FORTRESS Global Equity Fund

Investment Review

Fund Highlights

Fourth Quarter 2009

Market review

The year ended on a positive note for markets. Over the past few months, equities have been bolstered by stronger earnings, good cost control, reasonable valuations and signs of mergers and acquisition activity re-emerging.

Ben Bernanke, Chair of the U.S. Federal Reserve, announced the end of emergency lending programs from February 1, 2010, citing the improvements in the functioning of financial markets. The European Central Bank also announced plans to start withdrawing stimulus measures. Both these moves, and an improved outlook from central banks, generally bolstered markets.

Toward the end of the quarter, there was a growing focus on credit worthiness of governments that accumulated debts during the financial crisis. Worries over debt concerns in Greece and, Dubai, in particular, caused nervousness amongst investors. The Euro weakened on fears that core Euro countries may have to come to Greece's aid. The U.S. dollar benefited from this, and also from generally favourable U.S. economic data.

Cyclical sectors outperformed in 2009 with the Technology, Consumer cyclical and Financials sectors having the best performance and the more defensive Healthcare and Telecom/Utilities sectors lagging behind.

Portfolio review

The sharp rebound in stock markets since mid-March has prompted a number of meetings of Setanta's Global Equity sub-group. The most recent meeting was on December the 9th, where our summary conclusions were:

- Given strength in the Consumer Discretionary sector this year and the out performance of the Global Equity sector holdings over the benchmark, a decision was made to reduce our exposure by 2% and redeploy the proceeds into the Energy sector, which has lagged somewhat. This switch leaves the Fund about 2.5% overweight in the Energy sector, and just over 1% underweight in the Consumer Discretionary sector. The Energy sector trades on a Free cash Flow/ enterprise value of just over 6%, a level we view as attractive.
- The group again discussed the Financials sector weighting following a sector presentation by the Portfolio Manager, David Coyne. The current underweight position of 1.7% is representative of our view on the structural question marks about this sector, particularly surrounding the banking business model and risk. It was agreed to keep this issue high on the sub-group's agenda.
- In assessing stock markets more generally from here, note was again taken that a lesser focus be placed on the absolute valuation of equities, and a greater focus placed on their relative valuation to the risk-free alternative of sovereign bonds. This may well become a growing feature of investor thinking as 'risk appetite' continues to stabilize and return.

In light of the above, the Fund continues to have a broadly neutral 'sector tilt', with a marginal overweight in the Materials, Healthcare and Energy sectors, and a marginal underweight in the Telecom Services, Utilities, Financials and now Consumer Discretionary sectors.

Top contributing stocks year-to-date:
Norwegian bank, **DnB Nor**, has rebounded sharply from a very low valuation after it was sold off aggressively in the second half of 2008. We continue to hold the stock on the belief that its capital position will be sufficient to withstand the current economic turmoil. **Xstrata**, a diversified mining group, has advanced strongly on the back of the sharp recovery in the spot prices of its products since mid-March. We bought **Bank Leumi** of Israel toward the end of last year, attracted by the strength of its balance sheet and a very attractive valuation. While the investment case did not rest upon an improved global economy or a return of risk appetite, it has certainly benefited the share price, up over 114% in Euro terms year-to-date.

Bottom contributing stocks year-to-date:
U.S. bank, **Synovus** entered the current financial crisis highly capitalized, but with a large concentration of commercial real estate and developer loans. We bought the stock on the belief that its capital would be sufficient to see it through tough times. The stock has been a very disappointing performer and the stock market has taken a much harsher view of its future than we have. U.S. regional banks have performed poorly this year and **Keycorp** has performed somewhat worse than the overall group. This is primarily due to share price weakness in the wake of the Fed's 'stress test' report, which found that Keycorp had insufficient capital and had to raise $1.8 billion. We believe the additional capital will put the bank in a stronger position and better equip it to ride out the current crisis. **Hellenic Telecom** is the incumbent Telecom Services operator in Greece, with a number of investments across South Eastern Europe. The share price has suffered in recent weeks in line with the overall Greek market, as concerns about the Sovereign debt market in Greece intensified, sparking a general flight from Greek assets. While we have no firm opinion on how the problems besetting the sovereign debt market will be ultimately resolved, we do not view the current 'macro' risks as sufficient to overturn the continued positive valuation case for the stock.

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.

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