



## Reditus Umbrella Exempt Unit Trust - Class A

### Fund Description

The **Reditus Fund** is an ethical tax exempt fund which marries Setanta's experience in high yield investment with strong skills in the use of a covered option overwriting strategy to enhance income generated. An income target is declared at the beginning of each year, and dividends are paid bi-annually (January & July).

The Fund Managers follow Setanta's value investment philosophy, seeking to pick stocks at a price below the managers' assessment of intrinsic value. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders.

While the Fund does not target specific regional or sector weights, the managers seek to maintain a sensible level of diversification. Risk is minimised by focusing on valuation, financial and operational risk measures and therefore the degree of downside protection, rather than focusing on measures of market volatility or beta. The Fund usually holds between 35 to 45 stocks with expected holding period of up to 5 years. Prior to purchase stocks are screened to ensure they meet predefined ethical criteria. It is expected that the fund will normally have at least a 70% exposure to equity markets although this may change based on valuation. The covered option overwriting strategy employed is active and at all times maintains a focus on total return.

### 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

Paul McNulty & Richard Doyle



### Investment Principles

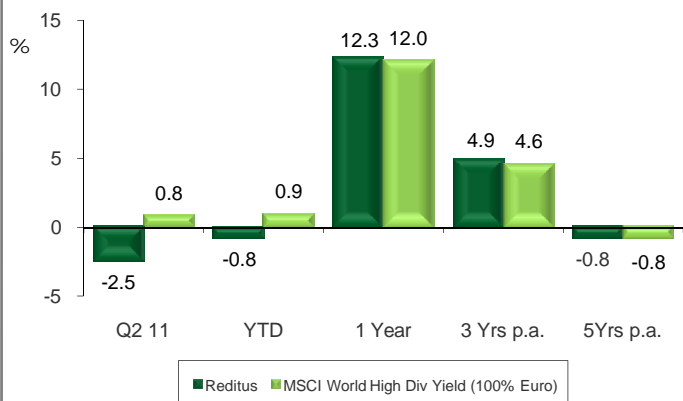
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- 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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## Fund Performance to 30.06.11



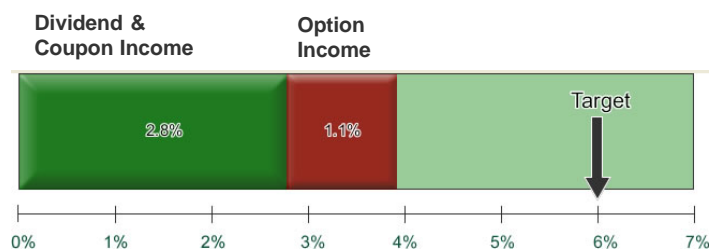
The fund managers have two objectives:

- 1 To generate income at a target rate. (Declared annually at beginning of year).
- 2 To generate equity like returns over the long term within the parameters of the ethical constraints. This is measured by reference to the total return of the MSCI World High Yield index.

**Performance Source:** Fund performance is total return and is based on the unit prices calculated by the fund administrator, RBC Dexia Investor Services Ireland Limited. Fund returns are shown net of management charges. Benchmark: MSCI (100% Euro since 01/03/06; 70% local 30% Euro prior to this).

## Target Income Distribution

The target income distribution for 2011 is 6.0%. The chart below details income earned (as defined in the IM) on a year-to-date basis. The total income earned to June 30<sup>th</sup> 2011 is 3.9%



## Historic Income Distributions

Year	Per Share €	% of Beginning of Year Unit Price
2005	3.61	6.0%
2006	7.38	6.3%
2007	7.82	6.0%
2008	7.06	6.3%
2009	4.96	7.6%
2010	4.98	6.5%
2011 (YTD)	3.00	3.9%

## Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	12.0
FREE CASH FLOW/EV %	5.5
DIVIDEND YIELD %	5.5
AVERAGE MARKET CAP €BN	29
NO. OF HOLDINGS	34

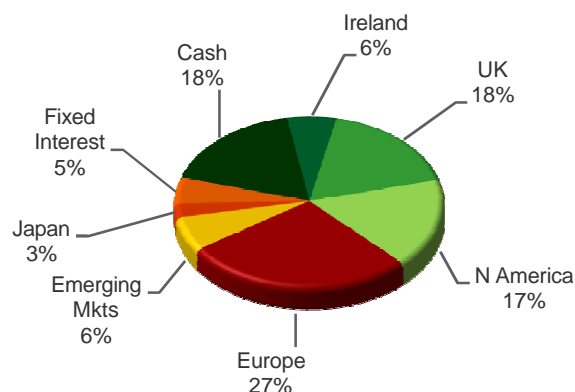
## Portfolio Statistics

Derivatives 30.06.11	
% of Fund overwritten	45%
% of Fund underwritten	0%
% of total Fund generating option income	45%

## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
TERNA	TELECOMS & UTILITIES	3.9
ROYAL DUTCH SHELL	ENERGY	3.7
ENI	ENERGY	3.7
CONOCOPHILLIPS	ENERGY	3.4
CRH	INDUSTRIALS & MATERIALS	3.3
TELE2	TELECOMS & UTILITIES	2.9
TELEFONICA O2	TELECOMS & UTILITIES	2.9
TRAVELERS COS.	FINANCIALS	2.9
BP	ENERGY	2.8
DCC	INDUSTRIALS & MATERIALS	2.8

## Geographic Distribution



Year-to-date, the fund (net of fees) has decreased in value by 2.5%. Markets continue to be turbulent, reflecting intensified speculation about the possibility of sovereign defaults, most notably in Greece and other peripheral states. Equity valuations are no longer particularly appealing after a significant two year rally, so the search for new stock ideas is more difficult and we remain vigilant regarding our incumbent positions. In relative terms, the fund underperformed the benchmark over the quarter by roughly 3%. Much of this was due simply to a large number of our stocks experiencing some market turbulence, rather than there being a serious challenge to the individual investment case. A material part reflected the fund's ethically-driven underweight in healthcare, a strongly-performing sector over the past few months. Of course, this same underweight has in the past provided a significant benefit to the fund. At the half-year point, total income earned reached 3.9% of the fund's opening value. We took advantage of volatility spikes during the quarter to increase our option writing and gather income. In addition, we gained a substantial dividend from **Tele2**, an attractively valued Swedish telecom with strong cash generation and a robust balance sheet. At month end, the portfolio was 45% overwritten, reflecting a mix of stock and index call options. We will continue to work assiduously to meet our 6.0% income yield target.

**Land Securities** announced very strong figures from its latest semi-annual period. It reported a 20% annual rise in its NAV, while also unexpectedly increasing its dividend per share. The company benefitted from its decision, seemingly unique among peers, to invest through the downturn. It is now benefitting as supply shortages appear in parts of London, its key market. In our last commentary, **Sysco** appeared as one of the 'worst performers' on the back of a quarterly report. At that time, we wrote: "We see no reason to change our long-term view". This quarter, following well-received quarterly figures the stock was one of the 'best performers', neatly illustrating the perils of following what we essentially consider to be 'noise'. **Wincor Nixdorf** reported weaker than expected quarterly figures, while management revised its annual outlook to one in which it expects little to no growth in profit. We believe that Wincor's core banking franchise commands a strong competitive advantage, particularly in Europe, which can be attributed to customer trust; efficiency; reliability and the cost-saving attributes of Wincor's products. Furthermore, Wincor's business model has a high level of recurring revenues. Combined with an attractive valuation and share price weakness due to understandable cyclical factors (in management's words: "(an) inconsistent market recovery"), we decided to increase exposure to the stock through a near-the-money put option. Although not highlighted above, it would be remiss to mention another torrid quarter for **Nokia**, during which it announced yet another profit warning and abandoned all its prior forecasts. At this point, we have realised that our position has been permanently impaired. Recognising that the investment case no longer stands, we expect to exit the stock. Despite posting a solid improvement in its profitability and substantially increasing its dividend, **Zumtobel** fell heavily, albeit after a strong two year rally. Management's outlook, which suggests a flat operating margin due to product investment, disappointed some investors.

### Fund Outlook

The fund invests in a diversified range of quality high yield stocks with attractive valuation characteristics. The additional benefit of the core Reditus strategy is that this fund is designed to exploit the very volatility created by the uncertainty in the market by writing options on these stocks to generate extra income. The active approach employed by the fund manager means that options are written with a view to not significantly impairing the upside capital potential we believe to be in the fund. As always, we continue to assess the valuation credentials of both current and potential holdings.

Paul McNulty, CFA.

### IMPORTANT INFORMATION

The Fund is available to exempt investors, who are resident in the Republic of Ireland for tax purposes, including charities and religious orders. Setanta is the investment manager and a distributor of the Trust. Application forms for investment in the Trust may be obtained from Setanta or L&P Financial Trustees Limited (the "Advisor"). Potential investors are advised to read the Information Memorandum ("IM") and the Trust Deed before investing in the Trust.

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