



## 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 CFA, Richard Doyle CFA & David Pastor



### Investment Principles

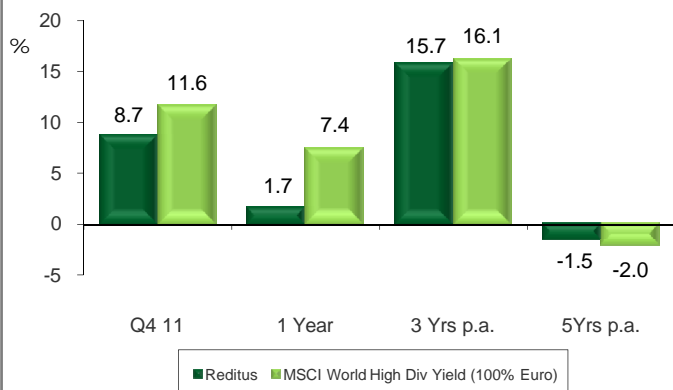
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- 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 31.12.11



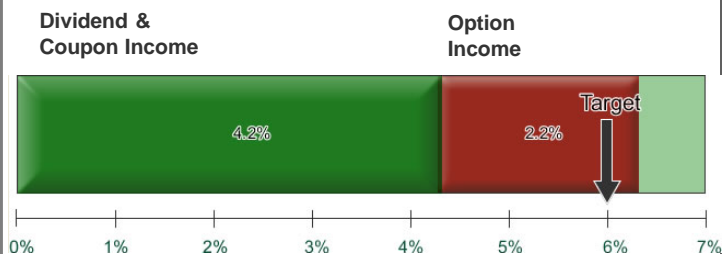
The Portfolio Managers have two objectives:

- 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 Dec 31<sup>st</sup> 2011 is 6.4%



## 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	5.48	6.4%

## Fund Statistics

PRICE/BOOK	1.9
PRICE/EARNINGS RATIO (FY 1)	10.7
FREE CASH FLOW/EV %	6.6
DIVIDEND YIELD %	4.2
AVERAGE MARKET CAP €BN	36
NO. OF HOLDINGS	33

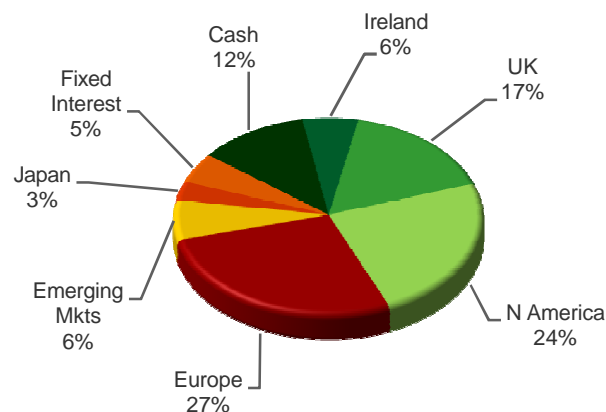
## Portfolio Statistics

Derivatives 31.12.11	
% of Fund overwritten	8.5%
% of Fund underwritten	0%
% of total Fund generating option income	8.5%

## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
CONOCOPHILLIPS	ENERGY	3.7
WINCOR NIXDORF	INFORMATION TECHNOLOGY	3.7
ENI	ENERGY	3.6
MEDTRONIC	HEALTHCARE	3.4
KIMBERLY-CLARK	CONSUMER STAPLES	3.4
CRH	INDUSTRIALS & MATERIALS	3.3
TRAVELERS CO.	FINANCIALS	3.3
TELE2	TELECOMS & UTILITIES	3.2
VODAFONE	TELECOMS & UTILITIES	3.2
TERNA	TELECOMS & UTILITIES	3.2

## Geographic Distribution



We measure ourselves against the MSCI High Yield index because of the stated dividend style. While this index is relatively new and is a reasonable barometer of whether we are adding value, it is relatively concentrated and has a high turnover rate. This is because of an unusual restriction, namely that the five year rate of dividend growth must be positive. As a result the index is skewed away from the cyclical sectors after the worst period for dividend cuts since the financial crisis (2008 -2009). A fairly naïve classification of sectors into stable and cyclical baskets shows a sharp contrast between the broad market (as described by the MSCI World index) and the High Yield index. The dividend continuity effect has resulted in a much greater weight being allocated to 'stable' sectors in the High Yield index - for example healthcare, consumer staples, telecoms and utilities make up 57% of the MSCI High Yield index.

In the second half of 2011, as the focus of the market shifted to stability, there was a stampede from peripheral markets like Greece, Portugal and Ireland, which was the single biggest factor in our relatively poor numbers. However, the high yield market was circa 10% ahead of the broader market (and most funds) over the year. This is also true over three years. When we look over five years, the numbers converge to an annualised loss of 2% per annum (gross of fees). At the end of the day the net result of 2011 is that the Reditus Trust has performed 1.5% per annum behind the high yield market over 3 years (net of all fees). Since inception (July 2004) the Reditus Trust has risen 31.3% versus the market up 32.4% (again net of all fees).

Does this have any bearing on how we construct our fund? The answer is 'No'. Indeed, fund management would benefit tremendously if managers were never given sight of the construction of an index, but merely told how it had performed on a rolling three to five year basis. The popularised consultant/actuarial view of asset management has imposed restrictions, which have diluted the industry and allowed its senior participants to abdicate responsibility to end investors. Generally this has led to closet, if not explicit, indexing whether within an asset class or between asset mixes. The growth of global economies and the coincident equity bull Market since the 1980s probably allowed and facilitated this.

When we look back on it all, we must hang our heads in shame. The major disappointment for us was the lack of leadership exhibited within finance, including our own asset management industry. If Bank A grew its loan book by 20%, then Bank B strived to grow it by 21%; if Fund Manager X was 20% weighted in emerging markets, then Fund Manager Y would be 18 - 22% weighted there. Why?? Of course incentives have a large part to play, a subject on which Charlie Munger is very illuminating. In theory, top paying professions attract the top talent to take bold decisions; in practice, all too often this talent followed its incentives to stay close to the benchmark (the safety of the herd) and made the same trade. If we look right across the spectrum, incentives are paramount in decision making - Why did Ben Johnson take performance enhancing drugs? Why does teacher John stay late and train the football team? The short time horizon over which incentives have typically been based and their asymmetric nature (encouraging 'rolling the die') have been important factors in the failures of our industry. We must thus acknowledge a failure to understand the implications of these incentives.

We manage the Reditus Trust with a focus on the long term and our incentives increasingly reflect this. While we see sensible diversification as crucial, we do not pay attention to the index. Most important is whether a high yield stock represents sufficient value to be purchased and owned. We want to own a limited number of stocks of companies with strong competitive advantages, managed by competent and properly incentivised management, and with sound financials, which give capacity for dividend growth. While 2011 was not a particularly good year for us, we will continue with our dedicated value strategy and hope you will judge us on our long term results.

### **Noteworthy News and Activity in the Period**

CRH was the largest positive contributor to the performance of the Fund over the period, appreciating 32% . Perhaps unsurprisingly this happened after a third quarter in which it was one of the worst performing names in the portfolio. As you may know, the Irish-listed CRH group is one of the largest building materials companies in the world, with business interest in 35 countries ranging from China to California, employing approximately 75,000 people and enjoying commanding market positions in cement and other building materials in a number of European and American markets. Adding to the quality and diversity of its assets, it boasts one of the strongest balance sheets in the industry, and a management with a strong track record and a return on capital culture. At €15 a share we think it is cheap too, at approximately ten times the average earnings they have been able to deliver over the past ten years. It also yields a very decent dividend of 4% on the current share price.

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These wild variations on the share price attract the obvious question of what was so catastrophic / great over the last twelve months that caused investors to trade their shares in this business at such different prices? Our guess is that not much happened - CRH's competitive position and balance sheet is as strong as ever, and while business has been understandably weak over the last couple of years, the company's earnings power, if changed at all, has been for the better, as management has continued to judiciously deploy capital through value accretive small acquisitions. We expect the stock to continue to do well in the future.

## **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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