Setanta Global Equity Fund (USD) – Q3 2018

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

Once again this quarter, the headlines were dominated by uncertainties around trade tariffs and Brexit and their potential to disrupt corporate supply chains. In the context, too, of tightening credit conditions, global equity markets somewhat surprisingly remained strong with investors perhaps more focused on strong corporate earnings and benign economic conditions.

The Fund was slightly ahead of the benchmark by +0.4% in the quarter and for the year is behind by -0.9% .

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie, CFA

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.

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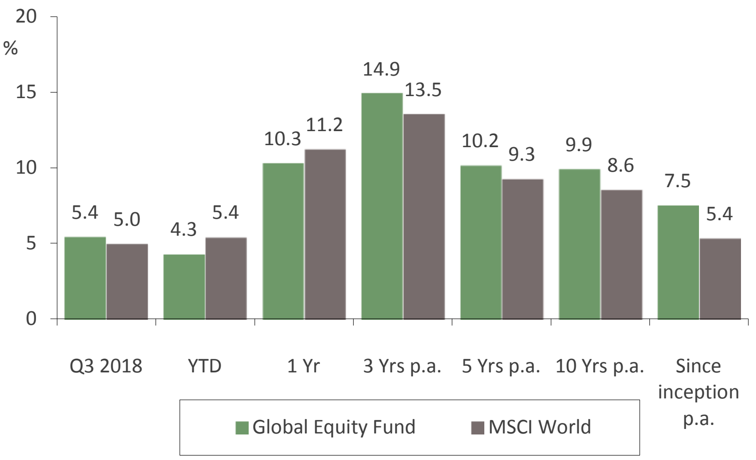
FUND PERFORMANCE – 30.09.2018 (USD)

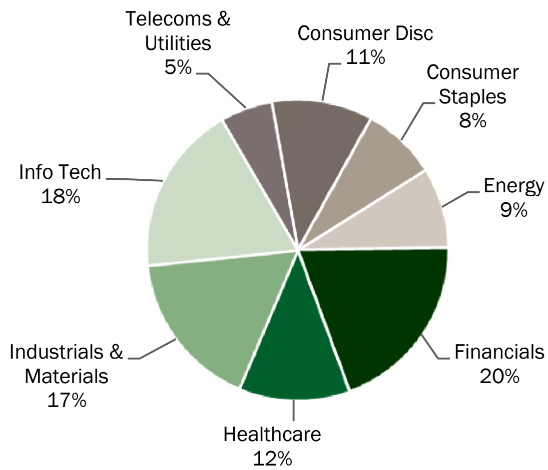


Performance Source: Unit prices: representative account converted to USD at FX Rate 1.1615. Benchmark: MSCI World (USD). The Fund returns, in USD, stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance 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)	15.7
DIVIDEND YIELD %	1.9
AVERAGE MARKET CAP $BN	69.3
NO. OF HOLDINGS	90
ACTIVE SHARE %	87.4
DEBT/EQUITY %	53.3

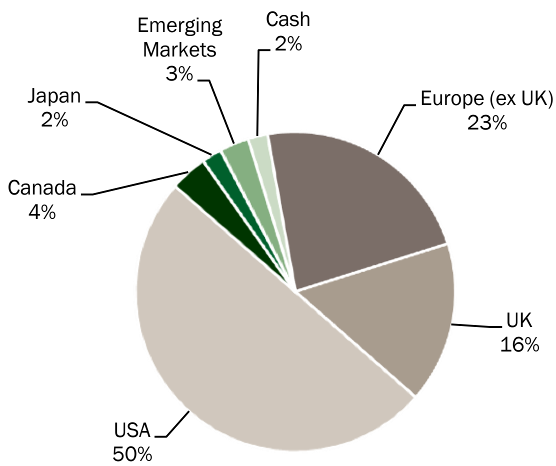
SECTOR DISTRIBUTION



TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	3.0%
BERKSHIRE HATHAWAY	FINANCIALS	3.0%
MICROSOFT	INFORMATION TECHNOLOGY	2.8%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.5%
OSHKOSH	INDUSTRIALS & MATERIALS	2.3%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	2.3%
JEFFERIES FINANCIAL GROUP	FINANCIALS	2.3%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.2%
CRH	INDUSTRIALS & MATERIALS	2.1%
FAIRFAX FINANCIAL	FINANCIALS	2.1%

GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year %	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	39.8	19.5	10.8	26.3	9.8	-39.7	36.4	8.7	-2.4	15.9	30.2	5.9	-2.2	12.8	23.8
Benchmark	33.1	14.7	9.5	20.1	9.0	-40.7	30.0	11.8	-5.5	15.8	26.7	4.9	-0.9	7.5	22.4
Relative Performance	+6.7	+4.8	+1.3	+6.2	+0.8	+1.0	+6.4	-3.1	+3.2	+0.1	+3.5	+1.0	-1.3	+5.3	+1.2

Portfolio movements

Acute weakness in gold underpinned the 17% fall in **Sandstorm Gold**, the gold royalty company, and principal detractor from performance in the quarter. In return for providing capital to fund mine exploration and development Sandstorm receives royalty payments from 188 assets around the world. Sandstorm takes these cash flows and reinvests into more projects that meet their diligence requirements. With an all-in-cash-cost per oz. of gold at $600, Sandstorm captures the spread between the spot gold price and its cost base. The company carries zero balance sheet debt and has significant growth from producing assets coming on stream in the next 4 years. There is also inherent optionality from cash flow deployment and exploration upside on assets. With a shareholder-orientated management and valued at a significant discount to equivalent companies we are comfortable with the risk/reward albeit, quarter to quarter, the stock will trade in line with the gold price.

CRH too was a detractor, with a welcome – and long overdue - change in capital allocation policy to include share buybacks as part of the menu of options for capital deployment. Before deploying capital externally we firmly believe boards should consider whether an investment in their own company via a share buyback would be a materially better way of deploying surplus capital in a value accretive manner. However, despite initiating a £1bn share buyback, in addition to strong underlying cement pricing dynamics in Europe in CRH's core markets investor sentiment failed to overcome expectations of rising input and labour costs, emerging market and Brexit concerns. Our focus, of course, is on the long term, where we estimate CRH has strong prospective cash flows underpinned by recovering European pricing and momentum in the US.

Once again stocks we don't own dominated performance, with Apple & Amazon costing almost 1% in relative performance. We have spoken many times on FANG stocks and our reluctance to own consumer-facing technology companies with significant valuation and disruption risk. Instead, within the technology companies we own, we are largely focused on high quality technology business models or assets, typically enterprise businesses with strong recurring revenues that have somehow misstepped, allowing us to opportunistically buy. **Ericsson** was one such business we bought last year (profiled Q2 letter) which has contributed materially to performance; our thesis that the concerns drove the valuation down were indeed fixable.

Another noteworthy positive contributor was **Owens-Illinois**, the glass bottle manufacturer. Last quarter we commented that "O-I has gotten no credit from investors for achieving operational and financial improvements over the last 2+ years. We expect that continuing evidence of operational stability and improving cash flows will ultimately be rewarded with a re-rating of the shares." This ongoing tension between improving fundamentals and a lacklustre share price prompted a long-time shareholder to press for more aggressive action to create value.

The frustration here is the ongoing disconnect between the market value of the company and private market values at which these packaging businesses assets change hands. In a market where it's not difficult to find richly priced assets, Owens-Illinois trades at ~6x next year's earnings and has become vulnerable to takeover. Even at Owens-Illinois' highest price in the last 12 months, some 50% above current levels, a buyer could acquire Owens-Illinois at a valuation that would significantly undervalue its long term prospects.

Work we did a couple of years ago on the impact of selling part of the business as a means of unlocking value was brought to fore again. The thinking here is that while Owens-Illinois is the clear global number one in glass packaging, the business itself is capital intensive, financially geared and, with 70% revenue outside the US, exposed to foreign currency fluctuations. With no obvious loss of synergies or raw material buying power, as well as operating fairly independently from headquarters, it is worth considering whether selling the European business makes sense as a means of unlocking value.

Owens-Illinois has done a good job of refreshing the asset base in Europe as well as optimising its footprint and improving overall operational effectiveness. These combined actions have improved segment margins towards mid-teens levels, which support an overall valuation for the segment of circa $3.5bn. Selling the segment and using these proceeds to pay down debt and buy back undervalued shares, materially reducing FX exposure and increasing creditworthiness is worthy of serious consideration in the absence of Owens-Illinois management having material value creation initiatives for the whole. Of course the subsequent lower cash flow number from the remaining segments must support the continuing drag from asbestos payments.

We have been impressed with management's actions in the past two-and-a-half years while remaining patient for the improving economics to be reflected in market valuation. Experience has taught us that the outperformance of low value stocks over time, when compared to growth companies, can come in narrow concentrated bursts. If this is to prove true with Owens-Illinois, perhaps the company needs to consider more aggressive action to unlock latent value for shareholders.

Transactions

We made one new investment this quarter namely fuel forecourt retailer **Applegreen plc**. Applegreen has operations in Ireland, the UK and the United States. It was founded in 1992 by current CEO Bob Etchingham. He was joined a year later by Joe Barrett (current COO) and together they built the business to 342 sites at the end of December 2017. The business may be considered a convenience retailer that sells fuel, food to be consumed immediately and other convenience products. The fuel retailing industry has seen the oil majors exit their distribution arms to focus on upstream exploration and development projects. This meant that Applegreen was able to add to the estate significantly over the last decade, going from 53 sites operated in 2008 to 342 at the end of last year.

The strategy is to have the lowest price fuel in a locality, driving volume to the forecourt and more volume to their attractive retail and food offerings in store - all in the context of supply coming out of the market which adds a favourable industry backdrop to the investment case. We have followed the business for some time and became shareholders by participating in their equity placing to raise €175m, the proceeds of which will be used to acquire a 50% interest in complementary business Welcome Break, the UK motor way service area business.

Sean Kenzie – Portfolio Manager

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