Setanta Global Equity Fund
Q4 2024

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.60-100 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy by a team of five global sector specialists, overseen by three 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 MSCI World Net Total Return Euro Index was up an outsized 26.6% in 2024. Over the last 5 years, the index has returned 13% per annum. While not all parts of the global economy are motoring, overall financial conditions and corporate health are in good shape. A number of the key Central Banks reduced interest rates during the year, with the US Federal Reserve and the ECB in Europe both cutting by 1%. The election of Trump has given some investors optimism for higher US corporate profit growth, due to tax cuts, deregulation and trade policies, contributing to a near 8% gain in the benchmark in Q4.

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Portfolio Managers

David Coyne, David Byrne, CFA & Conor Walshe

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

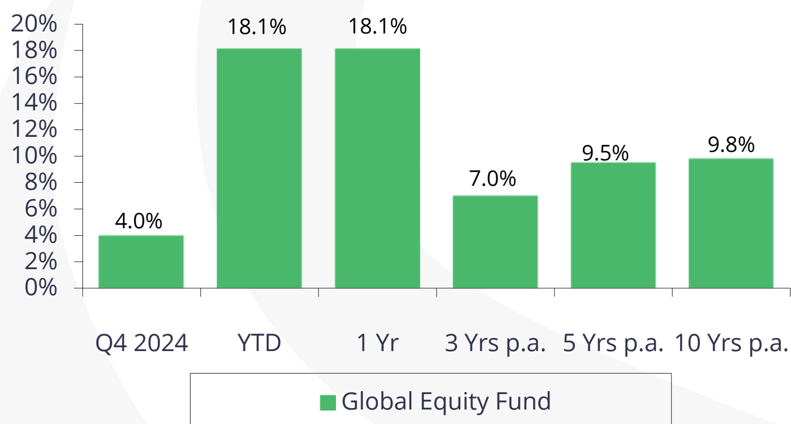
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

SETANTA Asset Management

Fund Performance – 31.12.24 (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. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash). **Fund Statistics Source:** Bloomberg.

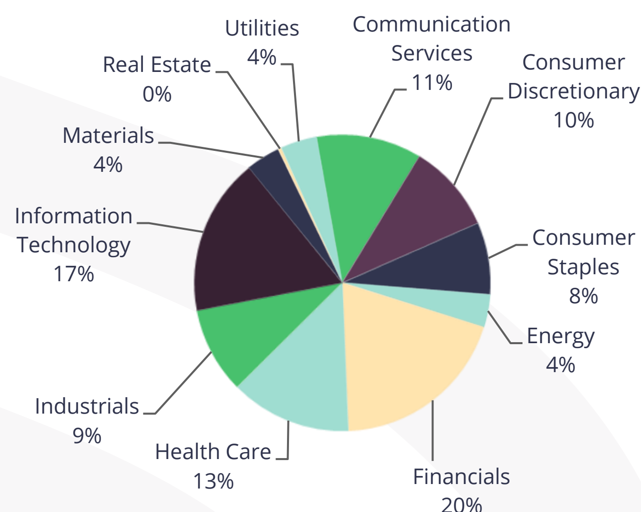
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
ALPHABET INC COM	COMMUNICATION SERVICES	4.6%
BERKSHIRE HATHAWAY	FINANCIALS	4.5%
MICROSOFT CORP	INFORMATION TECHNOLOGY	4.3%
ORACLE CORP	INFORMATION TECHNOLOGY	3.9%
BOOKING HOLDINGS	CONSUMER DISCRETIONARY	3.7%
TAIWAN SEMICON MAN	INFORMATION TECHNOLOGY	3.3%
CRH PLC	MATERIALS	2.3%
MARSH & MCLENNAN	FINANCIALS	2.2%
S&P GLOBAL INC	FINANCIALS	2.2%
MCDONALDS CORP	CONSUMER DISCRETIONARY	2.0%

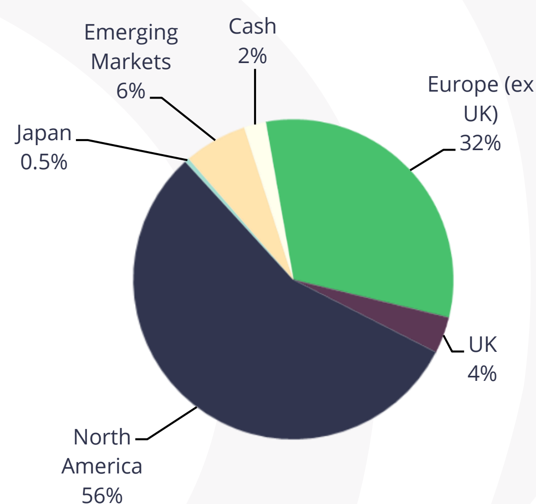
Fund Statistics

PRICE/BOOK	3.2
PRICE/EARNINGS RATIO (FY 1)	17.6
DIVIDEND YIELD %	2.0
AVERAGE MARKET CAP € BN	213.8
NO. OF HOLDINGS	74
DEBT/EQUITY %	39.7
ACTIVE SHARE %	82.0

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund	0.9	14.1	24.5	20.6	9.0	16.2	8.8	-3.9	22.0	-3.3	32.5	-7.7	12.6	18.1

Q4 2024 Commentary

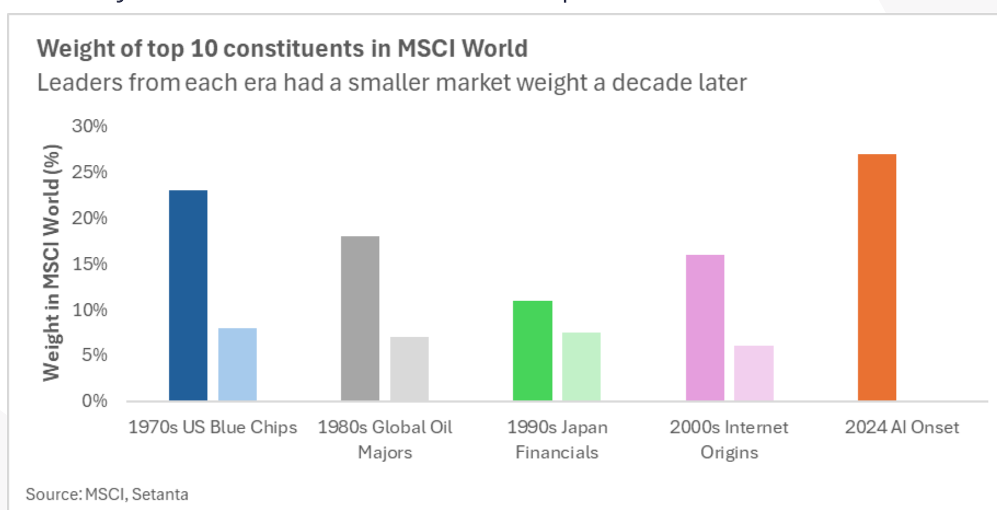
Investors continue to be very bullish about the potential for Artificial Intelligence. Nvidia has been a major beneficiary, with its share price rising 170% in 2024 in local currency. Nvidia alone contributed 4% to the MSCI World performance in 2024. Bulls of the company can credibly point to the meteoric rise in its sales and profits. According to IDC, global spend on AI rose 50% to $235bn in 2024 and the research firm forecasts this to grow to $337bn in 2025 and $632bn in 2028. This isn't chump change – for context, S&P Global research calculates total global capex at $3.7trn in 2024. Some of the large tech giants like Meta and Alphabet are using AI internally (for example to optimise the efficiency of their advertising algorithms) and claim to be generating a healthy return on this spend. However, more generally, the true level of long-term end-user AI demand (and how much they will pay for it) is not at all clear. The substantial AI investment will need to generate a financial return, or the durability of AI spending – and the stocks that are benefiting – will be called into question.

Market structure at (even greater) extremes

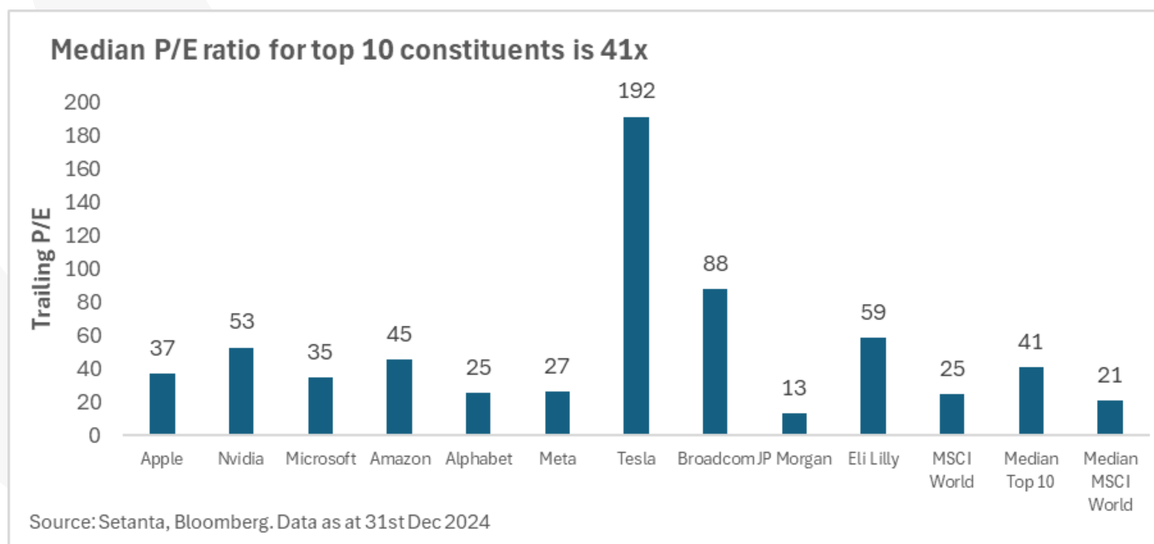
In our fund report this time last year we described a situation where the structure of the market looks anomalous. Below we give an update on some of these anomalies.

Stock market returns in 2024 were again highly concentrated. One way of measuring concentration is to compare the standard market cap-weighted MSCI World to its far less popular equal weighted cousin. In 2024, the equal weighted index lagged the cap weighted index by over 11% – a record going back to 1999 when the former was created (and surpassing the 8% underperformance in 1999). The equal weighted index is a very credible yardstick for equity funds – it has outperformed the market cap weighted index by 0.7% p.a. over the last 26 years, despite lagging by over 5% p.a. in the last seven years.

Expressing market concentration in another way, just 29% of MSCI World constituents beat the benchmark return in 2024, highlighting the particularly strong performance of mega cap stocks. In fact, a colossal 13% of the MSCI World's return came from the ten largest weights, which now account for 27% of the index. The chart below is taken from a piece of MSCI research in 2023, updated by Setanta for year-end 2024. It shows that major market concentrations in the last 50 years have all unwound over time. Collectively, this should be a cause for concern about the future performance of today's mega caps. Individually, MSCI also notes that only a quarter of stocks have managed to exceed the World Index's returns in the years after reaching the top 10. The tendency for extremes to mean revert is powerful.



The trailing 12-month P/E for the top 10 stocks is shown in the following chart, along with the valuation of the MSCI World and the median valuations for both the top 10 and the benchmark's 1,500 constituents. Trailing P/E is certainly no valuation silver bullet (as discussed in the section on valuation which follows), but they are factual numbers based on profits after "all in" costs. For what it's worth, on this basis the median top 10 P/E at end-2024 was 41x, nearly double the benchmark's median P/E of 21x, which is the same as the Fund's.



The Fund currently holds three of today's top 10 – Alphabet, Meta and Microsoft – and of these only Alphabet is an active long position. Overall, the Fund is underweight the top 10 by 16.5%. We think the valuations of all three holdings are justifiable without having to stretch our assumptions.

Concluding on valuation, the following section was written by colleague Rowan Smith and captures well Setanta's approach to investing and the nuances of company valuation.

Value: often not what it seems

Several of the portfolio's holdings trade on valuation multiples that are higher than one might traditionally expect to see in a "value" portfolio. This partly reflects general multiple inflation across the market over the past decade or so; we are essentially fully invested in a market that has become more expensive. It also partly reflects that, in our opinion, our companies are generally clean financial reporters, who don't tend to inflate published results by means of "adjustments" of questionable merit. The window dressing of earnings has become a more prominent feature in the market over the course of my career and we try to avoid companies whose management take liberties here. Furthermore, it is our view that the valuation multiples published in the financial media often give a misleading impression of the true value proposition of the security, portfolio or index in question.

Delving into this latter point, we see lower multiple stocks are currently skewed towards certain pockets of the market. These pockets include Banks and Utilities, Energy and Resource companies and an eclectic mix of other smaller sectors including Autos and Retailers. These sectors are certainly not devoid of good investment ideas but, in our view, many of the stocks in these industries are trading more expensively than they appear at first glance. There are two principal reasons for this.

1. Many of these companies carry considerable debt or debt-like liabilities. Such leveraged capital structures raise the financial risk for equity investors which means that the stock in question needs to trade on a lower multiple simply to compensate for the extra financial risk in the capital structure. So, part or in some cases most, of the apparent valuation discount can merely reflect compensation for higher financial risk borne by the shareholder invested in the "value stock".

2. Many companies in some of the aforementioned sectors are facing brutal competition and/or critical strategic challenges. These situations often initiate scenarios that result in a leakage of profit before shareholders can get to it. Such leakage happens because management is taking desperate measures to try to insulate the business from unrelenting problems. Some symptoms of this issue include:

    - Periodic restructuring programs to restrain the expense base; these programs are costly, but these costs are added back to "adjusted" earnings, as if they never occurred.
    - Acquisitions that later prove over-priced and poorly integrated; the true cost is only recognised years later in the form of low earnings growth and asset impairments.
    - Losses incurred in exiting business lines that have become unattractive: again, added back as a "one off".
    - Expensive and often unsuccessful expansion projects outside the company's areas of competence, later followed by further impairments and low profit growth.

Each one of these can be individually excused as one off, but they have a habit of recurring regularly at weaker and financially challenged companies that are much more prevalent in the "cheaper" parts of the market than in the niches we spend most time on.

We invest considerable effort to assess the earnings quality and earnings risk of each company before we make an investment. We don't get this right all the time, but we think this type of analysis is critical. To be clear, the price paid for an investment matters a great deal and we believe we can justify the prices paid for those investments that trade on what look like higher multiples. This is because these companies have unusually attractive combinations of low financial risk, and high earnings quality that can be delivered to shareholders through future earnings growth achieved from attractive reinvestment opportunities. These companies can make better investments on behalf of shareholders because they have strong competitive positions, and management is not continually having to fire fight or take risky bets out of desperation. Many weaker, "cheaper" companies by contrast can be expected to routinely leak profits as they battle for mediocrity.

2024 performance review

The Fund rose 18.1% (Euro) over the year, which would usually represent an excellent outcome for investors, but such was the performance of mega caps in 2024 that the Fund trailed the benchmark by 8.9%. We are humbled by the extent of the deficit, but as outlined above we believe the current market is severely and dangerously skewed and arguably an unhelpful yardstick for judging prudent fund management. Flipping it another way, beating the benchmark in 2024 would have required the Fund to have a greater exposure to mega caps on premium valuations or for us to have adopted a momentum strategy, both of which are the antithesis of how we have successfully managed money for 25 years. We – and most importantly, our investors – are having to be far more patient than we would like but feel strongly that the portfolio is in good shape and will be recognised more favourably when our fundamental, diversified and conservative investment approach comes back into favour.

The following is a list of the largest positive contributors to the Fund's gross performance in the year:

2024 Top 5 Contributors to Performance	Sector	Gross Contribution, Euro	Gross Performance, Euro
Oracle	IT & Communications	2.4%	71%
TSMC	IT & Communications	1.9%	105%
Booking Holdings	Consumer	1.6%	51%
Alphabet	IT & Communications	1.6%	45%
Berkshire Hathaway	Financials & Infrastructure	1.4%	36%

Oracle is executing well in its core cloud services business and management has laid out expectations for double-digit revenue growth over the medium term. Reflecting higher growth, Oracle's valuation has risen but we think it is still priced to deliver solid returns.

TSMC is the globally dominant manufacturer of leading-edge semiconductors. TSMC is a key supplier for Nvidia. Demand for Nvidia's AI chips has been a boon for TSMC's profitability, so there is a risk to TSMC's share price if AI investment falls away. However, we expect global demand for powerful semiconductors will only grow over the long term and think TSMC's dominance will be maintained. This should translate into structurally higher future profits, whether or not the driver is AI.

Booking Holdings has continued to report a better-than-expected financial performance. In its most recent results, room nights, gross bookings and revenues were all up high-single-digit territory, translating into mid-double-digit EPS growth. Greater usage of the mobile app (cutting down on advertising costs), more demand for alternative accommodation and improved trip conversion are all contributing to growth and margin expansion.

Alphabet finished the year strongly, rising 14% in local terms in Q4. Business fundamentals in the core search business remain solid. The market reacted positively to the unveiling of its new quantum chip, Willow, which achieved milestones that might lead to commercially viable quantum computing in the future.

Conglomerate Berkshire Hathaway counts utilities, railroads, insurance underwriting, a host of industrial businesses and a large investment portfolio among its assets. A notable decision taken during 2024 was to sell two-thirds of its holding in Apple, swelling its cash pile to over $300bn (compared to a market cap of ~$1 trillion), on which it is benefitting from higher interest rates. Berkshire's valuation is slightly elevated compared to the past, but this mostly reflects generally higher valuations. On a relative basis the stock continues to deserve a high allocation in the fund.

In the next table are the largest detractors to fund performance, followed by stock comments.

2024 Bottom 5 Contributors to Performance	Sector	Gross Contribution, Euro	Gross Performance, Euro
Samsung Electronics	IT & Communications	-1.0%	-36%
Nike	Consumer	-0.6%	-24%
DXC Technology	IT & Communications	-0.4%	-31%
Pernod Ricard	Consumer	-0.3%	-29%
HF Sinclair	Industrials, Materials & Energy	-0.2%	-12%

The largest detractor to performance in 2024 was Samsung. The global market for memory semiconductors is struggling from a supply-demand imbalance, hurting near-term profitability in Samsung's key memory division. The stock is lowly rated and has the potential for outsized returns when demand improves.

Nike had another difficult year, its third in a row, and its share price now trades on less than half its 2021 level. Its problems stem from certain strategic missteps under CEO John Donahoe, among them an aggressive shift to selling more direct-to-consumer and a greater emphasis on data and technology over innovative performance products. This provided a greater opportunity for competitors to work with discontented retailers and Nike has suffered revenue and margin weakness as a result. In September the company announced it was appointing a former Nike product veteran Elliott Hill as CEO, signalling a return to basics. While sales and margins are expected to remain weak in the near term, Nike is an incredible global brand operating with favourable industry demand trends and we expect margins to revert to normal in the next couple of years. On this basis the stock's valuation is attractive. We added to our position during the year, funded by trimming Costco on valuation grounds

Pernod Ricard was another weak performer. The group, which owns mainly spirits brands like Jameson, Chivas Regal and Absolut Vodka, is a casualty of generally weak demand for spirits in key markets, due to destocking by wholesalers, tighter consumer budgets and shifting consumer tastes. We view these as largely temporary factors and expect Pernod to grow its top line over the medium and long term through pricing, premiumisation and innovations e.g. non-alcohol spirits. A low valuation encouraged us to increase our Pernod weight during the year, again funded by Costco.

HF Sinclair suffered a sharp contraction in refining margins in 2024, due to slow demand and increased capacity in its markets. The renewable diesel business has remained challenging. Finally, DXC fell sharply following weak results and an outlook that forecast a continued difficult profit outlook. We sold out of the holding in Q1 and Q2.

Q4 2024 Commentary

Portfolio activity

As is customary, a summary of new stocks and complete sales in 2024 is included in the table below. Overall there was a higher than usual level of activity, with 17 sells and 13 buys, some of which reflects sector responsibility changes during the year when we consolidated eight global sectors into five in order to give a better balance of opportunity and contribution across members of the team.

BUYS

	Stock	Sector	End of year weight
Q1	Roche	Healthcare	1.3%
	ICE	Financials & Infrastructure	1.3%
	Nasdaq	Financials & Infrastructure	1.3%
	Cognex	IT & Communications	0.7%
Q2	Hannover Re	Financials & Infrastructure	1.3%
	Coloplast	Healthcare	0.4%
	Core & Main	Industrials, Energy & Materials	0.4%
Q3	Meta	IT & Communications	1.9%
	L'Oreal	Consumer	1.1%
	Legrand	Industrials, Energy & Materials	0.8%
Q4	Marsh & McLennan	Financials & Infrastructure	2.2%
	Applied Materials	IT & Communications	1.2%
	Demant	Healthcare	1.0%

SELLS

	Stock	Sector	Start of year weight
Q1	Charter Comms	IT & Communications	0.6%
	Astellas Pharma	Healthcare	0.5%
	Federated Hermes	Financials & Infrastructure	0.3%
	Novartis	Healthcare	0.9%
Q2	SEI Investments	Financials & Infrastructure	1.7%
	DXC Technology	IT & Communications	1.2%
	BASF	Industrials, Energy & Materials	0.7%
	Dowlais	Industrials, Energy & Materials	0.3%
	Pfizer	Healthcare	0.1%
Q3	Playtech	IT & Communications	1.3%
	C&C Group	Consumer	0.4%
Q4	Melrose	Industrials, Energy & Materials	1.7%
	Markel Group	Financials & Infrastructure	1.5%
	OI Glass	Industrials, Energy & Materials	0.8%
	Sonova	Healthcare	0.7%
	REN	Financials & Infrastructure	0.3%
	SK Telecom	Financials & Infrastructure	0.3%
	SK Square	Financials & Infrastructure	0.2%

In Q4 we added Marsh & McLennan, Applied Materials and Demant.

Marsh & McLennan provides insurance broking and other consulting services. Broking is a critical service for its customers, who tend not to switch their provider often, resulting in very predictable and steadily increasing revenues and profits. The company is a beneficiary of GDP growth, inflation and uncertainty, yet as an advisor is not itself exposed to insurance losses and risk. The business has low capital requirements, which means most of the profits generated can be used to make acquisitions and / or be returned to shareholders in dividends and buybacks. Marsh & McLennan trades at a slight P/E premium to the market, which we think this is justified given the high quality of the business.

Applied Materials is a leading semiconductor capital equipment manufacturer. The company has strong relationships with all of the main chip producers around the world, making it a play on the growing use of semiconductors. It is also a beneficiary of increased chip complexity because this requires more steps in the production process, which in turn requires more capital equipment. Applied Materials is well-diversified by process type and has always invested heavily in R&D, which is key to maintaining its decades long leadership positions. The company has an excellent financial history and a rock-solid balance sheet. Semiconductor capital equipment is a cyclical industry, so some revenue and profit volatility should be expected along the way. This may be exacerbated if the US looks to further restrict semiconductor equipment sales to China, which accounted for over 25% of group revenues in 2023.

We reflect these risks by trying to be conservative in our estimates. On this basis we believe the valuation will prove attractive over the medium and long term.

Lastly, we added hearing aid company Demant. You may recall that we bought peer Sonova in June 2023 following a fall in its share price on factors that we believed were temporary in nature. Our thesis played out as the stock recovered and re-rated through 2024. A near 50% valuation gap opened up between Sonova and Demant, with Sonova's share price recovering and Demant's falling 30% from its February 2024 peak, again for reasons we think are temporary. We believe the fundamental valuation of both companies should be similar and switched into Demant during Q4.

In Industrials, Materials & Energy we exited Melrose and OI Glass. We outlined our concerns about Melrose in the Q3 report. In summary, the long-term nature of its aircraft engine business makes annual profitability hard to assess. The sale of OI Glass follows a prolonged period of underperformance. Our confidence in its future prospects diminished due to underwhelming execution in an industry that has proven very competitive despite its consolidated nature. Proceeds were invested across other sector holdings. In Financials & Infrastructure, the purchase of Marsh & McLennan was funded by a sale of US insurance underwriter Markel, Portuguese regulated utility Redes Energeticas Nacionais (REN), Korean telecom operator SK Telecom and an investment company called SK Square in which we received shares following a spin from SK Telecom. We discussed the sale of Sonova above in the context of the Demant purchase.

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