Setanta Global Equity Strategy (USD)
Q1 2023

Strategy Description

The **Global Equity Strategy** ('the Strategy') is managed by Setanta Asset Management Limited ("Setanta"). The Strategy is available to US Investors on a separate account basis.

The Strategy is a diversified, actively managed equity portfolio. As bottom-up strategyamental value investors, our research process is designed to properly understand how each business functions and to consider risks pertinent to the business. Securities are chosen by a team of global sector specialists, targeting sensible diversification across industries, geographies and market capitalizations. We value each business, with the priority to pay a price that mitigates downside risk. We aim to make investments for the long-term, all the while considering the available opportunity set.

Strategy Commentary

On Thursday 9th of March California-based SVB Financial Group, the holding company of Silicon Valley Bank, said it needed to raise $2bn of equity capital to cover losses in its bond portfolio. The following day it was ordered to shut down. While the record books will mark SVB's death in 2023, its death note was written in 2020 when management decided to buy a large portfolio of fixed, long duration bonds (a yield pick-up on short-term bonds).

(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

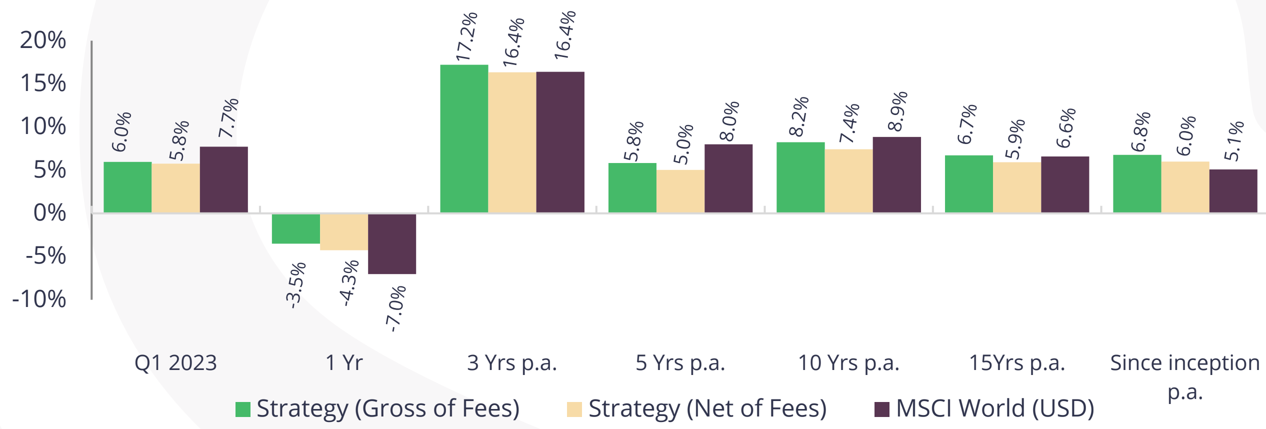
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Performance and Strategy data as at 31st March 2023

Strategy Performance (USD)



Yearly Performance (USD)

	2018	2019	2020	2021	2022
Strategy (Gross of Fees)	-8.5%	19.8%	5.4%	23.2%	-13.4%
Strategy (Net of Fees)	-9.1%	18.9%	4.6%	22.3%	-14.1%
MSCI World (USD)	-8.7%	27.7%	15.9%	21.8%	-18.1%

Portfolio Valuation Statistics

PRICE/BOOK	2.2
PRICE/EARNINGS RATIO (FY 1)	16.4
DIVIDEND YIELD %	1.9
AVERAGE MARKET CAP $BN	189.3
NO. OF HOLDINGS	79
ACTIVE SHARE %	84.0
DEBT/EQUITY %	46.2

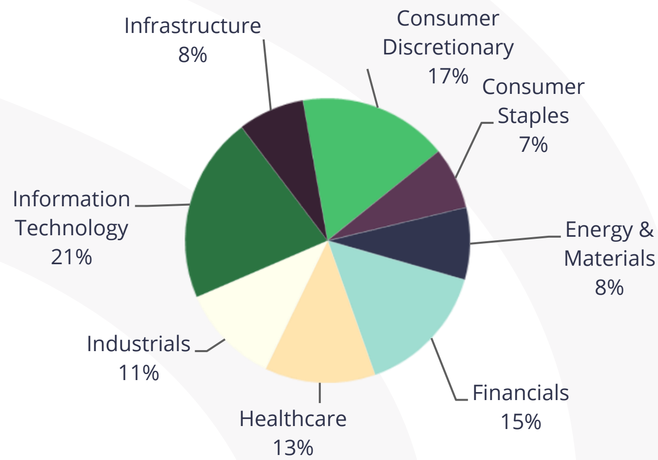
Top 10 Holdings

COMPANY	SECTOR	WEIGHT
MICROSOFT CORP	INFORMATION TECHNOLOGY	4.7%
BERKSHIRE HATHAWAY	FINANCIALS	3.6%
ORACLE CORP	INFORMATION TECHNOLOGY	3.3%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	2.7%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	2.6%
BOOKING HOLDINGS	CONSUMER DISCRETIONARY	2.6%
ALPHABET INC	CONSUMER DISCRETIONARY	2.5%
NIKE INC	CONSUMER DISCRETIONARY	2.5%
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	2.3%
JOHNSON & JOHNSON	HEALTH CARE	2.2%

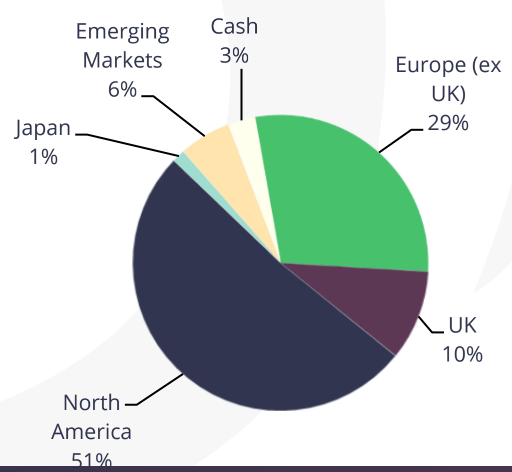
Holdings Source: Setanta. Sector allocations based on invested portfolio only (excludes cash), of the lead Euro account of the Global Equity Strategy. **Portfolio Valuation Statistics Source:** Bloomberg, based on the lead Euro account of the Global Equity Strategy, shown in USD.

Performance Source: Setanta Asset Management Limited. The returns stated are based on the movements in the unit prices of the lead Euro portfolio of the Global Equity Strategy, which has been converted to USD at FX rate 1.086. The gross performance will be reduced by the impact of management fees paid, the amount of which varies. Net of Fees performance is calculated based on an AMC of 0.75%, which is based on a minimum portfolio size of USD25m. Inception date: December 2000. **Benchmark:** MSCI World (USD).

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Global banks in focus

On Thursday 9th of March California-based SVB Financial Group, the holding company of Silicon Valley Bank, said it needed to raise $2bn of equity capital to cover losses in its bond portfolio. The following day it was ordered to shut down. While the record books will mark SVB's death in 2023, its death note was written in 2020 when management decided to buy a large portfolio of fixed, long duration bonds (a yield pick-up on short-term bonds). This was monumentally bad decision, made possible by a watering down in 2017 of the post-GFC Dodd-Frank Act for banks under $250bn in assets. The consequences of this original mistake took a few years to emerge. The US Federal Reserve raised interest rates in 2022 to combat inflation and SVB's long duration bonds fell in value by 17% or $15bn by year-end 2022, as disclosed in its 10-K annual filing. On a fair value basis the bank's equity was almost zero, but a well-meaning accounting convention allowed the bank to classify the bonds as Held-To-Maturity and value them at cost – giving SVB the appearance of being well capitalised. And so investors and depositors largely carried on unaware or unconcerned. There was a wrinkle, however. The vast majority of SVB's depositors were uninsured, so if any liquidity or solvency concerns were to emerge, depositors would run for the exits, which would force the bank to sell HTM assets at prevailing market prices. And the sale of even one of its HTM bonds would lead to a revaluation of whole $90bn portfolio. You know what happened next: a $211bn asset bank up in smoke. [Incidentally, following SVB's collapse I now have the distinction of knowing someone who was employed by two banks that went bust (not that he is in any way to blame). No doubt finance employees everywhere want to know where he's going to work next, bringing to mind Charlie Munger's quip All I want to know is where I'm going to die so I'll never go there.]

Despite government reassurances and interventions, SVB's collapse caused the Banking Fear-O-Meter to spike, leading the deposits being pulled from a host of other regional banks in the US. For much the same reasons, New York's Signature Bank failed a few days later while First Republic Bank (assets $212bn) was teetering on the edge at the time of writing. SVB and Signature – somehow deemed by lawmakers too-small-to-be-fully-regulated – had a whopping $320 billion of assets between them. For context, this is the equivalent of Sweden's leading bank Handlesbanken or – closer to my home – Ireland's two large lenders Bank of Ireland and AIB combined. Bigger news was to follow in Europe when confidence drained from Switzerland's Credit Suisse ($580bn in assets) and over a weekend it was frog-marched into a wedding with UBS (a marriage both banks have shunned for decades). Remarkably, the MSCI World Banks Index fell just 5% in Q1 (Euro-terms) as nerves were steadied by Central bank actions, but in our opinion, confidence remains brittle and further problems cannot be ruled out.

The case of SVB is particularly interesting because its unrealised losses were disclosed and the casual observer might wonder how so many sophisticated investors could have been caught off guard. The primary problem is that banks are highly levered and their complexity means it can be very hard to see what's going on from the outside. Disclosures about interest rate hedges – which, if in place, could offset bond losses suffered by SVB and others – are generally lacking. And the consequences of asset revaluations are magnified by the leverage. An investor in banks has to be always switched on. They are certainly not sleep-at-night stocks.

Global banks in focus

Our long-held approach to investing in banks is one of extreme caution, an understanding that things can go wrong quickly. However, we don't think it makes sense to rule them out of bounds. They do have unique advantages. They have the privilege of taking in deposits, which can be loaned out at higher rates, and if depositors panic and want their money back in a hurry, banks can depend on a lot of Central Bank liquidity support so long as they've kept done nothing stupid on the asset side of the balance sheet. The necessary but not sufficient attributes of a good bank investment are stable and rational competition, a (relatively) simple business model, competent management that priorities its reputation and its balance sheet at all times, and government policies and regulations that try to prevent excesses.

We have received a number of enquiries from clients about our banking exposures since SVB went bust. We can confirm that Setanta did not own SVB (nor indeed have we owned any US bank since 2020). We cannot claim to have foreseen the looming problems. However, we do give ourselves credit for sticking faithfully to the attributes listed above. It's no coincidence that we were not invested in Credit Suisse for example, which looked to us an enormously complex, risk-taking entity with a weak compliance culture – one that stumbled from scandal to scandal in recent years (Archegos, Greensill Capital, spying scandal and more). In the Global Equity fund we also consciously decided to limit the exposure to lenders, which accounted for an average ~4.5% of the fund over the last 10 years (compared to ~9.5% average weight in the benchmark over this time) and just 2.2% at quarter end. The fund currently holds just two banks, namely Bank Leumi and Bank of Ireland.

Bank Leumi is a leading Israeli bank. It is a long-term holding and it is worth dwelling on why we like it. It was first purchased for the fund towards the end of 2008, in the dark of the Financial Crisis which Israeli banks managed through exceptionally well. The stock has compounded by ~12% p.a. (Euro-terms) since, nicely outperforming its financial peers and the overall market. Leumi has a ~30% market share of Israeli banking, depending on the product (stronger in large business lending, consciously smaller in riskier small business and consumer loans). Including Leumi there are five local banks in Israel, which are all well run and are overseen by a regulatory body that is notably more prudent than global norms (this helps explain banks' performance during the GFC). International banks play only a very minor role in the country. The Israeli workforce is young, growing, well-educated and innovative, earning the country the tagline the Startup Nation, and powering the country's above-average rate of economic growth. Bank Leumi has proven to be an excellent operator, especially in recent years. It has lowered its cost-to-income ratio from a terrible 75% when we first purchased to a world-leading 38% in 2022, with management confident that this can be improved further. This has been achieved through an overhaul of the cost base (including a 40% reduction in employees since 2008), automation of processes (meaning low incremental cost of customer activity) and scale efficiencies, while maintaining loan underwriting and pricing discipline. Leumi has earned a solid 10% average RoE over our ownership, growing the loan book by ~4% p.a. We think the future looks better. It earned a RoE of 17% in 2022, which included a post-COVID lending boost, but we think it can earn a RoE of 12-14%+ going forward, while growing loans at a mid-to-high single digit percentage. We are comfortable with how Leumi's balance sheet is managed: it is highly liquid (25% of total assets are in cash) and it holds a very limited amount of HTM bonds – for which a fair value adjustment would take just 2% off shareholders' equity (and in any event this loss is offset by interest rate hedging gains).

Global banks in focus

Bank Leumi's current valuation is under 1x price to book – unchanged since we first bought it – which we think puts the odds nicely in our favour of continued good stock price performance from here. Are there risks? Yes. This includes domestic politics, which have taken a divisive turn in recent months – culminating in mass protests against the government's plans to reduce the role of the judiciary. We are watching this closely as it has the potential to reduce economic activity in the short term and damage the country's attractiveness in the long term. However, overall we judge the risks to Leumi to be quite a bit lower than industry average.

All of the same points can be made about Bank of Ireland – good country fundamentals, a limited number of rational competitors (down from five to three following the recent exits of KBC and Ulster Bank), a strong regulator (a transformed situation versus the Financial Crisis), prudent loan book and balance sheet management (highly liquid, small HTM book that is we think is fully hedged) that should see it through current banking sector fears. BoI was a more recent addition to the fund (early 2020) and has been an exceptional performer since (up nearly three-fold). Its RoE is also on an improving trend and growth looks to be finally picking up following years of deleveraging (consumer / business balance sheets are now in rude health – also a transformation versus the Financial Crisis). Bank of Ireland shares were +5% (Euro-terms) in the quarter.

Q1 2023 Top 5 Contributors to Performance	Sector	Contribution, CAD	Performance, CAD
Microsoft Corp	Informtation Technology	0.82%	20%
Bookings Holdings	Consumer Discretionary	0.64%	31%
O-I Glass	Industrials	0.44%	37%
Oracle Corp	Information Technology	0.43%	14%
Alphabet Inc	Consumer Discretionary	0.40%	17%

Growth stocks rebound

It's scarcely believable that in the midst of a mini-banking crisis – albeit one that was quickly soothed – that the MSCI World could rise 5.8% in Q1 (Euro-terms), but that's how it turned out. Banks were certainly headline news in Q1, but the other main story was the strong performance of technology, media and consumer discretionary stocks, which were up between 16 and 21% (Euro-terms). You may recall these were the worst performing sectors in 2022, down around 30% (Euro-terms). Growth stocks did well more generally in Q1, outperforming the overall market by a very wide margin of 7%. It's hard to know the reason for the change investor mood from last year. However, there is a growing feeling that interest rates may have peaked in the US; interest rates tend to have more of an impact on the valuation of growth stocks whose value is further into the future. Related to this, fears of a recession have increased and may have encouraged investors to take profits on cyclical / value stocks that performed well in recent quarters. Another contributor may have been a spill over of excitement from AI / ChatGPT, which could provide productivity improvements for a host of industries in the future. At the other end of the spectrum were energy and bank stocks (down c.5% in Euro terms), while real estate, utility and healthcare stocks were also relatively weak.

The fund rose 6.0% (USD-terms gross of fees) in the quarter, which was 1.6% behind the benchmark.

Commentary

Portfolio activity

We recently added European low-cost airline Ryanair to the portfolio. The investment case is predicated on 1) one of just two ultra-low cost providers in the European short haul market with a meaningful cost advantage over peers 2) competition weighed down by inefficient cost structures and institutional resistance to change which helps to constrain supply 3) a growth runway at attractive returns on capital through share gains and market growth 4) smart capital allocation with a history of aircraft orders at low points in the cycle and a willingness to return money to shareholders 5) strong balance sheet and negative working capital to self-fund growth and 6) a proven CEO with skin in the game backed by a capable executive team.

Ryanair plans to hit 225m passengers by FY3/26 compared to 168m in FY3/23 with the aircraft orders in place to facilitate that and grow at a 4-5% annual clip thereafter. The Covid-19 pandemic has helped to accelerate the demise of some airlines and drive industry retrenchment. For now, the supply outlook looks reasonable. Having experienced some cost slippage in the wake of rostering issues in late 2017, the company has got back on the front foot on managing non-fuel costs. The balance sheet is in good shape with management targeting a net cash position by March 2024. CEO Michael O'Leary has committed to the role until 2028. Consolidation in the intra-European short haul market is happening slowly over time offering some hope for a more disciplined and profitable industry in the longer term. While Ryanair's earnings tend to be volatile, we estimate it was trading on a low-teens normalised P/E of at the time of purchase.

We sold out of UK specialist lender Close Brothers Group during the quarter. Close Brothers lends to niches of the market that large high street banks either aren't interested in or aren't good at. It has something of an anti-cyclical lending policy, growing the loan book more slowly in good times and faster when competitors are less willing or less able to lend. All loans are asset backed, so even in the event of a default the bank would repossess and sell the asset to recoup most or all of its outlay. Historic loan losses were around 1%, which as very favourable compared to a net interest margin of around 8%. We were attracted to Close Brothers' history of earning mid-teens RoEs while growing at high single digits on average. We bought a small position in late-2019.

Q1 Purchases and Sales			
Buys		Sells	
Stock	**Sector**	**Stock**	**Sector**
Meituan	Information Technology	Close Bros Group	Financials
Ryanair DAC	Industrials		

Portfolio activity

We sold out because of management's handling of a litigation finance business called Novitas which it acquired in 2017. Novitas financed the likes of disputed wills, divorce and personal injury and management believed loans had a similar risk profile to the rest of Close Brothers Group. This proved very wide of the mark. The first investors heard of trouble at Novitas was October 2021 when management said they had decided to close Novitas to new business and work out existing loans. An undisclosed provision then was the first of many and the last straw for us was an additional large provision in January 2023, which we estimate brought provisions to date to well over 50% of the Novitas loan book. Luckily Novitas accounted for less than 5% of group loans, so there was no damage to the balance sheet. However, in our opinion the bank had lost its "competent management" status (from our above "necessary but not sufficient conditions" for investing in banks): they exhibited poor judgement in getting into litigation finance in the first place and they also failed to contain the problem (continuing to fund existing cases, throwing good money after bad). We lost around 20-25% of our capital on this investment. The damage to the fund was limited by the stock's low weight – at its max it was 0.7% of the fund, around half our typical allocation.

Contact Details - Western US Investors:
Suite S8-17,
Eight Floor,
190 Simcoe Street,
Toronto,
Ontario,
M5T 2W5.

Rocco Vessio,
(T) 416-552-5061 , (M) 647-823-4813
E-mail: rocco.vessio@setanta-asset.com
www.setanta-asset.com

Contact Details – Eastern US Investors:
Setanta Asset Management Limited,
Beresford Court,
Beresford Place,
Dublin 1,
Ireland.

Alan Hickey, Director of Business Development
Mobile/Cell: +353 87 941 6847
Email: Alan.Hickey@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

The Global Equity Strategy is managed by Setanta Asset Management Limited. The performance shown is the performance of the lead Euro portfolio of the Global Equity Strategy. This account has the longest performance track record. The strategy is available on a separate account basis to institutional investors however 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. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. See 'WARNING' and IMPORTANT INFORMATION' sections below.

Setanta Asset Management Limited ("Setanta") is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland and is relying on the "International Adviser" exemption from registration in Manitoba, Ontario, Quebec, British Columbia and Alberta. This exemption, subject to certain requirements, allows Setanta to provide advisory services to clients in these provinces who are "permitted clients" in accordance with the applicable securities legislation of Manitoba, Ontario, Quebec, British Columbia and Alberta, as applicable. Setanta, who is an investment sub-advisor to a number of Great–West Life Group companies, does not trade on its own account. Units in the Canadian segregated and mutual strategys are not offered for sale by Setanta but may be acquired by prospective investors in accordance with regulatory requirements in the particular province through registered dealers including the applicable Great–West Life Group company. This factsheet, which is for information purposes only, does not form part of any contract. This document (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. Setanta Asset Management Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the "SEC") - CRD# 281781 / SEC# 801–107083.

This document is confidential and is not an offer to sell nor a solicitation of an offer to buy securities in any jurisdiction and is not investment advice. This document does not constitute a prospectus, offering memorandum or private placement memorandum in the United States of America.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,637 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The composition of the Index does not reflect the manner in which the Strategy is constructed in relation to expected or achieved returns, portfolio securities, investment guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which may change over time. The Strategy and the Index [do not invest in the same securities or types of securities,] and the comparison is provided only to help an investor understand how the Strategy performed. The Index is unmanaged, and an investor cannot invest in the Index. Index performance reflects the reinvestment of dividends but does not reflect the deduction of any fees or expenses, which would reduce returns.

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 securities 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.

SETANTA
Asset Management