Setanta Global Equity Fund (USD) – Q1 2017

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 USD market value of the fund rose by 7.0% in Q1 2017 (gross of fees), ahead of the MSCI World benchmark which was up 6.4%.

The first quarter of 2017 saw a notable lack of volatility in stock markets. The Dow Jones Industrial Average had an average absolute percentage daily change of 0.3%, the lowest since the fourth quarter of 1965. The S&P 500 also averaged a daily change of 0.3%, its least volatile since the third quarter of 1967. Modern portfolio theory states that the risk of an underlying asset, be it a stock or portfolio, is measured by its price volatility. Beta, the extent to which a company's share price co-varies with the broader market, is supposed to tell us how risky a stock is. So should we feel relaxed about risk in these becalmed markets?

(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.

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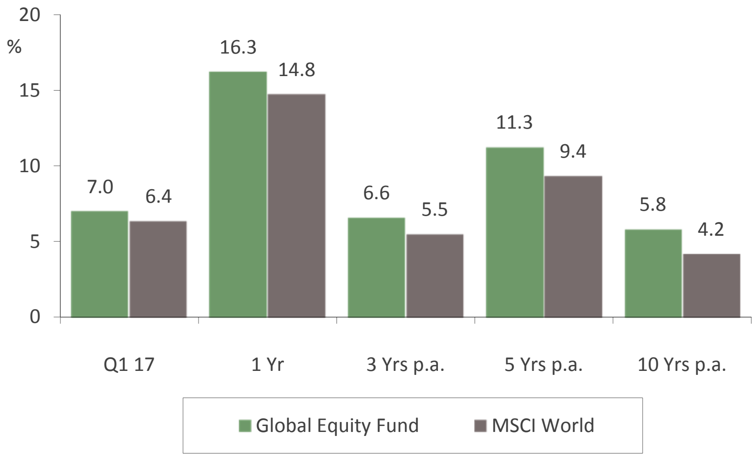
FUND PERFORMANCE – 31.03.17



Performance Source: Unit prices: ILA converted to USD at FX Rate 1.0696. Benchmark: MSCI World (USD). The Fund returns, in USD, 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

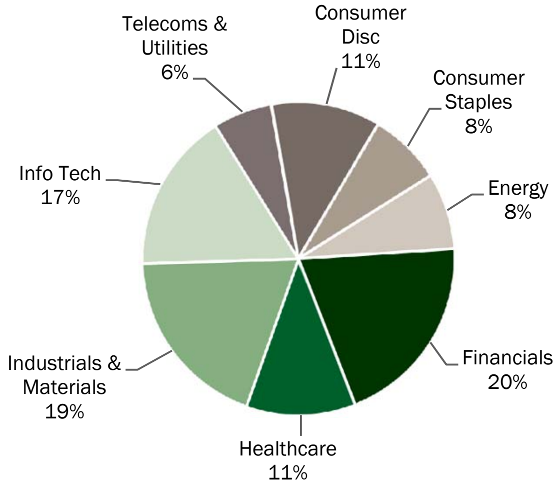
TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	3.2%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	3.2%
BERKSHIRE HATHAWAY	FINANCIALS	3.0%
CRH	INDUSTRIALS & MATERIALS	2.9%
LEUCADIA NATIONAL	FINANCIALS	2.8%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	2.5%
OSHKOSH	INDUSTRIALS & MATERIALS	2.5%
JOHNSON & JOHNSON	HEALTHCARE	2.1%
FAIRFAX FINANCIAL	FINANCIALS	2.1%
MICROSOFT	INFORMATION TECHNOLOGY	2.1%

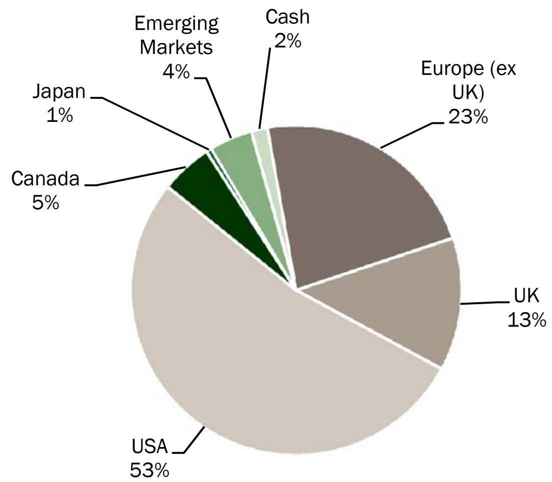
FUND STATISTICS

PRICE/BOOK	2.1
PRICE/EARNINGS RATIO (FY 1)	17.3
DIVIDEND YIELD %	1.9
AVERAGE MARKET CAP $BN	59.8
NO. OF HOLDINGS	87
ACTIVE SHARE %	88.7
DEBT/EQUITY %	56.0

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year %	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund	39.8	19.5	10.8	26.3	9.8	-39.7	36.4	8.7	-2.4	15.9	30.2	5.9	-2.2	12.8
Benchmark	33.1	14.7	9.5	20.1	9.0	-40.7	30.0	11.8	-5.5	15.8	26.7	4.9	-0.9	7.5
Relative Performance	+6.7	+4.8	+1.3	+6.2	+0.8	+1.0	+6.4	-3.1	+3.2	+0.1	+3.5	+1.0	-1.3	+5.3

Economist Hyman Minsky theorised that a period of stability encourages risk taking which in turn leads to instability. When people aren't afraid of risk, they accept it without being compensated. Warren Buffett memorably summed this up with the line "It's only when the tide goes out that you discover who's been swimming naked". The current era of low "risk-free" interest rates may lead to the return bar being set too low for riskier investments.

We can't tell you whether we are on the verge of a "Minsky moment". What we can say is how we think about risk at Setanta and share price volatility does not figure. In evaluating any investment opportunity, the key to risk is the likelihood of the permanent destruction of capital. Our overarching focus is on avoiding this outcome through trying to understand the underlying fundamentals of the business and the inherent risks; over the years this has led to less downside risk in our strategy.

We sometimes describe our approach as "paranoid" investing. Scepticism is central to our process. Most of our investment case discussions centre on what can go wrong. When considering an investment, we try to consider how a company would perform in a range of possible future scenarios. We try to ensure that we are being compensated for the broad array of risks that the company could face. Focusing on a single most likely outcome as many sell side analysts do fails to capture this risk spectrum. We do not claim to be skilled crystal ball gazers or macroeconomic forecasters, nor are we trying to make explicit detailed projections. Instead by trying to consider the full range of risks facing the company, we are looking to be roughly right rather than precisely wrong.

It is impossible to consider or indeed imagine the full range of potential outcomes. There are "unknown unknowns" as former US Secretary of Defence Donald Rumsfeld once said. The future that actually transpires may be positive or negative for our stocks but we are seeking to ensure that we are being adequately rewarded for that inherent uncertainty. Critically, a business must have the wherewithal to endure a difficult business environment so it can survive and prosper when the backdrop turns more favourable.

This risk focus leads to us to look to avoid companies with the following characteristics: a highly indebted balance sheet; operating in a fast changing industry; poor, unpredictable or short-sighted management; opaque or complex business models; convoluted accounting; expensive / speculative stocks . Our preference is for financially strong, durable businesses with capable management who are focused on the long term and shareholder interests.

This approach means we will from time to time miss out on high flying single product biotechnology stocks or hot social media technology companies. While success stories spring easily to mind, the trail of business failures is more easily forgotten. In attempting to build a strong long term track record, avoiding disasters is critically important. If a stock drops 75%, then it must rise 300% to break even. We remain consistent in our approach and seek to avoid letting the "fear of missing out" infect our thinking.

Increased volatility can be very welcome in throwing up opportunities to buy good quality businesses at reasonable prices. Risk is conditional on the price paid. Take a case where a company has suffered a short term setback which leads to a meaningful share price decline but where the long term prospects of the business are relatively unaffected. Financial theory suggests that the increased volatility makes the company riskier. This completely ignores the lower price level which in fact makes the investment less risky.

Recent data from JP Morgan for the 1980-2016 period highlighted that the average intra-year maximum drawdown was -14.2% for the S&P 500. Bear in mind that this has been a very positive time period for equities. The annualised return with dividends re-invested was 11.5%. Even in this current bull market, six of the past eight years have seen double digit peak-to-trough intra-year declines in the S&P 500. Share price moves in the short term may have little to do with the underlying fundamentals of a business. As Benjamin Graham said, "In the short run the market is a voting machine, in the long term it's a weighing machine".

Considering risks to the investment case thoroughly in advance helps to provide the resolve to capitalise on share price weakness where we feel the long term attractions of the business remain intact. At Setanta, we hope that increased share price volatility can in fact afford us lower risk investment opportunities.

Portfolio Activity

No new companies were added to the portfolio, or any sold out of the portfolio. In Q3 2016 we added Keysight Technologies to the fund (for recap of rationale for purchase, see page 5 of Q3:16 report). The investment case was partly grounded on our belief that scale and brand awareness driving industry leading margins were not being appreciated by the market. In Jan 2017 Keysight announced the acquisition of IXIA for $1.68bn to be funded through debt and new issuance of Keysight stock. IXIA is a good strategic fit for Keysight as it allows them to expand their range of test and measurement services provided and increases the percentage of revenues coming from Software, which has higher margins and is more recurring in nature.

The equity issuance of $400m was completed in March 2017 at a price of $35 per share. We used this event to almost double our position in the stock as we continue to believe that the longer term demand outlook for test & measurement hardware and software is strong and that this acquisition helps cement Keysight's position at the top of their market.

Sean Kenzie – Portfolio Manager

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