



June 2010

Source: Bloomberg & MSCI. All returns in Euro. 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. 10Yr Fund performance is the Setanta Global Equity Composite, Gross of management fees in Euro. The performance will be reduced by the impact of management fees paid, the amount of which varies.

	June %	Year-to-date %	1 yr %	3 yrs % pa	5 yrs % pa	10 yrs % pa
Setanta Global Equity	-3.2	5.1	27.8	-6.3	2.0	0.2
MSCI World	-3.3	5.6	26.2	-8.5	-0.2	-3.4
FTSE 100 (UK)	-1.2	0.5	25.2	-11.2	-0.5	-1.3
DJ Stoxx (Europe)	-1.1	-10.4	9.8	-12.9	1.9	-3.6
S&P 500 (US)	-4.7	9.1	31.1	-6.7	-1.0	-4.0

Tug-of-Belief – Still in Stalemate

The ongoing tug-of-belief between those that see European Sovereign debt worries leading inexorably to a fresh 'flight from risk', and those that believe that the growing 'risk-appetite' evident since March 2009 is underpinned by a sustainable global recovery, resulted in broad stalemate across Financial Markets in June. Global Equities fell during the month as risk-aversion rose with the Healthcare and Utilities sectors delivering small positive returns, while cyclical sectors including Energy, Materials and Consumer Cyclical delivered larger negative returns. German Bond yields fell modestly, while by contrast, the Euro recovered some ground at the end of the month as volatility-measures eased somewhat.

Setanta Stock Focus: Fair Isaac – Embodying many of the traits we look for in an investment

The name Fair Isaac (Bloomberg Ticker: FICO US) may not be familiar to the general public in Europe but if you were to mention FICO to any North American it would be almost instantaneously recognised. Fair Isaac is a software company whose main product is the FICO score – a credit scoring system that is ubiquitous in the US banking/lending markets. With over 90% market share the FICO score is the way in which almost all US lenders evaluate a loan application. Your credit score dictates your creditworthiness and in turn the amount a bank is willing to lend you and at what rate.

Over the years FICO has become ingrained in the credit assessment system of financial institutions, it has built up a strong brand and has created an economic "moat" around its operations which gives us as investors great comfort. Regarding the sustainability of the business model and that FICO will continue to generate returns similar to the healthy returns it has generated in the past.

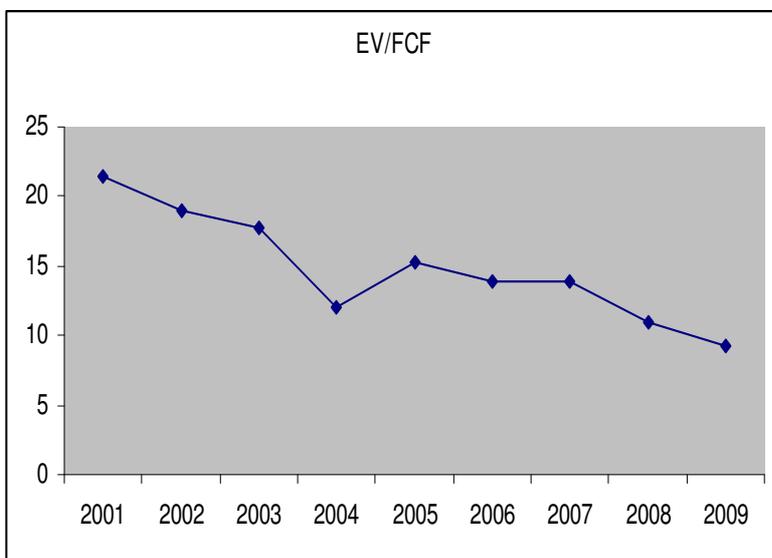
The markets have been kind enough to give us the opportunity to buy this monopoly like company with a strong balance sheet and history of stellar cash flow generation on what we believe to be attractive valuation levels. Trading on 1.9x price-to-book (PB), 9.2x price-to-free cash flow (P/FCF) and 14x price-to-earnings (P/E) we believe we are buying into the market leader with a sustainable competitive advantage at a discount to its true worth.

FICO's cash generating ability is to be commended; its business structure with low capital expenditure requirements allows it to generate significant free cash flow year after year. Over the last five years FICO has generated almost \$800m in FCF, which is quite exceptional for a company with a market cap of just under \$1000m. The market is also pricing FICO on a FCF yield of 11% and as the chart below highlights on only 10x enterprise value-to-free cash flow (EV/FCF). When these valuation levels and the high quality nature of FICO's business are taken into consideration we believe we are being given a great opportunity to buy into the future earnings power and cash generating ability of FICO at very attractive levels.



However, as with every investment, there are risks involved; the main risk pertaining to FICO are competitive threats from existing or new forces. VantageScore is a joint venture between the three credit reporting agencies in the US and while over the last three years VantageScore has not eaten into FICO's market share it is not something we in Setanta have ignored.

However when all is taken into account we still believe that on a risk/reward basis FICO embodies many of the traits we look for in an investment and is an attractive addition to our Global Equity Portfolio.



Source: Bloomberg and Setanta.



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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.

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