of an offer to buy securities in any jurisdiction and is not investment advice. This document does not constitute a prospectus, offering memorandum or private placement memorandum in the United States of America.

The MSCI EAFE Index is an equity index that captures large and mid -cap representation across 21 developed markets countries around the world, excluding the US and Canada. The Index has 915 constituents and covers approximately 85% of the free float-adjusted market capitalization in each country. The composition of the Index does not reflect the manner in which the Strategy is constructed in relation to expected or achieved returns, portfolio securities, investment guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which may change over time. The Strategy and the Index [do not invest in the same securities or types of securities,] and the comparison is provided only to help an investor understand how the Strategy performed. The Index is unmanaged, and an investor cannot invest in the Index. Index performance reflects the reinvestment of dividends but does not reflect the deduction of any fees or expenses, which would reduce returns.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of securities and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance.