



## Income Opportunities Fund – Q4 2011

### Fund Description

The Income Opportunities Fund is an actively managed multi-asset Fund that is focussed on generating income and maintaining the real value of capital invested over the long-term.

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 up to 5 years. While investment in attractively valued high yield equities (overwritten with call options) will be the primary strategy employed in the Fund, the Portfolio Managers seek long-term higher yielding value opportunities in other asset classes also.

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

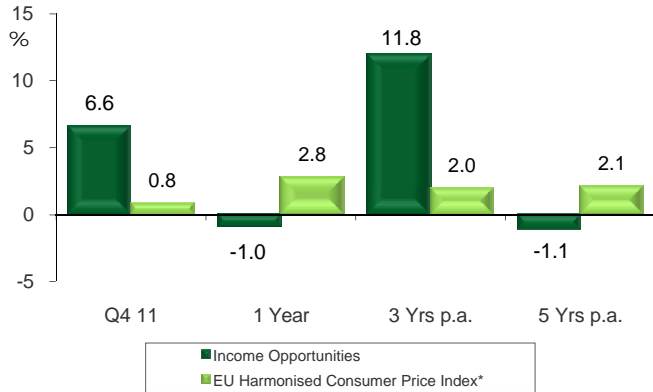
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.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



## Yearly Performance

Year	2007	2008	2009	2010	2011
Fund	-7.2	-27.2	21.1	16.6	-1.0
Benchmark	3.1	1.6	0.9	2.2	N/A

The Income Opportunities Fund has two investment objectives:

- 1 To generate income at a target rate. (Declared annually at beginning of year).
- 2 To grow real capital value over the long term

**Performance Source:** Setanta Asset Management Limited. Benchmark: European Harmonised Consumer Price Index. 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.

## Portfolio Statistics

Derivatives 30.09.11	
% of Fund overwritten	5%
% of Fund underwritten	0%
% of total Fund generating option income	5%

## Historic Income

Year	Income Earned % of Fund Value
2007	5.6%
2008	6.4%
2009	6.6%
2010	6.4%
2011	6.2%

## IMPORTANT INFORMATION

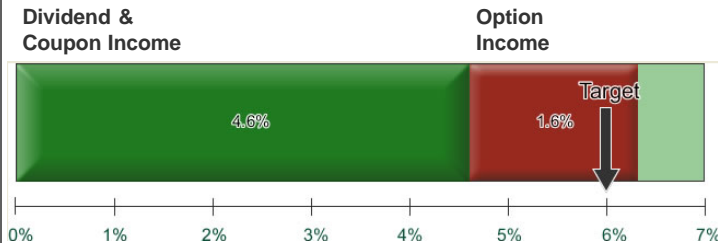
The Income Opportunities Fund is managed by Setanta Asset Management Limited and is a representative account of the strategy. The Fund is currently available in Ireland via a unit-linked offering of Canada Life Assurance (Ireland) Limited and prior to this was available as a Unit Trust which is now closed. For these life assurance products, investors should refer to the relevant policy conditions. The strategy is also available on a segregated basis.

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**WARNING:** Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance.

## Target Income

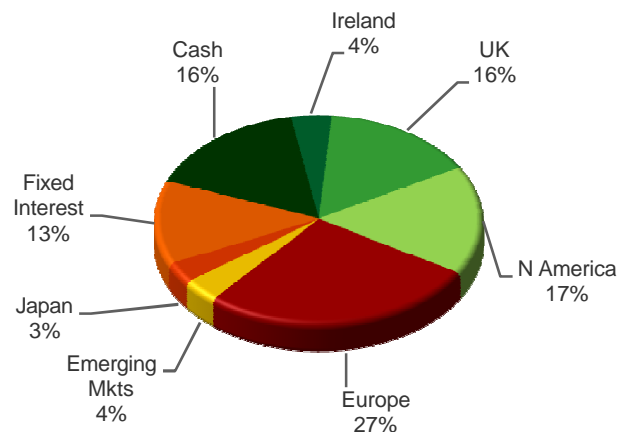
The target income for 2011 is 6.0%. The chart below details income earned on a year-to-date basis. The total income earned to Dec 31st 2011 is 6.2%



## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
UNITED UTILITIES GROUP	TELECOMS & UTILITIES	2.7
TOTAL	ENERGY	2.6
BP	ENERGY	2.5
ENI	ENERGY	2.4
BELGACOM	TELECOMS & UTILITIES	2.4
CRH	INDUSTRIALS & MATERIALS	2.3
OSTERREICHISCHE POST	INDUSTRIALS & MATERIALS	2.3
KIMBERLY-CLARK	CONSUMER STAPLES	2.3
TELE2	TELECOMS & UTILITIES	2.0
SYSCO	CONSUMER STAPLES	2.0

## Geographic Distribution



We have two main focuses as managers of The Income Opportunities Fund. 2011 was a good year for the first of these; namely to generate a target level of income. The assets in the fund generated a yield of 6.2% over the year. While the fund has a very flexible remit to invest across the asset spectrum, most of the income generated in 2011 was derived from equity dividends (4.2%). Option income, derived from selling covered calls on the holdings and to a lesser extent covered puts, also contributed handsomely (1.6%), while bond and interest income made a more moderate contribution (0.4%). Relative to the yield currently available on core government bonds and high grade corporate credit, we continue to believe a significant investment in value-oriented dividend stocks stacks up very well.

Our second focus, no less important, is to grow capital (in real terms) over the long term. Ultimately this should be the true focus of all investments.

***"People need to focus on how to structure a portfolio in a world where the real return prospects for man-made money are low".***

Over the past three years, our record here has been satisfactory, with the fund returning 12% per annum. This is a period that has been generally favourable to equities (the dominant asset class in the fund over the period). Of course, we try to focus on the long term, but with a quick glance at the 2011 performance we would score ourselves a C (Must do Better!)

Having traded well beforehand, the second half of 2011 saw equity markets sell off, as the focus of the market shifted to stability and a stampede exited markets like Greece, Portugal, and Ireland. This was the single biggest factor in our failure to generate better returns over the year, as some of our more cyclical and financial holdings reduced returns.

While 2011 was not a particularly good year for us we will continue with our dedicated value investment strategy and hope you will judge us on our long term results. We believe we can continue to find securities and assets which generate an attractive current yield and which are being offered to us at a price which does not represent their long term intrinsic value. It is true that we cannot be sure of this, but the one thing we can be absolutely certain of is price. We are seeing some assets trading at 65% below their peak price and with yields fast approaching double digit. These assets are tangible and most likely will provide some hedge to inflation. Our objective as always is to be thorough with the analysis, which may result in a different conclusion, but during 2012 we shall most likely invest in some attractively priced property.

### **Level of Option Cover:**

At year end we allowed many of the options on the portfolio to roll off into a period of low liquidity. This brings option cover to 5% of the total portfolio. We will endeavour to increase this over the early part of 2012.

### **Significant movements 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. 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 management to have learned from caring shareholders' reaction to their debacle share buyback and subsequent rights issue back in 2009. We expect the stock to continue to do well in the future.

<sup>1</sup>Matt McLennan – First Eagle Funds