Setanta Global Equity Fund
Q1 2021

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 an actively managed equity portfolio which holds c.80-100 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy by a team of eight global sector specialists, overseen by two lead portfolio managers. The aim is to achieve a sensible level of diversification on a sector and geographic basis. Reflecting this, portfolio sector weights are generally set so as broadly similar to the sector weights in the benchmark. Within each sector, stocks are chosen through bottom-up analysis, based on investment merit. 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. The investment objective of the Fund is to outperform the MSCI World index over the long term.

Fund Commentary

The Setanta Global Equity Fund returned 12.2% in the quarter, ahead of the MSCI World Index by 3.0%. More encouragingly, since the announcement of COVID vaccines in early November 2020, the fund has outperformed by some 6.5%, underpinned by a reversal in many of the themes we have been discussing here for some time now.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie, CFA

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

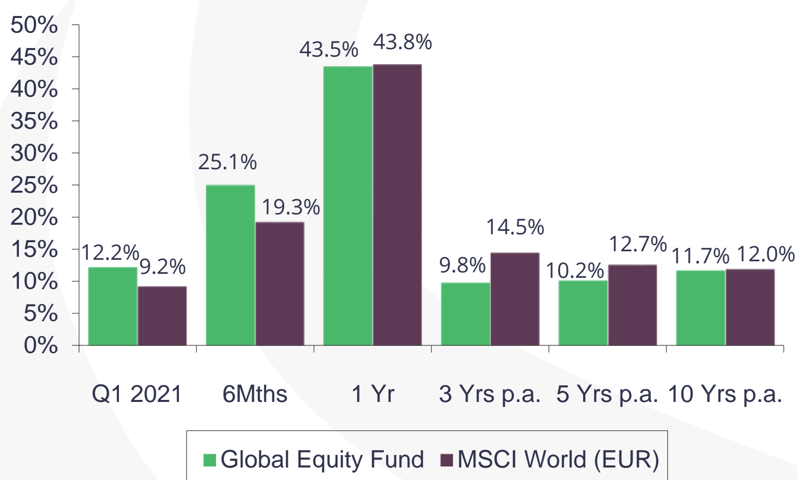
We consider scenarios rather than making forecasts

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

Fund Performance – 31.03.2021 (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 Equity Fund [P-GLB1] 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.

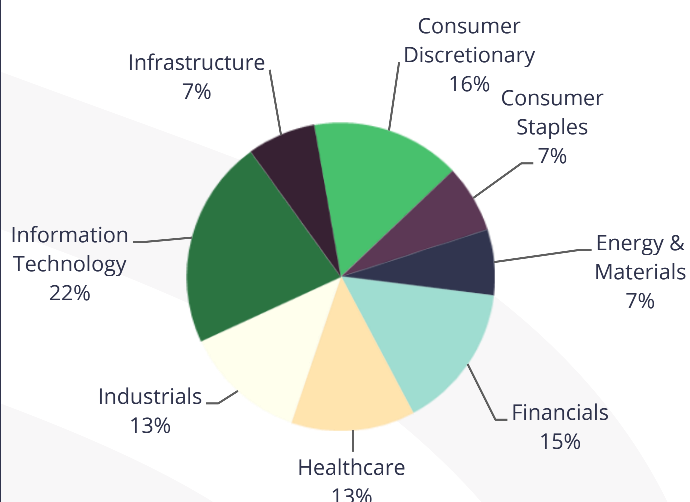
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	4.1%
BERKSHIRE HATHAWAY	FINANCIALS	2.8%
ALPHABET INC	CONSUMER DISCRETIONARY	2.7%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	2.6%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.4%
ORACLE CORP	INFORMATION TECHNOLOGY	2.4%
DCC	INDUSTRIALS	2.3%
OSHKOSH CORP	INDUSTRIALS	2.3%
JOHNSON CONTROLS	INDUSTRIALS	2.2%
JOHNSON & JOHNSON	HEALTHCARE	2.2%

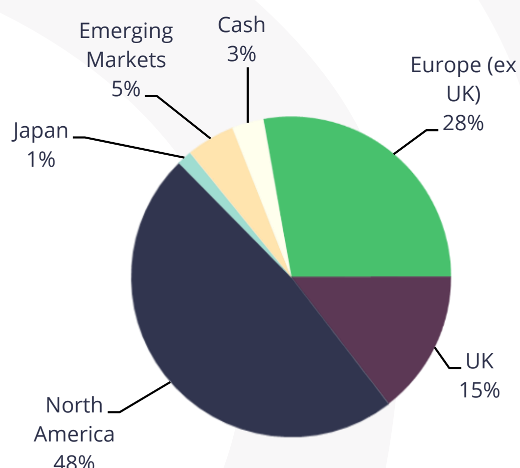
Fund Statistics

PRICE/BOOK	2.4
PRICE/EARNINGS RATIO (FY 1)	18.9
DIVIDEND YIELD %	1.7
AVERAGE MARKET CAP € BN	100.2
NO. OF HOLDINGS	81
DEBT/EQUITY %	62.1
ACTIVE SHARE %	85.5

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fund	-36.6	32.2	16.2	0.9	14.1	24.5	20.6	9.0	16.2	8.8	-3.9	22.0	-3.3
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

SETANTA Asset Management

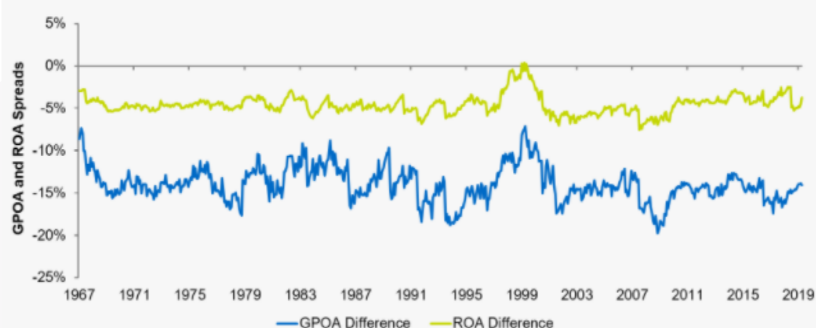
Commentary

Expectations of a vaccine-led demand recovery and inflation expectations rising off a very low base were both catalysts for a strong rotation into "value" stocks, particularly in the energy and financial sectors. By design, we have full exposure to these sectors and benefitted accordingly. More broadly, in our Technology and Industrial sectors it was very much a case of "many that are first shall be last, and the last first"; both performed well relative to their sector benchmarks in Q1, reversing an underperformance in 2020. Our holdings in both of these sectors have a heavy value skew and were disproportionately rewarded in the quarter, with DXC, Hewlett Packard Enterprises and Ericsson in Technology and Oshkosh, CRH, and DCC in Industrials all benefitting from improved expectations and low valuations. Time will tell how this trend plays out, nevertheless we will continually seek to upgrade the risk / reward profile of the portfolio in the investment decisions we take, something we discuss below in more detail.

More broadly, a central theme of our client communication over the past two years has been an appeal for patience on the part of clients in the face of disappointing near term returns. Much of our commentary has centred on the dramatic valuation expansion in a large cohort of growth stocks which was not accompanied by strong supporting fundamentals. We discussed the interrelated underpinnings of falling discount rates, which disproportionately supported higher valuations for "growth" companies with far out expected cash flows. This market environment was aided by price agnostic passive flows and momentum players compounding the demand for stocks whose prices were rising.

These mix of elements are accompanied be a seductive supporting narrative that the current pace of technological change is devastatingly disruptive to traditional business models and that companies in way of this change are doomed to forever trade on lower "value" multiples. This argument *feels* correct, and the coronavirus has only brought it to a crescendo due to the extreme demarcation between technology-related winners and cyclical, old economy losers. Corroborating evidence is, however, inconveniently scant. What we would expect to see is a degradation in returns on capital or earnings for value stocks which would support the notion that their business models were indeed, *in aggregate*, being disrupted away.

The evidence does not support the intuition, as recent research from AQR points out. Over the past 50 years the median difference in Gross Profitability (blue line) and Returns on Assets (green line) of value versus growth has been remarkably stable. The median difference over time is -14% which makes sense because, in aggregate, "value" companies are inferior companies; this is also reflected in a lower long term median Return on Assets spread of ~5%. The point here is that today's record valuation dislocation between growth and value stocks is not being driven by disruption in “value” stocks, as evidenced by stable profitability and return spreads.



Rather than disruption, which is always pervasive, it’s far more likely that the current environment is simply one of secular trends driven to egregious valuation excesses via the forces of liquidity. At the end of March there remains plenty of evidence of froth in some sections of the market, with some 646 stocks globally (over €500m market cap) with a Price/Revenue multiple of over 20x. This statistic brings to mind what Scott McNealy, CEO of dotcom darling Sun Microsystems, said a few years after the Internet bubble burst. Bear in mind that Sun was trading on ‘just’ 10 times revenues.

Source: *AQR Research, Perspectives, Is (Systematic) Value Investing Dead, Figure 10, https://www.aqr.com/Insights/Perspectives/Is-Systematic-Value-Investing-Dead.*

"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"

It should be noted that Sun Microsystems fell 98% in 2 years after the crash and was eventually sold to Oracle in 2009 for 85% less than its dotcom peak.

Portfolio activity

A good example of the type of risk / reward changes we are looking to make in the portfolio was the sale of **Jefferies Financial Group** and the purchase of **S&P Global**, which occurred during Q1.

Jefferies – or Leucadia as it was then known – was first purchased towards the end of 2011. Back then Leucadia owned a collection of eclectic assets, from part ownerships in investment banking (Jefferies), to beef processing, to wireless broadband in Italy. In 2013 Leucadia announced it was buying out the part of Jefferies it didn't own and that Jefferies management was to take over running the combined entity. The journey since then has been one of focusing the group on financial services, selling off non-core assets and growing Jefferies from being US-centric into a global investment bank. It has been a frustrating time for shareholders. The promise of good results always seemed to be around the corner, but invariably there was a hitch or two each year. 2020 was a roller-coaster year for the stock price, beginning the year at $20, falling to $11 as financial markets seized in March / April, before recovering in the second half of the year as markets rebounded and M&A hit record levels. Despite showing what the company can earn in the right conditions, we have grown sceptical that Jefferies can sustainably earn good profits. We sold at a price of $26 in Q1 and while this was around 30% higher than where we bought it 9+ years ago, it was a poor investment compared to its peer group and the overall market.

In its place we bought the financial information and analytics company, **S&P Global**. In contrast to Jefferies, this company is the epitome of sustainable, predictable and growing profits. We have followed financial information companies for a number of years, but have always been put off by their relatively high valuations. Indeed, we were very close to buying a peer Morningstar in 2017, but held off on buying for the sake of a few percent. This apparent discipline proved costly – Morningstar has gone up nearly three-fold since then. Back to S&P Global, it is the world's premier financial information company, owning one of the two dominant credit rating agencies, must-have indices and benchmark information (notably the S&P 500 and Brent crude oil), as well as other critical data sets and analytics. It is not an exaggeration to say that parts of the financial markets cannot operate without S&P Global. Demand for financial data is growing over time. Barriers to entry are impossibly high for new competitors and customers' choice of data vendor is limited. This gives S&P and its peers the ability to increase prices year after year, which combined with the ability to streamline costs through automation, has led to an expansion of S&P's operating margin to over 50%. Towards the end of 2020, S&P Group announced that it was merging with IHS Markit, another fabulous information and analytics company, best known for its credit derivative indices. The combined entity will be more diversified and cement already-strong customer relationships, while there will also be cost and revenue synergies. S&P Global stock is not 'statistically cheap', trading at 30x P/E at the time of purchase. However, an analysis of value needs to incorporate the high confidence we have in the durability of this business and the ever-increasing demand for what it sells. What's more, S&P is a capital light business, which enables growth of 5-6% while still being able to pay out most of profits in share buybacks / dividends – a rare combination. So despite an apparently high starting valuation, we think the stock could deliver a mid-to-high single digit total return over time. This is reasonable but not especially exciting, which is why we have bought a lower than average position and will hope to add to it at lower prices if circumstances allow.

Commentary

In the Consumer Discretionary sector, after some debate we voted to accept the **Applegreen** management buyout offer. Applegreen is a roadside convenience retailer that sells fuel, food for immediate consumption, and other convenience products. It has operations in Ireland, the UK and the United States. In normal times it is a good cash generating business operating within a stable industry structure, with an operationally excellent and growth orientated management team. Management had grown their estate from 53 sites in 2008 to 342 when we invested. Of course, the coronavirus had a devastating impact on sales, down 57% year-on-year in April 2020, subsequently followed by a strong profit recovery from excellent price/cost management.

Late last year management, who owned 41% of the company, announced plans to take Applegreen private to better effect their growth objectives. After satisfying ourselves that the offer was acceptable, and assessing the downside of the transaction not going ahead, we took the offer. We then upgraded the quality of portfolio by investing the Applegreen proceeds across **Costco**, **Google** and **Nike**.

A similar theme is evident in the Energy sector. Reacting to the recent strong recovery in the sector, we sold **NOV** and **Tupras**, both small positions. Despite being well-placed in the provision of oil and gas equipment, NOV is challenged by its reliance on offshore equipment, an area of the industry that is particularly distressed. A meaningful recovery is far from assured notwithstanding the recent 62% increase in share price coincident with recovery in the energy sector generally. In the case of Turkish oil refiner Tupras, its competitive position is strong, but it faces ongoing instability, principally due to the words and actions of Turkey's President Erdogan (e.g. firing the Central Bank governor, after which the stock fell almost 20% in euro terms). While some of this was expected when acquiring the stock, the scale of it certainly wasn't.

While both stocks remain inexpensive relative to their tangible book value, we believe the risk / reward prospects for **Air Liquide**, **Viscofan** and **Smiths Group** were superior.

Sean Kenzie, CFA – Co-lead Portfolio Manager

Contact Details:

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

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The Global Equity Fund is managed by Setanta Asset Management Limited and is a representative account of the Global Equity strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Global Equity Fund [P-GLB1]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is also available on a segregated basis or a UCITS mutual fund via Beresford Funds ICAV. Current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance