# Setanta European Equity Fund

Q3 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 manager seeks 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.

## 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

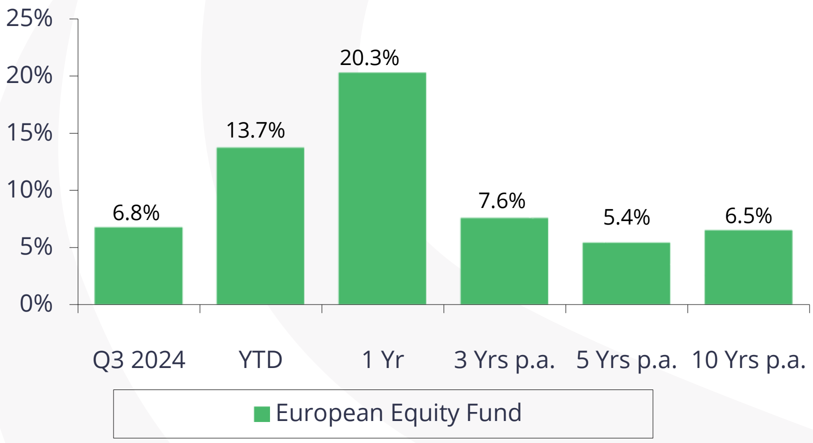
We consider scenarios rather than making forecasts

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 – 30.09.2024 (EUR)




## Yearly Performance

| Year % | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Fund** | 21.5 | -14.0 | 23.5 | -12.8 | 16.8 |

**Performance Source:** Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI European Equity Fund [IEC7002] 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.

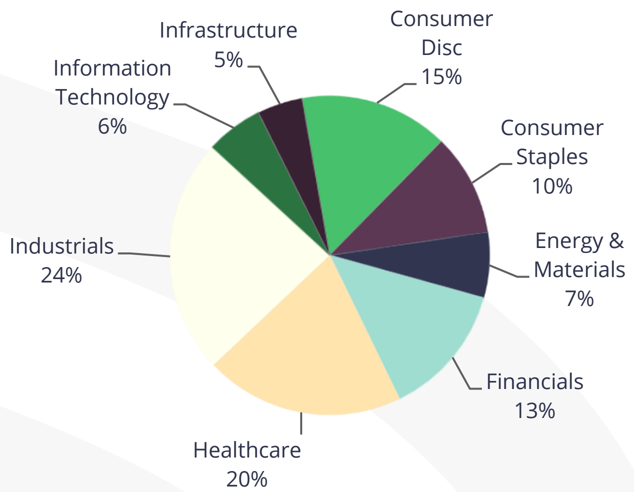
## Top 10 Holdings

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| CRH | INDUSTRIALS | 7.1% |
| BOOKING HLDGS | CONSUMER DISCRETIONARY | 6.0% |
| DCC | INDUSTRIALS | 5.6% |
| SANOFI | HEALTH CARE | 5.1% |
| NOVARTIS | HEALTH CARE | 4.7% |
| GEA GROUP | INDUSTRIALS | 4.6% |
| ALCON | HEALTH CARE | 3.9% |
| ESSILORLUXOTTICA | CONSUMER DISCRETIONARY | 3.9% |
| ADIDAS-SALOMON | CONSUMER DISCRETIONARY | 3.8% |
| GSK PLC | HEALTH CARE | 3.8% |

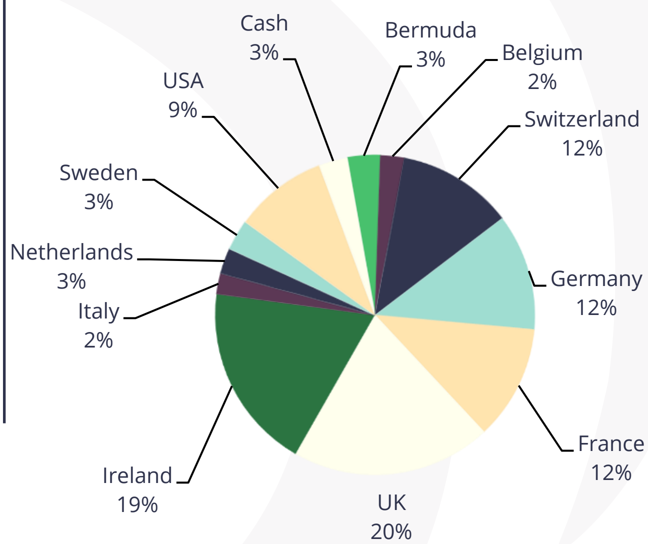
## Fund Statistics

| | |
|---|---|
| PRICE/BOOK | 2.1 |
| PRICE/EARNINGS RATIO (FY 1) | 14.3 |
| DIVIDEND YIELD % | 2.5 |
| AVERAGE MARKET CAP €BN | 48.8 |
| NO. OF HOLDINGS | 29 |
| ACTIVE SHARE RATIO % | 89.7 |
| DEBT/EQUITY % | 69.0 |

## Sector Distribution




## Geographic Distribution



## Durable Companies for the Long Term

Managing a business is an exercise in risk taking, taking measured risks in order to achieve a return on invested capital and as investors we analyse these risks relative to the potential reward - in your funds case, that reward comes in the form of share price appreciation, dividends and stock buybacks. Over the past decade, ESG has entered the investing lexicon with more investors now focusing on double bottom line - financial profit and social responsibility. This is due to the increased harm being caused to our planet by the ever-increasing levels of carbon dioxide being released into the atmosphere. As carbon dioxide concentrations increase it leads to rising temperatures which in turn is forcing companies to focus on physical and transition risks. Both physical and transition risks are financial risks, physical risks being the risks a business has to incur from adverse weather events like hurricanes, floods, drought, rising sea levels etc while transition risks are the ongoing risks a business has to embrace as it tweaks its business to a changing environment, changing consumer preferences, changing technology etc.

ESG for the most part is therefore viewed through the prism of risk, however, we believe there are also climate opportunities, opportunities to invest in companies where an increasingly climate conscious society can drive sustainable earnings growth via increased demand for more sustainable products. In the recent past we've invested in two such companies, Kingspan and Legrand.

Both Kingspan and Legrand are construction related companies. The Construction sector is the largest contributor to GHG emissions and is therefore a key focus area of the Paris Agreement and the objective of limiting global warming to no more than 1.5 degrees Celsius. Construction accounts for almost 40% of yearly $CO_2$ emissions with 28% stemming from building operations, and 11% from building materials and construction (embodied carbon). We believe the increasing focus on reducing $CO_2$ emissions in the construction sector will serve as tailwinds for both companies and help drive sustainable earnings growth over the coming decade.

Kingspan is the world's largest and leading manufacturer of high performance insulated panels and insulation boards. Its Quadcore premium insulated panels and Kooltherm premium insulation boards perform 90% better than standard synthetic mineral fibre insulation. Both products increase the thermal efficiency of buildings while insulated panels also serve as a substitute for cementitious based construction. Cement production is highly energy intensive and therefore a major contributor to GHG emissions. As the construction sector looks to reduce its carbon footprint it’s actively looking for more efficient and energy saving construction techniques.
It's estimated that 900kg of $CO_2$ are emitted for every ton of cement produced while Kingspan estimate that the lifetime carbon savings from their insulation systems sold in 2023 are expected to be 164m tons of $CO_2$. The shift from cementitious based products to insulated panels is clearly a tailwind for demand and a climate opportunity rather than climate risk for Kingspan.

These businesses are complimented by smaller divisions, Data & Flooring, Light, Air & Water, and Roofing & Waterproofing with one common theme spanning all business units - the provision of thermal efficient products to lower the embodied carbon footprint in buildings.
Kingspan with products like Logstor to improve the thermal efficiency of district heating systems, Powerpanel which integrates solar panels into roofing systems and Hot Aisle Containment systems for data centers which serve to increase the cooling efficiency of Data Centers by 30% or more is well positioned to benefit from a more climate conscious economy.
We expect Kingspan will continue to build out its carbon friendly product portfolio over the coming years and with increased utilisation of more energy efficient products in construction we believe that Kingspan will achieve sustainable growth over the medium to long term which is not presently reflected in valuation levels.

**Legrand** is a French manufacturer of low voltage electrical equipment. Electricity demand is entering an era of secular growth and society is changing the way energy flows. Traditionally electricity has been generated from fossil fuels and one directional, flowing from large power generation stations to consumers. Today, electricity generation is shifting from fossil fuels to renewables and also multi-directional, with end users also being electricity generators. Electricity demand drivers include reshoring, EV transition, renewables and data centers. The share of electricity within the global energy mix is expected to increase from 20% in 2022 to 41% by 2050 with the share of renewable electricity growing from 30% to 82%. These combined will result in electricity demand doubling by 2050.
Legrand has the unique position of being a giant in niches. While only commanding 6% share of the global low voltage electrical equipment market, 2/3rds of its revenues are generated in markets where it has a #1 or #2 position in the market. Niche markets include wiring devices, door entry systems, AV infrastructure and cable management – in these categories, doing lots of little things well sum up to strong brand recognition, competitive advantage and pricing power. It makes Legrand the preferred choice among product specifiers, distributors, installers/contractors and end users.

Additionally, Legrand generates almost 20% of revenues from the Data Center (DC) market. With the number of connected devices set to grow from 13bn to 29bn by 2030, the Data Center market is expected to grow at 10-15% CAGR and consume up to 5% of the world's electricity by 2030.
The focus of DC customers is on speed of compute and energy efficiency. Compute speed comes from installing AI servers while Legrand works with hyperscaler customers in the design, construction and installation of energy efficient systems to power and cool the AI servers. PUE, Power Usage Effectiveness (PUE) is the metric used to determine the energy efficiency of a data center. A measurement as close as possible to one is most desirable. There are many different cooling solutions but Legrand with its Rear Door Heat Exchanger is able to achieve a PUE of 1.035 meaning its best in class in the market and highly energy efficient. Legrand currently generates revenue per rack of $15-20k but with the increased power consumption of AI racks, Legrand believe they can generate revenue per rack of $50k-$150k as they deploy high spec energy efficient cooling systems via their Minkels and Usystems brands.

Having recently attended the Legrand Capital Market Day, we came away very impressed with the quality of management across the various business units and gained a deeper understanding of the quality of the business, and the critical role it plays in helping customers become more energy efficient. Like Kingspan, we believe the climate opportunity for Legrand far outweighs the climate risk and we believe Legrand should be able to sustainably grow its earnings due to increased demand for more sustainable and energy efficient products.

## Closing Remarks

We are very grateful to all our investors for you continued support. We continue to be consistent in our philosophy and approach and firmly believe this positions us well to deliver value for our investors over the medium to long term.

Fergal Sarsfield
Co-manager, Setanta European Equity Fund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## IMPORTANT INFORMATION

The European Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the European Equity strategy. The performance shown is the performance of a representative account (ILA/CLI European Equity Fund [IEC7002]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. 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. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. See 'WARNING' and IMPORTANT INFORMATION' below.

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