



Setanta Cash Fund – Q4 2011

Fund Description

The **Cash Fund** (“the Fund”) is managed by Setanta Asset Management Limited (“Setanta”) and is a representative account of Setanta’s cash management strategy.

The Fund may invest in:

i) Euro denominated short-dated term deposits with banks and/or eligible credit institutions on Canada Life’s approved short-term borrowers list which have a minimum credit rating of A2/P2 and which are authorised to carry on a banking business in the State under Section 9 of the Central Bank Act, 1971 and/or

(ii) Euro denominated bonds issued by governments or corporates subject to a minimum average credit rating of individual securities of ‘A’ and for the portfolio an average rating of ‘AA’.

The Fund seeks to provide modest returns in exchange for relative capital security. The maximum average duration of the Fund is 4.5 months, and the maximum duration of any one asset is 1 year. The Fund has a diversified exposure, with no more than 30% credit exposure to any one entity.

The Fund is actively managed and consideration is given to the underlying credit worthiness of the financial institution, the return and the tenure of the deposit.

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

David Ryan & Gary Edge



Investment Principles

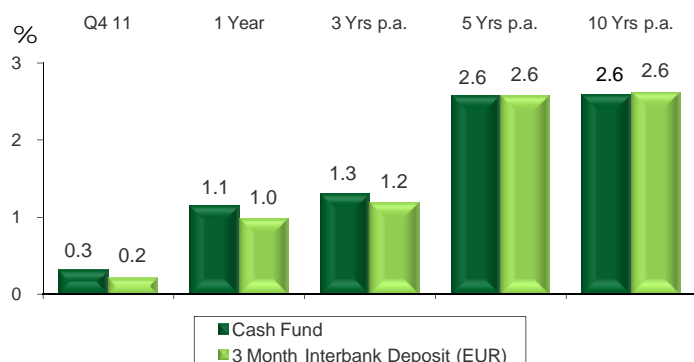
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.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



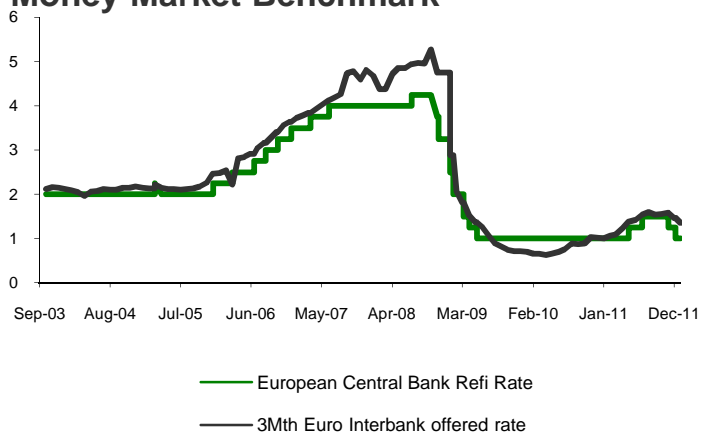
Yearly Performance

Year	2007	2008	2009	2010	2011
Fund	4.2	4.8	1.8	1.0	1.1
Benchmark	4.2	4.8	1.4	0.8	1.0

The investment objective of the Fund is to outperform the 3 Month Interbank Deposit (Euro Rate).

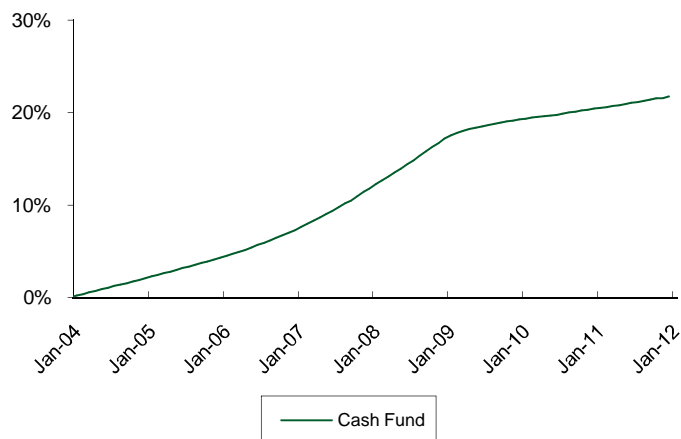
Performance Source: Setanta Asset Management Limited. Benchmark: 3 Month Interbank Deposit EUR (100%). The Fund returns stated are based on the movements in the unit prices of a representative account, based on mid to mid prices, and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.

Money Market Benchmark



Source: Bloomberg, to 31.12.11

Cumulative Fund Performance



Counterparty Exposure

ISSUER	% OF FUND
BELGIUM TREASURY BILL	11.4
ACC BANK	8.7
FMS WERTMANAGEMENT	8.6
CAISSE D'AMORETISSEMENT DE LA DETTE	8.6
EUROPEAN FINANCIAL STABILITY FACILITY	7.1
KREDITANSTALT FUER WEIDERAUFBAU	5.7
ITALIAN TREASURY BILL	5.7
ITALIAN TREASURY BILL	5.0
BARCLAYS	4.3
DANSKE BANK	4.3
FRENCH TREASURY BILL	4.3
INSTITUTO DE CREDITO OFICIAL	4.3
DNB NOR	2.9
ERSTE ABWICKLUNGSANSTALT	2.9
SPANISH TREASURY BILL	2.8
NRW BANK	2.7
NATIONAL IRISH BANK	1.8
SOCIETE FINANCEMENT DE L'ECONOMIE FRANCAISE	1.5
DEXIA CREDIT LOCAL	1.5
SPANISH GOVERNMENT BOND	1.1
CASH	5.0

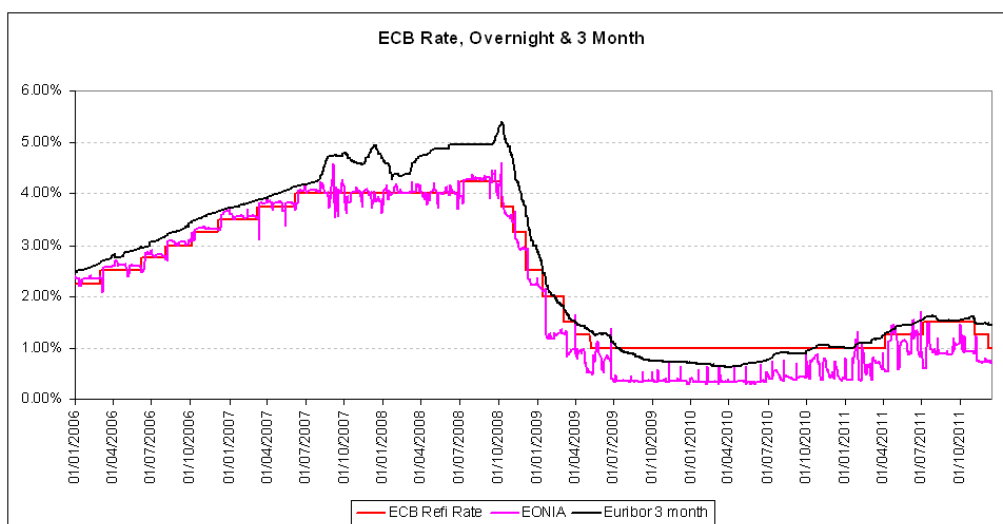
Fund Commentary:

The Liquidity Fund has transitioned from holding almost exclusively deposits with well over half in Irish banks, to a more diversified fund – this was largely done in Q1 this year. The fund has moved into European government T-bills and government agency commercial paper (CP) / Floating Rate Notes (FRNs).

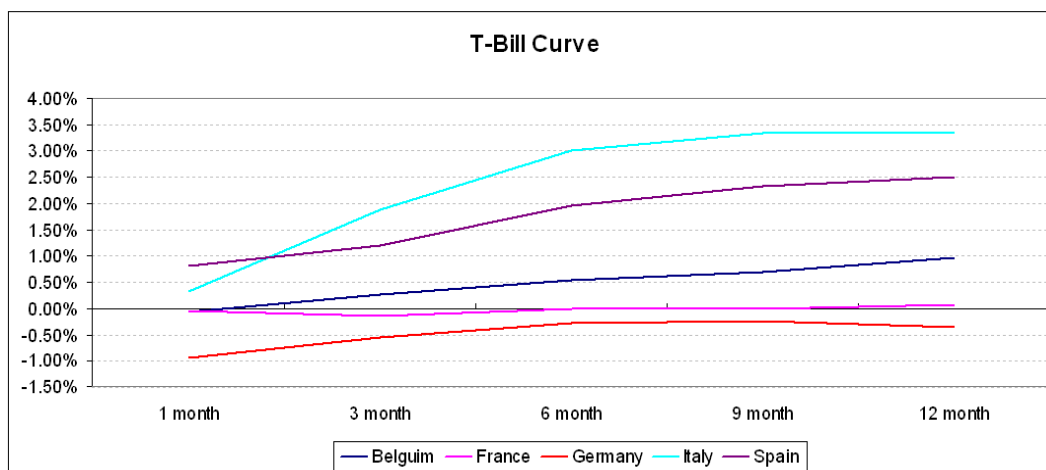
We currently hold about 75% in government and government backed securities with the balance in banks. We will look to add corporate non-financial names through CP and short term bonds in Q1 2012 to further diversify the fund, should opportunities arise. As things stand we will continue to hold less than 10% in both Spain & Italy. The fund's biggest exposures are to Germany, France, Belgium and Netherlands.

Market Conditions

Below is a graph of the ECB refinancing rate, EONIA (overnight) and Euribor 3 month rates. With the ECB cutting rates twice by a total of 50bps to 1% in the quarter, overnight and 3 months rates have dropped. Also weighing on market rates was the 3yr Long term Refinancing Operation (LTRO) carried out at the end of December – which is discussed below.



Current government Treasury bill yields are at dispersed levels within the Eurozone. As per the graph below, the Bubill (German T-Bills) curve is negative out to 1 year whereas Italy is paying 3.5% in 1 yr. The final Bubill, BTF (French) and Dutch T-bill auctions of the year came at either zero or slightly negative yields. Note inflation was 3% in November in the Eurozone implying negative real returns.



In the CP world, there is in the region \$550bn outstanding with about 33% issued in Euro. In total, 48% are in the Supranational, sub-sovereign and agency (SSA) sector, with 37% Bank & 9% Corporate. The share of SSA has been growing of late, a combination of their growing funding needs and investor appetite for safer names.

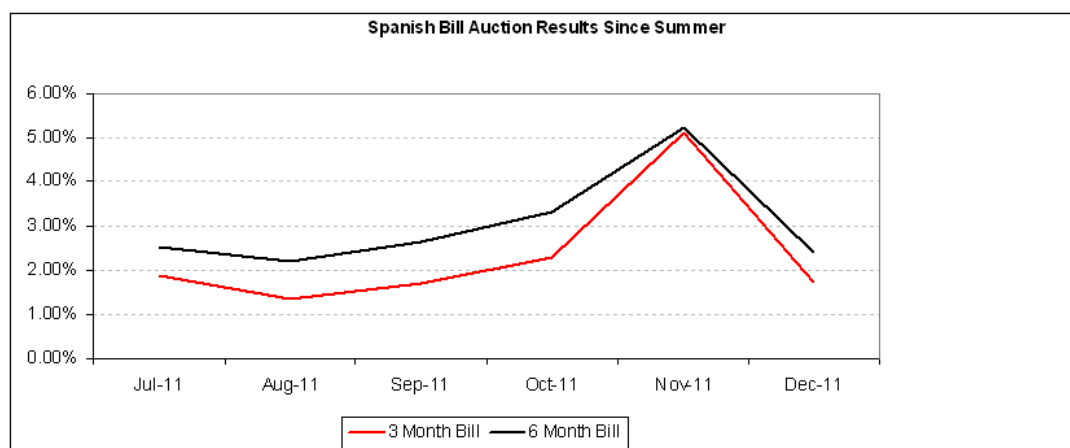
A theme of the last quarter was US money market names pulling their cash out of Europe. French banks were disproportionately hit as the US funds had large exposures here. This helped lead to a shortage of US dollars for European banks which led the ECB to offer access to unlimited amounts of USD to banks through swap lines with the US Federal Reserve.

THE ECB

The latest effort from the ECB to stem the sovereign debt crisis is the unlimited 3yr Long Term Refinancing Operation (LTRO), where cash is offered to banks at the refi rate (1%) against collateral. The first auction happened on December 21st with close to €500bn taken by European banks. This looks like the ECB's way to help deal with the massive amount of redemptions coming due next year in peripheral countries for both banks and sovereigns.

There's little doubt that the ECB will be expanding its balance sheet in 2012. They are making it attractive for banks to buy government debt by giving finance at 1%. Yields have dropped since this was announced in shorter paper so it may have the desired effect.

As a guide to what's happened since the 3yr LTRO announcement, Spanish 3 & 6 month bill auction levels having spike in November have come back to levels seen in the summer. This would suggest banks are taking money at 1% from the ECB to invest at least some of this in higher yielding government bills and bonds. Note there will be a second 3yr LTRO carried out at the end of February.



Another interesting part of what the ECB announced in December is the loosening of collateral rules. Banks can now post loans as collateral but crucially they post it to their national central banks - so the risk stays there (as with the Emergency Lending Assistance (ELA) in Ireland). They have also reduced the amount of collateral banks are required to hold from 2% to 1% which will free up an additional €100bn of collateral for banks to use at ECB operations.

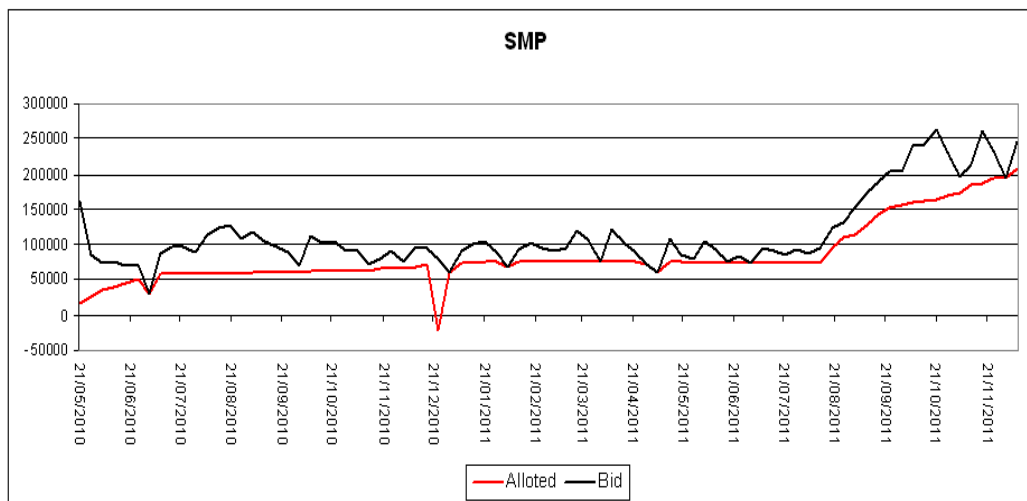
The Flow of Money

In the euro area's inter-bank payment system (Target 2) money flows from banks in countries with balance of payments surplus to banks in countries with balance of payments deficit.

The Bundesbank (German Central Bank) provide by far the most money, holding IOUs for about €465bn while the Dutch Central Bank is owed €90bn. On the other side of this are Ireland (€118bn), Spain (108bn), Italy (89bn) and France (€118bn). However, it's estimated the ECB has replaced around €670bn in private capital from a few balance of payments surplus countries to deficit countries. This could eventually lead to inflation, when the money multiplier starts working correctly again.

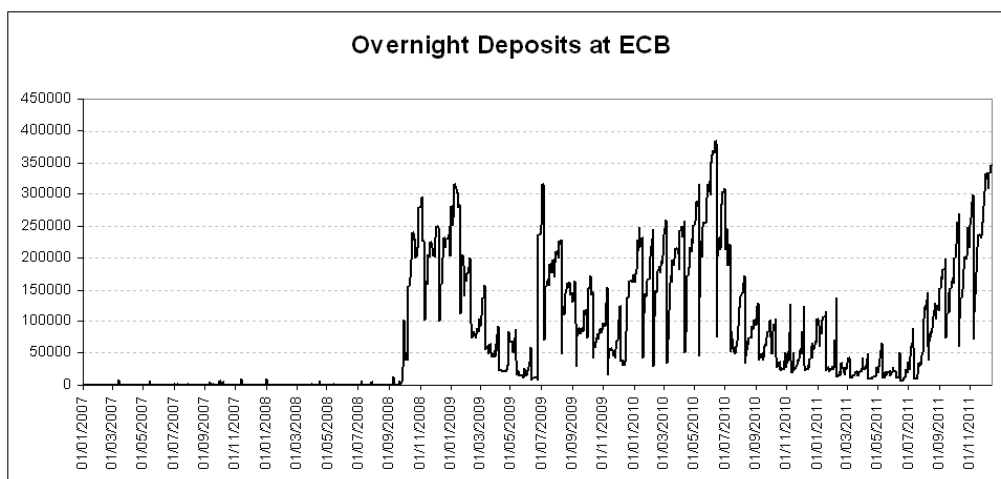
Security Market Programme (ECB government bond buying Programme)

The programme has been growing steadily to currently stand at €200bn but largely without any problems sterilizing the money (the ECB carry out weekly operations to take the same amount of money out of the system – through deposits - as put in through the SMP). The ECB has stated that €20bn is the weekly maximum for this programme but this still translates into €1trn in a year – an amount that would take down the entire 2012 European government bond issuance with some to spare. However, we have never seen anything close to the €20bn max in weekly purchases. Note also there is a €40bn covered bond purchasing programme (CBPP) ongoing over the next 12 months. This will further help banks finance themselves.



Deposits at ECB

Overnight deposits placed with ECB are now back at Lehman ('08) levels. Draghi has recently noted that some cash being borrowed from the ECB is being placed back with them on deposit. This shows signs of banks unwilling to lend to each other and into the economy but will also be impacted by the 3yr LTRO in 2012, as there is now an abundance of cash in the system. This would also imply that the SMP should have no problems sterilizing its bond purchases for the time being.



IMPORTANT INFORMATION

The Fund is currently available in Ireland via a unit-linked offering of Canada Life Assurance (Ireland) Limited. A similar strategy is also available in Germany, via a unit linked offering of Canada Life Assurance Europe Limited. For these life assurance products, investors should refer to the relevant policy conditions. The strategy is also available on a segregated basis. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and 'IMPORTANT INFORMATION' sections below.

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