Setanta Global Equity Fund
Q2 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

Global stock markets rose strongly in the April to June period, with the benchmark MSCI World up 6.8% (Euro terms) in the quarter and 16.6% (Euro terms) in the half year. The Setanta Global Equity Fund rose by 4.9% (Euro terms) in the quarter, c.2% behind benchmark. For the year to date the fund was 17.7%, ahead of benchmark by 1.1%.

(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

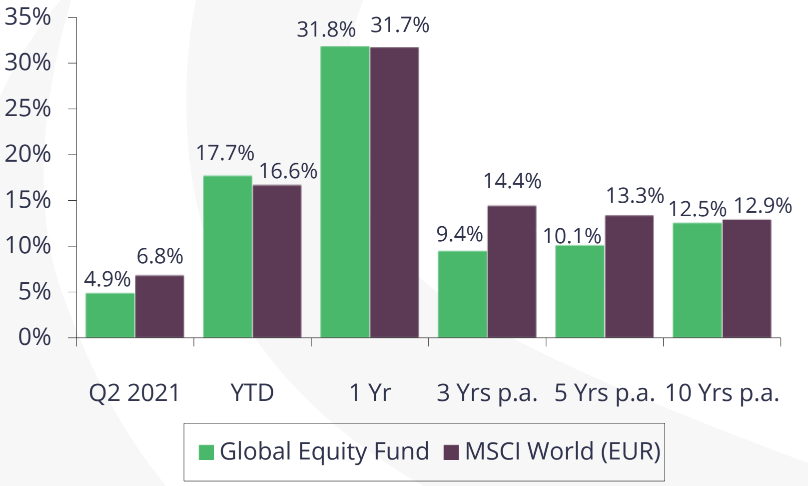
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 30.06.2021 (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.

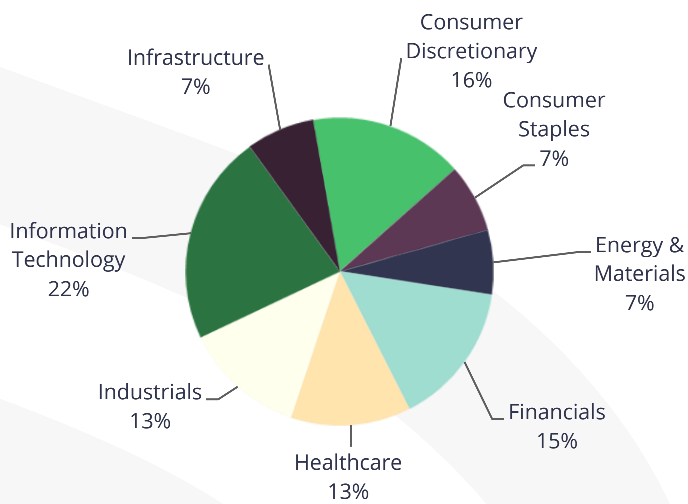
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	4.6%
ALPHABET INC	CONSUMER DISCRETIONARY	3.0%
BERKSHIRE HATHAWAY	FINANCIALS	2.9%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	2.5%
ORACLE CORP	INFORMATION TECHNOLOGY	2.5%
JOHNSON CONTROLS	INDUSTRIALS	2.5%
NIKE INC	CONSUMER DISCRETIONARY	2.4%
DCC	INDUSTRIALS	2.3%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.3%
JOHNSON & JOHNSON	HEALTHCARE	2.1%

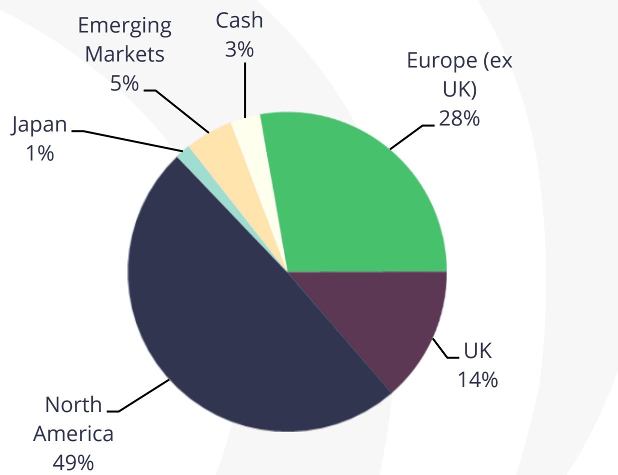
Fund Statistics

PRICE/BOOK	2.6
PRICE/EARNINGS RATIO (FY 1)	17.4
DIVIDEND YIELD %	1.7
AVERAGE MARKET CAP € BN	110.2
NO. OF HOLDINGS	80
DEBT/EQUITY %	58.8
ACTIVE SHARE %	85.1

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

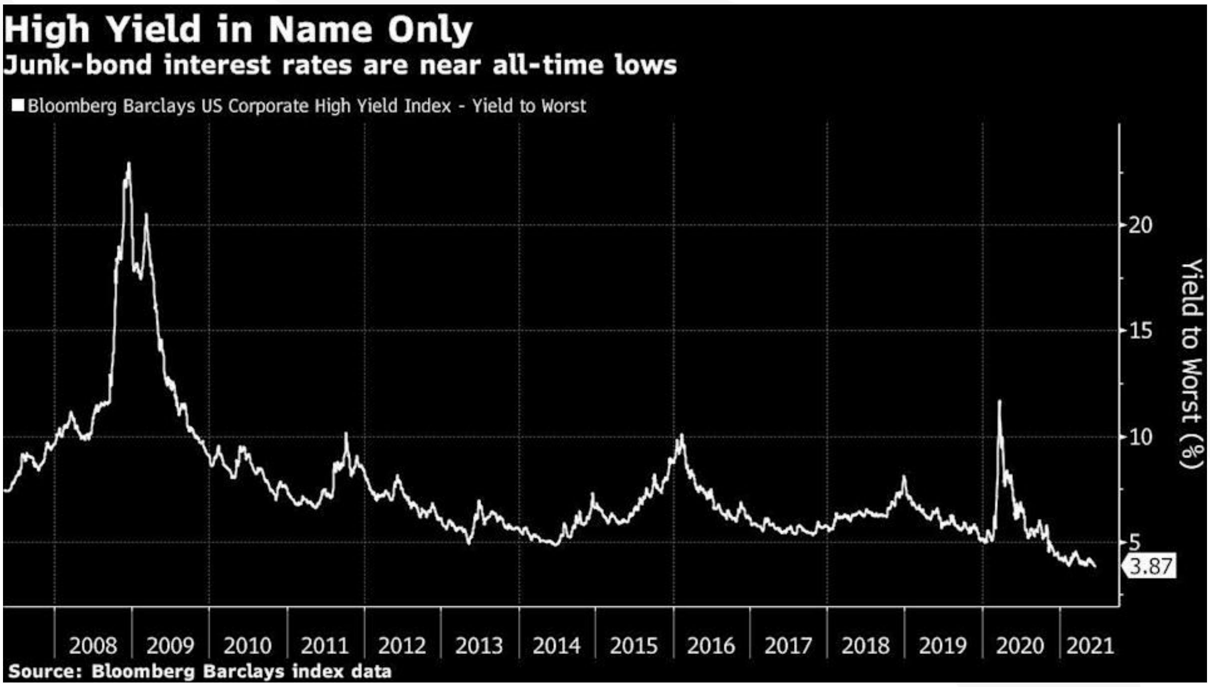
SETANTA Asset Management

Commentary

Although the global economy is set to grow by an impressive 6% in 2021, this is off a depressed level of output in 2020 and what's more the IMF forecasts that the US will be the only large economy to have a higher level of GDP in 2022 than before the pandemic. In our opinion, stock markets were already richly valued 18 months ago, so against that sobering backdrop, we find it hard to fathom how global stock markets have increased 22% (Euro terms) since the start of 2020, the eve of COVID-19.

Of course, investing is always a case of relative value. The low / zero / negative interest rate environment that has endured for more than 10 years has elevated valuations of all asset classes. It's for this reason the phrase the *everything bubble* was coined. How much is warranted and how much is exuberance is the million-dollar question, but there are warning signs.

In the bond market for example, US junk bond yields fell below 4% in June, despite a record level of issuance in H1:21. The headline yield understates the extent of the decline in returns being accepted by bond investors. From a recent article in the excellent investment publication Grant's, *"Rapidly retreating debt covenants, or fine-print legal protections for lenders, accompany those extra dollops of debt. So-called covenant-lite structures featured in 85.2% of total loans outstanding in May, per S&P's LCD unit, up from about 66% five years ago and just 17% in 2007."*



So too eyebrows are raised in equity markets. The Financial Times reported that investors put $580bn into equity funds globally in H1:21. If this rate continues in H2, it will surpass cumulative equity inflows for the previous 20 years! Also, retail investors continue to be prominent, accounting for c.10% of total US stock market trading volumes in June, according to Morgan Stanley, having peaked at 15% last September. 'Influencers' continue to cause a lot of retail investors to funnel trades into a relatively small number of (meme) stocks.

It's not just low interest rates that makes these times so extraordinary. We are spending a lot of our time trying to understand where and how competitive landscapes may be shifting. A great illustration of this is at the intersection of finance and technology, where both Big Tech and innovative fintech start-ups are set on disrupting the traditional banking industry. The disruption has been made possible by a confluence of forces in recent years: common standards (allowing interoperability between companies), new regulation (e.g., Open Banking in Europe, a secure way for customers to share financial data with 3rd parties), new business models (e.g. Banking-as-a-Service, which allows brands to embed financial services without needing to become a regulated bank themselves) and new consumer behaviours (less branch visits, more internet banking).

Commentary

Although the impact on the sector to date has been limited, the situation warrants close attention for what may happen 3, 5 and 10+ years into the future. Traditional banks' technology is old, costly to maintain and inflexible – and worse still, for a variety of reasons it's extraordinarily difficult to rip out and replace. To date, FinTechs and neobanks have mostly focused their efforts on niches — for example younger, lower-income or previously unbanked customers, with products that are more convenient and cheaper. It's not hard to imagine that in the future FinTechs will zero in on banks' juiciest income streams, such as in business banking where sums are larger, and margins are fatter. All this comes on top of the significant advances Big Tech is making in the area of payments. Longer term, thoughts must incorporate the likes of Distributed Ledger Technology (which threaten to cut out layers of middlemen, perhaps including parts of banking) and Central Bank Digital Coins (which could greatly diminish the fractional reserve banking system). With so many potential sources of competitive attack and disruption, traditional banks that don't adapt could face existential questions. Naturally, it's not necessarily all doom. Banks have valuable licences and compliance know-how and have vast experience in pricing risk and dealing with defaulted loans. Also, customer inertia could stave off the effects of competitors long enough for banks to adjust their business models. In the old days' banks operated a 3-6-3 model: borrow at 3%, lend at 6% and on the golf course at 3pm. If we can be certain of anything it's that banks will never have things as easy as that again (and not just because of zero interest rates). By studying and contemplating, we hope to better avoid the casualties of disruption and, perhaps, find ways to capitalise.

Transactions

The Fund made one purchase and two sales in Q2.

We initiated a position in **Electronic Arts**, the computer gaming company. EA is one of four so-called AAA game publishers, with over 20 studios globally and 10,000 employees. EA has a particular strength in sports video games and is best known for FIFA, released annually and consistently one of the most popular video games globally. It utterly dominates the soccer category due to a series of licence agreements with international teams, national leagues and individual players, which enables a very realistic gaming experience that EA's competitors can't copy. FIFA gamers also compete in leagues and play online with friends, making the network very valuable. The same is true of Madden (American Football), EA's other main licence sports franchise. Outside of sports, EA's titles include Battlefield, The Sims, Apex Legends, Need for Speed and Plants v Zombies.

We believe there is a long runway ahead for the gaming industry, which should be able to grow revenues by a mid-single digit rate over the medium to long term. Improvements in technology and the continued rollout of high-speed broadband means the gaming experience continues to improve with each passing year. Also, gaming is among the lowest cost forms of entertainment, measured on a per hour basis. Both of these factors help grow the number of users and EA should be able to capture its fair share. EA's profit growth should be higher (high single digit perhaps) as it distributes more games directly to consumers, pocketing more of the revenue it previously shared with retailers.

The purchase of EA is a similar story to new stocks added in the last 6-12 months (Costco, S&P Global, Nestle, SEI Investments), where we have been more mindful of the importance of growth and reinvestment opportunities in determining company values. At the time of purchase EA was trading at around 30x what we calculate to be sustainable earnings. It may not be bargain basement, but we think it should deliver a solid return over time, given the durability of its franchises and its growth prospects. We hope to be able to opportunistically increase our weight. For example, COVID-19 was a boon for gaming revenues, so we would not be surprised to see this partially reverse in coming quarters, which could cause some share price weakness.

We exited **Saga** during the quarter. The investment in the over-50s insurance-to-travel company was a chastening experience and we have documented its path in previous fund reports. Most damaging was the ban on non-essential travel, which shuttered the normally dependable cruise business between March 2020 and June 2021. The timing could not have been worse as the company had just spent significant sums buying two new ocean cruise ships and cash flows from these were expected to rapidly reduce debt.

Commentary

In September last, we participated in a capital raise that put Saga on a sound financial footing, but it left the company with 87% more shares outstanding which reduced the potential upside. The rally in the shares since November anticipated a lifting of travel restrictions and we sold in stages as the share price increased. We may have left a meaningful of upside on the table for others, but the possibility of rolling lockdowns due to new strains of the coronavirus would be very damaging financially so we took the decision to exit while news flow was good.

David Coyne – Co-lead Portfolio Manager

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