Setanta Global Equity Fund – Q2 2016 (USD)

Setanta
ASSET MANAGEMENT

Fund Description

The **Global Equity Fund** (‘the Fund’) is managed by Setanta Asset Management Limited (“Setanta”) and is a representative account of the Global Equity strategy.

The Fund is a diversified, actively managed equity portfolio. As bottom-up fundamental value investors, our research process is designed to properly understand how each business functions and to consider risks pertinent to the business. Securities are chosen by a team of global sector specialists, targeting sensible diversification across industries, geographies and market capitalizations. We value each business, with the priority to pay a price that mitigates downside risk. We aim to make investments for the long-term, all the while considering the available opportunity set.

Fund Commentary

For all negative airtime recently given to stock markets in the general news (Brexit, low oil price, low interest rates, China worries), you might be somewhat (pleasantly) surprised to read that shares rose in the quarter as well as year-to-date (as measured by the MSCI World in USD-terms).

The Fund continued its relatively good start to the year, rising c.7.0% (USD terms). As already noted, it’s been a volatile but flat-ish year and below the market averages some sectors and regions have been hit quite hard. Among the worst hit sectors have been the shares of European banks, where there is a perceptible panic among investors (down c.30% in the year to end-June). Issues hurting both reality and sentiment include low interest rates, concerns over China, an Italian banking sector that is under-capitalised and has not yet dealt with non-performing loans from the financial crisis – not to mention Brexit. The leverage in most banks makes them susceptible to poor financial health and for this reason the fund has had little exposure to them for a number of years.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie

Investment Principles

- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- We invest where we see value and are not afraid to be contrarian and swim against the tide.
- We don’t make forecasts, we consider scenarios.
- We demand financial strength from the companies we invest in.
- We will act with integrity and communicate with our clients in a manner representative of our investment style.
- We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study.

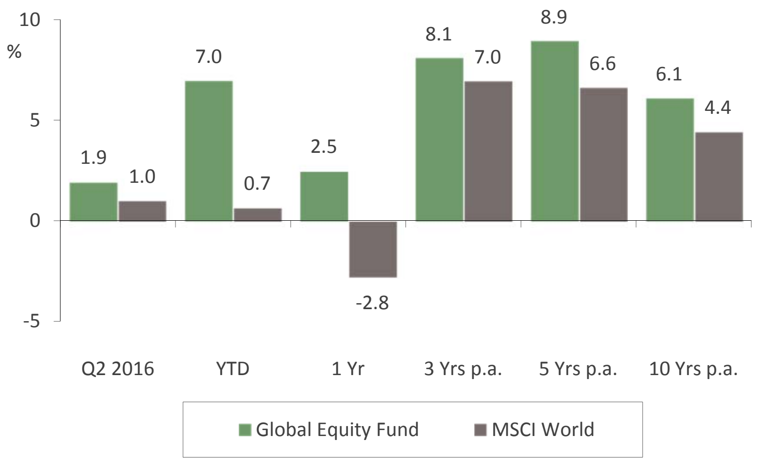
Irish Pensions AWARDS 2015
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

FUND PERFORMANCE – 30.06.16

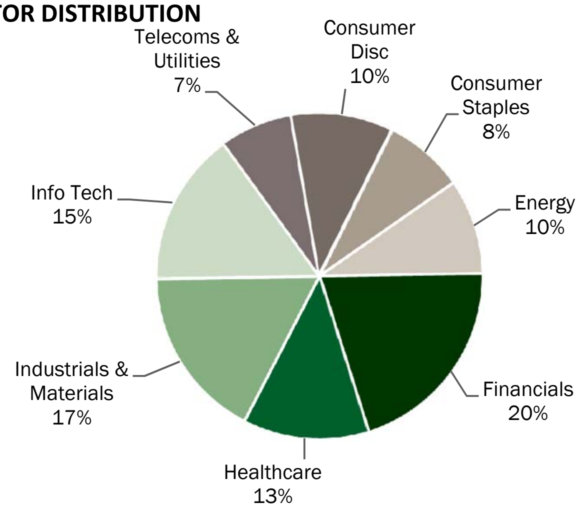


Performance Source: Setanta Asset Management Limited. Benchmark: MSCI World. The Fund returns, in USD, stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

FUND STATISTICS

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	19.3
DIVIDEND YIELD %	2.0
AVERAGE MARKET CAP $BN	73.4
NO. OF HOLDINGS	83
ACTIVE SHARE %	88.1
DEBT/EQUITY %	54.7

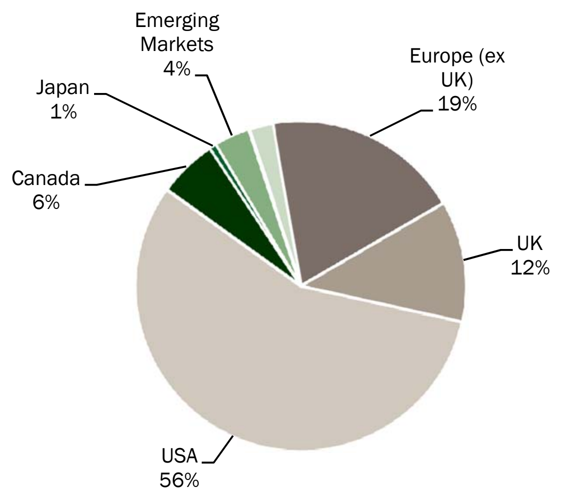
SECTOR DISTRIBUTION



TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	3.4%
BERKSHIRE HATHAWAY	FINANCIALS	3.1%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.9%
CRH	INDUSTRIALS & MATERIALS	2.9%
FAIRFAX FINANCIAL	FINANCIALS	2.6%
OSHKOSH	INDUSTRIALS & MATERIALS	2.6%
JOHNSON & JOHNSON	HEALTHCARE	2.4%
FEDERATED INVESTORS	FINANCIALS	2.4%
LEUCADIA NATIONAL	Financials	2.3%
MARKEL	Financials	2.3%

GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund	-17.5	15.1	10.7	8.0	25.8	-6.9	-24.6	15.9	3.0	0.1	13.3	38.9	15.4	16.3
Benchmark	-21.0	10.0	6.4	6.7	19.6	-7.5	-25.8	10.4	5.9	-3.2	13.3	35.2	14.4	18.9
Over/(under) Performance	3.5	5.1	4.3	1.3	6.2	0.6	1.2	5.5	-2.9	3.1	-	3.7	1.0	-2.2

We continue to be cautious on the outlook for equities, primarily due to the relatively high valuations companies typically trade on. However, we are generally happy with the fund's investments and you can rest assured we will be on the lookout for bargains that market volatility will undoubtedly throw up from time to time.

Valuation – Conor Walshe

A recent court case brought by former Dell investors who felt they had been short-changed when the company was taken private by founder Michael Dell in 2013 gave an interesting insight into the topic of business valuation. The court relied solely on the Discounted Cash Flow (DCF) methodology as it merited "the greatest confidence within the financial community". Each side relied on prominent academic experts to make their case. The company produced an estimate of $12.68 per share, suggesting that the $13.75 per share buyout price paid to shareholders was in fact generous. The calculation on behalf of the disgruntled investors was significantly higher at $28.61 per share. This implied a $28bn aggregate valuation difference on a buyout worth only $25bn!

At Setanta, we believe value is more than a number and by extension that valuation is more of an art than a science. The skill in valuing a business is not in selecting a particular valuation tool. It is in estimating the correct profit number to use in the valuation tool. There is no magic formula for valuing a company. The critical part is all the work that goes in beforehand in understanding the business, its durability, the threats it faces and assessing what it can reasonably expect to earn over a business cycle. We ask ourselves how a given company has performed through cycles in the past and whether there are structural reasons why this shouldn't repeat.

The level of sustainable cash earnings can be very different to the audited profit reported in a given year or indeed the non-GAAP metrics often highlighted by public companies. Examples of factors that need to be taken into account include the capital structure, the accounting policies used by management, the level of investment spending and where the company is in its business cycle. Again there is no one-size-fits-all approach to making these adjustments. It is only through spending a considerable amount of time in researching and understanding the business that one can sensibly factor in these considerations.

The mechanical valuation exercise is the relatively easy part. To our earnings estimate we apply what we believe is a sensible multiple for that type of business. The sustainability of any competitive advantage, the returns on capital the business can generate, its runway for growth and management's ability to allocate capital sensibly all feed into that multiple. Again, this is informed by the hard work already done in researching the business rather than any complex mathematical formula. Our aim is to be generally right rather than precisely wrong.

Nobody can know what the future rate of inflation will be, or the level of interest rates, or the precise level of future earnings so we believe point estimates of stock valuation are misleading. We think of valuation as a range of reasonableness as opposed to attempting to pinpoint precise price targets. Looking to identify a very specific price target risks ignoring the range of possible outcomes that a business can face. We sometimes refer to our approach as "paranoid" investing. We are constantly trying to think of what can go wrong and how a company can operate in that environment. When people aren't afraid of risk, they accept it without being compensated for it. By thinking through these potential scenarios and having done the work to understand the business, this gives the necessary resolve to initiate or add to positions where a stock price is weak based on short term market concerns rather than long term fundamentals. That is the opportunity.

The research effort doesn't stop once we buy a stock. The longer we own a company, the better our understanding and the better we are able to value it. This can sometimes lead us to put a higher valuation on businesses that we gain more confidence in, but it can also lead us lower our assessment of value – or even sell a stock – in businesses that we become less enthused about.

At Setanta, we are typically looking for good quality companies that are durable, financed conservatively, run by executives who are unlikely to do harm and under-appreciated by investors for one reason or another. We hope that these businesses can compound in value over time. Valuation is a key part of the equation. We are looking to buy at a price that over-compensates for the risk in the business. What we pay is critical to the level of risk. There is no such thing as an inherently good or bad investment: the price is key in determining what is a good or bad investment.

Buying a high quality business at a very inflated price does not make sense. We would posit that time spent understanding a business and its prospects is far more critical to arriving at a sensible valuation than considering what revenue growth and profit margin to input into Year 10 of a DCF formula.

Brexit – Rowan Smith

The UK electorate's decision to leave the European Union prompted a sharply negative reaction in global stock markets. While the negotiated terms of the exit and its timing are likely to remain unclear for some time, economic risks in the near term have increased. Our UK listed stocks in the portfolio are as a result of bottom-up fundamental stock picking rather than any top down macro call but nonetheless the fund's UK position is something we have been acutely aware of. Much of this exposure is through multinational companies which earn comparatively little in the UK and whose long term prospects are not affected much by the referendum's outcome in our view. However, we still have greater underlying exposure to the UK economy than the benchmark through some other Irish and UK holdings. Importantly, we have as always remained averse to risk and we believe the portfolio consists of high quality, financially sound businesses which are able to withstand short term pressures and ensure that long term business values are preserved. Despite the Brexit vote we think it is unlikely that the long-term earnings power – the key driver of business value – of the fund's holdings has changed significantly. Consequently we remain confident in the fund's holdings. We have been somewhat concerned about the valuations of many stocks in the market for some time, especially in the context of an uneasy global social/political/economic environment and this is why we have held cash at levels close our permitted maximum level of 10%. In this context, volatility may provide us with some good opportunities to put cash to work.

Transactions during Q2 2016

During the quarter there were two transactions of significance and one of the fund's holdings was acquired.

In the healthcare sector VWR was purchased. VWR is one of two dominant distributors of laboratory suppliers in the US and Europe. We believe it is a high quality business that earns good returns on capital and has very high barriers to entry. The business is unlikely to be subject to big swings in customer demand and we think that demand should grow steadily over time. VWR carries a higher debt load than we normally accept, but we give it a pass for a couple of reasons. Firstly the quality and stability of the business means that interest costs should be easily covered by cash flows and secondly management plans to reduce debt going forward. On our estimates, VWR trades on a debt-free price-to-earnings ratio of 20x. While at first glance this does not appear very attractive, it must be seen in the context of the confidence we have in VWR's long-term future and its ability to sustain and grow profits. In fact, VWR is a great example of our approach to valuation outlined above: cheap or expensive cannot be adequately captured in a P/E ratio.

In the energy sector we purchased UK-listed Tullow Oil, the oil exploration and development company with assets primarily in West Africa and in particular Ghana. Tullow is considered a successful pioneer in the African oil markets. Like most energy companies, the current low oil price environment has taken its toll. However, an additional negative for Tullow has been its debt load, which it took on to develop a handful of large and highly promising oil fields. The combination of the oil price, the high debt load as well as a loss of confidence from the investment community resulted in an 80%+ fall in the share price since 2012. We think this share price move is over-done and that the value of Tullow's net assets will eventually prove to be worth a multiple of the current market cap.

Rounding out the transactions report, US medical devices company Stryker and Hong Kong financial services company Dah Sing were also sold. They were both small positions in the fund when finally sold. Stryker was a particularly successful investment. Bought in March 2009 at around 10x P/E, a >300% price increase put the stock on around 25x P/E, which was deemed too rich. Stryker is an excellent company and one that we would look to own again in the future at a cheaper valuation.

Finally, as flagged in the fund's Q1 report, US-based alarm monitoring company ADT was bid for by private equity firm Apollo. The bid was accepted by shareholders and the fund received the cash during the second quarter.

David Coyne – Portfolio Manager

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