



	Mar %	Year-to-date %	1 yr %	3 yrs % pa	5 yrs % pa	10 yrs % pa
Setanta Global Equity	2.5	-0.1	6.6	4.0	0.5	2.0
MSCI World	-3.6	-0.9	8.2	3.5	-1.1	-0.6
FTSE 100 (UK)	-4.8	-1.7	8.9	2.0	-0.8	0.8
DJ Stoxx (Europe)	-3.4	4.5	3.6	-2.9	-1.6	-0.3
S&P 500 (US)	-2.8	-0.2	10.3	6.1	-0.5	-1.5

March 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

Global equities fell by 3.6% in euro terms in March, while MSCI Global Emerging markets index bucked the trend and returned +3.1%. The de-stabilising events of continued political upheaval in the Middle East & North Africa and the Earthquake and tsunami in Japan in mid March caused global equities to fall. European bonds fell by 0.9% during the month. Equities are supported by continued robust global growth, increasing dividends and the attractive valuation of equities relative to bonds and cash. Risks on the horizon include inflationary concerns leading to interest rate tightening, quantitative easing coming to an end in UK and US, the price of oil and the fact that Global equities are now 71% up from the trough of March 2009.

Purchasing Power, Balancing Payments & the Value Investor

It is arguable that the key tenet of value investing is that in assessing financial markets value does not equal price. This fundamental belief underpins the search for opportunities where a market price can be credibly said to diverge from a reasonable appraisal of its fundamental value. The thorny question of how such thinking can be applied to assessing a price in the foreign exchange market i.e. to determine whether it diverges markedly from a credible assessment of its value is one which is probably unusual territory for the value investor, and can likely be tackled in a myriad of ways. The following discussion in relation to purchasing power, sterling and the dollar is intended to give some flavour for how a value investor may consider some of these issues:

When Bobby Moore lifted the Jules Rimet trophy at Wembley in 1966, each pound Sterling that he and his compatriots spent in celebration in the hostelrys of London that summer evening would have bought them more than 11 Deutschmarks. The crestfallen German players and supporters might have taken some comfort from their bitter defeat that day, had they been able to foresee their subsequent world cup victories in 1974 and 1990, and that each pound sterling in Bobby's pocket would barely buy the euro-equivalent of 2 and a quarter of their beloved deutschmarks today. In a little over half an average lifetime, the pound sterling has lost over 80% of its purchasing power relative to its German counterpart.

The simple message for the value investor, is that when assessing how to maintain or increase your purchasing power through time, devoting some thought to how the custodians of any currency (government and/or central bank) to which you may be exposed are likely to treat that custodial duty may prove crucial. Relying on Her Majesty's Government and the Bank of England to maintain the relative purchasing power of sterling since that day of days for English football in 1966 for example, has proven to be a very expensive mistake.

Given its greater relative significance in the world economy and investor portfolios, a key question is whether something similar could lie in store for the inheritors of the Anglo-Saxon crown across the Atlantic:

Simply put, should the long-term, value investor now be concerned about the US dollar?

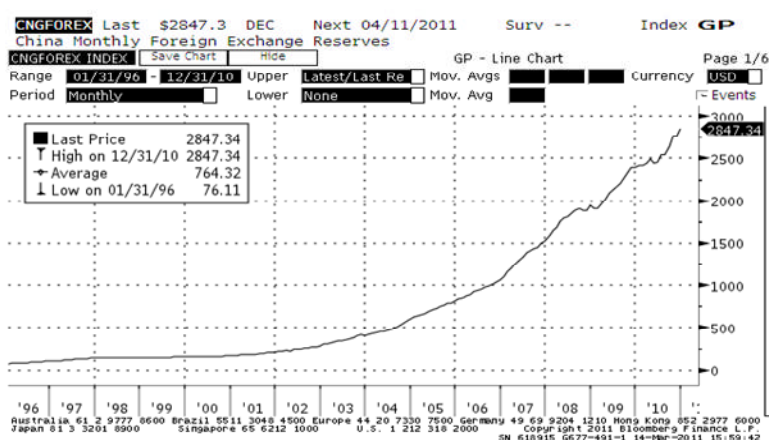
Like the UK, the US economy is a persistent buyer of goods and services from the rest of the world in excess of the goods and services that it sells to the rest of the world. Everything else being equal, this would result in a greater supply of US dollars than demand for US dollars in the global foreign exchange market and a persistent loss of purchasing power via a persistent decline in the relative value of the dollar.

Fortunately for Uncle Sam, there are currently a number of countervailing buyers of dollars which combine to generally dilute, neutralise or reverse this supply/demand imbalance, ensuring that the price of the dollar is maintained at a level well in excess of what its persistent balance of payments deficit on current account would produce.

These include at least the following:

- Every Central bank in the world has been a net buyer and consequent holder of the US dollar (and US dollar assets) in its role as the primary reserve currency of the global financial system. Ease of trade is currently ensured for these countries by possession of this globally accepted 'store of value'.
- Many countries who are in a persistent current account surplus position with the US also peg their exchange rate to the US dollar, necessitating their net buying and holding of the US dollar. The most conspicuous example in this respect is China, where the Bank of China has been a consistent net buyer and is now a holder of almost \$2.85 trillion – a figure which has risen nearly six-fold in less than seven years – see chart:

Foreign Exchange Reserves: China



- Many commodities, most importantly oil, are priced in US dollars. If Sweden, for example, wants to buy oil from its Nordic neighbour Norway, it must buy US dollars to execute the transaction.

In summary, the position of the US dollar as the dominating reserve currency of the global financial system is the fundamental enabler of the US economy, over the last three decades, to persistently consume more than it produces without a major collapse in its purchasing power/the price of its currency. Facing the harsh consequences of its payments imbalance has so far been avoidable. In like fashion to its reserve currency predecessor in the UK – which effectively lost this status with the sterling devaluation of 1967 – any diminution of this status for the dollar would see it exposed to the full reality of its fundamental over-supply.

While it is impossible to predict when, or even if this will occur, the long-term, value investor should be pondering the commitment of the wielders of policy in the US to caring any more about fundamentally addressing their payments imbalance in the years ahead, than their counterparts in the UK have shown since a certain Russian linesman broke German hearts nearly 45 years ago. As a value investor, we are always acutely conscious of our exposure to the greenback.



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