Setanta EAFE Equity Fund (CAD)

Q4 2025

Fund Description

The **EAFE Equity Fund** ('the Fund') is managed by Setanta Asset Management ("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

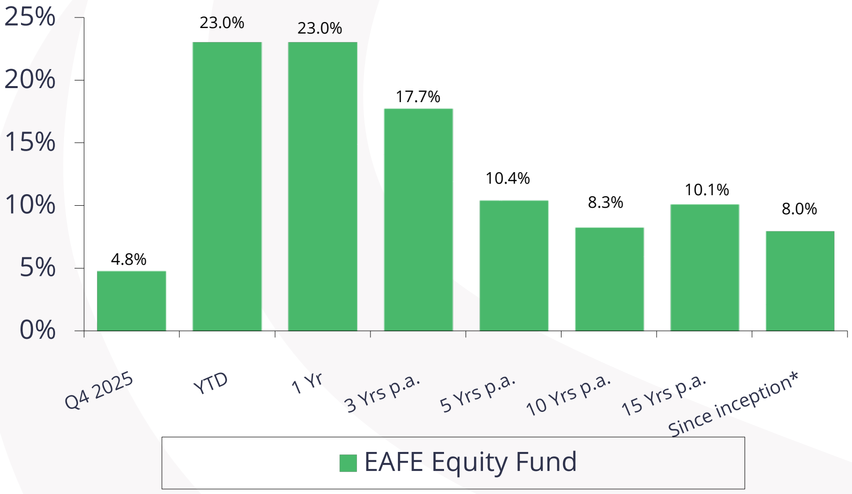
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.2025 (CAD)



Yearly Performance

Year %	2019	2020	2021	2022	2023	2024	2025
Fund	13.1	-1.9	11.5	-9.9	15.2	15.2	23.0

Performance Source: Setanta Asset Management. 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.

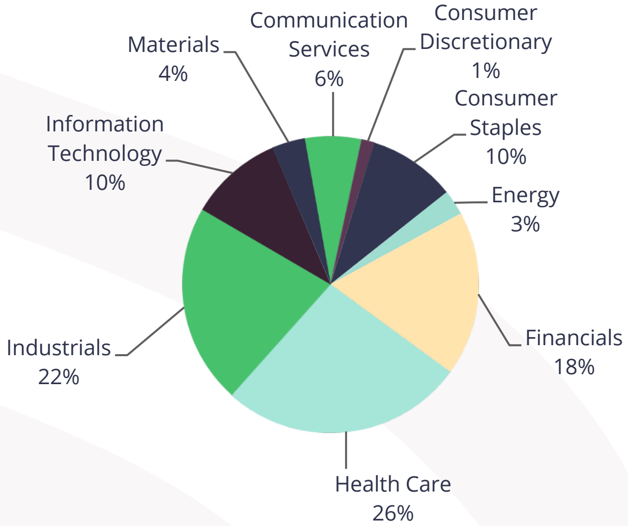
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
SAMSUNG ELECTRO	Information Technology	5.3%
BANK OF IRELAND	Financials	4.4%
ROCHE HOLDING AG	Health Care	4.2%
NABTESCO CORP	Industrials	4.1%
RYANAIR HLDGS PLC	Industrials	3.9%
CRH PLC	Materials	3.4%
DEUTSCHE BOERSE	Financials	3.4%
SANOFI SA	Health Care	3.3%
THAI BEVERAGE PCL	Consumer Staples	3.3%
EPIROC AB	Industrials	3.2%

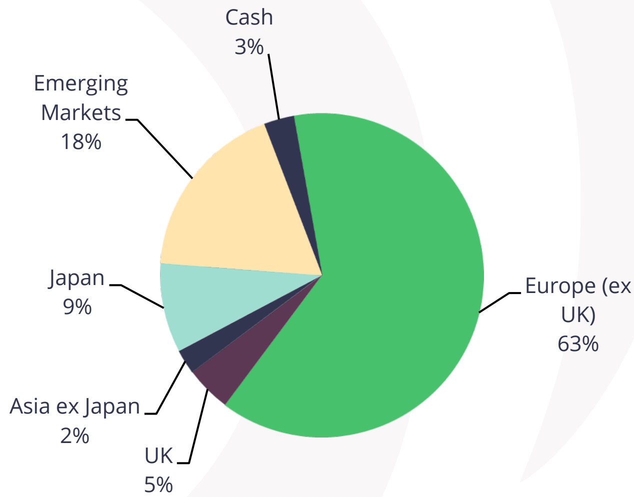
Fund Statistics

PRICE/BOOK	3.2
PRICE/EARNINGS RATIO (FY 1)	16.9
DIVIDEND YIELD %	2.0
AVERAGE MARKET CAP C$BN	158.3
NO. OF HOLDINGS	44
DEBT/EQUITY %	53.4
ACTIVE SHARE %	91.8

Sector Distribution



Geographic Distribution



SETANTA
Asset Management

Q4 2025 Commentary

In many aspects 2025 was an extraordinary year - gold, silver and bitcoin all hit record highs, the Bloomberg European Defence Index was +73% in Euro terms, while MSCI EAFE benchmark returns exceeded MSCI US returns for only the 3rd time in 10 years (Bloomberg). Despite strong performance across many asset classes, it was also a year of heightened volatility with global markets falling 17% in the run up to Liberation Day before rebounding strongly, culminating in the MSCI EAFE index returning +26% in US$ for the full year.

When we dissect the market into styles, as the chart below clearly shows, Value investing outperformed very strongly in 2025, beating MSCI EAFE by 11% points. Quality investing, on the other hand, underperformed the benchmark by 10% points.

Source: Bloomberg, 31.12.2025

We have two key observations regarding the performance of Value and Quality styles in 2025.

1. Has high financial leverage been masquerading as value in 2025?

It's our contention that it wasn't absolute value that performed so strongly in 2025, more so, it was highly leveraged companies which typically perform strongly in markets with a propensity to absorb greater risk. The two best performing sectors in 2025 were Financials +54% and Utilities +47%, in US$ terms, both handsomely beating the index return of 31%. Both of these sectors have one thing in common - financial leverage. Companies in these sectors utilise their balance sheets to a much greater extent to generate returns for shareholders.

In the Financials sector there were 12 companies which returned more than 100% in 2025, a truly remarkable feat. Of this magnificent dozen, the 3 largest, by weight in the index, were Banco Santander +163%, Banco Bilbao Vizcaya Argentaria (BBVA) +154% and Unicredit +120%, all in US$. What stands out among these 3 companies is their willingness to take risk by utilising their balance sheets to generate growth. The Common Equity Tier 1 (CET1) ratio is a regulatory measure of financial strength in the banking sector, it shows a bank's ability to absorb losses when things go wrong. Each year regulators report on the health of the banking sector by disclosing CET1 ratios in their respective jurisdictions. The European Central Bank (ECB) published its Supervisory Review and Evaluation Process report for 2025 for the banking sector, highlighting that the weighted average CET1 ratio for 105 banks was 16.1%. The CET1 ratio for Banco Santander was 13%, BBVA 13.4% and Unicredit 14.7%. While CET1 ratios of 13-14% are strong by historical standards, what it shows us is that banks that are perceived to be less risky with higher CET1 ratios have underperformed higher risk banks who don't have as much CET1 Capital to act as a buffer if something goes wrong.

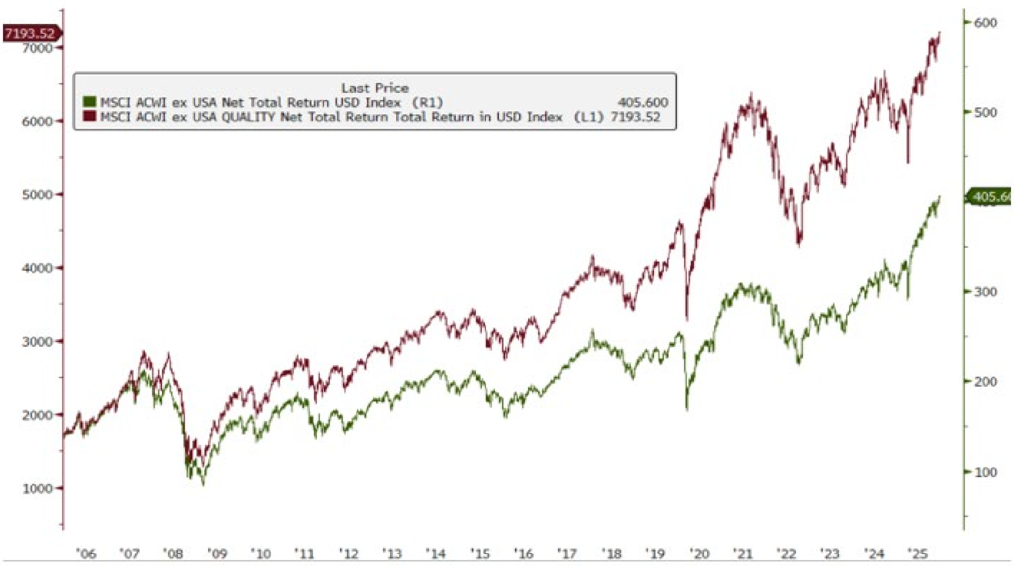
In the Utility sector, there were 13 companies which returned >50% in US$ terms for the year. Again, using the same methodology as Financials, we've looked at the 3 largest of these by weight in the index - Iberdrola returned +64%, Enel +56% and E.On +69% in US$ terms. But like Financials, these companies operate with high financial leverage with a material cost associated with servicing the debt on the balance sheet.

Company	Net Debt/EBITDA	Interest Cost as % of Operating Profit
Iberdrola	3.9x	26%
Engie	2.5x	11%
E.ON	3.4x	13%

Source: Bloomberg, 31.12.2025

Similarly to Financials, what we see in Utilities is that companies with higher levels of debt performed strongly in 2025. With the above evidence in hand, we can't help but ask the question if the outperformance of Value in 2025 is as much do to with high levels of financial leverage as it is to do with good companies being priced cheaply?

2. Quality underperformance is an opportunity not a concern.
We are content that the underperformance of MSCI EAFE Quality by 10% points relative to MSCI EAFE in 2025 is an opportunity rather than a concern. Quality, Value and Growth are inextricably linked. Value can only be derived by investing in quality companies who have a sustainable growth runway over the medium to long term at reasonable valuation levels. Our objective is to invest in quality companies with a proven track record of growing revenues and profits over the longer term at valuation levels which are not egregious. This style of investing has proven to be very successful over the long term. Unfortunately, MSCI EAFE data doesn't go back 20 years but using MSCI ACWI ex US as a proxy, we can clearly see that Quality has outgrown MSCI ACWI ex US by almost 2% points per annum since 2006.



Source: Bloomberg, 31.12.2025

In our view, the long-term trend is very favourable for Quality investing and the short-term blip experienced in 2025 presents an opportunity. As we enter 2026, we are looking forward to capitalising on the opportunities that the underperformance of Quality in 2025 may present.

Q4 2025 Commentary

While the fund did underperform in 2025, thankfully, it didn't underperform to the same extent as the MSCI Quality Index. Much of this was down to very strong performance from quality compounders and AI beneficiaries like **TSM, Samsung, Legrand, & CRH** as well as holdings like **Ryanair** and **Nabtesco**. On the other side of the table, detractors to performance came mainly from the Healthcare sector - **Coloplast, Demant,** and **Alcon** as well as disappointing performance from **Deutsche Boerse** and **DCC**.

TSM and **Samsung Electronics** hold dominant positions in 2 key technologies critical to the continued evolution and adoption of AI. Both performed very strongly in 2025 on the back of strong demand for advanced foundry services from TSM and DRAM memory products from Samsung. TSM continues to innovate at a pace which no other foundry can match and as compute power increases, we expect demand for leading edge chips to continue to show robust growth. Samsung had a stuttering start in HBM, initially losing share to Hynix in HBM3E due to lower yields and inferior chip performance. Management has worked tirelessly to right the ship and Samsung now appear in a much stronger position to benefit from the transition to HBM4 later in 2026. HBM4 samples have been shipped to all customers, including Nvidia, with mass production expected in mid-2026 based on customer requirements. The Memory market is concentrated with 3 players behaving rationally. It's also experiencing an unprecedented level of supply/demand tightness, resulting in rising DRAM prices which in an industry with a high fixed cost base mostly falls to the bottom line and provides significant profit growth. Market expectations for Samsung are for Memory profits to grow >300% in 2026.

Legrand and **CRH** are more indirect AI beneficiaries, helping to provide the infrastructure that's needed to build and operate an AI Data Centre rather than the raw materials that go into the chips that provide the compute power in the DC. They can be regarded as the picks and shovels in the AI theme. In the case of CRH, providing the roads, bridges, construction infrastructure required to build a DC, and in the case of Legrand, providing the white space electrical equipment and cooling equipment required to keep the AI chips from overheating.

Ryanair and **Nabtesco** also contributed strongly to performance as their quality and strong competitive position in their respective industries came to the fore in 2025. Ryanair continues to operate a very lean business model where the value proposition is centred around offering the best fares. This competitive advantage stems from their scale benefits, firstly their ability to buy planes in bulk from Boeing and negotiate very favourable pricing and secondly from the passenger traffic they can provide to airports which in turn allows for lower landing charges. The resulting lower operating costs allows Ryanair the opportunity to price fares very competitively which in turn drives higher load factors meaning they fly each plane with more passengers than competitors.

Nabtesco is an industrial conglomerate with many business units having market leading positions. The most important business unit is RV precision gears where Nabtesco has 65% global share. RV precision gears are effectively the joints - shoulders, elbows, wrists of robots. Industrial robotics demand has rebounded strongly while other divisions have also performed ahead of expectations. We have also been impressed by management's willingness to address underperforming businesses. This culminated in the disposal of its Hydraulics unit to Comer Industries in late 2025 with the part proceeds being returned to shareholders in 2026.

Q4 2025 Commentary

While we have been disappointed in the performance of several of our Healthcare holdings, we don't believe this is cause for concern and expect the quality of these business models to shine through over the coming years. 2025 was a difficult year for the Healthcare sector, it was the second worst performing sector in the MSCI EAFE Index as modestly slower growth, concerns regarding US regulations and stock market rotation impacted valuations. We believe these issues are transitory and the quality companies we own in the portfolio will perform strongly over the long term**. Coloplast, Demant** and **Alcon** all hold market leading positions in structurally growing end markets. We don't believe the current slower growth trajectory is sustainable and fully expect growth to rebound over the coming years. With market expectations so low, this could easily result in a valuation rerating for these holdings which when coupled with earnings growth could be very well received by the market.

We have also been disappointed with the share price performance of **Deutsche Boerse** as well as the share price and operational performance of **DCC**. Deutsche Boerse through its Investment Management Solutions segment, which accounts for 11% of Group EBITDA, has been negatively impacted by the disruption risk of AI. We believe Deutsche Boerse has the technology, resources and human capital to cope with these disruptive threats and believe they are somewhat overblown. The share price has also been dragged down by two regulatory investigations, one on each side of the Atlantic. Earlier in the year, the EU announced an anti-trust investigation into alleged coordination between Eurex, a Deutsche Boerse unit, and HEX, now owned by Nasdaq, regarding listing, trading and clearing of financial derivatives in certain markets. The second investigation pertains to a USD Presidential Executive Order to address concerns around the influence of foreign owned proxy advisory firms on the governance of US companies. While we are disappointed that these investigations have come to light, we have not taken any action as we continue to build our knowledge and assess the potential impact of both these investigations.

As mentioned above, not only has the share price performance of DCC disappointed us, so too has the operational performance. For many years, DCC excelled at capital allocation in its core energy business. The ability to generate cash and redeploy inorganically, buying energy assets to plug into its existing distribution network and quickly earning mid-teens returns on capital has sadly come to an end over the past 5 years as management became overconfident in their ability and moved into markets that possessed few similarities to the core energy business. Over the past few years, we have discussed these concerns at length with the management team, and we were pleased with the announcement in April that DCC was disposing of its Healthcare division and intending on disposing of its Technology division in the future. What was less impressive was the price DCC received for the Healthcare division and the cumbersome nature in which it decided to return capital to shareholders. As part of the tender process, we reduced our position by 20% on the tender date at the attractive level of €51.60. Our holding is now less than an average position in the fund.

Transactions in Q4 2025

The DCC tender offer was completed in late December, and we reinvested the proceeds in Sage Plc. Our initial position in Sage is small, and we will write about it in further detail once it becomes a more meaningful position in the fund. We also received shares in Magnum Ice Cream post the spin out from Unilever. Again, this accounts for a very small position in the fund but is unlikely to become a more meaningful position over time.

We'd like to thank all our clients for your continued support throughout the year and look forward to serving your investment needs in 2026.

Fergal Sarsfield – Co- Lead Fund Manager

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.

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