Setanta Global Focus Fund
Q3 2018

Fund Description

The **Global Focus Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Global Focus strategy.

The Fund is an actively managed, concentrated Global Equity Fund that is invested in circa 20 stocks. As a Fundamental value investor our research is designed to properly understand how each business functions and to consider pertinent risks to the business. We attempt to value each business, incorporating relevant upside and downside scenarios. As such the Fund attempts to invest in the most attractive stocks across all the firm's strategies using a risk-return framework. Investments are made for the long-term and are based on investment merit rather than with reference to benchmark. This Fund is mandated to be fully invested in equities. Due to the concentrated nature of the Fund, performance may be volatile. The investment objective of the Fund is to outperform the MSCI World index over periods of three years or more.

Fund Commentary

The market value of the fund's holdings grew by 4.9% in the quarter, behind the benchmark return of 5.5%. Year-to-date the fund was slightly ahead of benchmark, 9.3% v's 9.0%. We are happy with the fund's holdings and held c.13% cash at quarter end, which will be used to fund attractive new investments as they become available.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Rowan Smith

Our Investment Principles

We do not believe the market is efficient

We aim to make investments at a price below our assessment of intrinsic value

We make an investment in a business rather than trade securities

We believe risk is the possibility of permanent impairment of value

We make investments for the long term

We invest where we see value and are not afraid to be contrarian and swim against the tide

We don't make forecasts, we consider scenarios

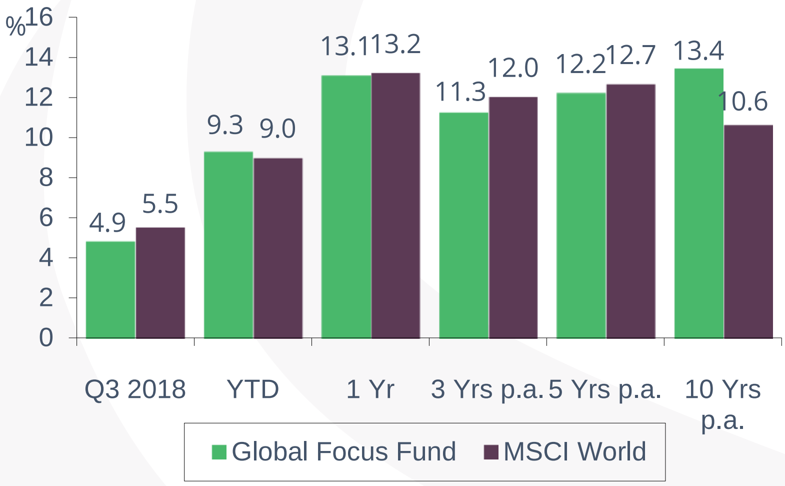
We demand financial strength from the companies we invest in

We will act with integrity and communicate with our clients in a manner representative of our investment style

We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study

SETANTA Asset Management

Fund Performance – 30.09.18



Performance Source: Setanta Asset Management Limited. Benchmark: MSCI World. The Fund returns stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Fund Statistics Source:** Bloomberg

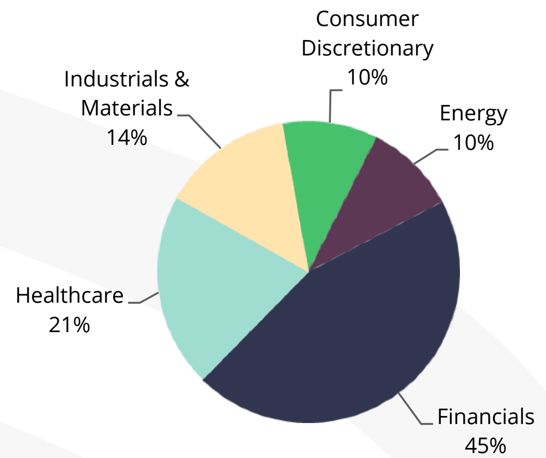
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
MINCON GROUP	INDUSTRIALS & MATERIALS	8.2%
BERKSHIRE HATHAWAY	FINANCIALS	7.2%
STERIS PLC	HEALTHCARE	6.5%
LSL PROPERTY SERVICES	FINANCIALS	6.5%
FAIRFAX FINANCIAL	FINANCIALS	6.4%
HENRY SCHEIN	HEALTHCARE	6.3%
LANCASHIRE HOLDINGS	FINANCIALS	6.0%
MARKEL	FINANCIALS	5.5%
JEFFERIES FINANCIAL	FINANCIALS	5.5%
DIAMOND OFFSHORE	ENERGY	5.5%

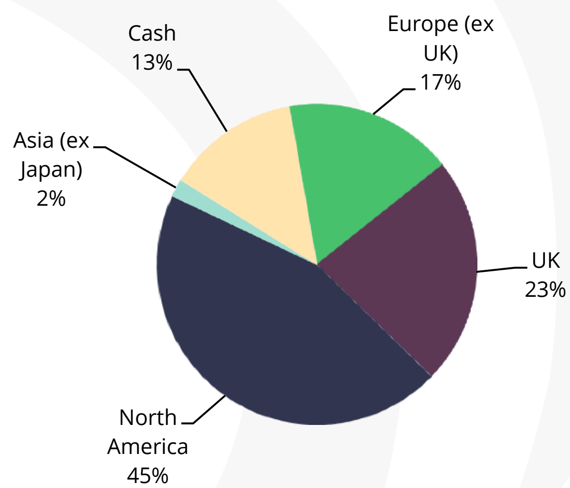
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	18.4
DIVIDEND YIELD %	1.5
AVERAGE MARKET CAP € BN	55.2
NO. OF HOLDINGS	17
DEBT /EQUITY %	39.9
ACTIVE SHARE %	91.7

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund	27.3	17.0	-2.7	-35.2	44.0	28.2	1.5	9.0	20.0	19.1	7.3	11.7	9.7
Benchmark	26.2	7.4	-1.7	-37.6	25.9	19.5	-2.4	14.1	21.2	19.5	10.4	10.7	7.5

SETANTA Asset Management

Strong performers during the quarter included the Irish engineering group **Mincon** (+18%), dental products distributor **Henry Schein** (also +18%) and US financial conglomerate **Berkshire Hathaway** (+15%). The worst performers in the quarter were European airline **Ryanair** and luxury watchmaker **Swatch**, which each fell by c.15%.

Ryanair hit the headlines recently as they announced a profit warning. The economics of the Ryanair model work when fuel cost is reasonable, labour disruption is minimized, competition is weaker and customers are willing to fly. There are a lot of variables in this particular economic formula. Ryanair management understands this and has successfully managed this tricky problem for many years. Recently however, Ryanair has had to contend with labour unrest, first with pilots based in Dublin. This then spread to Germany, Belgium and Spain. Ryanair had previously not recognized unions but has since had to start negotiating with them and improve pay and conditions. The process has dragged on longer than we would have liked. There have been strikes across Ryanair's European base impacting service levels. This has created uncertainty among customers and impacted bookings for the summer and winter seasons and possibly beyond. Lower bookings than expected, higher fuel costs and increased labour costs have meant that Ryanair now expect a significant hit to this year's profits. Ryanair has ambitions to grow passengers carried significantly over the next 5 years[1]. To accommodate this growth they will need to have a satisfied staff base to fly the planes and serve customers. Globally, there is a tight labour market in many industries. Businesses with large labour cost components are being pressured to increase pay and offer better conditions for staff. It's likely Ryanair is going to see labour costs rising over the next few years.

Ryanair was purchased for the fund in early 2017 at levels around current prices. As keen observers of Ryanair over many years, both as consumers and investors, we finally debated the merits of the investment just over a year and a half ago. They have built a very successful "point to point" low cost carrier model very much in the mould of Southwest Airlines in the US. They charge low fares, operate on lower costs versus flag carriers and get great utilisation from their planes by operating on tight turnaround times and flying on short routes primarily within the European continent. As they grew they used their scale at opportune times to place large orders for planes at fantastic prices, further extending their cost advantage. Although Ryanair was earning EBIT per passenger in the region of €13 at the time of our initial investment, we thought that even at normalised EBIT per passenger of about €8 the investment proposition was attractive.

Overall, despite many sensational media articles, we think customers are satisfied with Ryanair's product and low cost offering. It's crucial that potential customers can have confidence that the planes will fly on time. We think that chances are Ryanair will resolve its labour issues over time and restore customer trust. However, the economic formula for airline profitability can be a tricky one to decipher. The airline industry is competitive and has the potential to have excess supply which is a concern at present. Working out the impact on Ryanair of absorbing both fuel and labour cost increases is fraught with uncertainty. On balance though, we believe there will be continued demand for the air travel product over the long term and if Ryanair can get back to operating on a level consistent with their past, they should gain the trust back from their customer base and provide us with a successful investment at current prices.

Swatch's weakness followed a doubling of its share price since mid-2016. Current investor sentiment towards Swatch (as well as peer fund holding Richemont) has turned negative, due to fears of a weakening in Chinese demand for luxury goods. Clearly this relationship is important because Chinese consumers account for around one-third of global demand for luxury goods. However we think it rarely makes sense to make investment decisions on the back of quarterly trends.

Our belief is that consumption of luxury products – including by the Chinese, but also other increasingly wealthy and fashion-conscious regions of the world – will be higher in 10 and 20 years than it is now and that, despite the current investor concerns over the sustainability of demand, 2018 will prove to be an unremarkable year *in the fullness of time*.

Transactions

During the quarter there were no purchases and one sale, namely Granite Real Estate which was first purchased in 2010. We last spoke about the stock in the Q2:2015 report and here's what we said:

> *Elsewhere, **Granite Real Estate Investment Trust**, another 5-year veteran of the fund, announced in June that it was conducting a "comprehensive review of strategic alternatives", which can reasonably be read as "we are considering putting the company up for sale". Granite – previously known as MI Developments – has been something of a home run for us, more than tripling in value over our holding period (or c.30% per annum including dividends).*
> ***MI Developments** was set up as the separately-quoted property company for Magna International, the Canadian auto parts company, which operated many of its industrial factories on long term leases from MID. The problem was that Frank Stronach, the founder and controlling shareholder of both Magna and MID, was calling the shots in a way that did not seem to further shareholders' interests (this included buying horse racing venues, a personal passion of Mr. Stronach). We estimated that the stock was trading at a fraction of the value of its assets, and well worth having to put up with the troublesome founder. Prepared for a long trench battle, just a few months in we struck lucky as a plan to resolve the situation with Mr. Stronach was hatched in late 2010. A group of shareholders agreed a plan to pay Stronach to relinquish the multiple voting shares that gave him his power. New management was appointed and took various steps to unlock shareholder value. They changed the company name to Granite – to give a clean break from its past – and had the company re-incorporated as a Real Estate Investment Trust, entities that pay no corporate tax. The group's properties were revalued from "at cost" to "market value", which shone a light on the massive asset undervaluation.*
>
> *A large and on-going dividend was also put in place. At the same time, management pledged to reduce its almost exclusive exposure to Magna, to be achieved through property purchases (utilising the underleveraged balance sheet) as well as asset sales / swaps. In truth, this last part of the plan has not happened to any significant degree, primarily due the management's view that there are no great property bargains out there. We agree and applaud them on this. The latest bit of news indicates to us that Magna International has probably approached them with a view to buying some or all of the properties which it leases from Granite. When management concludes its course of action, we are hopeful that a great story gets even better. Stay tuned.*

As it turned out, no sale of the business took place – management felt that offers they received did not adequately value the company – and so they went back to collecting rent and looking for opportunities to add value through cautious expansion. Then in 2017 a US-based hedge fund took a modest stake in the company and proposed a raft of changes – including new board members and a change of strategic direction – which they claimed would "unlock" value in the company. Unlike the last management overhaul necessary to break from the bad corporate governance practices of the past, the hedge fund plan appeared to us as an exercise in financial engineering, largely involving leveraging up the company to buy more property, at a time when prices are high. We voted against their plan but the activist was ultimately successful. A new CEO was appointed earlier in 2018, with a mandate to grow. In our view the new strategy increased Granite's risk profile and with the share price having increased by more than 50% since "putting the company up for sale" in 2015, valuation risk had also increased.

Commentary

When we first bought Granite it was a bit of a basket case, deeply out of favour with investors, but where we could see a lot of obscured value. Over the c.8 years we held the stock, the basket case gave us a 6-fold return on its initial investment, or >25% per annum. This is a great example of contrarian investing.

Following quarter end we purchased a small position in Melrose Industries, a former holding in the fund, following weakness in its share price. We will discuss this in more detail in the next report.

David Coyne – Portfolio Manager

Contact Details:

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 704 2028
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION