

Pensions, Investments
& Advisory Services



Quarterly Investment Update

30th June 2010

A fresh approach to retirement planning



Thinking, **Years Ahead**

1. Active Managed Funds

Fund Performance

As a result of losses experienced during May and June, the average managed fund delivered a return of -3.8% over the second quarter of 2010. During the quarter, the best performing managed fund was that of Standard Life Investments, which lost 2.6%; while the worst performing managed fund over the three months to the end of June was that of Setanta Asset Management, which returned -4.9%.

In spite of this, the average managed fund has advanced 1.9% over the first half of the year; with returns ranging from a high of 3.7% (Standard Life Investments) to a low of 0.4% (Aviva Investors). Over the past twelve months all of the managed funds surveyed delivered double-digit growth, with the average fund returning 17.6%. Returns for the past year ranged from 20.3% (Standard Life Investments) to 15.0% (AIB Investment Managers).

The average managed fund return has been a very disappointing -9.2% per annum over the past three years. The five year returns to the end of June are mostly negative, with an average return of -0.4% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.4% per annum on average, well below the Irish inflation rate of 2.5% 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.

Fund Returns to 30th June 2010

	Q2 %	Rank	6 Months %	Rank	1 Yr %	Rank	3 Yrs % p.a.	Rank	5 Yrs % p.a.	Rank	10 Yrs % p.a.	Rank
AIB Investment	-3.8	6	1.8	6=	15.0	11	-10.8	9	-0.6	6	-0.9	10
Aviva Investors	-3.9	7	0.4	11	15.5	10	-11.6	10	-1.8	8=	-0.5	9
Bank of Ireland Asset	-4.5	10	1.4	9	16.7	9	-9.9	7	-2.0	11	0.9	5=
Canada Life/Setanta	-4.9	11	0.8	10	16.8	8	-6.1	1	0.4	4	0.4	7
Eagle Star	-3.3	3	1.8	6=	18.3	4	-6.3	2	2.1	1	1.8	1
Friends First/F&C	-3.5	5	2.5	2	17.7	5	-10.3	8	-0.9	7	-0.2	8
Irish Life Investment	-4.3	8	2.4	3=	20.2	2	-9.6	5	-0.2	5	1.3	3
KBC Asset	-3.4	4	2.4	3=	17.2	7	-11.7	11	-1.9	10	-1.9	11
Merrion Investment Managers	-2.9	2	2.1	5	18.8	3	-6.7	3	1.4	2	1.4	2
New Ireland	-4.4	9	1.5	8	17.6	6	-9.8	6	-1.8	8=	1.0	4
Standard Life	-2.6	1	3.7	1	20.3	1	-8.1	4	1.1	3	0.9	5=
Average	-3.8		1.9		17.6		-9.2		-0.4		0.4	

Historic One Year Returns (to 30th June)

	2006 %	Rank	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank
AIB Investment Managers	13.5	2=	20.0	1	-18.8	4	-23.9	11	15.0	11
Aviva Investors	13.5	2=	16.8	8	-21.5	6	-23.8	10	15.5	10
Bank of Ireland Asset	7.3	11	14.9	10	-23.2	8	-18.2	6	16.7	9
Canada Life/Setanta	9.9	9	12.3	11	-17.7	1	-13.9	1	16.8	8
Eagle Star	13.4	4	18.9	3=	-17.9	2	-15.4	2	18.3	4
Friends First/F&C	12.9	5	17.2	6	-23.4	9	-19.9	7	17.7	5
Irish Life Investment Managers	12.4	8	18.9	3=	-22.5	7	-20.7	8	20.2	2
KBC Asset Management	12.7	6	17.0	7	-23.5	10	-23.1	9	17.2	7
Merrion Investment Managers	12.6	7	17.3	5	-18.3	3	-16.3	3	18.8	3
New Ireland	7.8	10	15.1	9	-24.3	11	-17.5	4	17.6	6
Standard Life Investments	13.6	1	19.6	2	-21.3	5	-17.9	5	20.3	1
Average	11.8		17.1		-21.1		-19.1		17.6	

Asset Distributions as at 30th June 2010

	AIBIM	Aviva	BIAM	CL/SAM	ES	FF/F&C	ILIM	KBCAM	MIM	NI	SLI	Average
Equities												
- Irish	6.4%	6.6%	6.1%	4.9%	3.0%	5.3%	6.1%	8.2%	6.5%	5.2%	0.0%	5.3%
- UK	10.9%	8.5%	12.0%	8.4%	9.0%	12.1%	11.9%	9.3%	7.8%	11.9%	10.8%	10.2%
- US	24.3%	21.2%	20.9%	33.8%	22.0%	22.3%	20.4%	21.0%	28.0%	20.9%	22.7%	23.4%
- Euro (ex Irl)	15.7%	17.7%	13.5%	9.1%	13.0%	16.7%	24.3%	16.9%	11.5%	13.2%	15.9%	15.2%
- Rest of Europe	5.2%	1.9%	7.2%	5.1%	7.0%	5.5%	2.2%	6.9%	5.0%	7.2%	9.7%	5.7%
- Japan	4.2%	0.6%	4.3%	3.8%	3.0%	3.1%	2.4%	2.6%	3.8%	3.9%	1.5%	3.0%
- Pacific Basin	10.4%	13.1%	11.3%	7.3%	11.0%	10.9%	5.3%	12.9%	4.4%	11.2%	10.3%	9.8%
Total Equity	77.2%	69.6%	75.3%	72.3%	68.0%	75.9%	72.5%	77.8%	67.0%	73.5%	70.9%	72.7%
Fixed Interest	16.3%	16.6%	11.1%	19.7%	27.0%	15.0%	12.3%	15.5%	12.2%	16.8%	24.4%	17.0%
Property	3.6%	6.0%	5.4%	2.6%	0.0%	4.4%	6.0%	4.3%	1.1%	4.4%	4.3%	3.8%
Cash	2.9%	7.9%	2.3%	3.3%	5.0%	4.7%	6.3%	0.5%	16.6%	5.3%	0.4%	5.0%
Alternative Assets	0.0%	0.0%	5.9%	2.2%	0.0%	0.0%	2.9%	1.9%	3.1%	0.0%	0.0%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

At the end of June, the average equity weighting of actively managed balanced funds was 72.7%, down from 74.4% at the end of March. Merrion Investment Managers had the lowest equity weighting at 67.0% while KBC Asset Management had the highest at 77.8%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 5.3% and ranging from a low of zero (Standard Life Investments) to a high of 8.2% (KBCAM). This weighting was 19.0% at the start of 2007, but has declined dramatically due to the underperformance of the Irish stock market. The average fixed interest weighting was 17.0%, while the average property weighting was 3.8%. Cash made up 5.0% of the managed funds on average, while the average exposure to alternative assets was 1.5%.



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2. Market Review

The second quarter was a volatile three-month period for equity markets across the globe, as fears that the Eurozone debt crisis might lead to a double-dip recession (or at least a slower recovery) continued to weigh on investor sentiment. Mixed economic data from major economies, including the US and China, added to uncertainty. Eurozone bonds were flat over the quarter; however, this headline return camouflages a significant divergence between the performances of “safe” Eurozone bonds (such as German bonds) and “risky” Eurozone bonds (such as Greek bonds). Greece’s debt was downgraded to “junk” status by Moody’s and Standard & Poor’s.

The Irish stock market lost 9.2% over the quarter. The financial sector underperformed the rest of the market, with a decline of 33.4%. April saw the Financial Regulator successfully apply to the High Court to appoint an administrator to one of the country’s largest general insurers, Quinn Insurance, over 'serious and persistent breaches' of solvency rules. In June, a number of reports relating to the banking sector in Ireland were published. Two reports into the banking crisis cited the failings of regulators and government, as well as the failure of the banks themselves to maintain “safe and sound” practices, as the main contributors to the near collapse of the banking system, which in turn exacerbated the subsequent economic downturn. Later in the month, the Central Bank outlined its plans for sweeping reforms, including a more “intrusive” approach to its supervision of financial institutions. On a positive note, it was announced that Ireland had technically emerged from recession, with a 2.7% growth in GDP over the first three months of 2010.

UK equities posted a 12.8% loss over the quarter in sterling terms; the weakness of the euro improved this to a -5.0% return in euro terms. The May general election resulted in a coalition government being formed between the Conservatives and the Liberal Democrats, after no single party won an outright majority. The new Chancellor of the Exchequer, George Osborne, got off to an aggressive start. In May, he announced that an emergency budget would be held on 22 June and subsequently announced plans for £6.2 billion in “immediate” spending cuts. Shortly before the budget, he revealed plans to abolish the Financial Services Authority, while increasing the regulatory powers of the Bank of England. In other news, the value of shares in BP fell after one of the company’s oil rigs exploded in the Gulf of Mexico. The cost of cleaning-up the resulting oil spill were estimated to be between \$3 and \$6 billion, while a \$20 billion fund has been established to deal with compensation claims. The company also suspended its dividends for the next three quarters.

US equities returned -11.2% in dollar terms during the second quarter, with the weakness of the euro increasing this to a 2.3% decline for Irish investors. The Federal Reserve kept interest rates at historically low levels, and reiterated their intention to maintain these for an extended period. In May, the Senate passed the Restoring American Financial Stability Act, which will reform financial regulation and poses the biggest shake-up Wall Street has seen in over fifty years. Furthermore, on the last day of the June, the House of Representatives approved the Dodd-Frank Wall Street Reform and Consumer Protection Act, which focuses mainly on reforming regulation of the financial services industry.

The Eurozone region lost 8.9% over the quarter, while the rest of Europe recorded a 5.9% loss. Throughout the quarter, investor concerns were focused on the outlook for Eurozone debt, as



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countries in the region continued to struggle with massive budget deficits. Investors worried that Greece's problems might spread to the rest of the region, and the risk of a Eurozone government defaulting on its debt weighed on sentiment. The announcement of a €750 billion rescue package only served to partially allay these fears. However, market sentiment improved towards quarter end on the news that the results of "stress tests" of European banks would be published in July.

The Japanese stock market returned -14.7% over the month in yen terms (-0.6% in euro terms), while markets in the rest of the Pacific Basin delivered a return of -6.8% in local currency terms (-2.0% for Irish investors). The Prime Minister of Japan, Yukio Hatoyama, resigned at the beginning of June after just eight months in the position. He was succeeded by Deputy Prime Minister and Finance Minister, Naoto Kan. The Chinese government announced measures to cool the property market; it subsequently relaxed the currency's dollar-peg, which had been in place since 2008. In Australia, Deputy Prime Minister Julia Gillard challenged Prime Minister Kevin Rudd for leadership of the party and won. Australia's first female Prime Minister indicated that she was open to discussion with industry on the proposed controversial mining-resources tax.

Market Index Returns to 30th June 2010

Asset Class	3 Months %		6 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	-9.2	-9.2	-2.1	-2.1
- UK	-12.8	-5.0	-7.5	0.3
- North America	-11.2	-2.3	-6.5	9.4
- Eurozone	-8.9	-8.9	-8.1	-8.1
- Rest of Europe	-5.9	-1.5	0.7	9.6
- Japan	-14.7	-0.6	-7.2	14.3
- Pacific Basin	-6.8	-2.0	-6.2	6.1
Euro Bonds (> 5 Years)	0.1	0.1	3.2	3.2

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3. Other Balanced Managed Funds

Consensus Fund Returns to 30th June 2010

	Q2 %	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-3.4	3	2.5	3	17.3	5	-9.7	5	-0.5	4=		
Aviva Investors	-3.3	2	2.3	5	17.2	6	-9.8	6	-1.0	6	-0.1	4
Bank of Ireland Asset	-3.5	4	2.6	2	18.1	3	-9.1	2	-0.1	1=	0.6	2=
Friends First/F&C	-2.5	1	3.7	1	20.0	1	-8.6	1	-0.1	1=	0.6	2=
Irish Life Investment	-3.6	5	2.4	4	17.7	4	-9.3	3=	-0.2	3	0.8	1
Standard Life Investments	-3.9	6	1.9	6	18.5	2	-9.3	3=	-0.5	4=		
Average	-3.4		2.6		18.1		-9.3		-0.4		0.5	

Multi-Manager Fund Returns to 30th June 2010

	Q2 %	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	-2.0	1	4.2	1	18.9	2	-9.2	1	-0.2	1
Irish Life Investment	-3.5	3	2.9	2	18.2	3	-9.4	2	-0.4	2
Standard Life Investments	-2.9	2	2.6	3	19.1	1	-10.7	3	-1.4	3
Average	-2.8		3.2		18.7		-9.8		-0.7	