

Setanta Global Equity Strategy

Q3 2026 Commentary

Market Commentary

There was a continuation of the “AI theme” in the third quarter of 2026. We could describe the market this year as the AI theme and everything else. What looked like an improving situation in the Middle East has since deteriorated with a resolution looking now like a long, drawn-out process. The most immediate market impact has been persistently high oil prices, contributing to higher inflation and inflation expectations. Government bond yields have been rising across the globe in response. Warren Buffett has famously described bond yields as “gravity” for equity valuations, the implication being higher yields = lower stock prices. US 10-year yields moved up 53bps in September alone. Not surprisingly only two of the 11 sectors in the S&P 500 were positive for the month of September, Information Technology and Communication Services. We might have expected all the sectors to sell off in this environment, given the yield backdrop but investor enthusiasm for the AI related names remains, so far, undimmed.

With the AI theme front and centre, the Setanta investment team is actively debating the implications and potential outcomes for our holdings. Much has been written about the tech behemoths and how they are funding their capex bills. In summary, funding has evolved from reliance on operating cash flow towards a broader mix of debt, lease commitments and equity issuance. We will likely see Anthropic list this year with an IPO (raising an estimated \$150 Billion at a \$2 Trillion valuation). OpenAI are also expected to raise similar amounts of money in the new year. The US president has indicated that the federal government of the United States may seek an ownership arrangement in the AI laboratories, potentially providing a further source of capital for the AI buildout.

To sum up the capital markets are continuing to provide funding for the AI buildout. Goldman Sachs has estimated the cumulative sum to be more than \$5 Trillion by 2030. We mentioned in our last commentary how we are participating with our current positions in AI related names; TSMC, Microsoft, Alphabet, Meta, Amazon, Samsung, Keysight, ASML and Applied Materials. We have been actively managing our position sizes this year among these names as valuation discrepancies emerged and hope to continue taking advantage of such dislocations. However, we remain mindful of the growing supply of capital-market funding and its potential implications and are therefore proceeding cautiously.

Q3 performance review

The strategy gained +1.6%² in Q3 (EUR), trailing the benchmark by 1.0%² MSCI World TR EUR (+2.6%). Top contributors included Microsoft, Meta and SAP. Key detractors included Applied Materials, CRH and Ryanair. Microsoft reported results showing strong earnings growth driven by their Azure cloud division. Meta likely rose during the quarter due to sentiment change relating to a resolution in their legal issues and the release of their agent product Muse. SAP reported solid results during the quarter and likely benefitted from a sentiment shift for software related names during the quarter. On the negative side Applied Materials, gave back some of its gains after a very strong run, as key beneficiaries of the AI buildout. CRH's end markets of broad general construction and housing remain subdued while cost inflation pressures grow weighing on the stock. Ryanair suffered as the oil price climbed higher due to the ongoing tensions in the Middle East.

¹ \$ references relate to USD currency

² All references to strategy performance are gross of fees and all figures are in euro terms (unless otherwise stated) as at 30th September 2026. The performance shown is the performance of a representative account (ILA/CLI Setanta Global Equity Fund [P-GLB1]). Source: Keyridge performance team (BTS)

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Portfolio activity

We had four buys and one outright sell during the quarter. We added Diageo, Hubbell, Labcorp and Hermes and sold Quest Diagnostics.

Buys

Diageo

Diageo is a business that makes and sells alcoholic beverages. They have a stable of well-known brands ranging from Guinness, Smirnoff, Captain Morgan to Johnnie Walker. Close to 80% of their sales are in the spirits category with the remainder being in beer (primarily Guinness) and a small portion in “ready to drink” which are essentially pre-packed mixed or cocktail type drinks. The drinks industry has had a number of headwinds over the last few years with a boom in consumption in the COVID years normalising, a trend toward more health and wellness, the introduction of GLP1 drugs to combat obesity and the legalisation of marijuana (in the United States). As a result, the volume of spirits sold in the US has declined for four straight years. We think industry conditions should stabilise as excess stock is depleted the industry. Furthermore, assuming a resumption in modest topline growth, operating leverage should kick in and lower capex and working capital requirements should lead to a rebound in earnings and cash flow and possibly multiple expansion. Dave Lewis was hired as CEO in January of this year and has a successful track record of improving businesses. He is already executing a plan to have a leaner more focused organisation. To sum up we think improving industry conditions, more focused management team and low multiple will make for a successful investment.

Hubbell

Hubbell is a manufacturer of utility and electrical products with over 90% of revenues in the US. The business has 2 divisions, Utility Solutions (63% of 2025 sales) providing components for utility networks and Electrical Solutions (37% of 2025 Sales) selling primarily into Industrial, Non-Residential and Datacentre markets. Reputation and quality matter in this space. These products are relatively low cost but have a high cost of failure for customers. Utilities are particularly reluctant to switch from proven products. For Electrical Solutions, it is theoretically easy to switch providers, but electrical contractors tend to prefer working with familiar brands as they prioritise product quality, reliability, safety, ease of installation and availability. Historically, Hubbell’s end markets have grown at c2-3% but this has accelerated to mid-single digit plus on the back of increased electricity demand (data centres, EVs, reshoring), the growing reliance on more intermittent renewable sources for supply and the accompanying network investment necessary to boost resilience in an ageing US grid infrastructure. Recent share price weakness saw the P/E multiple fall back to c23x which we felt offered a reasonable valuation given its growth prospects and market position.

Labcorp

We initiated a small position in Labcorp during the quarter, funded from a sale of Quest diagnostics. We had owned Quest in the fund since 2012 and have gotten a more than satisfactory 13% p.a. return since our initial purchase. The rationale for the switch was quite simple. We felt we were getting a better forward rate of return in Labcorp at today’s valuation levels. Both businesses are very similar and operate primarily in the US diagnostics industry. They run lab tests on samples of blood, urine, etc. that have been requested by doctors to help inform the nature of a particular condition. They could process up to 500,000 samples a day. The business is very sticky and market shares tend not to shift around too much. However, both Labcorp and Quest are the only nationwide operators in the United States and are the low-cost operators. There is potential for them to eke out some share gains over the long term. Labcorp is trading on a lower multiple than Quest, and is also a slightly lower margin business. All in all, we feel there is more potential on several fronts for Labcorp than Quest making for a more attractive investment candidate at this point.

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Hermes

Hermes is an exceptional business that we have been following very closely (primarily due to our ownership of peer Richemont in the fund) for over a decade. The business was founded in Paris in 1837 as a high-end manufacturer of made to measure saddles and other equestrian products. Over time they expanded into other personal luxury categories such as handbags, ready-to-wear, accessories, perfume and beauty. The company plays at the very top of the luxury pyramid with a business model focused on heritage, craftsmanship, timelessness and scarcity. The company's most iconic products are its highly sought after handbags, the Kelly and the Birkin. Their strategy is to make exceptionally well-crafted products, control the supply of product into the market and increase desirability which gives them a rare degree of pricing power. We examined the company closely last year comparing it with long-term holding, Richemont. We felt the forward return prospects favoured Richemont at that time. Since then, the valuation multiple has compressed more for Hermes than Richemont. We took the opportunity in the quarter to initiate a new position in Hermes, funded by a reduction in our existing holding Richemont.

Sells

Quest Diagnostics

After a successful 14 year ownership period of Quest, we exited the positioned believing close peer Labcorp to be a better investment prospect now. (see above discussion on Labcorp for more detail)

We would like to thank all our clients for your continued support.

David Byrne, Portfolio Manager.

Important Information

*Source: Stock price and index returns are from Bloomberg.

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