Setanta Global Equity Strategy (USD)

Q1 2024

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 fundamental 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

Strong market return in Q1

The MSCI World Net Total Return Euro rose 11.4% during the quarter. The main theme that drove the strong market returns in 2023 remained in place for the period under review: exceptional returns from a narrow set of companies. The market overall was buoyed by the view that inflation is under control. Interest rates may have peaked and are priced to decline in the coming quarters.

(Strategy 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

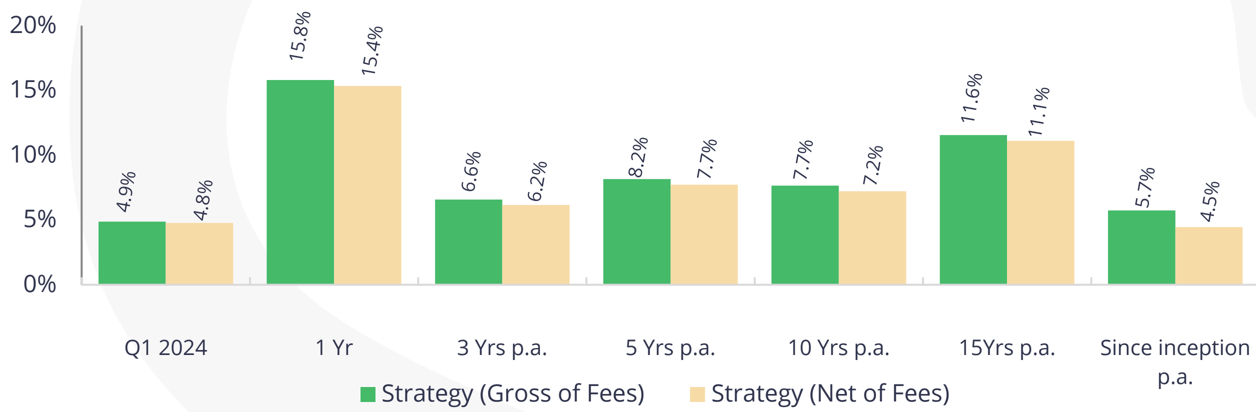
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Performance and Strategy data as at 31st March 2024

Strategy Performance (USD)



Yearly Performance (USD)

	2019	2020	2021	2022	2023
Strategy (Gross of Fees)	19.8%	5.4%	23.2%	-13.4%	16.5%
Strategy (Net of Fees)	18.9%	4.6%	22.3%	-14.1%	15.7%
MSCI World (USD)	27.7%	15.9%	21.8%	-18.1%	23.8%

Portfolio Valuation Statistics

PRICE/BOOK	2.5
PRICE/EARNINGS RATIO (FY 1)	16.3
DIVIDEND YIELD %	1.8
AVERAGE MARKET CAP $BN	175.2
NO. OF HOLDINGS	78
ACTIVE SHARE %	84.4
DEBT/EQUITY %	46.5

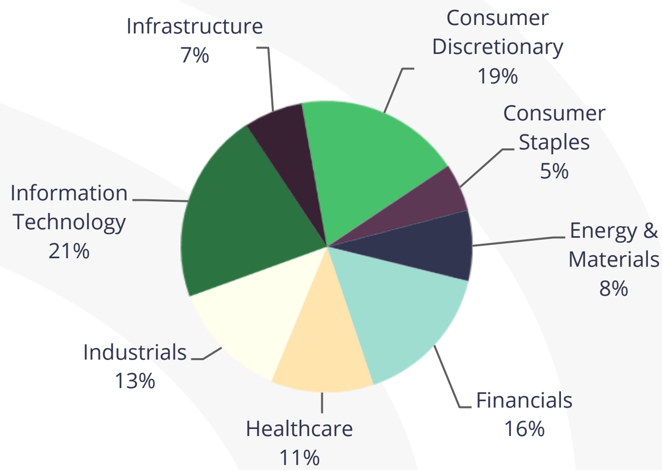
Top 10 Holdings

COMPANY	SECTOR	WEIGHT
MICROSOFT	INFORMATION TECHNOLOGY	4.7%
BERKSHIRE HATHAWAY	FINANCIALS	4.1%
ORACLE	CONSUMER DISCRETIONARY	3.6%
ALPHABET	INFORMATION TECHNOLOGY	3.6%
BOOKING HLDGS	CONSUMER DISCRETIONARY	3.1%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.8%
COSTCO WHOLESALE	CONSUMER DISCRETIONARY	2.7%
S&P GLOBAL	INDUSTRIALS	2.1%
TAIWAN SEMICON	INFORMATION TECHNOLOGY	2.1%
CRH	FINANCIALS	2.1%

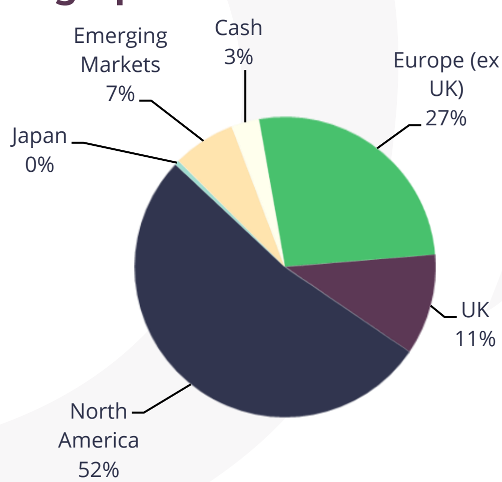
Holdings Source: Setanta. Sector allocations based on invested portfolio only (excludes cash), of the lead Euro account of the Global Equity Strategy. **Portfolio Valuation Statistics Source:** Bloomberg, based on the lead Euro account of the Global Equity Strategy, shown in USD.

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 0.7390. 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.

Sector Distribution



Geographic Distribution



SETANTA Asset Management

Strategy review

The strategy rose a very creditable 4.9% Gross and 4.8% Net in the quarter. We highlighted the "Market structure at extremes" in last quarter's commentary (link here) and these themes continue to dominate. In short, the current investment environment is proving challenging to the strategy's performance relative to a very strong, narrowly focused benchmark. We are working hard to adapt while keeping true to our decades long investment principles and expect to do very well as the investment environment normalises.

Portfolio changes

During the quarter we added four new stocks and exited three existing holdings.

We bought two US financial exchanges, **Intercontinental Exchange** (ICE) and **Nasdaq**. Exchanges are fantastic businesses as they earn high margins, have very high barriers to entry, grow over time and do not require much capital. They facilitate trading of a growing range of products, from stocks, bonds, ETFs, commodities and interest rates, across cash markets, futures and derivatives. The history of exchanges is typically one of strength if not dominance by region and / or product. Once a venue develops dominance, it attracts even more customers and volume and tends to hold its advantage indefinitely (a loss of dominance is quite rare).

Over time exchanges have proven adept at growing by developing new products that are traded and cleared on exchanges. Customers (both financial and industrial) enjoy reduced counterparty risk, better pricing and ease of finding buyers and sellers. Another area of growth for exchanges has been their ability to monetise the vast amounts of must-have trading data that they gather.

Following demutualisation / privatisation around the turn of the century, exchanges modernised (from pits to electronic trading) and began to consolidate, realising they could achieve significant cost (and even some revenue) synergies. The M&A phase has likely concluded and today only a handful of exchanges serve the major markets of the world. In more recent years, many of the large exchanges including Nasdaq and ICE have sought to create value by deploying their prodigious cash flows into acquisitions in areas where they can leverage their know-how and / or customer relationships – more on this below.

ICE was only set up in 2000 by current CEO and Chairman Jeff Sprecher, who sought to capitalise on the deregulation of the US energy market and the demise of Enron in 2001, which encouraged buyers and sellers to trade safely in a centrally cleared exchange. Since then, through acquisitions and organic investments ICE has built up leading franchises in energy and commodity futures, cash equities and options, fixed income data and analytics, and indices. It has proven something of a trailblazer in modernising and growing these businesses. The common thread running through the group is data and technology.

In the last five years ICE has acquired series of businesses (most recently with the $13bn purchase of Black Knight) that serve the mortgage industry in the US. At first glance this looks a left field move, but the group's core data and technology capabilities can be applied to this heretofore disjointed, low-tech, labour intensive industry. ICE is essentially reinventing how the mortgage industry operates and we believe it will emerge as the dominant player and standard setter. The long-term revenue and profit opportunity is very large.

Nasdaq was founded in 1971 and went public in 2002. It is best known for its exchanges (both in the US and in the Nordics region), where it earns trading and listing fees, fees on licencing its indices and from data. More broadly, Nasdaq has an excellent reputation as a technology leader. Its strategy is to be the trusted fabric of the world's financial system. The platforms and trade management services it uses to run its own exchanges are sold to other exchanges and financial companies. It sells systems to financial institutions to help them manage trading risks, identify and report suspicious financial activity. These are global, scalable businesses that should offer Nasdaq years of profitable organic growth opportunities.

While we are positive on exchanges generally (indeed we now own four exchanges across Setanta strategies), we decided that ICE and Nasdaq were particularly attractive for the global equity fund. They generate high-levels of recurring revenue and cash flow, are well-diversified by product and geography, and we are positive on their non-exchange strategies which we think will excel over time. We decided to buy a half weight in both companies to reduce idiosyncratic risk but fundamentally we think both are attractively valued given their strengths and growth potential. Together we believe they will deliver us market-beating returns at lower-than-average risk. The purchases were funded by a complete sale of Federated Hermes.

In the technology sector we commenced buying **Cognex**, a provider of vision automation systems to enable customers automate manufacturing and logistics operations. In its very simplest form, Vision Automation (VA) uses software and hardware to replicate human vision, with software replicating brain function and hardware replicating the eye. The real value is in the software, and this is the core of what Cognex does. VA is a high growth industry (mid-double digits year-on-year) and Cognex has an objective of growing revenues at >15% CAGR over the medium- to long-term. Cognex consistently invests a mid-teens percent of sales into R&D to help maintain and build their competitive advantage. Cognex earns gross margins that are sustainably in the 70% range, while operating margins have tended to be in the mid 20% range.

The VA market is concentrated. Keyence is the technology and market share leader and due to its broad product set and customer base it is doing a better job at maintaining revenue growth through the current industry demand weakness. While Cognex also has leading technology, it has a smaller range of both products and customers and has seen its operating margin fall to the mid-teens level. As demand recovers back to trend and Cognex expands its product offering, we expect Cognex's margins and earnings to recover strongly. We have taken an initial small position following a more than 50% a selloff in the stock in the last two years, with a view or to adding more, hopefully at lower levels.

The other new holding added was **Roche Holdings**. The company is a Swiss pharmaceutical company focused on biopharmaceuticals and diagnostics. It has had a particular strength in oncology historically while also boasting a good presence in neurology and immunology. Management continues to invest significantly in R&D but market expectations around the pipeline are low. New products due to launch, mainly in oncology and neurology, should help support reasonable earnings growth over the coming years. Roche also has drugs in development in two major categories, Alzheimer's and Obesity, which the market is attributing little value to. We feel these represent cheap options. Operating margins of 25% suggest scope for further efficiencies when compared to peers. The business is generating strong cash flow and currently offers a 4% dividend yield. We believe there is a disconnect between Roche's probability-weighted valuation and its current market cap, which we hope will yield attractive risk-adjusted returns over the coming years.

Q1 2024 Commentary

Sales during the quarter were Federated Hermes, Charter Communications and Astellas Pharma.

Federated Hermes was sold to make room for the purchases of ICE and Nasdaq. The US-based asset manager was first purchased in 2013 and has produced a passable total return since (~7% p.a. in USD). Asset management as a business has some nice characteristics. There are economies of scale (to a point), the business benefits from rising asset prices over time and growth does not consume capital. However, it is also very competitive and there is pressure on fees over time. While the valuation of Federated Hermes looks low (~10x P/E), profits can be somewhat cyclical and growth is likely to be pedestrian or perhaps non-existent over time. We believe your capital has a better chance of outperforming in ICE / Nasdaq, both of whom have greater growth prospects and total shareholder return potential.

Astellas Pharma was another long-term holding that we decided to part ways with. The stock has also generated a decent total return (7% p.a. in JPY) but recent years have been very disappointing. Management's 2025 business plan set out in 2021 called for revenue growth and margins to materially expand, but they have disappointed on both fronts. Indeed, the core margin in FY23 was below where it was when the plan was announced. Likely reflecting these disappointments, senior management was changed. Last year the company made a significant acquisition where there are now doubts emerging about the duration of the IP of its main product, raising concerns that the deal has destroyed value. In short, we lost confidence in the Board, senior management and its ability to allocate capital sensibly.

Charter Communications posted full year results that were underwhelming and on the conference call management highlighted a tough and incrementally toughening competitive environment. The call also confirmed that a significant part of the customer base (5m customers) receives federal support which may be at risk in coming months.

The original investment case back in 2020 relied on the superiority of Charter's broadband cable product and a well-behaved competitive environment. While Charter's broadband offering is indeed better, it is becoming clear that Fixed Wireless technology offered by competitors is "good enough" for many customers. It is therefore probable Charter will face higher customer churn, potentially for a long period of time. We fear that the US broadband / cable TV market could go the way of European telecom markets, whose history is one of tough competition, low growth, margin pressure, reduced cash generation and years of unattractive stock returns. Also, while Charter's valuation is low, it is now apparent that its financial leverage (which looked acceptable in an environment of low competition / churn) is no longer advisable. The sales proceeds were invested across other holdings in our Infrastructure sector.

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

Rocco Vessio,
Mobile/Cell: 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

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