



Reditus Umbrella Exempt Unit Trust - Class A

Fund Description

The **Reditus Umbrella Exempt Unit Trust** marries Setanta's experience in high yield investment with strong skills in the use of a covered option overwriting strategy to enhance income generated. The securities are also screened to meet certain ethical criteria. An income target is declared at the beginning of each year, and dividends are paid bi-annually (January & July).

The Portfolio 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 approximately 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 & David Pastor



Investment Principles

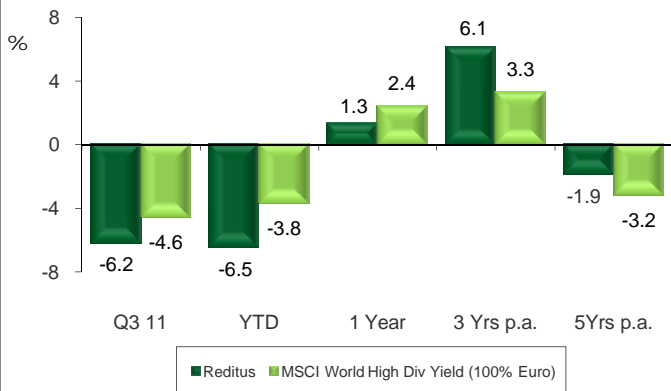
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- 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 30.09.11



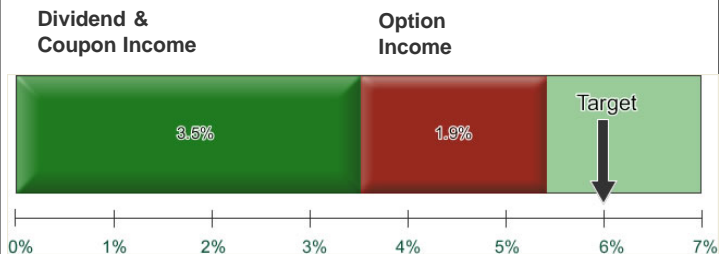
The Portfolio Managers have two objectives:

- 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: Setanta Asset Management Limited. Benchmark: MSCI World High Yield Index (100% Euro). Fund returns are shown gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.

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 Sept 30th 2011 is 5.4%



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 (Jun)	3.00	3.9%

Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	9.7
FREE CASH FLOW/EV %	7.3
DIVIDEND YIELD %	4.8
AVERAGE MARKET CAP €BN	36
NO. OF HOLDINGS	34

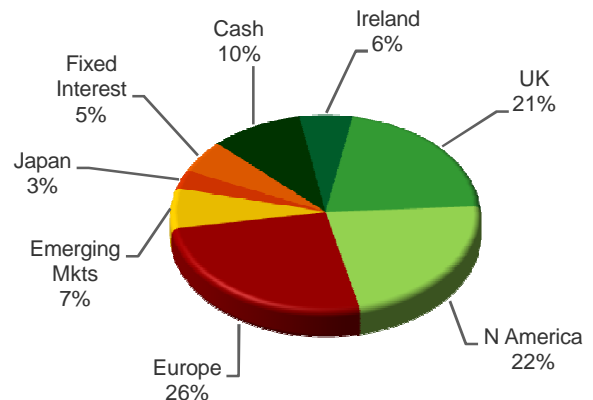
Portfolio Statistics

Derivatives 30.09.11	
% of Fund overwritten	40%
% of Fund underwritten	7%
% of total Fund generating option income	47%

Top 10 Holdings

COMPANY	SECTOR	% OF FUND
ROYAL DUTCH SHELL	ENERGY	3.9
TERNA	TELECOMS & UTILITIES	3.7
CONOCOPHILLIPS	ENERGY	3.4
KIMBERLY-CLARK	CONSUMER STAPLES	3.4
ENI	ENERGY	3.3
TELE2	TELECOMS & UTILITIES	3.2
MICROSOFT	INFORMATION TECHNOLOGY	3.2
UNITED UTILITIES	TELECOMS & UTILITIES	3.1
VODAFONE GROUP	TELECOMS & UTILITIES	3.1
MEDTRONIC	HEALTHCARE	3.1

Geographic Distribution



How many times have we heard commentators complaining that the outlook is very uncertain? We agree – but then again, isn't it always? As we write this, the market is obsessing about the European debt-crisis, the possibility of a breakup of the Euro and whether the global economy is slipping back into recession. We cannot be sure any or all of these will happen or can be avoided despite the best efforts and vigorous actions by government agencies.

The polarised debate on whether governments should step in and replace lost consumer demand by fiscal and monetary means, or should simply focus on cutting deficits (not a popular course of action) is certainly fascinating. We are also not afraid to admit that we are unsure as to which is the most appropriate course of action. On one hand we see merit to the provision of a counter cyclical 'leg up.' But which governments kept their powder dry in preparation? Could the solution to all current problems really be to heap on more debt?

We see uncanny parallels between what is happening in Europe with the goings on in the US. A key difference, of course, is political. There are few calls, for example in the US to 'let those Californians default' or 'burn the AIG bond holders' The politics of Europe remain very complex.

'Everyone wants to see the deficit narrowed, but today's circumstances seem to prohibit both expenditure reduction and revenue increases. Everything else is on the table.'

Howard Marks – Oaktree Capital

The German and French population seem galled by the prospect of rescuing their profligate southern neighbours. A problem seldom mentioned by their politicians is that a lot of their prudently accumulated savings have found its way to bonds in these free spending countries, whether it be bank debt or sovereign bonds. The strong nations have the problem of owning questionable receivables and the implications of this are not understood by their electorates. The European project is essentially a political animal. So whether the Euro survives or not will have major economic implications, but we believe it is predominantly a political decision.

We are not economists and while we don't make predictions we cannot divorce ourselves from economic issues. Over the past quarter, macro factors seem to have been a major driver in markets. Our value philosophy naturally attracts us to stocks where news flow is bad. We must be careful to temper this enthusiasm so that investments are made only in businesses with strong economics, even if their domicile is a weak economy. As always we try to ensure the Reditus Trust has sensible diversification, whether by geography, sector or stock.

While the general tendency of stocks was to fall given the backdrop during the quarter there certainly was a diverse performance profile among stocks. Unfortunately only 9 of the 38 names made it into positive territory. The best of these, **Kimberly Clark**, is a long term holding of the Reditus Trust. This Dallas-based personal care company benefits from relative stability when fears of economic weakness emerge. The rationale is that consumers continue to purchase nappies, tissues and incontinence products even in a weak economy. Other positive movers included recently purchased Medtronic which as part of the healthcare would be viewed as more defensive by the market.

Macro concern is the predominant driver for the 50% fall in **OTE**, but it is certainly not difficult to extrapolate the effects of the current macro issues to a position which negatively affects the micro economics of the company. **OTE** was purchased in October 2010 at a price of 5.90 Euro (with the position reduced by 40% at 7.90 Euro) having fallen from a price north of 26 Euro in 2007. Our thesis was that OTE, trading on a debt-adjusted free cash flow yield of almost 9% with resilient cash flows and Deutsche Telecom as a major existing investor, was an attractive investment opportunity. Subsequent macro events in Greece haven't helped our thesis. Management succeeded in cutting costs during the quarter by reducing staff wages by 11% over 3 years.. This should improve cash flow further. We expect Deutsche Telecom to become a much larger shareholder at some stage, but unfortunately given the current environment this process may not be as expedient as we would like. Other significant negative movers stem from the downtrodden cyclical sectors such as industrials and consumer cyclicals.

We continue to review the investment case for all our holdings. Where we feel the need, we will speak to the company to assess long-term strategy. During the quarter we spoke to management of **Home Retail** and **Wincor Nixdorf**, both of which have had their problems related to the current macro environment. In general, given the significant falls over the past few months, we are very happy with the value in the fund. With a prospective yield of over 5% and a significantly lower level of leverage than the market, we believe long term prospects are positive.

Performance Snippet

The fall in fund value of 6.4% during Q3 brings The Reditus Fund more significantly into negative territory in 2011. The defensiveness of high yield sectors such as consumer staples, telecoms and pharmaceuticals, along with a limited exposure to the financials seen as highest risk in the current malaise, has helped cushion the fall a little versus the broader global equity market. That been said we do not target high yield index sector weights. In the Reditus Trust we look for sensible diversification regardless of the index. Our performance is measured against the High Yield Index meaning that we will have periods of out and underperformance. Our key task is to deliver outperformance over the long term.

Commentary on changes in Reditus Trust:

During the quarter we entered into two new positions while also selling two. Both sales were closed out with poor results. In retrospect **Nokia** was an error in judgment regarding the competitive advantage of the company. Yes they had a tremendous market share, and yes the brand was ubiquitous, but the reality was that as an electronic device maker the company doesn't control their customers. There is no cost of switching even in low end phones sold in emerging markets such as China where Nokia is now losing share. Fickle consumers will buy where they see more attractive devices, whether it be manufactured by Apple, HTC or Nokia. We did manage to generate a lot of option income from this name, but in absolute return terms that is little consolation. We will learn from this experience. US Regional bank **Keycorp** was purchased back in 2008 with the proceeds from the sale of Bank of America. A capital raise after US tax authorities successfully challenged the validity of a tax asset on their balance sheet was probably bad luck, but we certainly misjudged the need to raise more capital along with the rest of the US industry. Keycorp wrote-down 9% of total loans through the financial crises, twice the level we would have assumed. As a result the stock lost roughly three-quarters of its value during the period of our ownership and reminds us again (as if we need reminding!) of the dangers of investing in banks.

We took a position in **Microsoft** in July of this year. The market appears to be assuming that the future for Microsoft is very dim. Even ignoring the Net Cash and Investments of over \$6 per share (over 20% of our purchase price), the stock was trading on just 9 times historic free cash flow when we invested. This includes significant losses from the "Online Services Division" ("Bing" search engine and MSN). We expect these losses will ultimately be eliminated, potentially reducing the multiple further. The recent hike in the dividend by 25% leaves an attractive dividend yield of circa 3%. We still feel there is more room for dividend hikes, but it is unlikely we can persuade management of this.

As our Nokia experience has taught us, we are nervous about investing in fast-moving technology companies. With such companies, the sustainability of profits is often extremely difficult to gauge. However, at the current price we believe the Microsoft investment case is sound. Microsoft is a more diversified company than many casual observers might suspect. Yes, "Windows" and "Office" are substantial contributors but other products such as server software, entertainment and devices (such as XBOX gaming), and business management software, have grown rapidly and have now become significant, contributing over a quarter of group profits last year. Unbeknownst to many, Microsoft is prominent in the field of "Cloud Computing."

On the subject of Windows and Office, being the "First Mover" has conveyed Microsoft a significant advantage. For many customers there are limited alternatives and high switching costs. Consequently despite the best efforts of competitors, the company has thus far been essentially unaffected by competing operating system and office software applications. For example, "Google Docs", Google's alternative to Office, has made hardly any inroads on Office. Despite the rigorous efforts of competitors and a recent recession, Microsoft's Free Cash Flow per share reached an all time high last year and grew almost 20% p.a. in the preceding five years.

Ethical constraints make exposure to the Healthcare sector difficult for Reditus. In August we took a position in **Medtronic** a US medical device manufacturer based in Minneapolis. Key markets include implantable devices for cardiovascular and spinal applications as well as devices for neuro-stimulation and diabetes. These are high-tech markets with oligopoly-style competitive landscapes. The high-tech nature of the product, reputation for quality, and manufacturing/distribution capabilities create large barriers to entry. As society ages, demand for these products increases. Pricing has tended to slowly decline with this effect offset by strong volume growth and positive mix effect (trading up to the new improved version which costs more). There is essentially no generic competition and there is little dependence on blockbusters so the cost of product failures is much lower than in the drug industry.

Yet this stock is now trading on similar valuations top drug companies despite not having any “patent cliff”. With a free cashflow yield of 8% we don’t believe there is any growth priced into the current share price.

We also reviewed Italian utility **Terna** a stock we have held with happy results for several years. A recent ‘Robin Hood Tax’ proposal by an indebted Italian government precipitated a fall back to circa E2.40 a share, 30% lower than the price traded at only 3 months previous. While not without risk, Terna is the type of stock we are very happy to own. A sustainable greater than 7% yield is a good starting point! It has a strong competitive advantage enforced by a friendly regulatory regime. The majority of its assets are focused on the provision of a high voltage distribution network throughout Italy. One of the most attractive elements of the investment case for Terna is that the distribution element of a final customer’s bill represents merely 3% of the total bill, hence pricing pressures are unlikely to be to the fore. On the valuation front the stock now trades at a discount to regulated asset base. Given that the regulator is incentivising capex, sometimes at a 3% premium to their cost of capital we believe Terna deserves to trade close to a 30% premium to RAB.

Fund Outlook

The fund is positioned 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 each current and potential holding’s valuation credentials.

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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