

Long-term Investing as asset prices rise

Financial markets have generated very strong returns year to date with equities and bonds performing well, compounding excellent returns since 2009. From a European investor's perspective, these returns were further enhanced by the effect of euro currency weakness. There is considerable investor unease however at present, in significant measure because the unconventional methods being deployed by the world's key Central Banks are untested and there is a broad range of potential consequences. The ECB's quantitative easing is already evident with negative bond yields in some core markets. This forces investors out the yield curve and down the credit spectrum. The current policy has led investors to accumulate financial assets at higher values with commensurate lower future expected returns. At least part of the stock market performance in the last number of years reflected a low starting position, with historically low valuations in 2009. We consider the Central Bank actions a latent systemic risk, our defence against which is to stay true to our investment beliefs and to be doubly cautious about the assets we invest in, the robustness of the businesses we own and the management teams running them.

Rising markets present challenges for investors

The market has been good to equity owners over the past number of years. Irrespective of market levels, our endeavour is to construct an attractive portfolio of investments in companies and assets which are priced at a reasonable level. A rising market is always challenging for a value investor, as fewer attractively priced opportunities than we might like are presented. The corollary is that stock prices may get above the valuation range we view as reasonable and present profitable opportunities to sell the positions. As a consequence, the number of our equity holdings has diminished in recent years and our portfolios have become more concentrated. Our time is spent becoming very familiar with a small number of companies with the objective

There is considerable investor unease however at present, in significant measure because the unconventional methods being deployed by the world's key Central Banks are untested and there is a broad range of potential consequences.

**Brendan Moran, Head of Business Development
– Ireland, Setanta Asset Management**



of understanding the key drivers of their business. At Setanta we aim to own a stake in businesses, which we believe will endure through thick and thin, at a reasonable price.

At Setanta we build in a margin of safety and invest for the long-term

The factors that influence whether management of these companies achieve good long term returns are numerous and complicated. While macro-economic and geopolitical factors are an important input, our thinking on such matters is much more focused on managing risk than predicting outcomes. No doubt luck and serendipity are also significant factors but ninety percent of our time is spent trying to understand the company. The goal is always to find companies which are advantaged. Once our analysis highlights advantaged companies, whether it is because of management, regulation, switching costs or economies of scale or some other reason, we will purchase when the stock trades far enough below our evaluation of it's worth to provide us with a margin of safety. Our long-term track record (see **Global Equity performance chart below**) is based on our ability to select good businesses, with high returns on capital, high cash generation, robust business models and moderate amounts of leverage while paying prices below our assessment of intrinsic value for them.

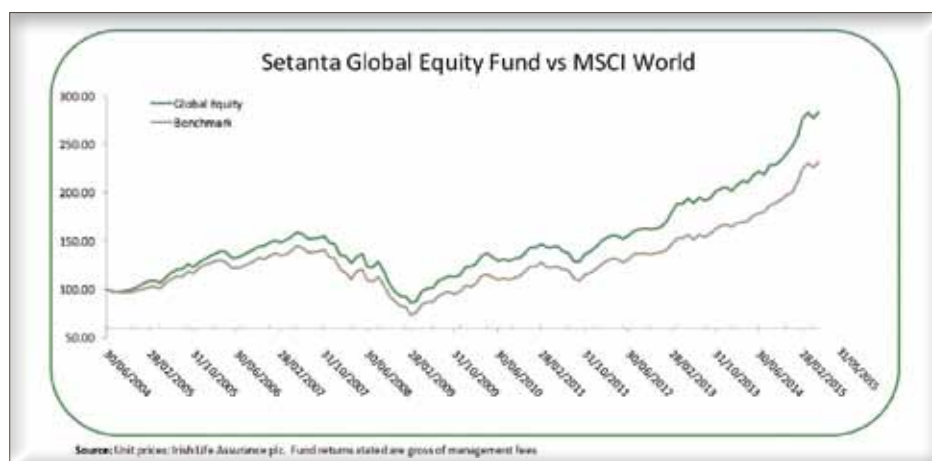
Asset classes offer very different prospects

We have been concerned for some time about the prospects for the bond market given current low yields and the

risk of capital loss. We have reflected this by considerably reducing our fixed income exposure in our multi-asset Income Opportunities and Managed funds. By comparison, we view property as a relatively attractive asset class and have been increasing our weighting across a range of funds. Property is generating a cash yield of c.5%, a multiple of the bond yield.

One such example is IRES REIT where we participated in the recent secondary equity offering. We believe there is plenty to like in this company, focused on owning and managing a portfolio of Irish residential property assets. Having rapidly deployed the proceeds of its original IPO last year into a group of high quality apartments in the Dublin area, the company came back to the equity markets to secure funding for an increasing pipeline of assets hitting the market. The company's fundamentals are strong. The Irish residential market has been starved of investment in the seven years since the beginning of the Great Financial Crisis. Although rents have been rising, they remain below global average affordability levels. With a portfolio made up of close to 1,500 apartments and plenty of dry powder to buy assets at relatively attractive prices, we believe this company holds the potential to produce high and sustainable earnings in the future.

Setanta Asset Management, established in 1998, has €7.8bn of assets under management. There are six Setanta funds available to Irish investors through its parent Irish Life, ranging from the flagship Global Equity Fund to the innovative and lower risk Income Opportunities Fund.



Warning: Past performance is not a reliable guide to future performance

Warning: The value of your investment may go down as well as up

Warning: These funds may be affected by changes in the currency exchange rates

Warning: If you invest in this fund you may lose some or all of the money you invest

Setanta Asset Management Limited is regulated by the Central Bank of Ireland