



Global Equity and Bond Indices	Returns for 2011 %	3 yrs % pa	5 yrs % pa	10 yrs % pa**
MSCI Asia	-13.3	11.9	-2.4	2.2
S&P Euro Stoxx 600	-8.0	11.4	-4.2	1.4
MSCI World	-2.6	13.9	-2.0	-0.2
S&P 500 (US)	5.3	17.0	0.1	-0.9
MSCI High Dividend Yield	7.1	16.4	-2.0	1.5
Euro Govt. Bonds (5yr+)	3.9	2.9	3.9	5.2
US Govt. Bonds (5yr+)	21.7	8.1	9.6	3.7

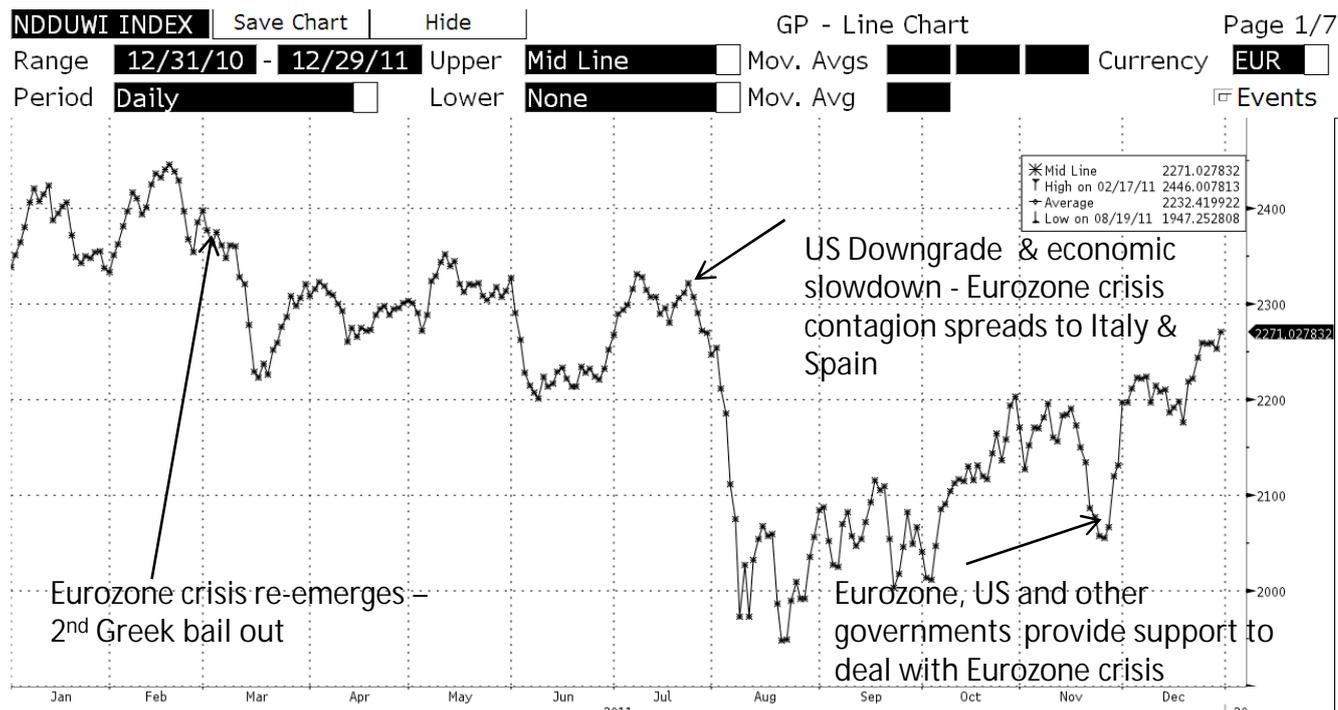
31st December 2011

Source: Bloomberg. Returns are in Euro.

Review of Markets in 2011

2011 will be remembered as a year in which fear progressively trumped hope across financial markets. Most major equity markets in both the developed (besides the US) and emerging world ended up in negative territory having mostly been in positive territory in Q1. The best returns in 2011 were to be found in the safest of Government bond markets e.g. US, UK, Germany or in large cap financially sound companies; as investors progressively sought safer havens. The broad themes driving the market were a slowing global economy, a resurfacing of the Eurozone government debt crisis, the downgrading of government debt and the difficulties that could pose to the financial system especially in Europe. This additional pressure on Government creditworthiness put strain on the banks that invest in their debt and this led to renewed concern about the financial system and whether banks (especially European) were suitably capitalised. In Q3 emerging market economic and financial data began to trouble investors who then “de-risked” from emerging market equity and bond markets. In addition investors were concerned about much weaker Chinese construction and concerns about property related loans. The year ended with a weaker Euro and a still unresolved Eurozone government debt problem.

Global Equity Index (MSCI World) in 2011



Source: Bloomberg.

Euro zone debt crisis – again!

Towards the end of Q1 it became clear that Greece was failing to meet the targets of the first EU/IMF bailout. Things came to a head and a second round of bailout funding was negotiated. Private Bond investors agreed to take a “haircut” and further pressure was put on the Greek government to introduce even greater austerity measures in order to get its books in order. This proved too much for the Greek Government and the Greek Prime Minister Papandreou resigned. A new Greek Government was formed, but by October ten year Greek bond yields had reached 20%+; despite the second bailout. However austerity measures also seemed too much for the Italian political process; Italian and Spanish bond yields started to climb and the prospect of a “too-big-to-fail” Eurozone Government default seemed increasingly likely. The Italian Government collapsed after losing the support of its coalition partners and Silvio Berlusconi was forced to resign; replaced by a more technocratic Premier, Mario Monti. After several rounds of shuttle diplomacy and various conferences a new Eurozone wide support mechanism was agreed on; crucially this included support for the beleaguered capital of Europe’s banks, who hold much of the Eurozone Government debt and face large losses unless a solution can be found. This received further support later in the year by action from the European, US, Swiss and several G20 central banks as well as political support from all but one EU Government. Markets were calmer heading into the new year with many equity markets recovering. However there may continue to be doubt as to whether the Euro can survive as a currency until European Governments agree how to deal with the problem, possibly including letting the ECB carry out its own QE and be lender of last resort to the Eurozone.

Global Economic slowdown

Given the financial difficulties in Europe it is probably not surprising to see that European economies slowed markedly as the year progressed. This was matched with a sharp slow down in the US, and also Asia as manufacturing orders began to drop away. However, forecasting what might happen from a few quarters activity is never a reliable way to invest. The economic landscape in the developed world will be driven by both negative (high unemployment, fiscal drag due to austerity, geo-political risk etc.) and positive (low interest rates, healthy corporate (non financial) balance sheets, monetary easing, etc.) factors in 2012. Forecasting any or all of these accurately is not, in our view, possible especially on a repeatable basis. However finding a solution to the Eurozone Government debt crisis will be central to improving confidence and could increase investor appetite for riskier assets including equities.

However Equity Markets look attractive on current valuation grounds especially vs. Bonds

Given the “flight to safety” in 2011; with the resultant double digit returns for some Government bond markets, it is not surprising to see some equity markets left looking ‘cheap’; some equity markets now have dividend yields at more than twice their respective bond yields. Unless a further severe weakening in global activity is in the offing, Setanta would see this as supportive for equity markets in 2012 and could prove attractive hunting grounds for dedicated value investors like ourselves. Non Financial stocks still have strong cash flow and good balance sheets and we will continue to seek attractively valued businesses to invest in in 2012.

NAME	12		10 YR Bond %	Price to Book *
	Month Fwd PE*	Dividend Yield*		
Hang Seng (Hong Kong)	9.2	4.3%	1.5%	1.2
S&P 500 (US)	11.6	2.3%	1.9%	1.8
FTSE 100 (UK)	9.2	4.4%	1.9%	1.4
EuroStoxx 600	9.6	4.6%	1.8%	1.2
DAX Index	8.9	4.4%	1.8%	1.1
ISEQ Index	15.2	2.7%	8.5%	1.2

Source: *The Indices are based on Bloomberg data as at 30th December 2011.

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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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