Global Focus Fund (EUR) – Q2 2018

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

While renewed talk of global trade wars and political uncertainty in Italy and Spain caused some very short lived bouts of volatility, the second quarter was a relatively calm period for markets. We can't tell when the next bout of market stress will occur but such times can be rewarding. Indiscriminate selling can allow us to buy into quality companies which were previously too expensive for our liking. Recent experience could lull one into a false sense of steadily rising equity markets being the norm. However, these times of stress happen more often than you'd think. Between 1980 and 2017, an exceptionally positive period for equities, the average intra-year drawdown for the S&P 500 was almost 14%. At a stock level, that volatility can obviously be much higher.

(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 2016
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

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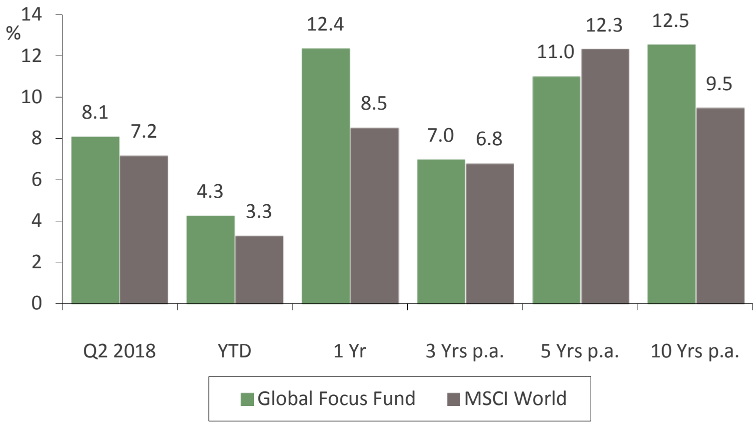
FUND PERFORMANCE (EUR) – 30.06.18



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

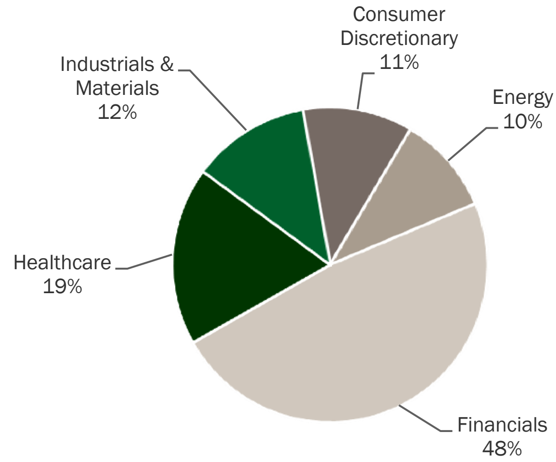
FUND HOLDINGS

COMPANY	SECTOR	% OF Fund
MINCON GROUP	INDUSTRIALS & MATERIALS	8.6%
FAIRFAX FINANCIAL	FINANCIALS	6.8%
LSL PROPERTY SERVICES	FINANCIALS	6.8%
BERKSHIRE HATHAWAY	FINANCIALS	6.4%
STERIS	HEALTHCARE	6.1%
JEFFERIES FINANCIAL GROUP	FINANCIALS	5.8%
DIAMOND OFFSHORE	ENERGY	5.8%
LANCASHIRE HOLDINGS	FINANCIALS	5.8%
HENRY SCHEIN	HEALTHCARE	5.5%
MARKEL	FINANCIALS	5.2%
RICHEMONT	CONSUMER DISCRETIONARY	4.8%
JOHNSON & JOHNSON	HEALTHCARE	4.6%
GRANITE REAL ESTATE	FINANCIALS	4.1%
NATIONAL OILWELL	ENERGY	3.2%
RYANAIR	CONSUMER DISCRETIONARY	2.8%
SWATCH GROUP	CONSUMER DISCRETIONARY	2.4%
DCC	INDUSTRIALS & MATERIALS	2.2%
GREAT EAGLE HOLDINGS	FINANCIALS	1.8%
CASH		11.4%

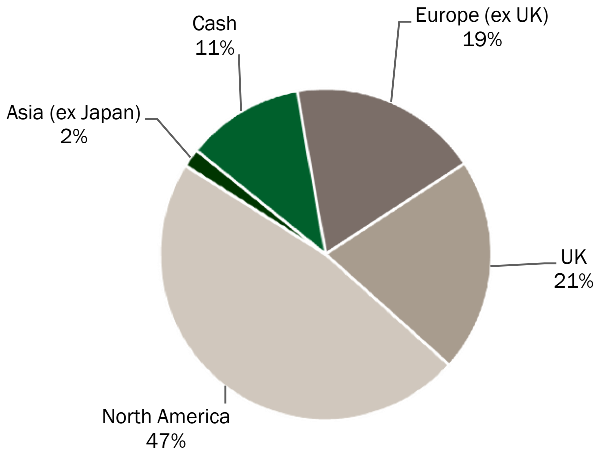
FUND STATISTICS

PRICE/BOOK	1.6
PRICE/EARNINGS RATIO (FY 1)	18.5
DIVIDEND YIELD %	1.6
AVERAGE MARKET CAP € BN	46.5
NO. OF HOLDINGS	18
DEBT /EQUITY %	35.0
ACTIVE SHARE %	92.6

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	-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	11.7	9.7
Benchmark	-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	10.7	7.5

Portfolio movements

The market value of the fund's holdings grew by 8.1% in the quarter, ahead of the benchmark for the quarter and year-to-date. We are happy with the fund's holdings and held c.11% cash at quarter end, which will be used to fund attractive new investments as they become available.

With the improved investor sentiment towards oil, it's perhaps no surprise that our two energy holdings were up strongly. **Diamond Offshore** rose 50% while **National Oilwell Varco** was up 24%, both Euro-terms. While Diamond claimed top spot this quarter (and has doubled since its low a year ago), it has been a terrible investment since we first purchased it almost 5 years ago, down more than 50%. Diamond Offshore drills oil wells for its oil & gas producing / operating customers. Offshore oil is a relatively high-cost source of product and so needs a high oil price to justify its existence. Moreover, offshore oil typically requires a big upfront investment and pays off over many years if not decades. The perfect storm of a low oil price and worries about the longer-term demand for oil (skewing investment towards US 'shale gas' – lower investment, quick payback) has effectively killed investment in offshore oil over the last 3-5 years. Diamond Offshore has suffered consequently and to a lesser extent National Oilwell Varco, which makes drilling equipment and consumables (note that despite the difficult backdrop our NOV investment has been a success as we bought in 2016 after a sharp fall in the share price). The current low level of offshore investment is not sustainable – the world will likely take decades to wean itself off oil (no matter how we might wish this to be different) and short-run shale gas projects are no substitute for the predictable output you get from large offshore fields. We wouldn't be surprised to see a snap back in offshore investment at some stage (likely a number of years away, but who knows) and the energy industry will once again be scrambling around for the drilling equipment. However, we temper this bullish scenario by admitting it is conceivable that the offshore industry will be a shadow of its former self, even factoring in a recovery. We continue to form our conclusion on both of these holdings.

Elsewhere **Steris**, the sterilisation equipment and services company, rose 19% in Q2. In contrast to the above tale of woe, Steris has been a resounding success since first purchased in 2010 (up more than four-fold since). Other good performers in the quarter include LSL Property Services and Fairfax, both up 18%. Lagging the market were our insurance holdings Lancashire and Markel (both -3% Q2) and Ryanair.

Transactions

There was no transaction activity in the quarter.

Setanta 1: Big Data 0 (with a tip of the hat to the on-going soccer World Cup)

In last quarter's report we highlighted an investment proposition that we had considered but decided not to pursue. To refresh readers, the company in question was Sigma Pharmaceutical, one of the big three drug distributors in Australia. We discussed how the stock screened as attractive based on a variety of quantitative measures (step forward, Big Data) but we decided against pursuing it based on qualitative risk factors that we felt were troubling, including the potential for a substantial contraction in profits should Sigma lose its largest customer; a possibility that looked very real to us. In the first week of July, that reality came to pass when management confirmed that the customer in question was not renewing its contract. The share price has fallen by 50% from the level at which we reviewed the investment case; a decline more or less in line with the contraction in profit now expected by management as a result of the contract loss. This case reinforces the critical importance of the qualitative analysis of a business, particularly with respect to risk.

David Coyne – Portfolio Manager

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IMPORTANT INFORMATION