Global Focus Fund – Q1 2014

Setanta
ASSET MANAGEMENT

Fund Description

The **Focus 15 Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Focus 15 strategy.

The Fund is an actively managed, concentrated Global Equity Fund that is invested in circa 15 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.

Investment Philosophy

We in Setanta do not believe the market is efficient. Our aim is to purchase and own assets at a price below a reasonable assessment of their worth. This is where we focus our resources. Our process is akin to assessing a part ownership of a business rather than trading a security. This assessment of value must always encompass a thorough understanding of where this value is derived. We have a long term investment horizon and risk management is always central. We regard risk as the potential for permanent impairment of value. Integrity is a key tenet of our professional DNA and we embrace a culture of continued learning.

Portfolio Managers

Rowan Smith & David Coyne

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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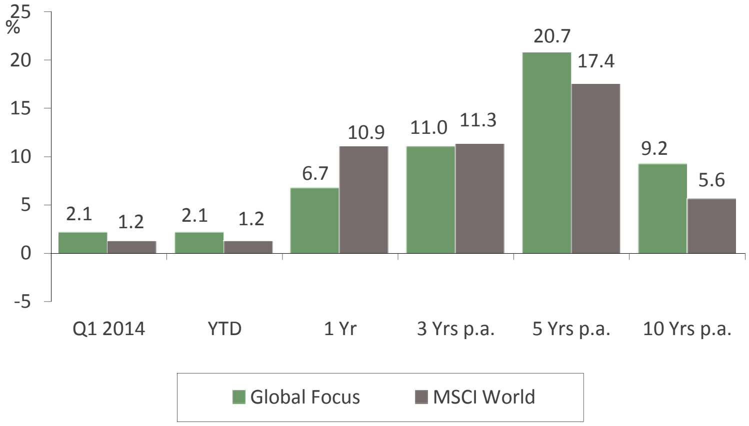
Irish Pensions AWARDS 2013
WINNER
Equities Manager of the Year

Irish Pensions AWARDS 2012
WINNER
Equities Manager of the Year

Setanta
ASSET MANAGEMENT

FUND PERFORMANCE – 31.03.14



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 (Valuation) Median ex Financials

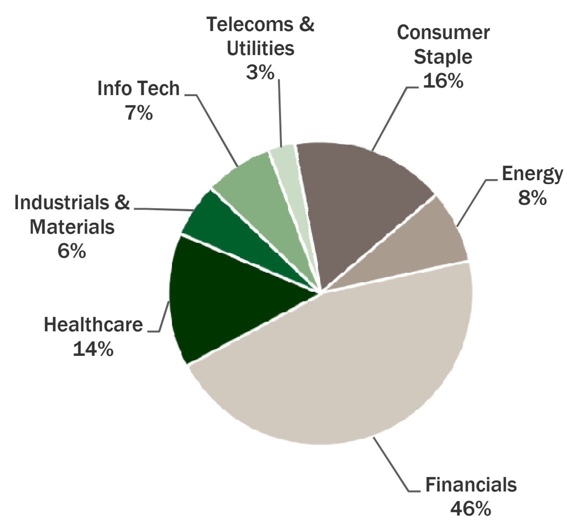
FUND HOLDINGS

COMPANY	SECTOR	% OF FUND
BERKSHIRE HATHAWAY	FINANCIALS	9.3
SYSCO CORP	CONSUMER STAPLES	9.3
FAIRFAX FINANCIAL	FINANCIALS	8.9
LEUCADIA NATIONAL	FINANCIALS	8.2
BROOKFIELD ASSET MNG	FINANCIALS	8.1
DIAMOND OFFSHORE	ENERGY	7.6
JOHNSON & JOHNSON	HEALTHCARE	7.2
MICROSOFT CORP	INFORMATION TECHNOLOGY	7.0
TESCO PLC	CONSUMER STAPLES	6.7
STERIS CORP	HEALTHCARE	6.6
MARKEL CORP	FINANCIALS	5.7
DCC PLC	INDUSTRIALS & MATERIALS	5.6
GRANITE REAL ESTATE	FINANCIALS	3.8
BELGACOM SA	TELECOMS & UTILITIES	2.7
Cash		3.5

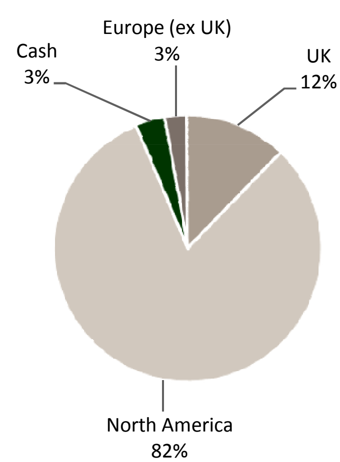
FUND STATISTICS

PRICE/BOOK	1.4
PRICE/EARNINGS RATIO (FY 1)	18.0
DIVIDEND YIELD %	2.3
AVERAGE MARKET CAP €BN	62.0
NO. OF HOLDINGS	14

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



YEARLY PERFORMANCE

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fund	-19.7	-35.6	3.9	7.6	27.3	17.0	-2.7	-35.2	44.0	28.2	1.5	9.0	20.0
Benchmark	-12.2	-32.1	11.3	6.5	26.2	7.4	-1.7	-37.6	25.9	19.5	-2.4	14.1	21.2

COMMENTARY

"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard" – Warren Buffett

As much as we can, we try not to think much about investment performance. This might sound strange for a Fund Manager, but we recognise we have no control over how the market performs or how Mr. Market prices our investments. A lot of energy can be wasted worrying about yesterday's price moves. Worse still, the despair of under-performance or thrill of out-performance can foster decision making that may not be in the best interests of investors (selling at the bottom and buying at the top, for example). What we concentrate on is trying to do the right things over and over again.

The "right things" include the following:

- Placing valuation at the centre of every investment decision: does the price for this investment afford us enough return potential for the risk we are taking?
- Thorough research and conservative analysis: this is the only way to appraise the risks of each investment.
- Thinking long-term: it is exactly because others can't or won't wait for some un-loved investment to re-rate that gives us the opportunity to profit, but to take advantage of the opportunity, we need to be patient.
- Looking in places others won't: stocks usually become under-valued because they have become somewhat unpopular so sometimes we have to look in quite unpopular places to find great ideas.
- Opportunism: owning investments that make sense in their own right, rather than trying to hug a benchmark index.

We believe our process is robust and effective, and our performance hopefully helps support this assertion. Nonetheless we are always working to refine and improve our work. As long as we continue to do the right things over and over again we skew the odds of success in our favour. Sometimes we endure periods of under-performance, particularly when risk appetite is high. During these times, "story" stocks, "momentum" stocks and those of the "risky" variety often seem to do particularly well. Should we find ourselves lagging the indices in such periods, we will be resolute as we believe our approach is designed to quietly take advantage of the unseen mistakes of those investors who do not actively consider value and risk.

Thoughts on the current opportunity set

It is almost certain that the policies of the world's central banks are inflating the values of financial assets. With yields on government bonds and cash so low, investors can justify valuations on stocks that they could not justify if interest rates were higher. This is a dangerous game – if your assumed discount rate is too low, you will likely incur an eventual permanent loss on your investment. The players in this game extend beyond traditional investors, as corporations, emboldened by the expectations of investors and analysts, begin to act in ways that they perhaps would not if patient, conservative thinking was applied. Look at the anticipated disposal of Merck's Over-The-Counter Health business as an example. If press reports are to be believed, this business will likely sell for $11-12bn (around six times sales and perhaps 30 times profits). This is a good business but I would worry that, in paying such a high price, the acquirer will destroy value for its shareholders (i.e. the return on that investment may be below what is required to compensate investors for the risks involved). If we use the logic implied by an analyst from a leading Wall Street Bank, this doesn't matter. In referring to one of the leading bidders, the unnamed analyst suggests that the implied price would indeed destroy value for its shareholders, but that the deal would be welcomed and should the company miss out on the acquisition, its stock would probably suffer a de-rating. I believe many investors share this type of Alice In Wonderland thinking.

There are some more reasons to be concerned about rising levels of speculation in the financial markets. Junk bond yields are at or near record lows, credit spreads are tight, covenant-lite and PIK (Payment in Kind) loan issuance is high and IPO volumes have risen substantially. Furthermore some of the valuation metrics that were created during the inflating of the tech bubble of the 1990s, that I hoped would never be heard of again, have been resurrected. Facebook's deal to buy Whatsapp for $19 billion; a mere 950 times revenues, is being justified based on the price paid per user. By the way, Facebook's stock price *rose* after announcing this deal. Facebook also announced a plan to acquire gaming company Oculus VR Inc for $2bn, prompting certain 'investors' to bid-up, by 150%, the price of Oculus VisionTech Inc, an entirely unrelated company. Only after VisionTech's management released a statement clarifying that its company is unrelated to the Facebook target, did the stock price return to normal. Virtu Financial, a High Frequency Trading operation, announced a plan to sell shares to the public by issuing its prospectus in March. Therein lay a reference to problems with its ability to "prepare accurate financial statements" related to "insufficient resources and technical accounting expertise within its accounting function". JD.com, a Chinese ecommerce company is set to list in New York in spite of a provision, referenced in its prospectus, that prohibits the board from voting on any matter unless its founder and Chairman is present. That investors appear willing to invest in these companies in spite of these circumstances demonstrates how much the temperature in the IPO segment has risen.

What does this mean for our portfolios? The valuation multiples at which our stocks trade have increased significantly from depressed levels four or five years ago. Using our long-term framework we continue to believe that these valuations are reasonable, certainly in the context of the alternatives we don't own. However given the broad re-rating in the stock market, it has become more difficult for us to find new investment ideas than at any time in the past five or so years.

Our Process in action

Our process is stock-centric. We build portfolios around stocks that meet our investment criteria. As a means of elaboration, it might be helpful to discuss one of the fund's holdings. **DCC**, a company we have been invested in for many years, is currently the fund's largest holding. DCC traces its roots back to the 1970s as a venture capital firm focused on deploying capital to produce high levels of return on that capital. Today it provides marketing and distribution services across five industries; Energy, IT, Healthcare, Environmental and Food, and operates in thirteen countries across Europe, though the UK produces over 70% of the group's profit. DCC's aims to be the number 1 or 2 operator in each of the businesses it participates in and aims to increase market share through organic growth and low-risk, high return acquisitions of smaller competitors. Normally we run a mile from companies with a stated aim to make acquisitions but DCC is very different to most. We are great fans of well run distribution businesses. These businesses are scalable and bigger companies have a natural advantage over smaller companies operating in the same market. This is because of the benefits of greater purchasing power and more efficient utilisation of the fixed infrastructure (warehouses, trucks, IT systems, etc). This means that there are sometimes terrific synergies available to an acquirer of a smaller competitor. Many of the markets DCC operates in remain very fragmented and we are confident that there remains considerable opportunity for the company to strengthen its competitive position and deploy capital at high rates of return as it continues to acquire smaller competitors. Distribution businesses are predominantly local rather than global and mistakes can be made by expanding into distant regions. DCC has been expanding further into mainland Europe and the Nordics recently, but has done so cautiously. Critical to this acquisition-led strategy is that these businesses must be well-run, the acquisitions must be priced keenly and the Balance Sheet must not be compromised. DCC has proven a skilled operator and a shrewd purchaser of businesses over many years. It has also been a consistently good generator of cash flow and has always maintained its Balance Sheet in excellent condition.

The Energy distribution business (supplying commercial/retail/industrial customers with transport and heating fuels) produces around one half of group profits. One of the advantages that DCC possesses in the Energy segment is that it is often a "preferred buyer" of businesses sold by large oil companies looking to exit the distribution business. The seller wants to ensure that whoever buys that business will be dependable and financially robust. This is because the oil company will be supplying the distribution business on credit in the future. The sale price is important, but the credibility of the buyer matters greatly. DCC has a pristine Balance Sheet and is an experienced partner of many of these oil companies. It also has cost-synergy potential that some other buyers won't have, because of its existing business. All of this helps DCC to extract profits from acquisitions that many others could not.

It appears to us that some investors are put off by the low-profit margins (profit as a percentage of sales) produced by distribution businesses such as DCC. We are perplexed by this. Return on capital employed is what should mater to investors, and well-run distribution businesses like DCC produce very high asset turnover (sales as a percentage of capital invested), more than offsetting the effect of low margins. DCC's track record is very good and it has created value for shareholders over time through its acquisition-centric strategy. We have been shareholders for many years and we speak with management regularly. We are confident that they have the skills and temperament to continue to execute on the strategy in the years to come. The stock has performed exceptionally well in recent years, but we believe the valuation case remains attractive from a long-term standpoint. At around £33 per share the stock trades at a PE of around 20. At face value, twenty times earnings is not especially attractive but as we highlight in our Investment Charter, value is more than a number. You have to consider what you get for the price you pay. We regularly encounter stocks that trade at lower multiples but upon inspection we find various problems significant enough to convince us that we have little confidence in our ability to estimate the likely future value of these businesses. We might be worried about anything from new competitors or technologies that undermine profits to an unstable financing structure that could encumber the value of our investment. With DCC, in our view such risks are low and there are low-risk opportunities to add value by growing the business through acquisition. So taking a long-term view, and considering the company's growth potential, we still feel this stock can offer us a good long-term return without taking excessive risk.

Transactions during the Quarter

We added to Diamond Offshore Drilling, the drilling contractor, as the stock fell during the quarter, seemingly in response to fears over rising competition and pricing weakness. We added this position in the full knowledge that the business is cyclical. Demand, supply and pricing should be expected to fluctuate over-time. We believe recent weakness in the stock price in unwarranted. The addition to Diamond was funded by a complete sale of our small remaining position in Total, the integrated energy company. We see Diamond as a more attractive proposition given its current depressed valuation.

IMPORTANT INFORMATION