

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

The USD market value of the fund rose by 12.8% (gross of fees, USD-terms) in 2016, which was 5.3% ahead of the MSCI World benchmark (7.5% also gross, USD-terms).

2016 was the 14th year out of the fund’s 16 year history to be ahead of the benchmark. Moreover, we think this has been achieved while taking less than average risk. Proving this latter point is very difficult (risk is neither measurable ex ante nor ex post). As we see it, risk is the chance of losing money and is a mindset, not a formula. At an individual stock level, money is typically lost in three ways: miscalculating the sustainable profits a business is likely to generate, buying companies whose financial obligations are unsustainable and paying too high a price for the stock. Avoiding each of these pitfalls can be difficult and we make our share of mistakes and take our share of bad luck. This is why we see diversification as a critically important aspect of managing risk.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie

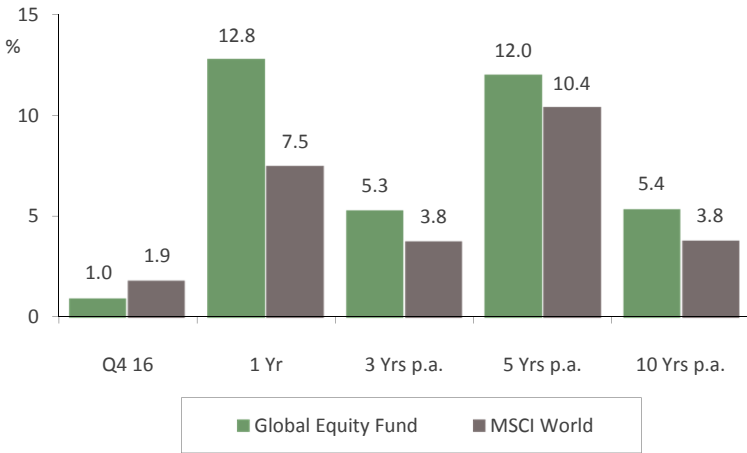


Investment Principles

- 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.



FUND PERFORMANCE – 31.12.16



Performance Source: Unit prices: ILA . 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

TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
BERKSHIRE HATHAWAY	FINANCIALS	3.0%
CRH	INDUSTRIALS & MATERIALS	3.0%
DCC	INDUSTRIALS & MATERIALS	2.8%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.8%
LEUCADIA NATIONAL	FINANCIALS	2.6%
OSHKOSH CORP	INDUSTRIALS & MATERIALS	2.5%
FAIRFAX FINANCIAL	FINANCIALS	2.3%
FEDERATED INVESTORS	FINANCIALS	2.3%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.1%
JOHNSON & JOHNSON	HEALTHCARE	2.1%

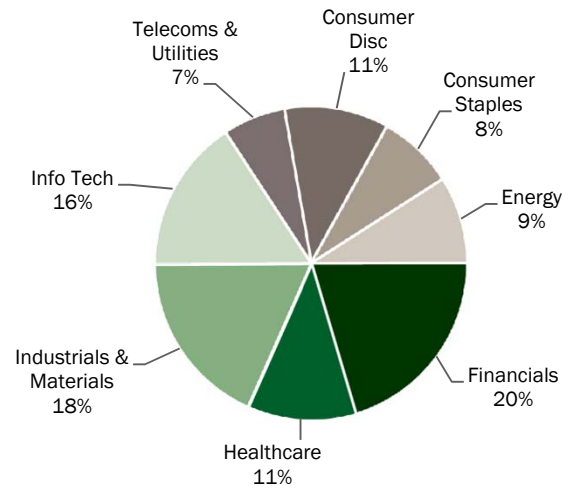
YEARLY PERFORMANCE

Year %	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund	39.7	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
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
Relative Performance	+5.0	+4.8	+1.3	+5.6	+0.7	+1.0	+6.3	-3.3	+3.3	0.0	+3.3	+1.1	-1.4	+4.9

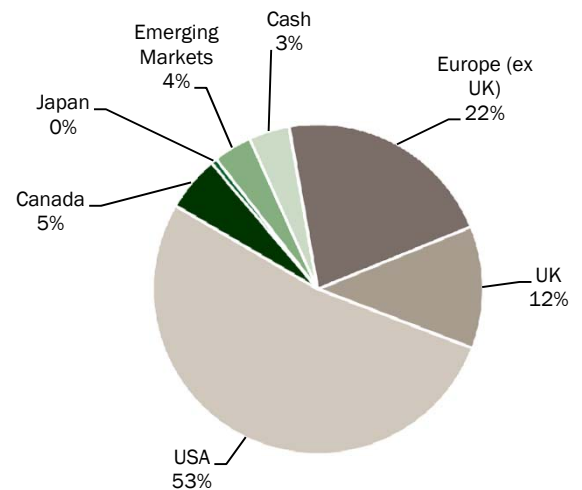
FUND STATISTICS

PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	16.5
DIVIDEND YIELD %	2.2
AVERAGE MARKET CAP \$BN	56.6
NO. OF HOLDINGS	87
ACTIVE SHARE %	88.5
DEBT/EQUITY %	55.0

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



We aim to own a spread of businesses exposed to a range of different geographies, industries and end customers. We also like each of our company holdings to have sufficiently diversified profit streams and be able to prosper in different macro-economic and political environments (i.e. we are wary of one-trick ponies). The result is that when misjudgement or bad luck hits, its implications for individual stocks and the overall portfolio are contained. We think this partly explains the consistency of the fund's performance track record.

Speaking of macro-economic conditions, 2016 was a bad one for many "macro" investors – that is, those whose investment approach is based on the prediction of overall economic and political outcomes. A December article in the Wall Street Journal commented on how "some of the biggest names in the (macro) hedge-fund industry began 2016 betting stocks would tank. It turned out to be a terrible call". We sympathise with them somewhat, as there are certainly some concerning macro issues, in particular the side effects of low interest rates and valuations that are generally on the high side of history. But that's where our sympathy ends. Macro outcomes are very difficult to consistently call correctly. We didn't think Trump would get elected or Brexit would happen – and we certainly thought they would be negative outcomes. We think the best way we can add value for clients is by having a deeper and better understanding of our chosen stocks than the average investor, and owning them when we deem them to be undervalued. This undramatic approach has underpinned the fund's past and gives us confidence that future (risk-adjusted) performance will continue to be satisfactory.

Review of Portfolio and Transactions in 2016

Over the course of the year, notable performers in the fund were industrial companies Melrose Industries (+205%), Kennametal and Oshkosh (both +73%), as well as ATM manufacturer NCR Corp (+71%) and tech companies Hewlett Packard Enterprises (+59%) and Samsung Electronics (+44%). Around one-quarter of the portfolio by weight rose by more than 30% in Euro-terms.

At the other end of the scale, around 10% of the fund by weight fell by 10% or more. Notable among these was sports equipment company Nike (-15%), agri-services firm Origin Enterprises (also down 15%) and Irish food group Kerry (-10%). The good news is that we are still confident in the future prospects for each of these companies.

During 2016 the fund became an owner in 10 new companies, while exiting six holdings. That brought the number of fund holdings to 87 at year end. The new stocks were around half the average stock weight in the fund at year end (0.6% v's 1.1%), partly because in some cases we are patiently waiting for a more opportune time to buy more. The important buys and sells are listed in the following table. Most of these were discussed in the quarterly reports written throughout the year and the three new stocks purchased in the fourth quarter – Euler Hermes, Unilever and Tenaris – are discussed below.

	End of year	weight	Comments
10 Buys			
Tullow Oil		0.9%	Oil exploration & development, mainly in Africa. See Q2 fund report.
VWR Corp		0.8%	Laboratory supplies distributor. See Q2 fund report.
Keysight Technologies		0.9%	Test & measurement equipment for the IT industry. See Q3 fund report.
Pernod Ricard		0.7%	Spirits & wines producer. See Q3 fund report.
Redes Energeticas Nacionais (REN)		0.4%	Portugese regulated utility. See Q3 fund report.
CIE Financiere Richemont		0.3%	Luxury goods manufacturer & retailer. See Q3 fund report.
Euler Hermes Group		0.7%	Credit insurer, see below.
Unilever		0.4%	International producer of food & other goods, see below.
Tenaris		0.3%	Global manufacturer of steel pipes to energy industry, see below.
HollyFrontier		0.2%	US oil refiner, see below.
Start of year			
6 Sells (only 3 of significance)			
ADT Corp		1.2%	Company acquired. See Q1 & Q2 fund reports.
Lexmark International		0.3%	Sold out in Q2/Q3 following announcement to be acquired. See Q3 report.
Devon Energy		1.2%	Sold down in Q1, remaining weight sold out in Q4. See below.

New purchases in Q4:16

The Franco-German group **Euler Hermes** is the global leader in credit insurance, accounting for around one-third of this market niche by premiums. Its business is managing and insuring trade credit receivables on behalf of (non-financial) businesses. The credit insurance industry is highly consolidated, being dominated by Euler Hermes and two other European companies Atradius and Coface, who together make up 75-85% of the global market. In our opinion, Euler Hermes is the best run of the three large credit insurers, with a long record of impressive profitability (including avoiding a loss in the financial crisis). Industry losses stemming from unpaid Asian receivables over the last 12-18 months clipped profits at Euler (and its peers), but we believe this will prove irrelevant to firm value over the long term. The lower share price provided an attractive entry point for us to start building a position.

Unilever the global food, household products and personal care company is the maker of Ben and Jerry's ice cream and Dove soap. Strong local and global brands have been built up and / or acquired over many years, allowing it charge premium prices and generate steady mid-teens operating profit margins that its unbranded competitors can only dream of. Unilever has an attractive geographic spread, with a mix of mature markets in Europe combined with substantial exposures to Asia, Africa and Latin America. Altogether, emerging economies with a growing middle class and a propensity to buy western-branded goods account for around 60% of group sales. The recent slowdown in some Asian and LatAm economies, coupled with a post-Trump investor rotation into lower quality companies resulted in a fall in Unilever's share price during Q4. A position in the stock was initiated.

Tenaris manufactures and distributes steel pipes to the energy industry. Its tubular pipes are used in the casing of oil and gas wells in the exploration & development process, and in the transportation of oil and gas from reservoir to rig in the production process. At first glance tubular pipes seem pretty basic products; in reality they can range from the bog standard to the specialised. Specialised pipes – which sell at premium prices – are needed for the increasingly complex and testing environments that oil and gas is being explored and developed. There are really only three specialised pipe manufacturers globally, namely Tenaris, Vallourec of France and Nippon Steel of Japan – and of these three only Tenaris has shown consistent and long-term profitability due to its flexible and low-cost manufacturing facilities. The difficulties of the energy market in the last couple of years have dragged down Tenaris' profits, pulling down the share price disproportionately. We started to build a position in the stock in Q4.

HollyFrontier is an independent US oil refiner. Oil refining – taking basic crude oil and transforming it into higher value oil-based products – is a capital intensive business producing commodity products, normally subject to intense competition and so usually not a rich source of investment candidates for us. HollyFrontier, the result of a merger of Holly Corp. and Frontier Oil (a former Setanta holding) in 2011, goes counter to this narrative (as does Tupras of Turkey, a fund holding since 2013). Its five refineries are located in areas of the US that typically enables it to buy its crude oil input at a discount and sell the refined products at a premium. We believe there is a low likelihood of new refineries being built close to HollyFrontier's, meaning its above-average profitability is likely to persist. We also have a favourable view of management, who are disciplined and emphasise return on capital. The recent difficult US refining environment has caused stock price weakness, affording an opportunity to buy.

Sale in Q4:16

US oil and gas company **Devon Energy** was first purchased for the fund in mid-2012 at a price of around \$60 per share. The investment case at the time was principally that Devon held a collection of attractive assets, which were arguably undervalued, while the company had an impressive record of investing capital in a relatively prudent fashion. At the time of acquisition, Devon's net debt was negligible. Importantly, its growth was largely organic, rather than corporate deals. Valuation, utilising various metrics, suggested substantial upside.

The story of what subsequently transpired is an example of how difficult investing can be and how incompetent management can destroy company value. A change in the CEO in mid-2015 (and a more subtle and gradual change in corporate culture following the retirement of the long-serving company founder in 2010) was a far bigger event than we realised.

In December 2015, the company announced it was spending \$4bn+ on a number of corporate acquisitions, which left the company with far too great a debt pile. Management assured investors it would be able to sell assets to reduce debt, but in a declining oil price environment this proved to be fanciful. Following a downgrade of its credit rating to 'junk' status, the company was forced to issue equity for a second time in a matter of weeks (this time at a steeply lower – and hence highly dilutive – share price). The situation had developed over the course of just two short months and we were faced with a conundrum. Our confidence in management was shattered and it wasn't clear that the company's financial strength was sufficient yet to see it survive; against this, we believed that Devon still held some valuable assets and all going well the stock could be very cheap. A decision was taken to substantially cut our holding in the stock in mid-February, despite the share price having fallen from c.\$46 before the acquisition announcements to below \$20. As it happened the share price did recover, helped by a rebound in the oil price, and we sold out the balance of the holding at a price of c.\$45. It was a regrettable situation, but one which we will try to learn from.

David Coyne – Portfolio Manager

Contact Details:

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Alan Hickey, Tel: + 353 1 612 4903
Email: alan.hickey@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The Setanta Global Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the Setanta Global Equity strategy. The Fund is available on a separate account basis to institutional investors. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.

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