Setanta Global Equity Fund – Q1 2016

Setanta
ASSET MANAGEMENT

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 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.

Fund Commentary

The Euro market value of the fund fell by 1.0% outpacing the MSCI World Index by 4.0% in the quarter. The Fund's outperformance in the first quarter came from a number of different stocks and sectors. As a reminder we never have overly aggressive stock and sector bets; our biggest positon in the fund is DCC at 3.4% and we run a broadly sector neutral approach. Approximately 46% of the fund is in the top 20 stocks which to our mind strikes a good balance between conviction and diversification.

Also, as a reminder, we never put too much emphasis on short term performance results. While the outperformance in Q1 2016 was pleasing in that it more than reversed a particularly disappointing end to 2015, we are consistently focused on the long term value of our holdings relative to alternatives and to our evolving judgement of investment value over time.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Sean Kenzie

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.

Irish Pensions AWARDS 2015 — WINNER Equities Manager of the Year

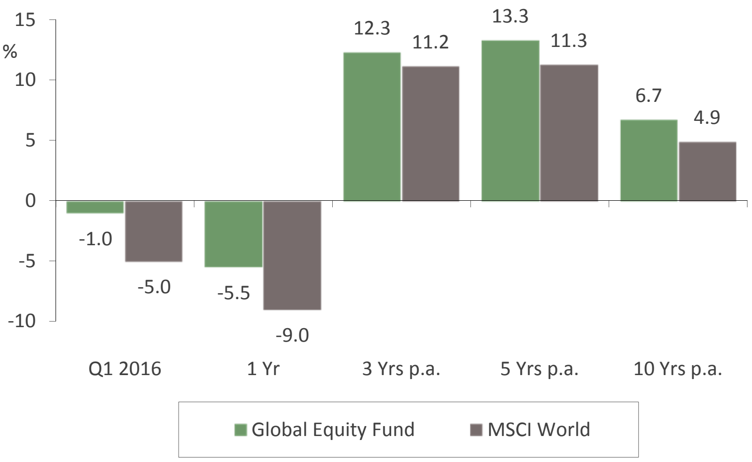
Irish Pensions AWARDS 2014 — WINNER Equities manager of the year

Irish Pensions AWARDS 2013 — WINNER Equities Manager of the Year

Irish Pensions AWARDS 2012 — WINNER Equities Manager of the Year

Setanta ASSET MANAGEMENT

FUND PERFORMANCE – 31.03.16

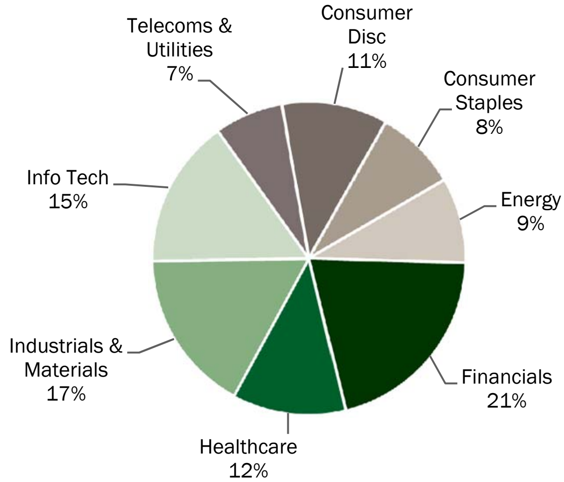


Performance Source: Setanta Asset Management Limited. Benchmark: MSCI World. The Fund returns stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees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

FUND STATISTICS

PRICE/BOOK	2.0
PRICE/EARNINGS RATIO (FY 1)	16.4
DIVIDEND YIELD %	2.2
AVERAGE MARKET CAP €BN	62.6
NO. OF HOLDINGS	82
ACTIVE SHARE %	88.6
DEBT/EQUITY %	55.5

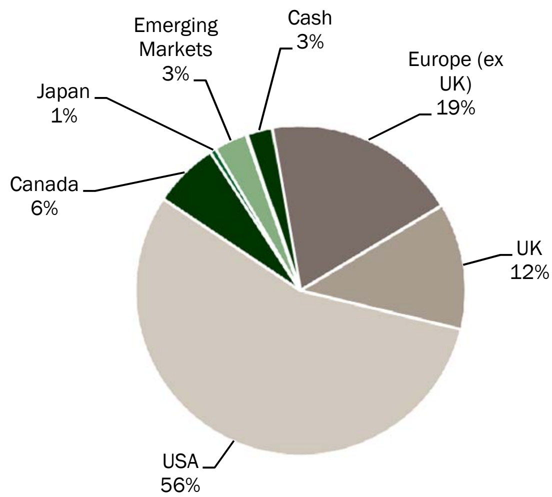
SECTOR DISTRIBUTION



TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	3.4%
BERKSHIRE HATHAWAY	FINANCIALS	3.0%
FAIRFAX FINANCIAL	FINANCIALS	3.0%
CRH	INDUSTRIALS & MATERIALS	2.8%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.6%
MCDONALD'S	CONSUMER DISCRETIONARY	2.4%
JOHNSON & JOHNSON	HEALTHCARE	2.4%
FEDERATED INVESTORS	FINANCIALS	2.3%
NIKE INC	CONSUMER DISCRETIONARY	2.2%
OSHKOSH	INDUSTRIALS & MATERIALS	2.2%

GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund	-29.1	16.3	10.9	27.7	13.0	-1.0	-36.6	32.2	16.2	0.9	14.1	24.5	20.6	9.0
Benchmark	-32.1	11.3	6.5	26.2	7.4	-1.7	-37.6	25.9	19.5	-2.4	14.1	21.2	19.5	10.4

In absolute terms the biggest contribution to performance came from Consumer Staples, up 6.1% for the quarter led by Tesco as the market responded to CEO Dave Lewis's recovery plan prioritising sales recovery over profit growth as a first step in an effort to reinvigorate and simplify the business.

The Fund's 11 Financial stocks outpaced a 12.9% decline in the Financials index by 8.3%. As you will know, at the sector level our holdings and their characteristics (e.g. business quality, management quality, degree of leverage etc.) look very different from their respective indices. As such, in financials we have had very little direct exposure to banks for some time now, rather preferring high quality owner-operator type companies like Berkshire Hathaway, Brookfield, Fairfax Financial and Markel that we believe can compound at higher levels of return. In Q1 '16 these higher quality companies materially outperformed their banking counterparts.

The fund's Energy holdings were the largest detractor in the quarter, notably Devon Energy and National Oil Varco, with the latter continuing to suffer from exploration and production capital spending declines of 50% in North America, curbing new orders and eroding the company's order backlog. Clearly these developments pressure profit margins in the short term, however the extent of capital and labour disinvestment in the industry is laying the seeds for a potentially significant recovery in the medium term. Meanwhile NOV's balance sheets strength helps the company survive through the interim period.

Portfolio Activity

There were no outright buys or sells in Q1, but our holdings in Tyco and ADT came to an imposed end as the remaining parts of the one-time conglomerate were respectively sold and taken private.

Tyco was long the model of the sprawling conglomerate whose various exposures to healthcare, telecoms and electronics assets crescendoed to a market cap of $130bn in 2000 - before collapsing 80% in a scandal ridden tale of corporate executive excess (ending in jail time for those involved).

Tyco subsequently split up in 2007 into three publicly traded companies and we bought a stake in the industrial asset Tyco in late 2010. At that time Tyco comprised three separate industrial businesses: 1) residential security business (ADT) 2) a commercial fire and security business and 3) a unit selling valves and controls to energy, mining and water markets (Flow Control). In our judgement Tyco was deeply out of favour with investors after many years of underperformance, despite very strong businesses with healthy cash flow characteristics and shareholder friendly capital allocation. Fast forward to 2012, Tyco continued to execute on its strategic plan to "deconglomeratize" by splitting into its three constituent industrial parts: selling the Flow Control to Pentair for $5bn, spinning ADT out with a $5bn market cap and retaining the Tyco brand for the commercial business. We retained shares in Tyco and ADT.

ADT remained attractive to us despite succumbing to worst excesses of shareholder activism in 2013, when they underinvested in marketing and lost share to rivals while preferring to engage in a debt funded buy back of over $2.5bn worth of stock. Nevertheless the shares traded at a material discount to private market values while the share price continued to underperform. Private Equity firm Apollo which already had exposure to residential security, duly and opportunistically bid $42 per share, or a 56% premium to ADT's share price. We could quibble over whether we extracted full value, but to be honest we are happy to move on here.

Johnson Controls (JCI), a business that makes and supplies heating and cooling systems, is acquiring Tyco in reverse merger that creates value via $500m of cost synergies and $150m in tax synergies as a result of JCI moving their tax domicile to Ireland.
With an annualised return of 18.8% over our 5 year and 4 month ownership period of these assets, versus the market's 12% annual equivalent, we consider this a very satisfactory outcome.

Critical Thinking and 'Repeatability' – Rowan Smith

In our view, investment success is hard-earned through the highly-skilled judgement of the potential risks confronting the businesses the investor reviews. This is what the qualitative aspect of our research process is all about. Because this aspect of our approach depends not on formulae, but on continuous critical thinking, it may appear to lack 'mathematical robustness' or 'repeatability'. But, as Berkshire Hathaway Chairman Charlie Munger put it recently, if investment success followed the application of formulae, everybody who scored 'A' in algebra would be rich. The reason this is not the case is that the real world that investors operate in is complex and fluid and navigating it requires continuous and effective critical thinking. This critical thinking is what is repeatable about our investment process and we believe it has underpinned our success over the years.

A few years ago I encountered a well-respected peer who expressed his amazement that we didn't own mining stocks - they were 'cheap', trading on 'Price-Earnings multiples of 10'. Lots of investors were sucked into these stocks and have since suffered appalling losses - the earnings were, as we now know, utterly unsustainable. We didn't know this would happen but there were warning signs that alarmed us. The enormous profits these companies were making were dependent on the continued realisation of very high commodity prices. This scenario was undermined by the very manner in which these profits were being invested - in rapid capacity expansions that we now know have resulted in massive over-supply, compressing prices drastically and leaving previously super-profitable businesses in danger of going to the wall.

This is not to claim that we don't make mistakes. We have made plenty and will make more. But our willingness to open our minds to potential risk factors, to consider widely varying potential scenarios, enables us to avoid more than our fair share of mistakes. It seems to us that many industries are perhaps in greater danger than ever of undergoing radical shifts in economics because of advances in technology, the effects of globalisation and the supply-side effects cheap money. In confronting this reality, critical thinking is utterly essential.

This critical thinking must be deployed continuously and extend in every direction to hope to achieve long-term investment success. Put to one side the inescapable strategic complexities facing globally-integrated industries functioning in the modern world, ever changing with technological advances. Consider the humble data of financial accounting – accepted by many to be about as pure as information gets. Not everything is as it seems, even in this domain. When we analyse the trading performance of a business or its financial position, we need to frame our thinking to recognise the differing dynamics of each business and the specific way the management has chosen to present the relevant information. Templates designed to crunch these numbers risk producing misleading information, leading to poorly informed investment decisions.

Consider the following example: Two hypothetical companies, X and Y are, in most respects, highly similar economically but report radically different financial statements because of differences in assumptions made by management. In some other respects they differ economically, yet the accounting treatments suggest otherwise. Some items below will help explain further.

- X classifies an outlay as an expense whilst Y capitalizes it, creating an asset
- X depreciates assets over 15 years, whilst Y depreciates over 10 years
- The Balance Sheet of X contains a substantial provision against a potentially major legal liability, whereas the Balance Sheet of Y, facing exactly the same issue, has no such provision (its management assess the probability of pay out to be lower)
- X has borrowed to own its facilities, booking a liability on its Balance Sheet, whilst Y leases its facilities so these obligations are off-Balance Sheet
- X reports vastly greater cash flow than Y simply because, unlike its peer, it owns less than 100% of many of its subsidiaries (cash flow statements are prepared gross of minority interests)
- Y reports a vastly higher return on equity than X, in part because it wrote-off the value its intangible assets years ago whereas X did not
- X recognises as an expense adverse changes in the local currency value of its overseas debt, whilst Y recognises this in equity, bypassing the profit and loss account altogether.

- X reports a $50 million amortisation expense relating to customer relationships it once acquired. These relationships are actually not depleting but the accountants require a cost be booked – this is not a real expense. Y books a $50 million amortisation expense relating to the degradation of its software assets. Software does deplete so this is a real expense.
- X has cash deposits held in the US banking system valued at $200 million. Y has cash, held under government restriction in Venezuela (it cannot repatriate this), valued at $100m using an artificially inflated exchange rate. Y has a further $100 million cash held in Europe. The accounts ignore the tax liability that would be incurred if Y tried to repatriate this $100m. Both Balance Sheets show equivalent values.

This example highlights the challenges in analysing and comparing audited accounts! In our opinion, adjustments are required to the audited financial statements of the vast majority of companies in order to analyse the information in the most meaningful way. There are often two other sets of shadow "accounts" used by many investors: the adjusted numbers produced by management and the further adjusted numbers produced by sell-side analysts. These are often very poor representations of reality, designed to make the businesses seem more profitable than they really are – beware: here be dragons.

Unless there is critical thinking brought to bear at each stage of the research process, decision making risks being compromised by ill-considered or sullied information. The real world is complex and unstable and it takes experience, awareness and adaptability to be a successful investor. The Setanta team has cultivated an investment process centred on critical thinking. This approach guides us each day. Some see "value" with Price Earnings multiples of 10 - we see just one piece in a complex jigsaw.

Sean Kenzie – Portfolio Manager

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