VERITAS ASSET MANAGEMENT
REAL RETURN INVESTING

## Fund objective

The Fund is designed for long term investors who wish to build capital over a number of years through investment in a focused portfolio of global companies.

## Fund Information

**Fund Managers**
Andy Headley,
Charles Richardson.

**Fund Size**
£547.6m

**NAV per share**
£17.97

**Launch price**
£10.00

**Dividend payment**
Annually (September)

**Inception date**
16 Dec 2003

**Sedol**
3410628

**ISIN**
IE0034106280

**Index**
MSCI World Index
(net dividends reinvested)

**Sector**
LGC - Global Equity

**Domicile**
Ireland

**Structure**
ICVC

**Tax status**
UK Reporting Fund Status

**Dealing**
Daily by 11.00 a.m.

**Management fee (%)**
0.75 (institutional A Class - closed to new business)
0.75 (accumulation Class)
1.00 (institutional B Class)
1.50 (retail)

**Custodian**
HSBC Institutional Trust Services (Ireland) Ltd

**Administrator**
HSBC Securities Services (Ireland) Ltd

**Manager**
Veritas Asset Management (UK) Ltd

**Independent Fund Rating**

obsr RATED AA


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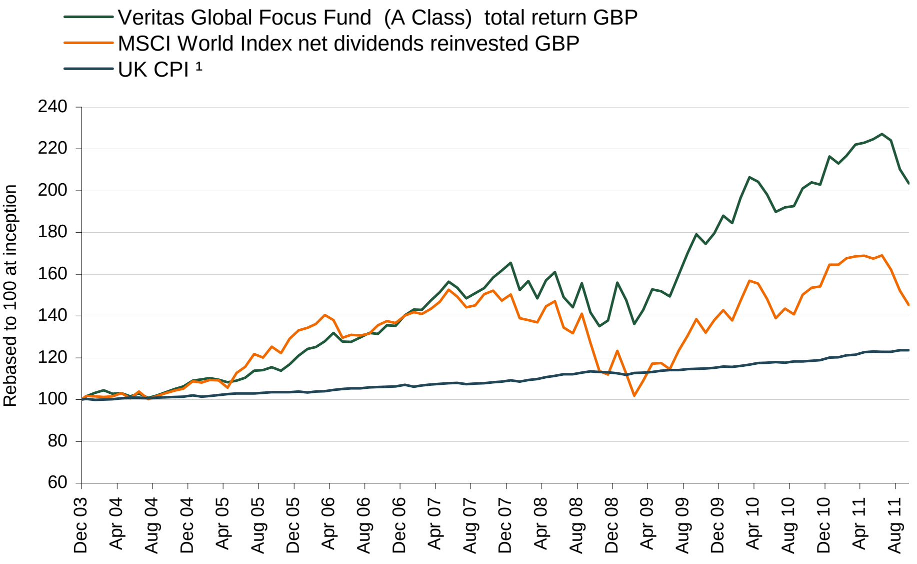
# Veritas Global Focus Fund (GBP 'A' Institutional Class)

# Quarterly Statistics Q3 2011

### Cumulative total return performance to 30 September 2011

| | Fund | Index | UK CPI [1] | Sector | 1m LIBOR GBP |
|---|---|---|---|---|---|
| 3 months | -10.40 | -14.06 | 0.50 | -13.23 | 0.11 |
| Year to date | -5.99 | -11.76 | 2.83 | -11.68 | 0.42 |
| 12 months | 1.22 | -3.24 | 4.53 | -3.98 | 0.56 |
| 3 years | 43.62 | 14.17 | 9.48 | 16.72 | 2.69 |
| 5 years | 54.80 | 7.14 | 16.72 | 9.40 | 14.65 |
| **Since inception** | **103.48** | **45.24** | **23.56** | **44.87** | **30.36** |




[1] All CPI data shown to 31 August 2011

### Historical performance

(total returns, including dividends reinvested, net of fees and expenses)

| Year ending | Sep-11 | Sep-10 | Sep-09 | Sep-08 | Sep-07 |
|---|---|---|---|---|---|
| Fund | 1.22 | 12.27 | 26.39 | -7.65 | 16.70 |
| Index | -3.24 | 8.35 | 8.89 | -15.47 | 11.02 |

The above figures refer to the past and past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

### Risk profile since inception

| | Fund | Index |
|---|---|---|
| Standard Deviation | 12.6 | 14.7 |
| Annualised Sharpe | 0.5 | 0.1 |
| Annualised Sortino | 0.7 | 0.1 |
| Beta | 0.8 | 1.0 |
| Number of holdings | 37 | n/a |

Source: Veritas Asset Management

### Top holdings

| | % portfolio |
|---|---|
| Roche | 5.4 |
| Vodafone | 5.2 |
| GlaxoSmithKline | 4.1 |
| BP | 3.6 |
| Capita Group | 3.5 |
| Microsoft | 3.4 |
| Lockheed Martin | 3.4 |
| MTN Group | 3.3 |
| Google | 3.3 |
| SES | 3.2 |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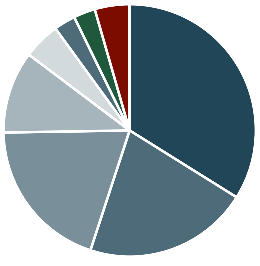
# Veritas Global Focus Fund (GBP 'A' Class)

**Quarterly Statistics Q3 2011**

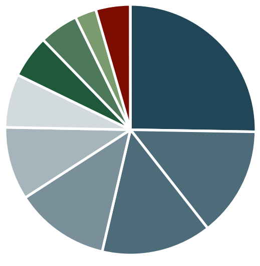
## Fund weightings at 30 September 2011

### Breakdown by region



| | % Portfolio |
|---|---|
| North America | 33.9 |
| Europe ex UK | 21.0 |
| United Kingdom | 19.8 |
| Asia Pacific ex Japan | 10.5 |
| Africa and Middle East | 4.7 |
| Latin America | 2.8 |
| Japan | 2.8 |
| Cash & equivalents | 4.6 |

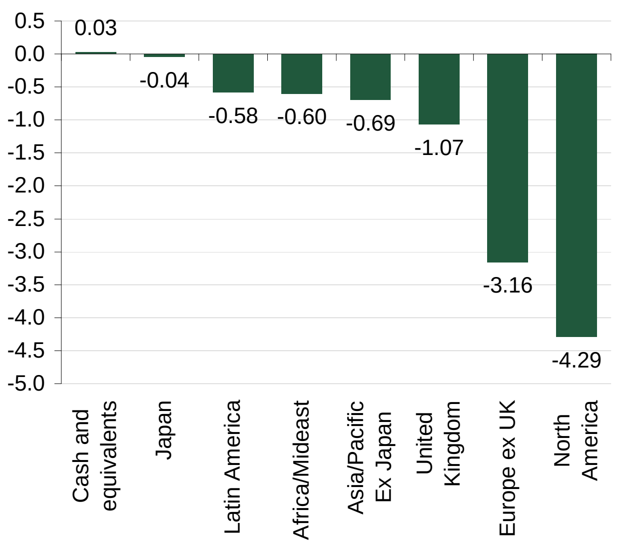
### Breakdown by sector



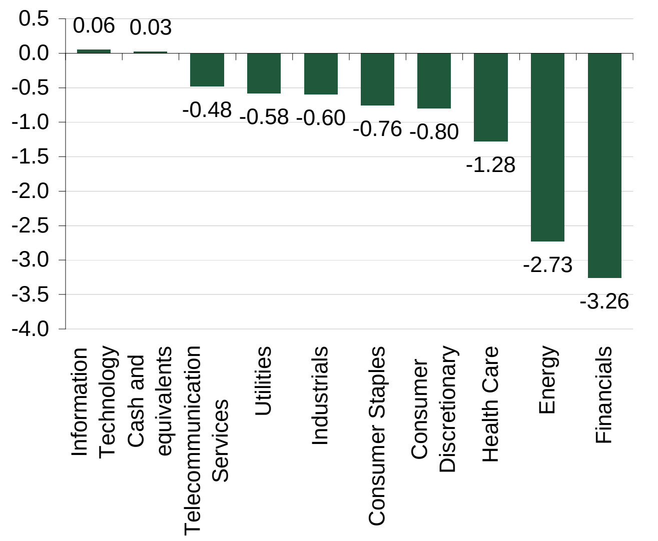
| | % Portfolio |
|---|---|
| Health Care | 25.2 |
| Financials | 14.3 |
| Energy | 14.0 |
| Telecommunication Services | 12.3 |
| Industrials | 9.6 |
| Information Technology | 6.7 |
| Consumer Staples | 5.5 |
| Consumer Discretionary | 5.0 |
| Utilities | 2.8 |
| Cash & equivalents | 4.6 |

## Quarterly attribution based on absolute returns

### Absolute contribution by region




### Absolute contribution by sector




Please note that the geographical breakdown is included for information purposes only.
The fund management team do not consider geographical listing in their investment process and the fund is not managed relative to a benchmark

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**Loss of Faith**

*"Democracy is the worst form of government, except for all those other forms that have been tried from time to time."*

Winston Churchill, speech to the House of Commons, 11 Nov. 1947

Democracy is a form of government that requires faith. Faith in the ability and integrity of politicians; faith in the proper functioning of markets; faith in equality of opportunity; faith in the rule of law. In recent months each of these has been undermined to a greater or lesser degree. This is important as the risk of a widespread loss of faith ranges from recession and currency crises to outright revolt and civil unrest.

The last few months have provided an object lesson in how key policy makers have made a poor position worse. Whilst we must continue to believe that these policy makers are genuinely acting in the best interests of their country, their actions frequently seem to suggest otherwise. The inherent conflict between short electoral cycles and taking actions that are in a country's long term interest are likely the cause. Incentive caused bias is one of the most potent causes of human misjudgement – when the incentive for politicians is to keep their powerful jobs, the long term interests of the country will almost always be subordinated.

In the US, the two major political parties squabbled over the relatively mundane issue of whether to raise the country's debt ceiling limit. This "limit" has been raised more than 70 times since the mid 1960's without issue and its increase was required to enable the US to continue to pay its bills. Flirting with the equivalent of bankruptcy is not a credible way of demonstrating an ability to tackle other genuinely important issues

- Also in the US, the Federal Reserve having encouraged the housing boom through too low interest rates has tried to respond to its collapse by further reducing rates (to near zero) and launching two major money printing exercises (QEI for $1.3trn and QEII for a further $600bn). Now, the policy making committee of the Fed is deeply divided in its view of future policy actions. The QE programmes have done little for the economy and the latest Fed action (an equivalent of "Operation Twist") designed to lower long term interest rates further still was voted against by 3 members (out of 12). Chairman Bernanke voted in favour of "Twist" despite having noted in 2004 that "Operation Twist is widely viewed today as having been a failure". Losing credibility as a central banker is meaningful - the Federal Reserve stands behind the dollar and loss of credibility for the Fed could eventually lead to a loss of credibility in the dollar. In a world of fiat currencies the intrinsic value of a currency is related to a number of factors not least of which is the belief that the central bank will not purposefully undermine the value of its own currency. With almost $2trn of money printing already behind it and likely more to come, faith in the dollar may well be tested.

- Unfortunately the Euro does not offer much competition as a well managed currency. The current crisis in Europe is the culmination of years of the ruling class turning a blind eye to unsustainable policies in order to further their own political agenda (a more integrated Europe). Originally the "rules" for member countries would have prevented the current Euro crisis. However, for political expediency these rules were ignored from almost the very beginning of the currency union. The system then became one which allowed any member of the Euro to borrow (almost without limit) at similar rates to the financially strongest (Germany) with no currency impact. The temptation for politicians of peripheral countries was too great – borrow and spend (with an eye on re-election). Such policies were always unsustainable and the only question was when and how they would end, not if. With 17 member countries, each with their own electorate to consider and each with a veto, the potential for rapid, innovative solutions is near zero.

- Another important area where faith has been eroded is the perception of the growing lack of equality. With riots in the UK, strikes and unrest in Europe and the Occupy Wall Street protest in New York, there is growing unease at the level of inequality. This needs to be urgently addressed by politicians through policies to ensure that opportunity is equally available to all. In the meantime, should politicians bow to the extreme political pressure of social unrest, further intervention and protectionism is the likely result. Such policies are not in the long term interests of any country but incentive caused bias may well result in just such an outcome.

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These and other issues in the developed world have clearly led to a loss of faith in policy makers and to some degree in markets. This uncertainty is in itself destabilising. Reflexivity describes a circular situation whereby the cause and effect affect one another. In our discussions with companies we are beginning to see reflexivity whereby companies are holding back on hiring and investment because the actions of politicians have heightened uncertainty. The lack of growth this engenders will in itself create more problems for the politicians. Unless this circularity is stopped the risk of a more serious economic downturn will increase. Unfortunately, to prevent this negative reflexivity continuing, politicians and policy makers need to restore faith in themselves which, on the basis of recent actions, seems highly improbable.

**Implications for the fund**

Turning to investment and the implications of the current situation, our Dependable Compounders theme is as pertinent as ever. With so much uncertainty on the political, policy and economic fronts, companies that can dependably grow their revenues, earnings and cash flows even in a subdued economic environment and are available at attractive valuations will deliver excellent performance over our investment horizon of 5 years.

One such position that we have bought this year is the Japanese medical devices company, Terumo. Terumo has three key divisions, Catheter and CV Systems (44% of FY2012 sales), General Hospital Products (36%) and Blood Management (18%). While we anticipate only modest (but dependable) growth from the company’s hospital products business, we are excited about prospects for both the blood management and the catheter and CV systems division. In the blood business, Terumo’s leading positions in disposable equipment for blood transfusions and the company’s strong position in Asia has been enhanced by the acquisition of the US company Caridian BCT. Caridian has leading positions in automated equipment for blood collection / processing and strong market positions in the US and Europe. While we are usually highly skeptical of “synergies” from acquisitions, in this instance the two company’s complementary geographic and product portfolios should lead to strong revenue growth.

In its largest revenue segment, catheter and CV systems, Terumo is a premium, niche player with a reputation for high quality and well engineered products for interventional cardiologists. With a limited US presence currently, the company should gain substantial share in the next 5 years as the leader in transradial coronary intervention (TRA) which is rapidly gaining acceptance in the US. TRA is a minimally invasive procedure to gain access to the heart and proximate blood vessels. A key advantage of TRA intervention (compared to the current standard, transfemoral intervention) is that patients do not need to stay in hospital overnight and the procedure is more comfortable with fewer complications. Payers have now realised the advantages of the transradial procedures and more cardiologists are training in the technique.

Despite good growth prospects in much of its business, we were able to invest in Terumo at an attractive valuation. The free cash flow yield at purchase was approximately 6% (March 2012 estimate) and we anticipate that this cash flow will grow at almost 15% annually for the next 4 years. At entry we anticipate just over a 15% annual return on our investment from what we consider to be a well managed “dependable compounder”.

**Longer Term Perspective**

Markets have continued to remain volatile and “flip flop” between optimism and pessimism. The third quarter experienced a fairly large dose of pessimism which had the effect of taking the return from global equities from being moderately positive at the half year stage (MSCI World up 2.7% at 30 June) to being quite markedly negative at 30 September with the MSCI World down 14.1% in the quarter taking the index down 11.8% for the year to date. For the quarter the Veritas Global Focus Fund declined 10.4% and for the year to 30 September the fund was up 1.2%.

Over a more realistic timeframe for appraising the results of investment (as opposed to speculation), the fund has delivered acceptable returns on both an absolute basis and compared with an all equity global index: over 3 years the fund has generated a total return of +43.6% compared to 14.2% for the MSCI World and 3.1% for (G7) inflation over the same period.

All returns shown in GBP terms. G7 inflation return is to 31 August 2011.

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