

Pensions, Investments
& Advisory Services



Investment Update January 2010

A fresh approach to retirement planning



Thinking, **Years Ahead**

Investment Update to 31st January 2010

Group Pension Managed Funds Update to 31st January 2010

Fund Performance

For the first time since October 2009, Irish pension funds lost ground during January, with the average managed fund declining 1.2% over the month. The best performing managed fund in January was that of Irish Life Investment Managers, which returned -0.4%. Aviva Investors propped up the league table with a -2.6% return for the month.

Over the past twelve months, however, all of the managed funds surveyed delivered double-digit growth, with the average fund returning 22.7%. Returns for the past year ranged from 29.8% (Merrion Investment Managers) to 15.1% (AIB Investment Managers), representing a difference of 14.7% between the best and worst performing managers over the period.

The average managed fund return has been a very disappointing -8.9% per annum over the past three years. However, the five year returns to the end of January are positive on average, delivering a mean return of 0.4% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.5% per annum on average, well below the Irish inflation rate of 2.7% per annum over the same time horizon. Indeed, none of the managed funds surveyed outperformed inflation over this period, while four of the eleven funds failed to deliver positive returns over 10 years.



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Active Managed Fund Returns to 31st January 2010

	1 Month %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-1.3	8	15.1	11	-10.3	9	0.1	6	-0.8	10
Aviva Investors	-2.6	11	19.0	9	-11.2	10	-1.2	9=	-0.3	8
Bank of Ireland Asset	-1.2	7	21.8	8	-9.8	7	-1.2	9=	1.1	6
Canada Life/Setanta	-0.5	2	25.7	3	-5.8	1	1.8	3	1.4	4
Eagle Star / Zurich Life	-1.7	10	22.3	6	-5.9	2	2.8	1	1.6	2
Friends First/F&C	-1.0	4=	21.9	7	-10.1	8	-0.2	7	-0.4	9
Irish Life Investment	-0.4	1	28.6	2	-8.9	5	0.7	5	1.5	3
KBC Asset Management	-1.4	9	18.7	10	-11.8	11	-1.2	9=	-1.6	11
Merrion Investment	-1.1	6	29.8	1	-6.3	3	2.1	2	1.7	1
New Ireland	-1.0	4=	22.9	5	-9.7	6	-1.1	8	1.2	5
Standard Life Investments	-0.7	3	24.0	4	-8.1	4	1.6	4	0.4	7
Average	-1.2		22.7		-8.9		0.4		0.5	

Consensus Fund Returns to 31st January 2010

	1 Month %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-1.1	2	21.2	5	-9.7	5	0.1	4		
Aviva Investors	-1.3	5	20.6	6	-9.8	6	-0.5	5	-0.1	4
Bank of Ireland Asset Mgt	-1.2	3=	22.8	2	-9.0	2	0.5	2	0.6	2
Friends First/F&C	-0.7	1	23.0	1	-8.8	1	0.4	3	0.5	3
Irish Life Investment	-1.2	3=	22.1	4	-9.1	3	0.6	1	0.8	1
Standard Life Investments	-1.9	6	22.4	3	-9.5	4				
Average	-1.2		22.0		-9.3		0.2		0.5	

Multi-Manager Fund Returns to 31st January 2010

	1 Month %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	-1.0	2	21.3	2	-9.8	2	0.0	2
Irish Life Investment	-0.9	1	20.7	3	-9.6	1	0.3	1
Standard Life Investments	-1.5	3	22.1	1	-11.2	3	-0.7	3
Average	-1.1		21.4		-10.2		-0.1	



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Market Review

Despite getting off to a strong start, most equity markets fell back during January. Initial optimism, on the back of encouraging economic news, gave way to concern, as China's Central Bank moved to cool the economy, President Obama proposed a crackdown on US banks and fears grew that the Greek government would default on its debt. Commodity markets also suffered as investors moved away from risky assets, with oil declining 8% over the month. Eurozone bonds returned 0.8% over the month. However, the overall figure masks a wide variation in returns, as bonds issued by core countries performed strongly due to investors seeking safe-haven assets, while peripheral markets such as Greece, Spain and Portugal struggled on the back of concerns over their fiscal positions.

The Irish stock market outperformed during January, ending the month marginally into positive territory with a return of 0.1%. Financial stocks underperformed the rest of the market, with a decline of 0.2%, despite starting the month on a high note as Finance Minister, Brian Lenihan, said that the capitalization of the country's banking system would be resolved by the end of the first quarter of the year. However, as the month progressed, the woes of the international banking sector weighed on the share prices of Irish banks.

UK equities fell back 4.0% in sterling terms over the month, while the weakening of the euro improved this to a loss of 1.7% for Irish investors. UK GDP data released showed that the economy had expanded by just 0.1% in the fourth quarter of 2009, which was less than had been expected. This was seen as a sign that the economy remains weak despite no longer being in recession. In corporate news, the long-running battle for Cadbury came to a conclusion, as a revised offer from Kraft was approved by Cadbury's board.

US equities declined 3.6% in dollar terms (returning -0.6% in euro terms) over the month. Positive factors included the news that the economy had expanded at an annualized rate of 5.7% in the fourth quarter of 2009 and the fact that over 80% of the companies that released their fourth quarter earnings during the month exceeded expectations. However, President Obama's plans for a crackdown on US banks led investors to move away from riskier asset classes (such as equities and commodities) in favour of safer assets (government debt).

Eurozone equities returned -4.7% over the month, while the Rest of Europe lost 0.7% in local currency terms. The European Central Bank kept interest rates on hold at 1.0%, as expected. Following the downgrading of Greece's sovereign debt in December, which was due to the country's poor fiscal position, ECB President Jean-Claude Trichet commented that no member state would receive special treatment and stated that the ECB "will not change [their] collateral policy for the sake of any particular country". Despite this, he dismissed as an "absurd hypothesis" the possibility that Greece could be forced to leave the euro when collateral rules return to pre-crisis levels later this year. The uncertainty over Greece's position led to a weakening of the euro and a decline across stock markets in the region.



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The Japanese stock market lost 0.8% in yen terms during December; however, this rose to a gain of 5.2% for Irish investors due to the weakening of the euro, while Pacific Basin markets returned -5.8% over the month (-3.2% for Irish investors). The Bank of Japan kept interest rates on hold at 0.1% as demand for bank loans fell to a five-year low on the back of corporate spending cuts. Meanwhile, Japan Airlines filed for bankruptcy but will remain in business thanks to State support, which is contingent on sweeping reforms. Elsewhere, the Chinese government moved to slow the pace of economic growth by increasing the bank reserve ratio, thereby removing some liquidity from the system. During the month it was announced that Chinese GDP grew at a rate of 10.7% year-on-year during the final quarter of 2009.

Index Returns to 31st January 2010

Asset Class	1 Month %	
	<i>Local Ccy</i>	<i>Euro</i>
Equities		
- Ireland	0.1	0.1
- UK	-4.0	-1.7
- North America	-3.6	-0.6
- Eurozone	-4.7	-4.7
- Rest of Europe	-0.7	0.3
- Japan	-0.8	5.2
- Pacific Basin	-5.8	-3.2
Euro Bonds (> 5 Yrs)	0.8	0.8

