

### Market review

- Investor appetite for risk, accelerated across asset markets in March 2010 with the S&P Toronto index, for example, returning 3.8% to hit a 14-month high. The VIX index (the implied volatility of the S&P 500 index), a widely following indicator of risk aversion, sank to 16.4%, its lowest level since May 2008. Signs that the global economic rebound is strengthening more than offset continuing concerns about sovereign default among peripheral Eurozone countries.
- Bond returns were generally positive in March, as official interest rates remained unchanged in the U.S., Eurozone and U.K.
- Unsurprisingly against this general backdrop, the global sectors with the highest and lowest returns, year-to-date, were the Consumer Cyclical and Telecom/Utilities sectors respectively.

### Portfolio review

On March 2, the Global Equity sub-group met for the first time in 2010.

The core objective of this group is to identify the rare occasions when the 'market' has markedly mispriced a sector and to express this view in a 'meaningful' sector tilt decision (up to 5% relative).

On the more frequent/usual occasions when such a 'mispricing' is not evident to the group, the sector tilt of the Global Equity fund will be broadly neutral (within 2% sector relative).

The focus on this core objective will continue in parallel with the broader monitoring and appraisal of the geographic and foreign exchange exposure of the fund.

The group decided to make no change to the current positioning of the fund at this meeting.

In addition, portfolio managers purchased two new holdings and exited one position in the fund last month, **Alpha Bank**, **DST Systems** and **Phillips** respectively:

**Alpha Bank:** Alpha Bank was established in 1879 by the Costopoulos family. It bought Ionian Popular Bank in Greece in 1999-2000 and is now the third largest Greek bank with 457 branches. In the early 1990s, it expanded internationally, especially into southeast Europe (the Balkans). It currently has 619 branches across southeast Europe (primarily Cyprus, Romania and Bulgaria). Greek banks have fallen around 40% in value in the last 4 months, a reaction to Greek sovereign worries and weakening credit issues. The market is worried that Greek government bonds, a significant asset for the banks, will be defaulted on. We are confident that Europe will ultimately rally behind Greece and will ensure access to liquidity for the Greek banking system. Alpha Bank has a relatively strong balance sheet following a rights issue at the beginning of November, and at a Price to Tangible Book Value of 0.90. We believe it is a quality bank with an attractive valuation.

**DST Systems** provides information processing and computer software services to the mutual

fund, healthcare, utility and telecom industries. The mutual fund segment is, by far, the largest revenue and profit generator and DST is the market leader, with just under 70% market share. Looking at historic cash flow and return based metrics, DST is attractively valued. Current Free Cash Flow Yield is over 12% while the long term Free Cash Flow [what is this?] yield is over 8%. Return on Capital Employed has averaged 13.9% over the last 5 years. Given the business is highly cash generative, the disappointing aspect about DST is that it gives very little back to shareholders in the form of dividends. Current dividend yield is a paltry 0.73%. However, over the last number of years, the company has been buying back stock with surplus cash, which is typical of tech companies that prefer not to commit to dividends. Overall, we view DST as a company with a strong competitive position in its core market, generating healthy free cash flow on a sustainable basis, and attractively valued based on historic earnings power.

We sold **Phillips** during the month. Phillips has outperformed the MSCI World IT benchmark by 25% since the beginning 2009 and is now trading at what we consider, an 'over-stretched' valuation. It is currently trading above a one times Enterprise Value/Sales ratio, having traded as low as 0.50 times in 2008. Phillips is also trading at a price to earnings ratio of 19 based on consensus 2010 EPS of €1.30. Having earned €0.44 in EPS in 2009, we do not want to own a company that is expected to treble earnings and is still trading at a value of 19 times this prospective number. Phillips is also trading at a Price:Book Value ratio of 1.60, a level not seen since 2005, and a level that the company has only traded above eight times in the last 20 years.

*Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.*

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Setanta Asset Management Ltd.