

Setanta Irish Equity Fund – Q2 2011

Fund Description

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

The Fund invests in equities issued by publicly quoted companies which are directly or indirectly listed on the Irish Stock Exchange. The Irish Equity Fund is an actively managed mandate that will typically be invested in 10-20 stocks. Consistent with all Setanta funds, the Fund adheres to a fundamental value approach. Our process is akin to assessing a part ownership of a business rather than trading a security. By value, we mean we strive to buy stocks below our assessment of their worth, taking into account risks and scenarios. We favour financially sound companies with good track records, where we can make reasoned projections of future profits.

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 Manager

David Pastor



Investment Principles

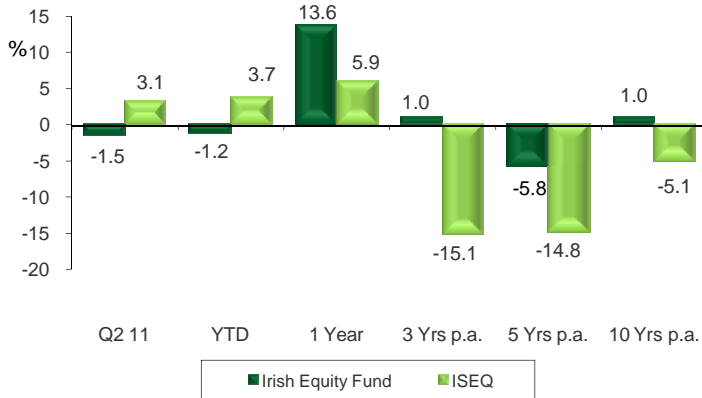
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- 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 30.06.11



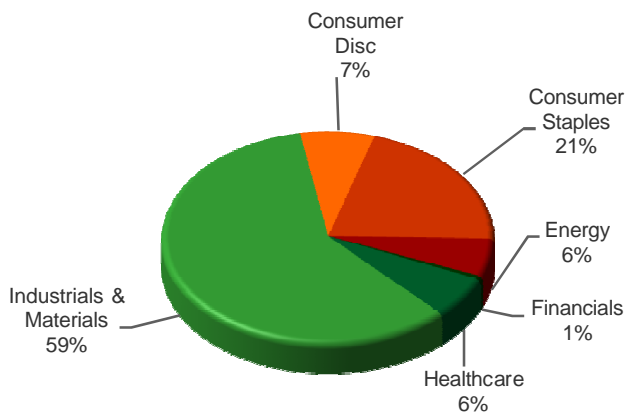
Yearly Performance

Year	2006	2007	2008	2009	2010
Fund	31.9	-18.2	-59.8	51.4	19.6
Benchmark	30.7	-24.5	-65.0	29.8	-0.1

The investment objective of the Fund is to outperform the ISEQ index over periods of three years or more.

Performance Source: Setanta Asset Management Limited. Benchmark: ISEQ. 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.

Sector Distribution



Fund Statistics

PRICE/BOOK	1.7
PRICE/EARNINGS RATIO (FY 1)	12.7
FREE CASH FLOW/EV %	7.0
DIVIDEND YIELD %	2.1
MEDIAN MARKET CAP €BN	0.9
NO. OF HOLDINGS	18

Top 10 Holdings

COMPANY	SECTOR	% OF FUND
KINGSPAN	INDUSTRIALS & MATERIALS	8.7
DCC	INDUSTRIALS & MATERIALS	8.4
TOTAL PRODUCE	CONSUMER STAPLES	8.3
IRISH CONTINENTAL	INDUSTRIALS & MATERIALS	7.7
ABBAY	INDUSTRIALS & MATERIALS	7.3
CPL RESOURCES	CONSUMER DISC.	7.2
CRH	INDUSTRIALS & MATERIALS	7.2
C&C GROUP	CONSUMER STAPLES	6.9
RYANAIR	INDUSTRIALS & MATERIALS	6.8
GRAFTON GROUP	INDUSTRIALS & MATERIALS	6.5

The second quarter of the year is now behind us and with it, another step in the long desert journey that the Irish economy has undertaken to set a more balanced and sustainable path for its future growth. Despite significant government and private balance sheet consolidation efforts in peripheral European countries, markets continue to be reluctant to extend credit in what has been called the “European Sovereign Debt” crisis, and which has driven sovereign credit spreads to record levels in the Euro era during the quarter.

In this context of deleveraging and adjustment, we saw how the remnants of the Irish banking system finally collapsed under the weight of the busted property bubble. Equity in the Irish banks has been almost wiped out (and with it, part of the Fund), and new capital will have to be raised. Watching this has not been fun, and there are lessons for us to be learnt, the most important of which is the degree to which the public and the banking sector are so intimately linked. With the Irish government credibility at rock-bottom levels, the likelihood of an exemplifying recapitalisation requirements for the banks (and dilution of current shareholders) was just too great, and to continue to hold the tiniest sliver of their equity, a mistake.

Over the quarter, the Fund’s display relative to that of the benchmark was negatively impacted by the performance of some of its holdings in the year to date. Although it is not pleasant to lag your objective in the short term, we are confident that our investment approach will continue to bear fruit in the future and create value for the holders of units in the Fund. The Fund is managed in a Benchmark-agnostic way. The ISEQ continues to be a very concentrated benchmark (even after some dramatic changes in the last few years), and in our opinion, our well diversified, value driven, bottom up investment approach should continue to prove superior in protecting and growing your investment.

Notably, some of the recent worst performers in the Fund are also some of the companies we like the most and whose valuation and risk exposure we understand better. This is the case of DCC which featured in our last commentary and has returned a -15% so far in 2011, or Readymix which is down -19%.

Readymix has also been commented on in this column in the past and is one of our “deep value” ideas. By “Deep Value”, we mean an investing discipline pioneered by Benjamin Graham in the 1930s, consisting of buying securities at a deep discount to a conservative estimate of their intrinsic value. The market regards these as risky propositions, as the underlying businesses are of poor quality, often financially distressed, or are loss-making and suffer from poor trading visibility in the near future (the case of Readymix).. The outcome of these deep value investments is uncertain, but by buying at sufficiently low prices we make sure that we protect our capital. Moreover, we firmly believe that once we have made our due diligence on the business, we have a much better chance of growing our Fund than by investing in the glamorous asset class “du jour”.

The underlying premise behind this approach, and one to which Setanta adheres, is that we believe we have an edge that allows us to successfully identify and profit when we are presented with these opportunities and which derives from a number of factors:

- Our decision making process is anchored on solid analysis of financial and other public information. A large part of our time is spent reading financial reports, and analysing the historical financial information of current and prospective holdings. An independent assessment of the financial strength of a company is key to evaluating the merits of an investment case, separate from the often emotional judgement of the market.
- We are long term investors. The fact that we are in the game for the long run is a huge advantage in our favour. It enables us to allocate capital to thinly traded stocks, which are simply disregarded by a large part of the investment community on account of their illiquidity. Less market attention implies a higher likelihood that the stock is mispriced, and higher potential reward from owning the stock.
- Finally, by using this approach we believe we have the odds in our favour. In theory, the same amount of due diligence can be done on “glamour” and “unpopular” stocks (focusing on growth prospects, addressable market, or competitive advantage instead). In reality, what happens is that for glamorous stocks the good news tends to be already priced into the market with the perverse effect that when the good news actually happens the stock doesn’t move but if bad news happens the stock collapses (i.e. the spectrum of possible outcomes is asymmetrically distributed against glamour stocks); the opposite is true for ugly stocks. If history is any guide there is empirical evidence that unpopular “value stocks”, i.e. stocks trading at a discount to intrinsic value, have a better probability of outperforming the market in the long run.

There was little activity in the portfolio during the quarter. We sold out of **Origin**, the agricultural solutions and animal feed business. The stock performed very strongly in the first six months of the year with the share price reaching the Eur 4 level. Although still trading on undemanding price multiples, we took the view that given the company's risk exposures to the heavily politicised economic activity that is the agricultural sector in Europe, and too high a level of financial leverage for our taste we were not sufficiently compensated at those price levels. We reinvested the proceeds of the sale of Origin in topping up Icon, C&C and CPL Resources. **Icon** is one of the leading clinical research organisations (CRO) in the world, and it is well positioned to take advantage of the clinical research outsourcing trend observed in the pharmaceutical industry. **CPL Resources** has done well since we added the position to the portfolio last year. A lean organisation, highly regarded in the Irish Professional Services market, it is trading at a discount to its globally diversified peers on cyclically depressed earnings. We continue to expect great things from this small, well run company.

In Setanta our ethos as active manager is underpinned by the principles of Value Investing, and which we detail in our Investment Charter. By fully ascribing to them in managing the Irish Equity Fund, we are confident we will be able to generate superior risk adjusted returns over time.

David Pastor.

IMPORTANT INFORMATION

The Fund is currently available in Ireland via a unit-linked offering of Canada Life Assurance (Ireland) Limited. For this life assurance product, 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 overleaf.

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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.
