Setanta European Equity Fund (CAD)

Q1 2025

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.

The investment objective of the Fund is to outperform the MSCI Europe index over the long term.

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

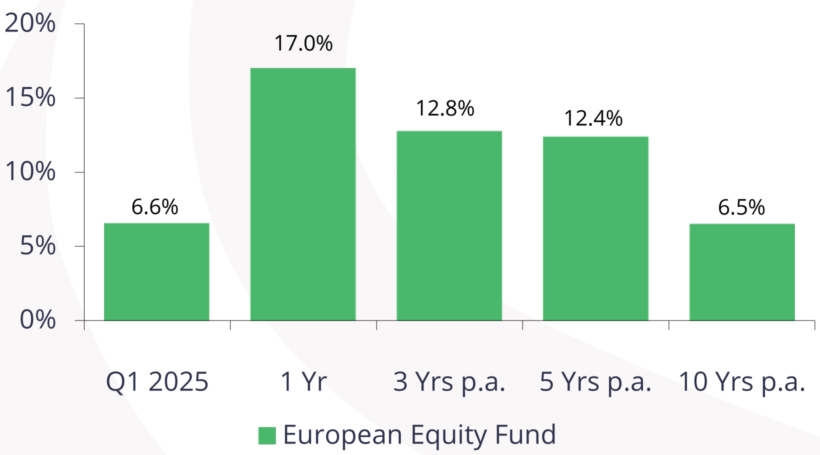
We will act with integrity in everything we do

Portfolio Managers

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

SETANTA
Asset Management

Fund Performance – 31.03.2025 (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.

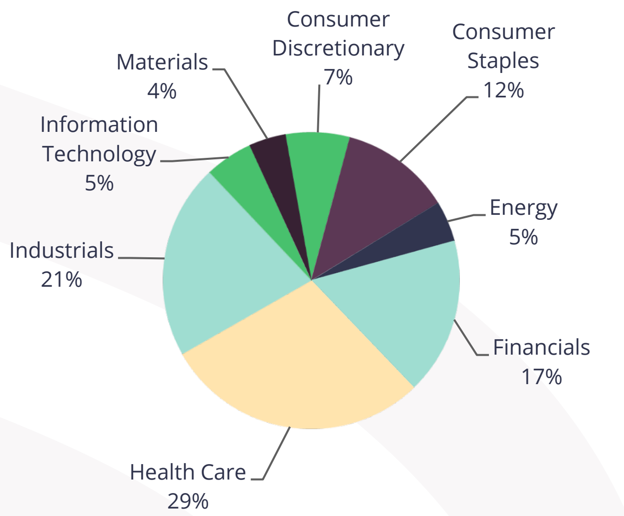
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
NESTLE SA	CONSUMER STAPLES	5.2%
ROCHE HLDGS	HEALTH CARE	4.7%
DEUTSCHE BOERSE	FINANCIALS	4.7%
ENI Spa NPV	ENERGY	4.3%
BANK OF IRELAND	FINANCIALS	4.3%
ASML HOLDING	INFORMATION TECHNOLOGY	4.2%
COLOPLAST	HEALTH CARE	4.0%
DCC	INDUSTRIALS	4.0%
CRH PLC	MATERIALS	3.9%
GSK PLC	HEALTH CARE	3.8%

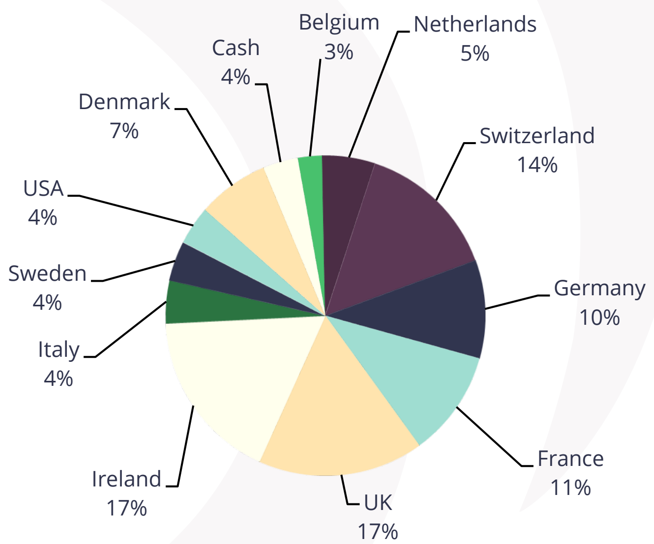
Fund Statistics

PRICE/BOOK	2.3
PRICE/EARNINGS RATIO (FY 1)	17.5
DIVIDEND YIELD %	2.3
AVERAGE MARKET CAP C$BN	104.5
NO. OF HOLDINGS	32
DEBT/EQUITY %	69.6

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Q1 2025 Commentary

European equities performed very strongly in the first quarter. This was perhaps helped by some rotation out of US equities. One catalyst for this is Germany, where we have seen the new government coalition partners announce plans for a substantial investment program to upgrade infrastructure and expand defence capabilities. The multiplier effects here mean that these initiatives could help to kickstart economic growth in the region, especially if some of these policies are adopted elsewhere.

One fly in the ointment here is the threat of US tariffs, the precise nature of which remain somewhat uncertain at the time of writing. Although we now have some clarity regarding the rates at which some of the tariffs will be levied there is a considerable amount we do not know, including:

- Will any product categories, such as lifesaving equipment, advanced semiconductors or critical minerals, be exempted?
- To what extent will the tariffs duplicate or offset; will the 25% tariff on imported vehicles be offset by the general EU tariff? How does any separate tariff on steel or aluminium affect the levy?
- Will these tariffs prove indefinite or temporary?

It is apparent that there is a great deal of confusion amongst management teams around the potential costs involved here and how these could be mitigated. This is in part because of inconsistent messaging, but also because of highly complex supply chains, as well as the impact of other factors, including transfer pricing and income tax planning. For example, one manufacturing company might be sourcing all components from a supplier located in the US, but if those components are made from material sourced in China, these will be subject to tariffs and the supplier may have a contractual right to pass the extra cost on to the client. Another example of the potential complexity involved is that while a lower declared unit cost value, achieved by some rejig of development spending or transfer pricing, could reduce the potential tariff, it could raise the US income tax charge by virtue of reducing inventory value.

Given the layers involved in modern supply chains, management teams are struggling to estimate the costs involved before they even try to design a mitigation strategy. Setting aside the potential costs involved, uncertainty is bad for business since it leads to spending delays or cancellation. Furthermore, the time the management teams are spending in evaluating and planning around tariffs is taking away from more productive work that would otherwise be done.

In short, these developments are negative and very hard to appraise, at least at this stage. If these tariffs prove to be enduring, they will result in higher prices for consumers which may in turn cause some demand destruction. Having looked through the fund's holdings and considered the potential for mitigation, including relocating production/assembly, price increases, shared pressure in the supply chain, we don't believe there will be a substantial, lasting impact on the portfolio. There could however be some transient impacts while higher tariffs are absorbed before mitigations can take effect. The most vulnerable companies across the market are likely to be those with low profit margins and higher levels of debt, operating in very competitive industries where; for these companies there is limited ability to increase prices or absorb higher costs because there isn't the financial capacity to do so. We tend to avoid these kinds of companies anyway.

Key contributors to and detractors

There was fairly broad strength in European equities in the quarter, but banks and financial services were particularly strong. This may in part reflect expectations that interest rates may remain somewhat elevated, thanks to higher government spending. This would in turn boost interest income for many banks and some other financial service providers including two of the fund's holdings, **Deutsche Boerse** and **Bank of Ireland**. Both companies reported good financial results, and this supportive macro backdrop probably also contributed to the share price strength in these stocks.

Essilorluxottia shares performed strongly in the period. The company reported another full year of strong results with growth in all key categories. New products, including the Stellest lens to arrest myopia and Rayban Meta smart glasses, have been performing especially well and group profit margins have been expanding. We continue to believe the company is well positioned strategically in a growing category.

After a pandemic period boom, consumption of alcoholic beverages has been underwhelming across many markets, including Europe and the US. **Diageo'**s profits have shown little growth since 2022, with peers delivering similar results over that time. The absence of any sign of recovery has continued to weigh on the shares of Diageo in the early months of 2025. We believe that consumption will eventually recover, and the company's portfolio of premium spirits' brands and strong distribution capabilities position the company to take advantage of this rebound when it emerges.

Shares in **Demant**, the Denmark based hearing aid company, were weak in the period. Preliminary data suggests that demand in the US hearing aid category has softened in recent months, perhaps reflecting some general weakness in consumer sentiment. Personnel cutbacks in the Department of Veterans Affairs, an important distribution channel, are likely accentuating this weakness. Historically we haven't seen sustained contractions in this industry. Periods of declines have been followed by sharp rebounds as customers can only defer device replacement for so long. As such we are not overly worried by recent trends.

Transactions during the period

We made a number of changes to the portfolio in the period.

Longstanding holding, **Novartis AG** was sold and replaced with Swiss counterpart, **Roche Holding AG.** Roche trades at a slight valuation discount to Novartis and we see the company as having the potential to profit from new products it hopes to launch in the obesity and neurology categories in the coming years.

We exited the position in **Air Liquide**. We see a superior valuation proposition in new holding, **Epiroc AB**. Epiroc, based in Sweden, is a global leader in the mining technology industry. Its equipment and consumables enable mine operators to improve operational productivity. We estimate that Epiroc's global market share in underground drilling rigs is over 50% and it also sells the tools used on the rig which the mining company deploys to extract copper, gold and other metals. Epiroc also services this equipment. With ore grades deteriorating and customers trying to reduce energy usage and improve safety we believe demand for Epiroc products will remain strong. Furthermore, Epiroc has been investing heavily in offering a broad suite of electric equipment and equipment that can be operated remotely through automation; we see good potential in both categories longer term.

Q1 2025 Commentary

We sold the position in **Liberty Global** to fund a new investment in **ASML Holding**. ASML has a dominant position in the global semiconductor value chain. Specifically, its EUV (extreme ultraviolet) lithography machines are required in the production of high-end semiconductors. While we expect some cyclicality in the industry, we see strong long-term growth potential for the company as the modern economy is becoming increasingly dependent on advanced semiconductors.

We sold the position in **BP PLC** to make way for a small new position in **Prosus NV**, a Netherlands based investment holding company. The vast majority of its net asset value is accounted for by its 24% shareholding in the Hong Kong listed shares of Tencent Holdings, the China-based technology company. We know Tencent very well and admire its extremely strong position in China's internet ecosystem. Its WeChat app dominates competitors, and the company has built a powerful payments business from the WeChat base. Tencent is also China's leading gaming company, operates one of the leading cloud services businesses in the country and owns a hugely valuable venture investment portfolio. We see Prosus shares as attractive, with the stock trading at a sizeable discount to NAV.

We made a new investment in **Coloplast A/S**. Coloplast, based in Denmark, is a leading provider of chronic care products, and is a company we have followed for years. The company primarily serves patients who require ostomy bags or intermittent catheters to treat chronic intestinal or urological conditions. With a global market share in these growing categories of around 40% believe the company is well placed to meaningfully grow value for shareholders over the coming years. We also added a new position in **L'Oreal**. We like the beauty category since we think it is relatively immune from private label competitors and, since these are consumable products, there is no second-hand market to undermine brand owners such as L'Oreal.   The company is well positioned across the value chain in all regions and the stock valuation is now looking quite attractive after the share price declined in 2024.

We would like to thank our clients for their continued support.

Rowan Smith

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IMPORTANT INFORMATION

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

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