Setanta
ASSET MANAGEMENT

FACTSHEET

Setanta Dividend Fund – Q3 2011

Fund Description

The **Dividend All-Equity Fund** ('the Fund') is managed by Setanta Asset Management Limited ("Setanta") and is a representative account of the Dividend strategy.

The Fund is an actively managed portfolio of global high yield equities. The Portfolio Managers embrace 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. The rationale for the Fund is underpinned by studies* that show dividends have played an important role in the cumulative total return of equities over the past century, while other academic studies support the thesis that a high dividend yield is an excellent indicator of value.

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. Exposure to local currencies is limited, as the Fund is mandated to hedge most of its exposure back to Euro.

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



**e.g. Dimson, Marsh and Staunton, 2011*

Investment Principles

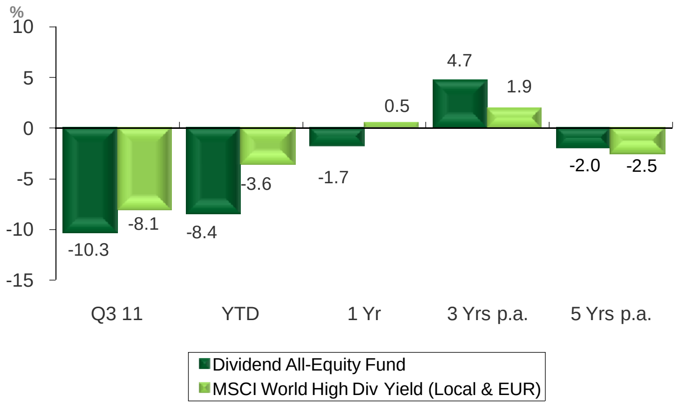
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.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

Contact Details:

Setanta Asset Management Limited,
College Park House, 20 Nassau Street,
Dublin 2, Ireland.

Alan Hickey, Tel: + 353 1 612 4903
Email: alan.hickey@setanta-asset.com
www.setanta-asset.com

Fund Performance to 30.09.11



Yearly Performance

Year	2006	2007	2008	2009	2010
Fund	16.9	-4.8	-32.0	27.2	13.0
Benchmark	19.4	1.2	-36.6	25.0	7.0

The investment objective of the Fund is to outperform the MSCI High Dividend Yield index over periods of three years or more.

Performance Source: Setanta Asset Management Limited. Benchmark: MSCI (90% local, 10% Euro) & Bloomberg. The Fund returns since 30.09.07 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 unit prices prior to this are derived from a net of fee price, adjusted for the management charge to be representative of the gross of fee performance. **Fund Statistics Source:** Bloomberg Median ex Financials.

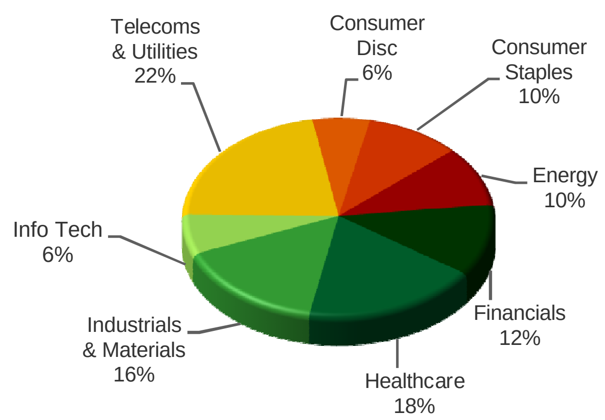
Fund Statistics

PRICE/BOOK	1.8
PRICE/EARNINGS RATIO (FY 1)	9.7
FREE CASH FLOW/EV %	7.3
DIVIDEND YIELD %	4.4
AVERAGE MARKET CAP €BN	36
NO. OF HOLDINGS	45

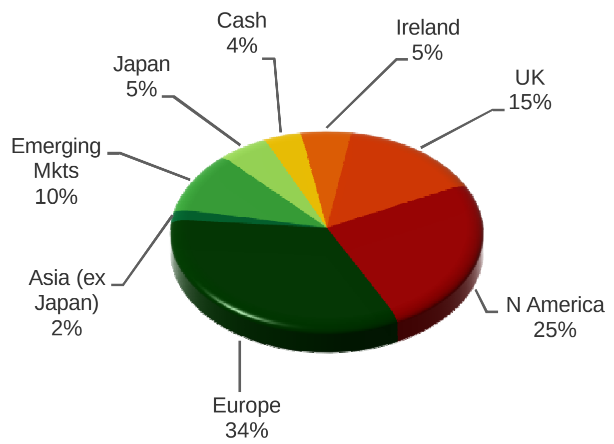
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
SANOFI	HEALTHCARE	3.3
MEDTRONIC	HEALTHCARE	3.3
LOCKHEED MARTIN	INDUSTRIALS & MATERIALS	3.1
CRH	INDUSTRIALS & MATERIALS	3.0
NOVARTIS	HEALTHCARE	2.9
TERNA	TELECOMS & UTILITIES	2.9
MICROSOFT	INFORMATION TECHNOLOGY	2.8
KIMBERLY-CLARK	CONSUMER STAPLES	2.7
NTT DOCOMO	TELECOMS & UTILITIES	2.7
FORTUM	TELECOMS & UTILITES	2.6

Sector Distribution



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 their 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 Dividend Fund 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 12 of the 45 names made it into positive territory. The best of these, **Kimberly Clark**, is a long term holding of the Dividend Fund having been first purchased in August of 2006. 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 **Terna** (see below) and **Medtronic**. Again both these names would be viewed as more defensive by the market.

Of the bottom 5 performers in the third quarter, two were Greek. While macro concern is the predominant driver for the 50% fall in **OTE** and 30% fall in **OPAP**, it is certainly not difficult to extrapolate the effects of the current macro issues to a position which negatively affects the micro economics of both companies. OPAP currently has over 600m Euro of net cash but the government shortage has led to an auction of VLTs (essentially new gaming machines). Combined with the renewal of their 10 year license commencing in 2020, but paid for now, this will leave the company with at least 400m Euro of net debt. Equivalent to less than one year's free cash this is certainly not an unsustainable level.

Greek telecom **OTE** was purchased in October 2010 at a price of 5.90 Euro (with the position subsequently reduced 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, Wincor Nixdorf** and OPAP, all 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 for the Fund are positive.

Performance Snippet:

The fall in fund value of 10% during Q3 brings The Dividend Fund into negative territory in 2011. As you know our maximum non euro exposure is 10%. The required currency hedge was a benefit in the first half of the year but recent weakness in the Euro has taken back all of this. 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 being said we do not target high yield index sector weights. The Setanta Dividend Fund looks 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.

Recent significant changes in the portfolio:

During the quarter we entered into two new positions while selling three. Of the sales, two investments 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 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.

Our experience with **GlaxoSmithkline** has been much more positive. It has been a holding of the Dividend Fund since March 2003 Of the total holding period return of 79%, close to 60% was as a result of the dividend (remember this calculation is complicated by the mandated hedge). We have been increasing our exposure to healthcare over the past few years (rising from 10% in October 2010 to a peak of 20% of the portfolio earlier this year). The sale reflects better opportunity elsewhere.

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 systems 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.

Italian utility **Terna** is a stock we know well having previously owned it in the Dividend Fund until 2009. A recent ‘Robin Hood Tax’ proposal by an indebted Italian government precipitated a fall back to our purchase level of circa Euro 2.40 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. An 8% yield at purchase 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.