Setanta
ASSET MANAGEMENT

FACTSHEET

Setanta Managed Fund – Q2 2011

Fund Description

The **Managed Fund** ("the Fund"), managed by Setanta Asset Management Limited ("Setanta"), is a unit-linked offering of Canada Life Assurance (Ireland) Limited.

The Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities and cash. The Fund holds between 50-80% of its assets in equities. The asset exposures of the fund are achieved primarily via:

- Equities: The Setanta Global Equity, Irish Equity & Enhanced Income Funds
- Fixed Income: The Setanta Fixed Income Fund
- Property: The Canada Life Property Fund
- Commodities: The ETFS All-Commodities DJ-AIGCI ETC
- Cash: The Setanta Liquidity Fund
- Absolute Value: Longhaul Fund

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.

Lead Portfolio Managers

John Looby & David Ryan

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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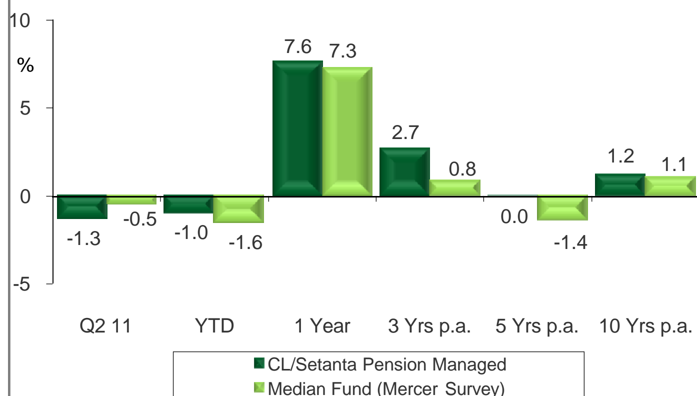
Fund Performance to 30.06.11



The investment objective of the Fund is to outperform the median of the domestic Managed Fund peer group.

Fund Statistics (Equities)

PRICE/BOOK	2.2
PRICE/EARNINGS RATIO (FY 1)	12.4
FREE CASH FLOW/EV %	6.2
DIVIDEND YIELD %	2.2
AVERAGE MARKET CAP €BN	43
NO. OF HOLDINGS	135

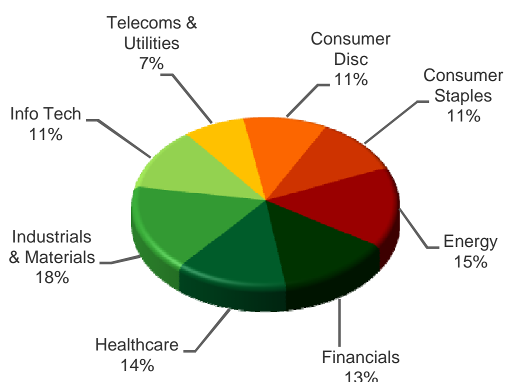
Top 10 Holdings

COMPANY	SECTOR	% OF FUND
Exxon Mobil	Energy	1.4
Total	Energy	1.4
Johnson & Johnson	Healthcare	1.4
CRH	Industrials & Materials	1.3
ENI	Energy	1.3
Pfizer	Healthcare	1.2
BP	Energy	1.2
General Dynamics	Industrials & Materials	1.2
Microsoft	Information Technology	1.2
Owens Illinois	Industrials & Materials	1.2

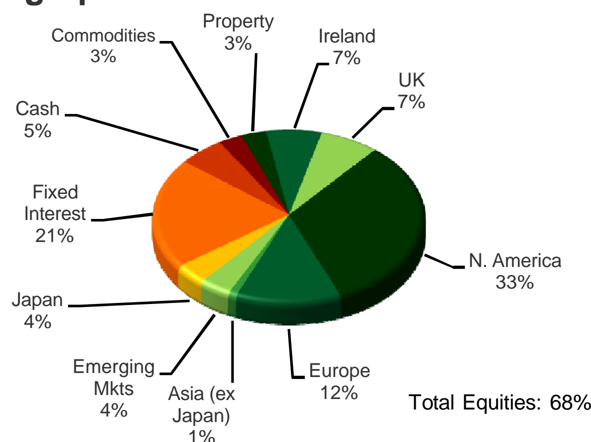
Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHT	BENCHMARK WEIGHT
AAA	43.5%	55.0%
AA	37.5%	41.6%
A	3.4%	0.5%
BBB	5.2%	3.0%
BB	6.0%	0.0%
CCC	4.3%	0.0%
C	0.1%	0.0%
	100%	100%

Sector Distribution



Geographic Distribution



Total Equities: 68%

Yearly Performance

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fund	-8.4	-20.4	12.2	9.8	21.7	9.1	-1.8	-29.6	22.9	9.5
Benchmark	-5.6	-19.0	12.2	10.2	21.7	13.3	-3.9	-35.6	22.0	11.3

Performance Source: Setanta Asset Management Limited. Benchmark: Mercer Pooled Group Pension Managed Fund Survey. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund and are net of management fees.
Fund Statistics source: Bloomberg (Median ex Financials); **Credit Rating Source**: S&P

The second quarter of 2011 saw equity markets rise slightly but bond and commodity prices fall. In the US the S&P 500 was flat returning just 0.1% in the quarter, in US dollar terms. Investors became more cautious following the announcement of weaker than expected employment growth and higher oil prices which stocked fears that the US economy was sliding back into recession. The Federal Reserve kept interest rates at historic lows but announced it was stopping its second round of quantitative easing after June and Ten year US Treasury yields rose to 3.6% on concerns this will reduce the demand for US Treasuries. Sentiment was further set back when the rating agency S&P announced it was considering putting the US Treasury on negative outlook given the significant issuance of US Treasuries in the last few years. However market sentiment changed in the 2nd half of the quarter and worried investors de-risked and bought bonds pushing bond prices higher and bond yields then fell back to end the quarter at 3.1%. Offsetting the negative market sentiment were corporate earnings which continued to be positive. Commodity prices fell in the quarter with the DJ UBS Commodity Index down -6.7% , in US dollar terms. Oil prices reached a high of US$ 115 (WTI) in the quarter before falling back to end the quarter at US$95 which still is high as political turmoil in the Middle East continues.

In Europe the Euro Stoxx 600 was broadly unchanged rising by 0.8% in quarter, in Euro terms. European equity markets mostly lost ground in the quarter as the Greek sovereign debt crisis re-ignited, with Greece needing a second bail out to stave off a default. This put significant pressure on Irish, Portuguese and Spanish bond prices with yields rising to new highs. However at the very end of June the latest crisis would seem to have been averted as the Greek government narrowly passed a vote of confidence and a new austerity package which ensures it gets additional funding from the EU/IMF. The ECB and UK central banks kept rates on hold but the ECB announced it would probably raise rates further later in the year. In the UK equity markets were a bit stronger with the FTSE 100 delivering a 1.7% return in the quarter, in sterling terms, despite the announcement of a weaker than expected growth number for the UK economy.

The negative market sentiment for equity, bond and commodity markets were also reflected in the performance of the equity sectors during the quarter. The drop in commodity prices and the Greek debt crisis were behind the performance of the two weakest sectors Energy and Financials; they delivered negative returns of -6.9% and -4.7% in Euro terms, respectively. The strongest sector returns, in Euro terms, in the quarter were from two defensive sectors Healthcare and Consumer Staples; these sectors delivered positive returns of 5.6% and 3.8% respectively.

The Setanta/Canada Life Managed Fund underperformed the Mercer Managed Fund peergroup by 0.7% during Quarter Two. This was due to stock selection in the equity element and also underperformance in bonds. Some of our technology stocks such as Cisco, Computer Sciences and Nokia have had a difficult six months as equity markets have favoured the defensive sectors since the start of 2011. Financial stocks have also been hit in 2011 and we remain underweight the sector on the view that many financials are still highly leveraged and that we are not being adequately rewarded for the associated risk.

Within bond markets the theme of risk on/risk off trades has continued played out between the core and periphery countries. In Q2, the market has resorted to the view that Europe has not taken hold of the crisis and there has been marked selling of peripheral debt and a run up in core AAA bonds (Germany/France/Holland). This goes against our positioning. The Fund is positioned for bond yields to move higher over time, and for peripheral spreads to tighten over time, though that “time frame” seems to be getting longer and longer. We believe that our positions in the periphery which has been the marked driver of our under performance year to date will bounce back. I also believe that lending money at the long end of the curve at such paltry levels (3.40%) is not prudent.

Sample of Q2 Transaction:

In our view, the amount of mental capital expended in attempts to grapple with macro economic issues, policy responses and their intended and unintended consequences strikes us as a futile endeavour. Even supposing we could be successful in predicting a particular economic outcome, we would in turn require an investment process that allowed us to successfully translate this outcome into how it might affect a particular economic sector and individual companies within this sector. And to create value, we would need to do so before other market participants to earn a superior return.

Rather, we invert the process. This means we seek to take advantage of the volatility and potential overreaction and inattention of other market participants to these issues at both a macro-economic and micro-company level.

This approach is grounded in Benjamin Graham's margin of safety concept where we seek to invest capital at sufficient discount to our estimate of intrinsic value, such that we are insulated from the vicissitudes of the business cycle as well as miscalculation or bad luck. The function of the margin of safety, as expounded by Graham, is that of rendering unnecessary an accurate estimate of the future. In most cases this involves looking at companies that are out of favour, misunderstood or may otherwise display characteristics of being at the other side of some existing popular opinion.

Last quarter's purchase of Oshkosh brings together the various strands of our investment process. **Oshkosh** is a $2.8bn market capitalization company that designs and manufactures trucks: military, fire and emergency, cement mixers. In 2007 the company acquired JLG, the leading global manufacturer of aerial work platforms and telehandlers. The reason for the acquisition was to diversify away from overreliance on Department of Defence spending,

They clearly overpaid for this diversification taking on over $3bn on long term debt to do so; more than the current capitalization of the combined company. The economics of the purchase fell apart in the face of a rapidly unravelling construction boom, leaving the company saddled with $3bn in debt while revenue and profits at the division fell over 50%. This picture was mirrored in the other commercial segments with falling municipal budgets pushing out the replacement cycle for fire, emergency, bin trucks and concrete mixers.

Ironically what saved the company from financial distress was the very segment they had been trying to diversify away from. Oshkosh had finally broke through into higher value defence orders in 2008 with a $5.4bn heavy tactical vehicle contract followed quickly by another contract valued at $4.48bn in 2009 for medium tactical vehicles.

The company likely appeared on many investors value screens as cheap based on 5.5x trailing earnings. Most investors would have be subsequently put off, realizing this apparent cheapness is based on temporary and supernormal earnings from the company's defence division. These orders and associated revenues underpin cash flows in this segment until at least 2013 and, crucially, allow the company to de-lever leaving its balance sheet in a far more robust state by 2013.

But what was wholly unappreciated was that these defence orders will result in a larger installed base that potentially supports a $1.5bn revenue model from parts, services and maintenance – without any assumption for new orders. Moreover, the access equipment (aerial work platforms and telehandlers) is currently weak, owing to a poor construction market and a lack of financing. Peak sales at the division were $3bn in 2007 at a 15% operating margin. Our downside scenario assumes half those sales levels at half the operating margin, an unreasonable extrapolation of current stressed conditions over the long term. Indeed our scenario work suggested a floor valuation of in the low to mid $20s with upside over $40 in a more normalized environment.

And so investing, "at the flood", after the market had been disappointed by first quarter earnings, a reinforcement of the negative tide towards the company's prospects gave us the opportunity of investing in a highly favourable risk reward payoff. As such our investment process relies on putting the odds of success in our favour, eliminating the need for an accurate prediction of the future. We hone in on understanding the things that make a business valuable and the incentive structures around this, seeking to buy at a price that is materially lower than this appraised value; as such investing with a margin of safety.

IMPORTANT INFORMATION

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' sections below.

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