

The third quarter saw European stock markets in Canadian dollar (CAD) terms rise strongly, with the strength in the euro currency (up about 8% versus the CAD), accounting for a large part of this move.

Top contributing stocks in the third quarter

Axel Springer, which we recently added, has thus far performed extremely well thanks to significantly better-than-expected business performance, due in part to the strength in the German economy. Springer is the publisher of "Bild", the dominant national tabloid in Germany. The company has an exceptionally strong position in German media via its powerful domestic newspaper and magazine businesses, which afford it excellent pricing power. In addition, the growing international and digital businesses are helping to offset some of the secular pressures on these traditional media businesses. Management are conservative, as are the company's finances. We are happy holders. **DnB Nor**, the Norwegian Bank, has continued to rebound from depressed valuation levels reached during the financial crisis. Thanks to a strong domestic economy and conservative lending policies, the company was largely unaffected by loan losses. The company further strengthened its capital with an equity offering last year, and we remain confident in our position with the stock trading at 1.2x book.

Bottom contributing stock in the third quarter

CRH has performed exceptionally poorly this year, due to a number of profit warnings. These relate to weak construction-related activity in Europe and the U.S. While there appear to be tentative signs of stabilization and recovery in Europe, U.S. demand remains soft, with projects continuing to be delayed. We believe that demand will eventually recover, and we see the valuation as being extremely attractive in this context. We believe the stock is trading on less than 10 times long-term sustainable earnings.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Setanta Asset Management Ltd.