



## Setanta Irish Equity Fund – Q3 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 is an actively managed mandate that will typically be invested in c. 10-20 stocks. Consistent with all Setanta funds, the Fund adheres to a fundamental value approach. By fundamental, we mean we view stocks as fractional ownerships of businesses that we try to understand. 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

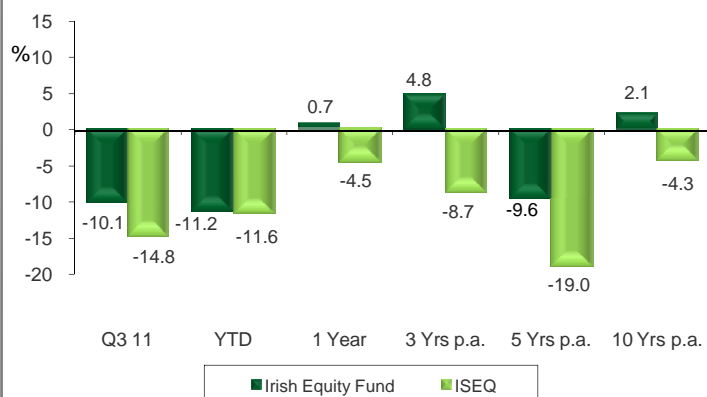
- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.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

### 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](mailto:alan.hickey@setanta-asset.com)  
[www.setanta-asset.com](http://www.setanta-asset.com)

## Fund Performance 30.09.11



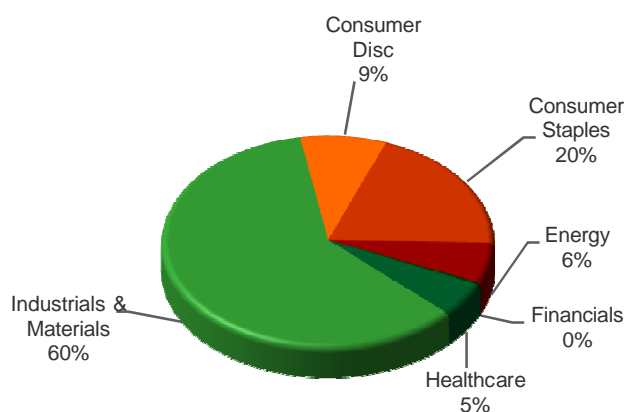
## Yearly Performance

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	1.5
PRICE/EARNINGS RATIO (FY 1)	11.7
FREE CASH FLOW/EV %	7.7
DIVIDEND YIELD %	1.7
AVERAGE MARKET CAP €BN	1.7
NO. OF HOLDINGS	16

## Top 10 Holdings

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	10.1
KINGSPAN	INDUSTRIALS & MATERIALS	8.9
TOTAL PRODUCE	CONSUMER STAPLES	8.8
ABBAY	INDUSTRIALS & MATERIALS	8.5
CPL RESOURCES	CONSUMER DISC.	8.4
IRISH CONTINENTAL	INDUSTRIALS & MATERIALS	8.0
RYANAIR	INDUSTRIALS & MATERIALS	7.1
CRH	INDUSTRIALS & MATERIALS	6.2
C&C GROUP	CONSUMER STAPLES	6.1
DRAGON OIL	ENERGY	6.0

The third quarter of 2011 proved to be a volatile one. Macro concerns weighed heavily on equity markets and some of the most widely followed indices in Ireland and the rest of the world were down significantly. Over the quarter the ISEQ lost about 15% of its market value, the Euro Stoxx 50, 23% and the S&P 500 14% in local currency terms. In times of uncertainty such as these, we would do well by remembering and taking to heart the words of Spanish-American philosopher George Santayana: *“Those who do not remember the past are condemned to fulfil it”*. Mind you, it is not I who recommends this. Benjamin Graham in the Fourth Edition of his seminal work “The Intelligent Investor” published in 1973, quotes Santayana in his introduction to the book. Graham lived through the 1929 crash in Wall Street, and collated in this book the wisdom he accumulated in the Great Depression and the decades that followed. The whole book is a must for anyone who wants to understand the business of investing, but just to reread the introduction proves as current and as sound as any advice you can get today. It is all there: the need for solid investment principles, diversification, the warning against the psychology of investors (*“investor’s worst enemy is likely to be himself”*) and the need to measure value (*“For 99 issues out of 100 we could say that at some price they are cheap enough to buy and at some other price they would be so dear that they should be sold”*).

It is in this light that we wish to see our job in managing the Fund. The economies of the developed world are facing a lengthy deleveraging process and now, as it happened then, there will be economic policy successes and mistakes that will move the market widely. In Setanta, we count on our values and investment philosophy to navigate us through this and future market turmoil, and eventually reach our goal of protecting and growing your investment. The performance of the Fund year to date is back in line with that of the ISEQ, and continues to show a significant outperformance over the long term.

### FEATHERS AND GOLD

**Which is heavier, a pound of feathers or pound of gold?** Behind the popular children’s riddle there are a number of lessons for the adult world. Contrary to the assumptions of traditional economic theory, human beings are not 100% rational in their decision making process; we resort to **heuristics** or shortcuts to help us deal with the uncertainty associated with decision making. A body of social scientists have endeavoured to explore a number of these inefficiencies, and the effect that they have on society in general, and the financial markets in particular.

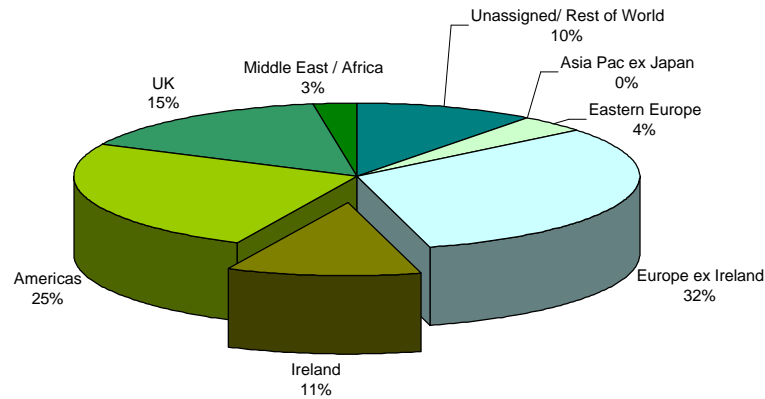
Our brain is a complex and effective machine, when children (and grown ups!) are asked the above question, they tend to assimilate and compare the new information based on information already available, and that it can recall readily. Feathers are light, gold is heavy (and shiny!), hence a pound of gold should be heavier than a pound of feathers, isn’t it? This is a form of **availability and representativeness bias**, and it is a type of behavioural bias that may be conducive to biased decision making.

Five years ago the idea of Ireland conveyed the concepts of “Celtic Tiger”, “the successful model” of economic growth, the mirror where a number of other small countries looked in their search for their own economic miracle. Fast forward to today and “Ireland plc” is associated with very different notions such as a bust property bubble, “NAMA”, an economy intervened by the IMF, unemployment, public deficit and debt, and failed banks, amongst others

Whether they want it or not, all of this is resting in the back of investor’s minds when they think about the prospect of investing in Ireland. Do these notions match the reality of Irish public companies? Has anybody stopped to calculate the exposure of Irish-listed companies to the Irish economy?

The truth is that it’s a surprisingly small number. The chart below shows the geographic breakdown of revenues for Irish companies taken as a whole; as we can see they are actually pretty well-diversified across a number of geographies.

## ISEQ Companies. Geographical Exposure Lookthrough. 2010 Revenues



Source: Company Reports / Bloomberg / Setanta research

What we want to say with this is that if your first reaction on hearing about Irish Equities was a flinch, maybe it was due to uninformed preconceptions based on availability bias.

Funnily enough, and after all the ranting above about Ireland's economic woes you may find it surprising to learn that the Fund is actually overweight "Ireland" as measured by the above gauge (exposure to Irish revenue in the Fund is 24% vs 11% for ISEQ). The reason is that our bottom up process has driven us to find compelling value in positions with higher exposure to Ireland when properly weighted for operational and financial risk. We hope that our diversified selection of good, low-risk Irish businesses purchased at attractive prices will deliver a satisfactory return on your investment in the Fund.

### 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.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2, Ireland. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated on the front page.

**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.