Global Focus Fund (EUR) – Q2 2016

Setanta
ASSET MANAGEMENT

Fund Description

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

The Fund is an actively managed, concentrated Global Equity Fund that is invested in circa 20 stocks. As a fundamental value investor our research is designed to properly understand how each business functions and to consider pertinent risks to the business. We attempt to value each business, incorporating relevant upside and downside scenarios. As such the Fund attempts to invest in the most attractive stocks across all the firm's strategies using a risk-return framework. Investments are made for the long-term and are based on investment merit rather than with reference to benchmark. This Fund is mandated to be fully invested in equities. Due to the concentrated nature of the Fund, performance may be volatile.

The investment objective of the Fund is to outperform the MSCI World index over periods of three years or more.

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 and year-to-date (as measured by the MSCI World in Euro-terms).

The Fund continued its relatively good start to the year, though it gave back some performance at the end of the quarter following the Brexit result. In particular, LSL, the UK residential property estate agent, fell 24% in Euro terms. While the UK leaving Europe will likely damage earnings capacity in the short term and maybe even the medium term, it is not clear to us that the business should suffer long term damage (life goes on, as they say). This is a very resilient business that we think is exceptionally cheap and will ultimately deliver excellent investment results for the fund.

(Fund Commentary continued on Page 3)

Portfolio Managers

Rowan Smith & David Coyne

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

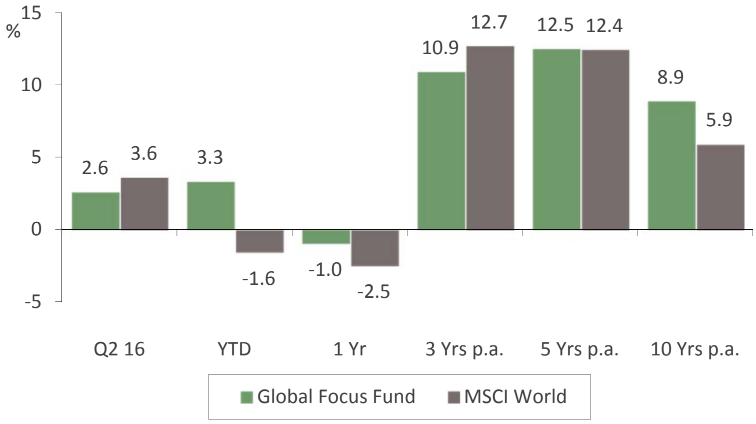
Irish Pensions AWARDS 2014
WINNER
Equities manager of the year

Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

Setanta ASSET MANAGEMENT

FUND PERFORMANCE (EUR) – 30.06.16



Performance Source: Setanta Asset Management Limited. Benchmark: MSCI World. The Fund returns 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 (Valuation) Median ex Financials

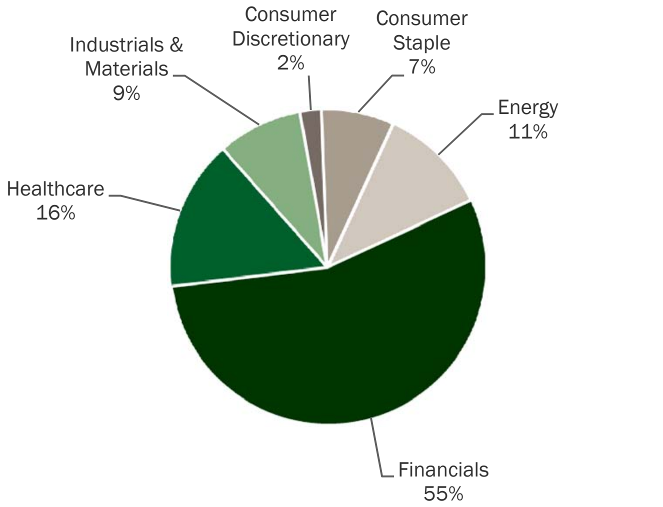
FUND HOLDINGS

COMPANY	SECTOR	% OF FUND
FAIRFAX FINANCIAL	FINANCIALS	8.5%
DIAMOND OFFSHORE	ENERGY	7.8%
LSL PROPERTY SERVICES	FINANCIALS	7.4%
JOHNSON & JOHNSON	HEALTHCARE	7.2%
STERIS PLC	HEALTHCARE	6.8%
LEUCADIA NATIONAL	FINANCIALS	6.7%
BERKSHIRE HATHAWAY	FINANCIALS	6.2%
MARKEL	FINANCIALS	5.9%
BROOKFIELD ASSET MGMT	FINANCIALS	5.8%
SYSCO CORP	CONSUMER STAPLES	4.9%
MINCON GROUP	INDUSTRIALS & MATERIALS	4.5%
GRANITE REAL ESTATE	FINANCIALS	4.2%
LANCASHIRE HOLDINGS	FFINANCIALS	3.8%
DCC	INDUSTRIALS & MATERIALS	2.7%
NATIONAL OILWELL	ENERGY	2.4%
SWATCH GROUP	CONSUMER DISCRETIONARY	2.0%
TESCO	CONSUMER STAPLES	1.8%
GREAT EAGLE HOLDINGS	FINANCIALS	1.4%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	0.8%
BROOKFIELD BUSINESS	FINANCIALS	0.1%

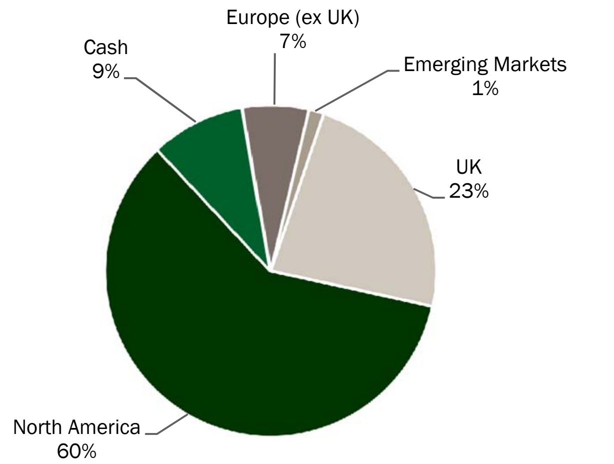
FUND STATISTICS

PRICE/BOOK	1.4
PRICE/EARNINGS RATIO (FY 1)	18.8
DIVIDEND YIELD %	2.1
AVERAGE MARKET CAP € BN	53.5
NO. OF HOLDINGS	20
DEBT /EQUITY %	40.9
ACTIVE SHARE %	98.3

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund	-19.7	-35.6	3.9	7.6	27.3	17.0	-2.7	-35.2	44.0	28.2	1.5	9.0	20.0	19.1	7.3
Benchmark	-12.2	-32.1	11.3	6.5	26.2	7.4	-1.7	-37.6	25.9	19.5	-2.4	14.1	21.2	19.5	10.4

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. 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 quite risky investments and for this reason the fund has had little exposure to them for a number of years.

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, Portfolio Manager

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, Portfolio Manager

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.

Transactions during Q2 2016

During the quarter we bought a small position (2%) in Swatch, the Swiss watch maker that the fund has held on a few occasions in the past. Swatch makes most of its revenues and profits from the sale of high-end luxury Swiss-made watches (costing anywhere from a few thousand dollars to tens and even hundreds of thousands of dollars). Investors are bearish on the global luxury sector in general, but especially high-end watches, as sales to Chinese consumers have been weak following a crackdown on "influential gifting" (a.k.a. bribery) since 2012. Chinese demand accounts for around 50% of Swatch's current profits, so it is clearly an important issue. Reflecting this risk, the Swatch share price has fallen c.50% since 2013 i.e. investors are anticipating that Chinese luxury watch demand will weaken significantly more than it already has. With a rock-solid balance sheet and a management team that takes a long-term approach to the business, at the current share price we judge the long-term upside potential for Swatch to be attractive.

David Coyne – Portfolio Manager

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IMPORTANT INFORMATION