Setanta EAFE Equity Strategy

Q3 2026 Commentary

With the Iran war unresolved and after a summer correction, oil prices rose sharply in Q3. Government bond yields also continued to rise. While the latter is often attributed to the former, we suspect there are other factors at play. Companies investing in AI are issuing significant levels of debt to finance investment spending, so the rise in bond yields may reflect a backdrop of rising supply of credit, rather than significantly altered inflation expectations. In an August 2026 note, JP Morgan analysts significantly raised forecasts for 2026 bond issuance for the TMT sectors to $540bn, from a prior estimate of $450bn.

Taking Amazon.Com Inc as one example, according to Bloomberg estimates, analysts forecast the company to spend over $220 billion on capital expenditure in 2026. We can see from the company's filings that the equivalent for 2025 was $132 billion. Note that, as per the company's 10-K, in 2019 Amazon spent just $16 billion on capital expenditure. We are seeing similar trends across the AI category.

The Setanta investment team continues to debate the implications of this global AI investment surge. One element of these discussions is to what extent companies in the data centre and semiconductor supply chains can retain the benefits they are currently accruing from this significant spending increase. This backdrop has the potential to temporarily inflate profit margins and stock valuations beyond what may be sustainable whenever AI spending growth normalises and when there has been time for these industries to see supply-side responses. Reflecting these observations, as we look at companies across the technology, industrials, materials and financial services sectors we are treading carefully.

According to Bloomberg data, the MSCI EAFE Quality Index out-performed the broader MSCI EAFE Index from 2015 to 2023 but has lagged that broader index since. This tallies with our observations that the AI "theme" has been dominating market discourse and creating a landscape in which steadier companies, with good free cash flow generating characteristics have been getting left behind somewhat. This quality category has been a sweet spot for Setanta over the years and we continue to see good opportunities here. Below we briefly discuss the portfolio's holding in Icon PLC to elucidate this point.

Stock Spotlight: Icon PLC

Icon PLC is one of the world's largest Contract Research Organisations ("CROs"). CRO's are hired by drug and biotech companies to help to run clinical trials. Drugs receive regulatory approval to be marketed based on the regulator's assessment that clinical trials have shown the product to be both safe and effective. To demonstrate this, these trials can involve monitoring thousands of patients across multiple jurisdictions over several years. This is an expensive and complex logistical exercise and there are regulatory guardrails around the procedures and processes involved. Modern blockbuster drugs can easily produce multiple billion dollars in annual revenues at very high contribution margins. Therefore, any problems with a trial that result in delays can result in substantial profits being foregone for the CRO's client. For these reasons, in our experience, the drug and biotech companies have trusted the large CROs such as Icon to help with the management of these clinical trials.

Shares in the CRO companies performed strongly during the pandemic. Icon's share price more than doubled from 2018 to the 2024 peak. In our opinion this reflected investor exuberance and higher levels of client spending, particularly on vaccines and coronavirus-related therapeutics. As the pandemic subsided the company's revenue growth began to slow and the share price almost halved between 2024 and 2025.

As we can see from the company's filings, group revenues barely grew from 2023 to 2025 but we viewed these headwinds as cyclical. In our experience drug and biotech companies often see r&d as the clearest way to grow and cyclical pressure on spending has tended not to last very long. In this context we saw Icon shares as undervalued in summer 2025 and opened a position. The company announced an accounting investigation into revenue recognition practices in early 2026. When it became clear to us that this would not impact cash flows, since it related to timing of revenue recognition, we increased the position near the share price lows. The accounting issue has since been resolved and the Balance Sheet and Cash Flows were unaffected. Furthermore, we believe we are now seeing early signs of business trends improving. The company's recent quarterly reports have shown that new business bookings have been growing, which is a theme being replicated at Icon's peers such as Iqvia, Medpace and Charles River. This helps explain Icon's dramatic share price gains in recent months.

While quarter to quarter business activity can vary, we are optimistic that the drug and biotech industries are beginning to allocate more cash to r&d, which we believe should benefit Icon in the coming years. Should our thesis play out, we believe the share price could see further meaningful upside.

The holding in Icon is illustrative of our belief that investor focus on the AI-exposed industries is resulting in a some neglect of good companies in other industries, creating opportunities for longer term investors.

Transactions during the period

Shares in DCC PLC have performed strongly in 2026, following a takeover offer for the company. Reflecting limited upside to the offer price, the fund exited the position, realising a good gain on the holding this year.

The fund exited the position in Gea Group. The original investment case was predicated on a new management team improving operational performance, which we believed would result in higher profit margins and capital efficiency. This thesis has played out as we had hoped and the stock responded favourably. We believe the current valuation is relatively full and therefore decided to exit the position.

The holding in Unilever had already been reduced and was fully exited in the period with the funds deployed across other holdings that we believe offer a superior investment opportunity.

The fund opened a position in shares of Tokyo listed Sony Group, a company we have been following for many years. In our view, Sony has strong positions in a number of attractive business niches. These include Music (Sony Music), Gaming (Playstation) and CMOS Image Sensors; a growing market in which we believe Sony is the clear global market leader. The high demand for semiconductors permeating from widespread investments across the Artificial Intelligence industry has raised the cost of inputs for Sony, which is creating some near-term pressure on profitability. We believe these pressures are cyclical and when these pressures ease the earnings power of the business should become clearer to investors. We believe the shares are attractively valued currently.

The fund opened a position in German company, Scout24 SE. The company operates the largest property portal in Germany and Austria. Real estate agents use the portal to advertise properties for sale or rent. We believe recent concerns around the potential for AI to disrupt the business are overblown. Rather, we believe it is possible that management could use AI tools to enhance the offering, creating new opportunities for the company. In this context, we see the recent share price weakness as a buying opportunity.

Rowan Smith

[1] *$ references relate to USD currency*

[2] *All references to strategy performance are gross of fees and all figures are in CAD terms (unless otherwise stated) as at 30th September 2026. The performance shown* 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 *Source: Keyridge/Setanta performance team*

Important Information

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