# Setanta Global Focus Fund
Q4 2020

## 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 equity portfolio which holds c.20 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile. Stocks are chosen through bottom-up analysis, based on investment merit. Due to the Fund's concentrated nature, investments require an even greater than normal margin of safety. The Fund can hold up to 30% cash where investments of sufficient quality cannot be found. Rather than focusing on the historic level of volatility of an asset, the portfolio managers regard the probability of permanent impairment of capital as the most relevant measure of risk. In doing so, they seek to maximise downside protection by understanding the risks posed by the valuation, financial, and operational characteristics of the asset.

## Fund Commentary

Investment markets in 2020 were as dramatic, surprising and confusing as any of us at Setanta have experienced in our careers. Despite the dire macro environment that readers are all too aware of, the world stock market rose 6.3% in Euro terms in 2020.

*(Fund Commentary continued on Page 3)*

## Portfolio Managers

David Coyne & Rowan Smith

## Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

We are not afraid to swim against the tide

We consider scenarios rather than making forecasts

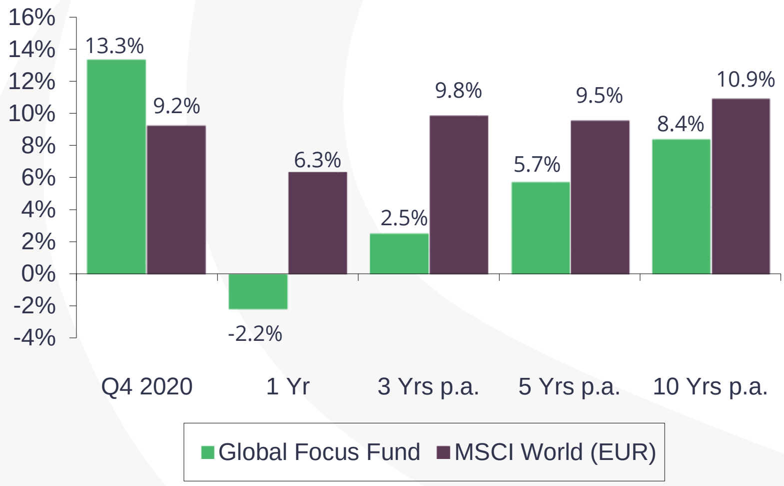
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

## Fund Performance – 31.12.2020 (EUR)




**Performance Source:** Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI Setanta Global Focus Equity Fund [IEC4001] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** MSCI World (EUR). **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

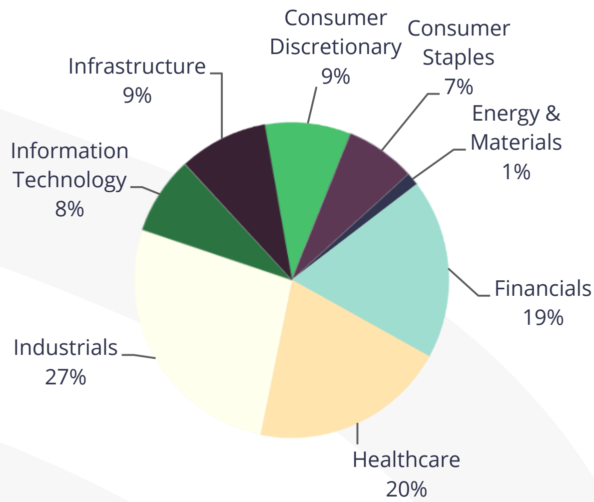
## Top 10 Holdings

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| BERKSHIRE HATHAWAY | FINANCIALS | 8.2% |
| SAMSUNG ELECTRONIC | INFORMATION TECHNOLOGY | 7.5% |
| RYANAIR DAC | INDUSTRIALS | 7.3% |
| LSL PROPERTY SERVICES | INFRASTRUCTURE | 7.3% |
| MINCON GROUP | INDUSTRIALS | 7.1% |
| STERIS PLC | HEALTHCARE | 7.1% |
| COCA-COLA AMATIL | CONSUMER STAPLES | 6.8% |
| JOHNSON & JOHNSON | HEALTHCARE | 6.8% |
| RICHEMONT | CONSUMER DISCRETIONARY | 6.6% |
| MELROSE INDUSTRIES | INDUSTRIALS | 5.5% |

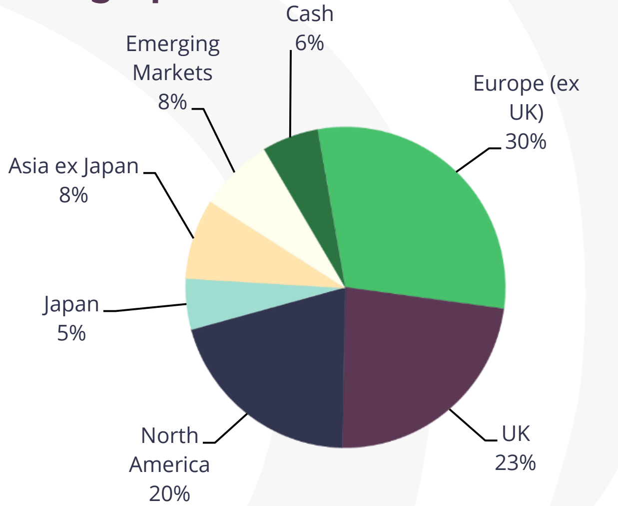
## Fund Statistics

| | |
|---|---|
| PRICE/BOOK | 1.7 |
| PRICE/EARNINGS RATIO (FY 1) | 19.4 |
| DIVIDEND YIELD % | 1.1 |
| AVERAGE MARKET CAP € BN | 75.1 |
| NO. OF HOLDINGS | 17 |
| DEBT/EQUITY % | 38.0 |
| ACTIVE SHARE % | 95.8 |

## Sector Distribution




## Geographic Distribution




## Yearly Performance

| Year % | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** | -35.2 | 44.0 | 28.2 | 1.5 | 9.0 | 20.0 | 19.1 | 7.3 | 11.7 | 9.7 | -6.4 | 17.8 | -2.2 |
| **Benchmark** | -37.6 | 25.9 | 19.5 | -2.4 | 14.1 | 21.2 | 19.5 | 10.4 | 10.7 | 7.5 | -4.1 | 30.0 | 6.3 |

# Commentary

The Global Equity fund fell by 2.2% over the same period, an 8% relative underperformance in the year and a frustrating outcome given that we have tended to profit from adversity in the past. The year ended on a more positive note with the fund outperforming by 3.7% in the fourth quarter.

Commentators have latched on to the term "K-shaped recovery" to describe how some businesses have suffered terribly as a result of the pandemic-induced lockdown, while at the same time a far smaller number thrived. In 2020 around 100 stocks in the MSCI World (out of 1,600) rose more than +50% in Euro terms, including an eye-popping +670% from cult stock Tesla. This relatively small cohort of "winners" skewed the overall index – consider that the average stock rose just 1% in 2020, while the median stock fell marginally (-0.5%). Clearly this was a major headwind for us.

The last two years have been extremely challenging. A cocktail of rock bottom interest rates and piqued animal spirits fuelled unbridled speculation in parts of the market (especially so-called disruptive technologies, a good many of which we think could turn out to be duds). The prolonged period of low interest rates lifted valuations generally, but especially the broader cohort of higher growth companies, to which the fund has been underexposed. Conversely, our value tilt fared relatively poorly as the value-growth differential reached an extreme.

We want to reassure you that we are working hard to remain clear-headed and to address fund underperformance. Most importantly we still believe that our investment fundamentals (highly selective; risk averse; long term; valuation focussed) is fit for purpose. We think the underperformance in the last two years is largely a function of the market's irrationality for a certain investment type and that our discipline will be proven out in time.

We think the value-growth elastic band is reaching its snapping point. Recent research suggests that on some measures value stocks are as cheap relative to growth as they have been in 100 years. While Setanta is not a "classic value" manager, we are pretty certain that even a partial unwind of this valuation discrepancy will benefit the fund's relative performance. The timing and magnitude of this can only be guessed at, but things could turn quickly in our favour – especially so for our COVID-affected holdings, which we guesstimate at around a quarter of the portfolio. Economies will reopen and impacted businesses will get back on their feet. Anticipation of this led to sharp rebounds in fund holdings Melrose (+56%), NOV (+45%), LSL Property Services (37%), Richemont (30%) and Ryanair (29%) in Q4. These moves helped the fund gain over 13% in Q4 (3.3% ahead of benchmark) in what we hope is just the start of a performance recovery.

Additionally we are doubling down on our efforts to re-underwrite the portfolio and compare holdings side-by-side with better quality and faster growing companies that we don't currently own. Although the fund owns many great businesses already, in the past we have passed on some due to above-average starting valuations. This is more of a mind-set tweak than anything more fundamental. Relative valuation and risk aversion will always be to the forefront for us and higher starting valuations require even higher confidence in the future trajectory of cash flows. Given how popular such stocks are currently it is unlikely there will be significant changes to the portfolio near term. We expect better opportunities will be down the road as our COVID-hit holdings recover. In the meantime we are doing the research now so we are ready to act on opportunities.

**Performance review**

The Fund fell 2.2% in value in 2020 versus the benchmark MSCI World which rose 6.3% for an 8% relative underperformance.

# Commentary

Below is a table and discussion of the top / bottom three contributors to fund performance over the course of the year.

| 2020 Top 3 Contributors To Performance | Sector | Performance (EUR) | Contribution (EUR) |
|---|---|---|---|
| Samsung | Technology | +60% | +1.6% |
| Coca-Cola Amatil | Consumer Staples | +44% | +1.5% |
| Ryanair Holdings | Consumer Discretionary | +15% | +0.9% |

| 2020 Bottom 3 Contributors To Performance | Sector | Performance (EUR) | Contribution (EUR) |
|---|---|---|---|
| DCC | Industrials | -23% | -2.3% |
| Melrose Industries | Industrials | -30% | -2.2% |
| Alfresa Holdings | Healthcare | -16% | -1.8% |

**Samsung** indirectly benefited from the work-from-home and cloud computing trends. Also helping are the difficulties Intel is having in efficiently manufacturing leading edge chips. The American giant has stated it is considering focussing on chip design and outsourcing production; Samsung along with just one other company, TSMC, would be Intel's only two credible options. Its earnings likely grew c.30% in 2020 and we think there is much more to come. Australian-quoted **Coca-Cola Amatil**, one of the largest bottlers of non-alcoholic beverages in the Asia-Pacific region, was the subject of a bid from Coca Cola European Partners in October 2020. We are of the opinion that the offer price of A$12.75 undervalues Amatil and Setanta, as one of its larger shareholders, has been in ongoing discussions with the Board and their investment bankers in relation to achieving a higher price for shareholders. We believe CCEP are being very opportunistic and are attempting to acquire a high quality asset at a time when the share price is depressed due to COVID and earnings are at a low level. **Ryanair** surprised us in 2020. In a year in which travel related companies got hit hard, Ryanair initially sold off aggressively only to rebound even stronger. However, as the market-leading low cost carrier with the strongest balance sheet, we believe it is primed to come out of this crisis in an even stronger position.

**DCC** was covered in detail in the Q3 report and unfortunately the market continued to take a dim view of the stock in Q4. Our enthusiasm for its future prospects has not changed. As a result of the pandemic, **Melrose's** aerospace and automotive end end-markets almost completely shut down from a demand and production standpoint. 2020 immediately became all about preserving cash which the company did a fantastic job, setting up a base for reinvesting into margin development as demand recovers. The stock doubled into year-end as the market regained confidence in their balance sheet, particularly with the upcoming sale of subsidiary Nortek, and news of the vaccinations brought line of sight to a return in end-market demand. Japanese drug distributor **Alfresa** fell 16% over the year, all of which came in Q4, following weaker than expected third quarter results. We think the margin weakness was the result of knock-on effects of COVID, with customers experiencing lower volumes, resulting in temporary price concessions by wholesalers in support. Also, Alfresa sales reps haven't been able to visit pharmacies and haven't been able to earn the same level of fee income as a result. Purchasing volumes were down a bit too, which led to less manufacturer rebates. These factors should reverse over time when things get back to normal but it won't happen overnight. The industry price-fixing investigation that has been weighing on investor sentiment is, we think, nearing completion and we hope it will be in the rear view mirror soon. We still think the stock is cheap and long-term risk of "disintermediation" is very low.

**Portfolio Activity**

Portfolio buys and sells for the year are listed below. There were 3 buys and three sells, all in Q1 and Q2 as the volatile market offered us superior alternatives. These were discussed fully in the Q1/Q2 reports net-net definitely added to fund performance over the year.

# Commentary

| | Buys | | | Sells | | |
|---|---|---|---|---|---|---|
| | **Stock** | **Sector** | **End of year weight*** | **Stock** | **Sector** | **Start of year weight*** |
| **Q1** | Alfresa | Healthcare | 5.1% | Diamond Offshore | Energy / Materials | 2.4% |
| **Q2** | Coca-Cola Amatil<br>Samsung Electronic | Consumer Staples<br>Technology | 1.3%<br>7.4% | Fairfax Financial<br>Covetrus | Financials<br>Healthcare | 5.2%<br>0.3% |
| **Q3** | - | - | - | - | - | - |
| **Q4** | - | - | - | - | - | - |

***David Coyne, Rowan Smith – co-lead Fund Managers***

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## IMPORTANT INFORMATION

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