

**Fund objective**

The Fund aims to provide a high and growing level of income and to preserve capital in real terms over the long term.

**Fund Information**

**Fund Managers**

Charles Richardson,  
Andy Headley

**Fund Size**

\$848.1

**NAV per share**

\$101.35

**Launch price**

\$100.00

**Dividend payment**

Twice Annually (March & September)

**Inception date**

03 Jan 2006

**Sedol**

B0WFLJ8

**ISIN**

IE00B0WFLJ82

**Index**

MSCI World Index (net dividends reinvested)

**Domicile**

Ireland

**Structure**

ICVC

**Tax status**

UK Distributor Status

**Dealing**

Daily by 4.30 p.m.

**Management fee (%)**

1.0 (institutional A Class)

1.5 (retail)

**Custodian**

HSBC Institutional Trust Services (Ireland) Ltd

**Administrator**

HSBC Securities Services (Ireland) Ltd

**Manager**

Veritas Asset Management (UK) Ltd

**Independent Fund Ratings**



**Investment Enquiries**

Richard Meyrick  
+44 (0) 20 7961 1600  
investorservices@veritas-asset.com  
www.veritas-asset.com

**Issued by**

Veritas Asset Management (UK) Ltd,  
6th Floor, Elizabeth House, 39 York Road,  
London SE1 7NQ

**Authorised and Regulated by the  
Financial Services Authority**

**Veritas Global Equity Income Fund  
(USD Retail Class)**

**Q2 2010**

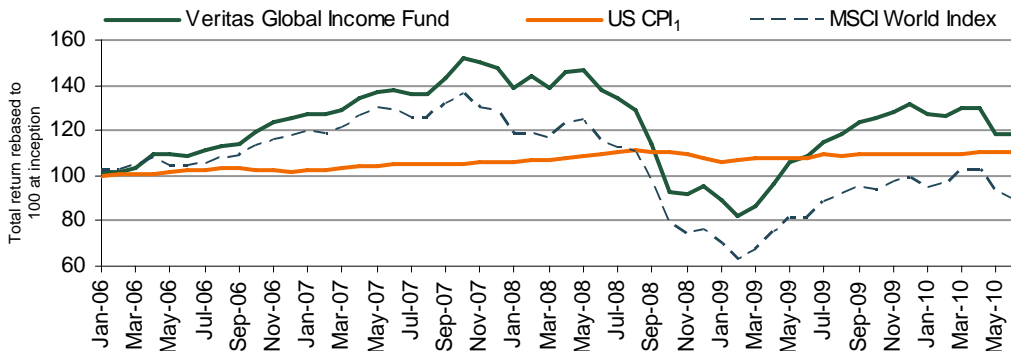
Yield as at 30th June 2010

VGEIF Running Yield	VGEIF Prospective Portfolio Yield	FTSE All-Share Dividend Yield	FTSE World Index Dividend Yield
4.9	5.1	3.3	2.7

Running Yield is defined as the dividends paid in the preceding twelve months as a percentage of the current price. Prospective Portfolio Yield is defined as the current yield of the portfolio of assets net of withholding tax.

Cumulative total performance to 30th June 2010 (source: Veritas Asset Management)

	VGEIF	US CPI <sup>1</sup>	MSCI World Index
Q2 2010	-8.56%	0.66%	-12.67%
Year to date	-10.06%	0.85%	-9.84%
1 year	9.65%	2.02%	10.20%
3 years	-14.05%	4.92%	-30.60%
Since inception	18.71%	10.41%	-10.71%

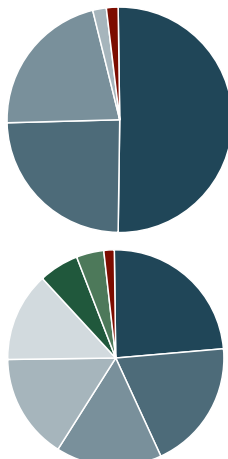


1. All US CPI data is to 31<sup>st</sup> May 2010.

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

Year to end:	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06
Fund:	9.65	-21.65	0.05	26.59	-
MSCI World \$ Index:	10.20	-29.50	-10.68	23.59	-

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.



Region	Percentage	Top 10 Holdings	Percentage
Europe	50.1%	Roche	6.5%
Asia Ex Japan	24.3%	Merck & Co.	6.4%
North America	21.9%	Altria Group	6.1%
Latin America	2.1%	GlaxoSmithKline	6.1%
Cash	1.6%	Vodafone	6.0%
		Zurich Financial Services	4.3%
		Telstra Corp	4.0%
		HSBC	3.9%
		Statoil ASA	3.9%
		BP	3.8%

**Risk profile since inception**

	VGEIF	Index
Standard Deviation:	17.3	18.9
Annualised Sharpe:	0.0	-0.3
Beta:	0.9	1.0
Number of holdings:	36	n/a

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**'It is of the nature of organised investment markets, under the influence of purchasers largely ignorant of what they are buying and of speculators who are more concerned with forecasting the next shift of market sentiment than with a reasonable estimate of the future yield of capital assets, that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force'**

**John Maynard Keynes, Chapter 22, The General Theory.**

**That old saying: it is foolish to make predictions and forecasts, especially about the future.**

After a calendar year quarter when the G20 economy leaders struggled to agree a banner message for the right policy response in the current economic predicament, it seems right to quote Keynes. Even more so after a period when the 'travelling hopefully' of equity markets came to a bumpy patch.

The history of the last 100 years of investment suggests we should be amazed at just how confident some investors are about their forecasts and opinions of the future. During the more recent years of most active professional investors' careers, from the early eighties, computer power has been applied to theoretical frameworks and the development of modelling has increased this confidence. A long phase of credit growing substantially faster than GDP; disinflationary forces; the era of the Greenspan Put and developments in risk management techniques all fuelled the confidence of investors in their predictions of the future. In many ways, there is an innate optimism and confidence of some investors in their views of the future which is simply unjustified by the facts.

Previously, we have written about how we are navigating a period of significant generational change and how policy matters: policy that is being created 'on the hoof' and is often reactive and experimental. Policy that is framed in current political and social contexts. Policy that involves different agents: politicians; central bankers; regulators; national and international institutions. This makes the future even more unpredictable and the dangers of false confidence in forecasting even greater.

**So what can we use as our investing context? What are the trends that both our companies and financial markets will be operating within?**

In short, we believe that the economic backdrop is fragile and uncertain, notably in Western developed economies. The fact is indebtedness is too high and there is no easy way of bringing it down. The debate on deflation versus inflation is complex and the outcome is policy dependent. What we can be more confident of, however, is that the policy backdrop is likely to remain aggressive and determined. Economic fall backs and deflationary scares, such as occurred within the Eurozone in the second quarter, will ultimately spurn stimulative responses. Hands may need to be forced by 'markets' but policy makers will be forced to react. Ultimately, policy makers will opt for aggressive responses that steer towards an inflationary outcome. We believe that there will be areas of soundly based and sustainable growth (both within regional economies and certain industries) and that balance sheet strength is a great attribute to have (certain economies and large blue chip corporates). This is where many of the tailwinds will be and where those who can take advantage of difficulty and volatility can be found. In a nutshell, seek out markets where top line and bottom line growth potential exists. Seek out companies operating in this context with competitive advantage; operational quality and a high and consistent return on capital. Seek out stronger balance sheets and good cash flow to offer the options needed for boards to approve sustainable and growing dividends.

Policy, it could be argued, has been the primary driver of asset prices from the Lehman crisis in late 2008. Stabilisation and a period of 'travelling hopefully' for equity markets was induced by massive monetary and fiscal policy stimulus allied with Quantitative Easing (QE). From early this year, the policy backdrop shifted with differences amongst governments (and within governments) on fiscal policy; some central banks raising rates (e.g. Australia; Norway and India) and the ending of QE in certain areas. China introduced micro measures to cool specific areas such as unproductive local infrastructure and residential property. We witnessed markets reacting to this withdrawal of stimulus alongside the Eurozone and the ECB in a sovereign debt induced crisis during May. We continue to believe that the next 3-5 years will be shaped by politics and policy making by various authorities. There is a marked change in the attitude of government regarding intervention and regulation of the economy; the financial system and its agents. This is especially so for those governments once more tuned in to 'laissez faire'. However, in addition, the Command Economy approach of China and its political system has been given a shot in the arm. In consequence, watch carefully for policy shifts and for tailwinds and headwinds associated with 'serving the national interest'.

Some time ago we also wrote about 'debt deleveraging takes time'. In the developed economies of Europe and US, overall debt including public debt remains too high and needs to be reduced as a proportion of GDP. A recent Bank of International Settlements (BIS) paper on the future of public debt in the industrialised countries pointed out that total industrialised country public sector debt will exceed 100% of GDP in 2011 (and even this understates the burden as there are unaccounted liabilities). We argued that the private to public shift in debt was no solution and that the context remained unsustainable. This grinds on (with the odd crisis such as Greece) and the reduction of debt takes time. It is often painful to electorates (consumers and voters) and impacts negatively on growth. Most governments and professional investors understand this but don't like the medicine. Furthermore, the more difficult financial markets get, the more the politicians will 'huff and puff' and blame markets for the predicament. We observed all this with the Eurozone crisis and ultimately the lesson from this was one we have mentioned before: policy makers will 'do what it takes'. So despite strong views held by some northern Europeans, the Eurozone rolled out a Special Purpose Vehicle for refinancing government debt in Europe and the ECB adopted a policy of buying government debt under their securities markets programme. Conclusion: economic forecasting and predictions of the future are fraught with danger. Policy making matters as much as ever in this volatile and changeable environment. Policy making is likely to ease and aggressively stimulate into each successive crisis. Ultimately, whilst it is unpredictable on timing and by no means certain, inflation is more likely to be the problem than deflation. Build in longer term hedges to the portfolio. Whilst still susceptible to both inter-connectivity and inflationary forces, a number of developing economies have greater sustainability of growth. Access this more soundly based and sustainable growth but at the right price and with the right companies.

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**So, our themes stand.**

As a consequence of this view we have of the context within which we are investing (unpredictable, volatile and subject to policy that is reactive and changeable), we have concentrated on themes to help identify less cyclical tailwinds for companies. This has not changed, neither has our focus on company specifics and valuation. Our work concentrates on high conviction and on sustainable high equity yield. During the quarter we were working within all our themes and notably Scarcity and Supply Constraint. Our work within this continued on identifying real estate investments with good supply/demand dynamics; quality investment assets and sustainable yields. The single new investment we made during the quarter was Calloway REIT. The REIT is a well positioned and soundly managed Canadian retail REIT: 127 properties across all 10 provinces of Canada. The supply/demand characteristics of the Canadian retail space are stable and well balanced. Calloway focuses on large scale, unenclosed format shopping where the centres are tenanted with value-orientated retailers. It is Wal-Marts biggest landlord in Canada. We are confident of the sustainability of high yield.

This position took the overall weighting in property towards 12% of the fund. This has been a significant change of positioning in the fund over 18 months.

**We don't always get it right but we have experienced offsetting positives**

The quarter brought the difficult experience of a high conviction position halving during the period. In absolute terms this took 3.3% off our performance. This was during a very poor quarter for global equity markets (MSCI World Index \$ fell 12.67%). The portfolio returned minus 8.56% during the quarter, cold comfort given our investment aims but falling substantially less than the indices.

The equity in question was BP. We held BP for its deep and broad portfolio of assets; its global presence in over 100 countries worldwide; its financial strength including the strength of group cash flows; its ability to maintain capex and pay a dividend and its exposure to oil/gas as areas we were (and are) constructive about. Naturally, this case for strength was severely tested during the quarter and still has some questions surrounding it.

In April, a Transocean rig (Deepwater Horizon) drilling an exploration well on a BP operated lease in the Gulf of Mexico experienced a blow-out and subsequent explosion. 11 lives were tragically lost. BP is operator and 65% holder of the lease on the Macondo well. BP has taken a leadership position in both tackling the flow and responsibility for legitimate claims against it. We have followed the unfolding events closely, sought external advice on detailed aspects such as legal, and continually assessed our position. We have been struck by the actions and rhetoric of the US government fronted by President Obama, acting in an aggressive way to BP and in an arbitrary fashion. As with macro matters, in these situations and in the current political climate: policy matters. We have taken what we can into account in this unpredictable area. As the share price fell and the facts changed, we consistently assessed our view on the intrinsic value of BP versus the market price. At the quarter end, since April 20 BP had lost 50% or \$85bn of its market value. From an absolute value point of view, and balancing probabilities of outcome in a wholly uncertain context, we judged the drop in the publicly quoted share price as overdone. We added to the BP position. Following the June 16 meeting of BP's chairman Carl-Henric Svanberg and CEO Tony Hayward with President Obama, there was the establishment of a \$20bn claims fund. BP announced that the Q1 dividend had been cancelled and no dividends would be declared for Q2 and Q3 (saving approx \$7.5bn). 2010 and 2011 capex would be reduced by \$2bn respectively and planned divestments of non-core assets would be increased to \$10bn. The politicians got what they sought: explicit fund and a path to funding. We continue to believe that BP can weather this storm. It is, however, a balanced judgement as there are clear uncertainties ranging from cessation of flows to unpredictable US political acts. Our assessment of valuation needs to (and does) take these factors into account, and we continue to adopt an appropriate sized position in the portfolio.

Overall, the portfolio had a number of offsetting positives during the period. Our view has always been that although we adopt high conviction in the portfolio (holding between 30 and 40 positions), this is sufficient to gain diversification benefits. In general, the positions in Asian property and expressways such as Zhejiang and Hopewell Highway Infrastructure have performed well. Our telecommunications positions held up in the period of disrupted and falling markets. Last, we have been able to manage any impact on our ability to reach our yield target. Both the running and prospective yield of the portfolio are over 5% at the end of the quarter.

In summary, despite suffering a major fall in a high conviction position, we are continuing to deliver on our objectives on any reasonable timeframe. Over the past 12 months the portfolio has delivered 9.65%.

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