Setanta Global Focus Fund
Q3 2019

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 equity portfolio which holds c.20 global stocks. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good businesses for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile. Stocks are chosen through bottom-up analysis, based on investment merit. Due to the Fund's concentrated nature, investments require an even greater than normal margin of safety. The Fund can hold up to 30% cash where investments of sufficient quality cannot be found. 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.

Fund Commentary

Fund performance continued to struggle in Q3 – flat versus the global equity markets up 5.0%. Year-to-date the fund is up just 8.6% against the benchmark performance up 23.3%. The Fund continues to carry a relatively high level of cash (10% at quarter end), which has been a drag on performance but we think it is a prudent position given generally high equity markets.

(Fund Commentary continued on Page 3)

Portfolio Managers

David Coyne & Rowan Smith

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

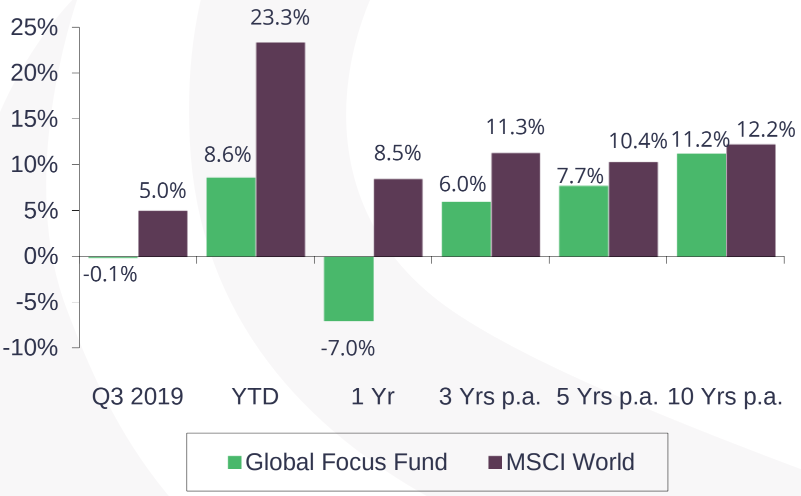
We consider scenarios rather than making forecasts

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

Fund Performance – 30.09.19



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

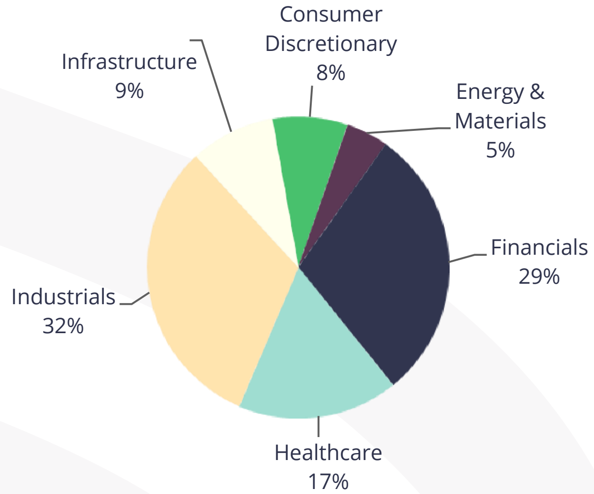
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
BERKSHIRE HATHAWAY	FINANCIALS	9.3%
STERIS PLC	HEALTHCARE	8.7%
DCC	INDUSTRIALS	8.0%
RYANAIR	INDUSTRIALS	7.4%
MINCON GROUP	INDUSTRIALS	6.9%
LANCASHIRE HOLDINGS	FINANCIALS	6.9%
LSL PROPERTY SERVICES	INFRASTRUCTURE	6.5%
JOHNSON & JOHNSON	HEALTHCARE	6.4%
MELROSE INDUSTRIES	INDUSTRIALS	6.1%
RICHEMONT	CONSUMER DISCRETIONARY	5.4%

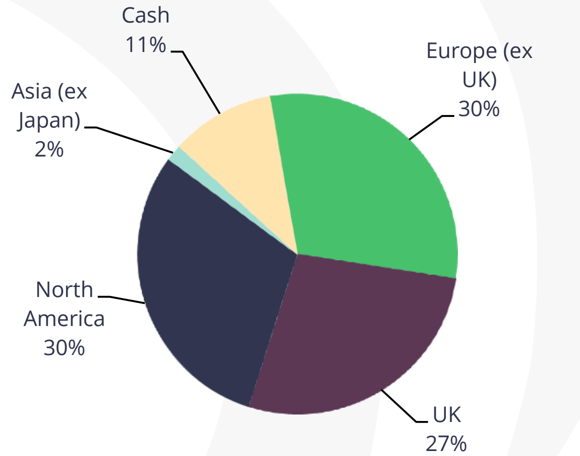
Fund Statistics

PRICE/BOOK	1.6
PRICE/EARNINGS RATIO (FY 1)	16.5
DIVIDEND YIELD %	1.9
AVERAGE MARKET CAP € BN	53.8
NO. OF HOLDINGS	17
DEBT /EQUITY %	41.5
ACTIVE SHARE %	93.3

Sector Distribution



Geographic Distribution



Yearly Performance

Year %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fund	17.0	-2.7	-35.2	44.0	28.2	1.5	9.0	20.0	19.1	7.3	11.7	9.7	-6.4
Benchmark	7.4	-1.7	-37.6	25.9	19.5	-2.4	14.1	21.2	19.5	10.4	10.7	7.5	-4.1

SETANTA Asset Management

On the positive side, Melrose Industries rose 13%. Despite management's long track record of executing its Buy-Improve-Sell strategy, the slowdown in the global auto industry has meant that shareholders have grown increasingly sceptical that it would hit the targets it set itself when it purchased British industrial company GKN in 2018. Its Q2 results went some way to convincing doubters, with improvements in profitability and debt reduction the main takeaways.

We had two heavy losers in the quarter, Diamond Offshore and Covetrus, down 34% and 50% respectively, although thankfully neither was a large position. We have spoken about Diamond on many occasions before. To summarise, it has been a disastrous investment which we deeply regret making. At this price, it is akin to an option on a recovery in ocean rig rates, in turn a function of the oil price and the supply of oil and gas from cheaper or more convenient sources. We acknowledge that our holding could turn into a 'zero' if the recovery fails to happen before the business runs out of money. On the other hand we also know that if rates turn up the share price rise could be very dramatic. Diamond's share price will likely remain very volatile but the position size is small and we believe the ratio of upside to downside potential is favourable.

We discussed Covetrus in the Q1 2019 report. We received shares in this company in February 2019 in a spin-out from Henry Schein, the market leading distributor of products and services to office-based healthcare professionals. Covetrus consists of two merged companies: Schein's original distribution business that supplies equipment and consumables to vets in the US and abroad, and a business it merged with prior to the spin; Vets First Choice. Vets First Choice offers software and services that help veterinarians to promote high rates of prescription compliance i.e. to encourage clients to ensure that the medication prescribed for their pet, is actually purchased, preferably in the prescribing veterinarian's practice. Our thesis was that the combined offerings would strengthen the market position of the original Schein business and provide a global platform for significant expansion of the Vets First services. This was the vision of the Schein senior management team, a team which has a very good track-record of strategic decision making over many years. Although it was clear there would be integration challenges and a number of uncertainties about how the financial performance of the business would develop, we felt relaxed by the fact that the position was small (0.8% of the fund at its peak) and the trust we had in the longer-term vision of the Schein management team. We expected to watch and learn as the company evolved and evaluate our position from there. However the financial performance of Covetrus has been dreadful this far with the company significantly undershooting performance projections, partly as a result of having under-estimated the cost structure of the merged company. Management has not impressed on the conference calls and investors have begun to believe that the merger has been rushed, poorly executed and possibly fundamentally ill-considered. Given the collapse in the stock price (-70% since spin), and the tiny position size (0.26% of the fund at time of writing), we consider the position to be a cheap option on a recovery in performance and therefore worth retaining. However this debacle caused us to lose a fair degree of confidence in the judgement and motivations of the Henry Schein senior management team, who arranged and wholeheartedly backed this merger and spin. To say that these judgements now look poor would probably be an understatement. We have reduced our position in Henry Schein in the Global Equity Fund and sold it in entirety in the Global Focus Fund.

We also sold out of Jefferies Financial Group. This has not been a particularly fruitful investment, with the stock up just modestly since purchased in 2011. We bought into what was then Leucadia National Corp., an investment vehicle run by a small management team who had clocked up an excellent (albeit lumpy) track record over decades. Soon after our purchase, Leucadia management moved to buy out the part of investment bank Jefferies that it didn't own and, concurrently they stepped back to leave the top guys in Jefferies in charge of the enlarged group. For various reasons, the new team has not been able to create value. In particular the low interest rate environment has proven tough for investment banking. There are still positives to point to, not least that the company is buying back stock at what appear to be cheap levels, but we have come to the conclusion that there might be better value on offer in the shape of Ryanair and Melrose.

Melrose has been discussed above but stepping back from the recent results, investors continue to avoid Melrose due to its auto exposure (a relatively small part of the business), as well as Brexit fears (it is quoted in the UK but is a global business). Both of these are real risks, but we think the probability of them materially changing the intrinsic value of Melrose are lower than the market perceive.

Ryanair is also out of favour. One concern is the industry backdrop and a fear that supply will outstrip demand over the coming few years, causing an industry downturn. A second concern relates to Ryanair itself. Following industrial action by staff – which ended up in the company having to recognise unions and pay their staff more – there is a fear that Ryanair's cost advantage over peers will slowly be eroded over time. We are less worried these factors will significantly impact the longer term story. On the risk of oversupply and an industry downturn, Ryanair always keeps a very strong balance sheet has proven itself very adept at taking advantage of stressed conditions in the past; we expect it to do the same in the future. Regarding costs, we believe Ryanair will retain its advantage because its short haul model gets more utilisation from planes and staff than peers. There is still a tail of inefficient carriers around Europe and over time we expect Ryanair to continue to take market share in a growing industry, generating attractive returns. We note that since the start of September Aigle Azur, XL Airways, Adria Airways and Thomas Cook have either gone out of business or stopped flying.

David Coyne & Rowan Smith – Portfolio Managers

Contact Details:

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

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com

IMPORTANT INFORMATION

For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is also available on a segregated basis. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, Ireland. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.
The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

WARNING: Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance