

Setanta European Equity Fund (CAD)

Q4 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 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.

Portfolio Managers

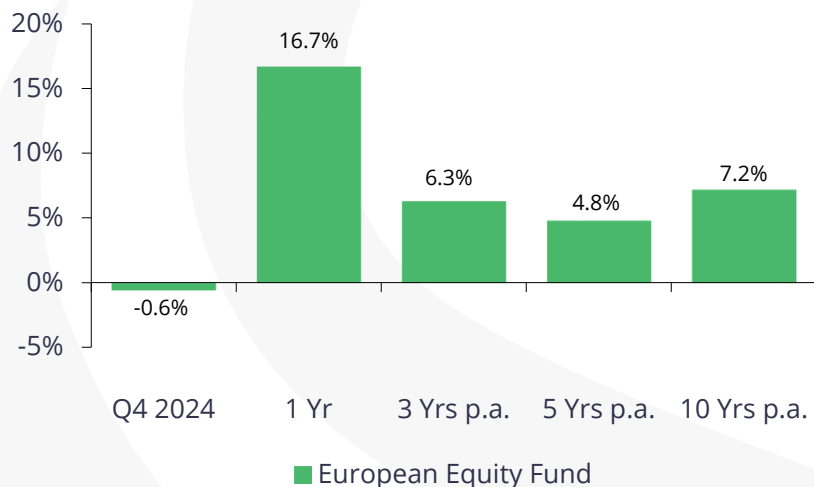
Rowan Smith; Fergal Sarsfield, CFA, & Tony O'Sullivan



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	13.8	-7.8	14.1	-12.9	17.8	16.7

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.

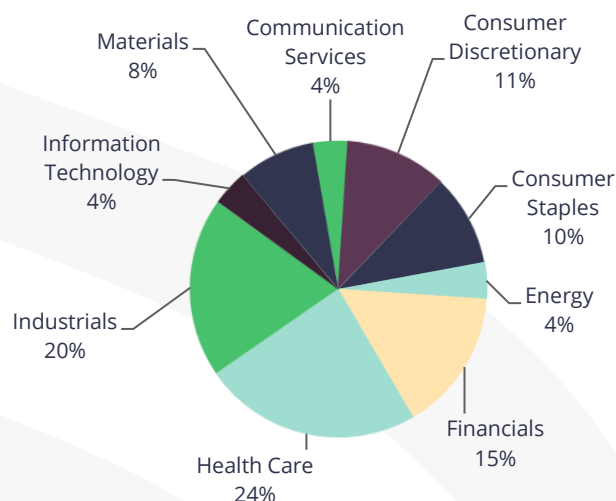
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS	5.9%
BOOKING HLDGS	CONSUMER DISCRETIONARY	5.9%
CRH PLC	MATERIALS	5.8%
SANOFI	HEALTH CARE	4.8%
NOVARTIS AG	HEALTH CARE	4.6%
ESSILORLUXOTTICA	HEALTH CARE	4.5%
ADIDAS-SALOMON	CONSUMER DISCRETIONARY	4.1%
ERICSSON(LM)	INFORMATION TECHNOLOGY	3.8%
DEUTSCHE BOERSE	FINANCIALS	3.8%
ALCON AG	HEALTH CARE	3.7%

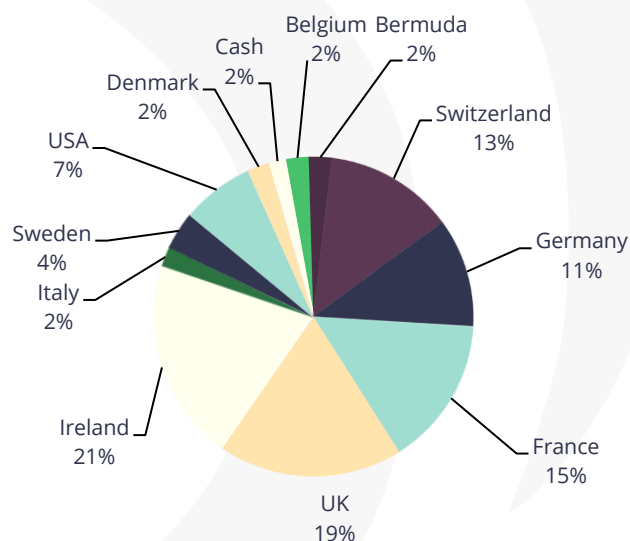
Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	16.4
DIVIDEND YIELD %	2.3
AVERAGE MARKET CAP C\$BN	83.6
NO. OF HOLDINGS	31
DEBT/EQUITY %	70.3

Sector Distribution



Geographic Distribution





Q4 2024 Commentary

European market returns were healthy in 2024. These were supported by broadly resilient global 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.

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.



Q4 2024 Commentary

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

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.

Despite no marked change in business conditions, shares in Ericsson recovered strongly from 2023's very depressed valuation levels. Resilient consumer spending on travel and leisure continues to support the backdrop for Booking Holdings, and its shares also performed well.

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.



Q4 2024 Commentary

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 year. 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 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. Shares in Legrand were also held back by softness in construction markets.



Q4 2024 Commentary

Key transactions during the second half of 2024

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.

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 our clients for their ongoing support.



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IMPORTANT INFORMATION

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

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