



	Jan %	Year-to-date %	1 yr %	3 yrs % pa	5 yrs % pa	10 yrs % pa
<b>Setanta Global Equity</b>	0.0	0.0	16.1	1.9	1.3	1.0
<b>MSCI World</b>	0.1	0.1	20.9	1.0	-0.5	-1.5
<b>FTSE 100 (UK)</b>	-0.2	-0.2	18.9	-0.2	-0.1	0.2
<b>DJ Stoxx (Europe)</b>	6.0	6.0	11.0	-3.8	-0.5	-1.4
<b>S&amp;P 500 (US)</b>	-0.1	-0.1	23.8	2.7	-0.1	-2.5

### January 2011

Source: Bloomberg & MSCI. All returns in Euro. 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.

### Market Commentary

Equity markets had a mixed start to the year. Emerging market equities posted negative returns while US equities and some European indices continued to post positive returns (in local terms). Equities are being driven by reasonable valuations, positive earnings and better than expected sales growth. The quality of earnings has also improved i.e. earnings growth is being driven not by cost cutting, but by improving demand. After eighteen months of bumper returns, the headwinds facing emerging market equities now are turmoil in the Middle east and the possibility that rising food inflation could lead to economic instability in some regions. Investors are also concerned that actions by central banks in order to reduce inflation, such as increasing interest rates and /or increasing the banking reserve requirements may constrain economic growth in economies. Bond markets are also focusing on inflation and the possibility of rate hikes, causing yields on European bonds to tick upwards during January. The euro strengthened by 2.5% to 1.37 against the USD during the month.

### Setanta Stock Focus: Owens Illinois

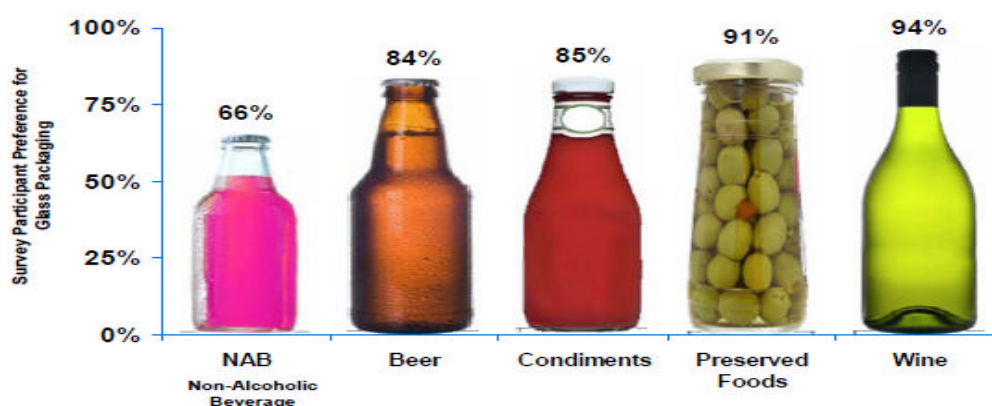
One of the most overused words in the vocabulary of investing is “competitive advantage”. In most markets competition is ferocious; any company earning more than normal profits will face intense pressure from competitors, driving returns down towards the cost of capital making it difficult to create long term shareholder value. This scenario is particularly apparent in commodity markets, so when we consider a company in this space that appears to have two elements of complete advantage – customer captivity and economies of scale - we become very interested.

Owens-Illinois (OI) is the world’s largest maker of glass containers for beer, non alcoholic beverages, food, spirits and wine. Founded in 1903, today the company controls 30% of the global glass market (43% US market). OI is a \$7bn revenue business with 81 plants, 162 glass furnaces and 440 glass forming machines in 22 countries. About 40% of 2010 profits came from Asia Pacific and Latin America where long term volume growth is materially faster than Europe and the US.

The company exhibits strong elements of a competitive advantage through the strength of its long term customer relationships, high entry costs into the business in terms of capital requirements and engineering expertise. OI typically operates as a local monopoly, but with global scale and scope. Shipping glass containers more than 300 miles is unprofitable therefore plants are typically located proximate to customers. As such the company’s scale of operations gives them a low cost advantage that is prohibitively difficult to penetrate.

Moreover the number of glass distributors has shrunk dramatically in the past 30 years, with consolidation leading to higher prices & better returns. Environmental permits for new plants are difficult to obtain. Beverage makers are reluctant to bet on a new glass maker, helping OI cement its relationship with the global beverage companies such as Anheuser Busch. These factors contribute to customer captivity.

## Consumer Preference for Food and Beverage Packaging



Source: O-I global quantitative study: Consumer Preferences for Food and Beverage Packaging (6/09)

The company's share price has materially underperformed over the past 3 years and the central case for investment here is that a number of factors mask OI's underlying earnings power.

Volumes collapsed in 2009 and to keep pricing firm OI drew down its own inventory and cut production magnifying volume declines and exacerbating the effect on margins. A legacy asbestos business has been a drag on cash flow however this is a rapidly fading issue, as is the restructuring charges necessitated by asset optimization undertaken in 2006/07.

New CEO Al Strouken has been in situ since 2006 and has achieved substantial operational improvements: better focus on free cash flow, reducing debt by 45% (from 5.5x to 2.2x Net Debt/EBITDA), Return on Capital has improved from 7.1% in 2006 and 13.4% today. In addition, asset utilization, total costs per tonne, working capital management and balance sheet metrics have all been optimized. These factors, due to the company's operational leverage, should help performance when volume eventually improves.

Much to the chagrin of consensus opinion, rather than returning cash to shareholders, management are focused on deploying cash flow into growth via acquisitions, JV's in the rapidly growing markets where they have been earning returns materially above the cost of capital. This course of action is the most appropriate in terms of driving long term value creation in a fragmented industry.

Overall we believe the company's competitive advantages are durable and expect demand to continue its long term growth rate of 3.1%. Both these elements along with latent earnings power and a healthy margin of safety at c\$30 per share, combine to make OI a very good long term investment.



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Source: Bloomberg and Setanta.

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.

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