

Pensions, Investments
& Advisory Services



Quarterly Investment Update

30th June 2011

A fresh approach to retirement planning



Thinking, **Years Ahead**

30th June 2011

1. Active Managed Funds

Fund Performance

As a result of falls in June, managed funds suffered a 0.6% loss on average over the second quarter of the year. New Ireland delivered the best performance over the three months to the end of June, with a 0.0% return, while the worst performing managed fund over the quarter was Merrion Investment Managers' with a decline of 1.7%. The average managed fund returned -1.5% over the first half of 2011; with returns ranging from a high of -0.1% (Irish Life Investment Managers) to a low of -3.8% (Merrion Investment Managers). Over the past twelve months the average fund returned 7.4%. Returns for the past year ranged from 10.5% (Standard Life Investments) to 3.9% (Merrion Investment Managers).

The average managed fund return has been a disappointing 0.7% per annum over the past three years. The five year returns to the end of June are mostly negative, with an average return of -1.2% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.9% per annum on average, well below the Irish inflation rate of 2.3% per annum over the same time horizon. Indeed, only one of the managed funds surveyed (that of Zurich Life) outperformed inflation over this period

Fund Returns to 30th June 2011

	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	-0.5	5=	-1.1	3=	8.6	2	-1.7	10	-1.5	6	0.0	10
Aviva Investors	-0.5	5=	-1.2	5=	7.1	7=	-2.0	11	-2.9	11	0.3	9
Canada Life/Setanta	-1.3	10	-1.0	2	7.6	6	2.6	2	0.0	3	1.2	4=
Friends First/F&C	-0.3	2=	-1.7	8	7.7	4=	0.5	7=	-1.8	7	0.7	8
Irish Life Investment	-0.4	4	-0.1	1	6.3	10	0.5	7=	-1.3	5	1.2	4=
Kleinwort Benson	-0.5	5=	-1.1	3=	7.9	3	-0.9	9	-2.7	10	-1.0	11
Merrion Investment	-1.7	11	-3.8	11	3.9	11	1.1	5	-0.2	4	1.7	3
New Ireland	0.0	1	-1.2	5=	7.7	4=	1.5	4	-1.9	8	0.9	6
Standard Life Investments	-0.8	9	-1.6	7	10.5	1	2.9	1	0.5	2	1.8	2
State Street Global	-0.5	5=	-1.8	9	7.1	7=	0.7	6	-2.1	9	0.8	7
Zurich Life	-0.3	2=	-1.9	10	6.9	9	2.3	3	0.9	1	2.7	1
Average	-0.6		-1.5		7.4		0.7		-1.2		0.9	

Historic One Year Returns (to 30th June)

	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank	2011 %	Rank
AIB Investment Managers	20.0	1	-18.8	4	-23.9	11	15.0	11	8.6	2
Aviva Investors	16.8	8	-21.5	6	-23.8	10	15.5	10	7.1	7=
Canada Life/Setanta	12.3	11	-17.7	1	-13.9	1	16.8	8	7.6	6
Friends First/F&C	17.2	6	-23.4	9	-19.9	7	17.7	5	7.7	4=
Irish Life Investment Managers	18.9	3=	-22.5	7	-20.7	8	20.2	2	6.3	10
Kleinwort Benson Investors	17.0	7	-23.5	10	-23.1	9	17.2	7	7.9	3
Merrion Investment Managers	17.3	5	-18.3	3	-16.3	3	18.8	3	3.9	11
New Ireland	15.1	9	-24.3	11	-17.5	4	17.6	6	7.7	4=
Standard Life Investments	19.6	2	-21.3	5	-17.9	5	20.3	1	10.5	1
State Street Global Advisors	14.9	10	-23.2	8	-18.2	6	16.7	9	7.1	7=
Zurich Life	18.9	3=	-17.9	2	-15.4	2	18.3	4	6.9	9
Average	17.1		-21.1		-19.1		17.6		7.4	

Asset Distributions as at 30th June 2011

	<u>AIBIM</u>	<u>Aviva</u>	<u>CL/SAM</u>	<u>FF/F&C</u>	<u>ILIM</u>	<u>KBI</u>	<u>MIM</u>	<u>NI</u>	<u>SLI</u>	<u>SSgA</u>	<u>Zurich</u>	<u>Average</u>
Equities												
- Irish	3.8%	4.8%	6.8%	4.7%	5.4%	5.5%	6.4%	3.7%	0.7%	5.9%	3.0%	4.6%
- UK	10.8%	17.0%	7.2%	11.0%	13.0%	9.8%	8.5%	9.3%	10.6%	10.8%	10.0%	10.7%
- US	24.1%	24.5%	32.6%	25.3%	26.5%	26.9%	25.6%	19.2%	27.1%	21.6%	25.0%	25.3%
- Euro (ex Irl)	14.7%	12.4%	7.0%	15.0%	19.6%	13.8%	12.9%	12.4%	14.6%	14.7%	16.0%	13.9%
- Rest of Europe	5.6%	5.0%	5.5%	5.0%	1.1%	7.1%	6.5%	5.6%	9.0%	6.7%	6.0%	5.7%
- Japan	3.4%	2.3%	3.9%	4.2%	1.6%	2.6%	6.1%	4.3%	2.4%	5.7%	3.0%	3.6%
- Pacific Basin	10.3%	11.6%	4.7%	12.2%	7.2%	10.9%	7.1%	7.4%	9.7%	8.9%	12.0%	9.3%
Total Equity	72.6%	77.6%	67.7%	77.3%	74.4%	76.6%	73.1%	62.0%	74.1%	74.2%	75.0%	73.1%
Fixed Interest	18.3%	16.4%	20.7%	12.7%	13.4%	14.9%	11.2%	25.0%	21.0%	13.1%	19.0%	16.9%
Property	3.7%	5.8%	3.1%	4.5%	5.6%	4.0%	1.0%	4.0%	4.5%	5.2%	0.0%	3.8%
Cash	5.4%	0.3%	5.6%	5.5%	4.6%	1.6%	11.0%	9.0%	0.6%	2.5%	6.0%	4.7%
Alternative Assets	0.0%	0.0%	2.9%	0.0%	2.0%	3.0%	3.8%	0.0%	0.0%	5.1%	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 73.1%, down from 74.1% at the end of March. New Ireland had the lowest equity weighting at 62.0% while Aviva Investors had the highest at 77.6%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 4.6% and ranging from a low of 0.7% (Standard Life Investments) to a high of 6.8% (Canada Life/Setanta). 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 16.9%, while the average property weighting was 3.8%. Cash made up 4.7% of the managed funds on average, while the average exposure to alternative assets was 1.5%.

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2. Market Review

Despite a strong start to the quarter, with positive economic news and a good start to the first quarter earnings season boosting investor sentiment, many equity markets lost ground as the economic recovery appeared to flounder and uncertainty over the Greek debt situation fuelled investor nervousness. Eurozone bonds gained ground over the three months, with core government bonds in demand due to their safe-haven status.

The Irish stock market returned 3.1% over the quarter. Financials significantly lagged the rest of the market, returning -35.5%. The Government launched a new jobs initiative and plans to impose a 0.6% levy on private pension funds as part of the measures to pay for it. The initiative was launched as the European Commission forecast that the Irish unemployment rate would rise to 14.6% in 2011. Meanwhile, both the Central Bank and the Government lowered their forecasts for economic growth during 2011. Furthermore, figures released by the Central Statistics Office showed that the economy expanded by 1.3% in the first quarter of the year, as net exports grew by 20.6%. However, the news was not so positive on the domestic front, as consumer spending declined 1.9% and personal consumption fell 2.9% over the quarter.

UK equities returned 1.5% over the quarter in sterling terms (-0.5% in euro terms). Throughout the quarter, the Bank of England's Monetary Policy Committee voted to maintain the official Bank interest rate at 0.5%, and also to maintain the asset purchase programme at £200 billion. However, the minutes of the June meeting showed that two members of the Committee voted in favour of a rate rise, while others are in favour of further quantitative easing. In corporate news, Chancellor of the Exchequer, George Osborne, gave his support to proposals from the Independent Commission on Banking to ring-fence the retail businesses of UK banks from their investment banking activities. Meanwhile, commodities trading company Glencore floated on the London Stock Exchange, raising over £6 billion in London's largest ever IPO.

US equities lost 0.3% in dollar terms during the quarter, returning -2.4% for Irish investors as the dollar declined against the single currency. The Federal Reserve downgraded its forecast for economic growth during 2011 and 2012, while reiterating its intention to keep interest rates at current low levels for an extended period. The Fed's second quantitative easing programme (QE2) drew to a close at the end of June, and a third programme is not planned at the moment. Ratings agency Standard & Poor's downgraded their outlook for US debt, from stable to negative, on the back of the country's record deficit. Meanwhile, President Obama announced plans to slash \$4 trillion off the deficit over the next 12 years through a combination of spending cuts and tax increases.

The Eurozone region recorded a 1.0% return over the month, while the rest of Europe declined 1.7% (a 1.4% return in euro terms). The European Central Bank increased interest rates for the first time since July 2008, by 0.25% in April, in an effort to combat inflation. Investor concerns, throughout the quarter, were once again focused on the outlook for Greek debt. The EU withheld further bailout funds until additional austerity measures were passed by the Greek parliament. Before this could happen, the Greek government had to survive a vote of confidence. Eventually, the austerity bill was passed and additional funding approved. Overall, the Eurozone economy expanded by 0.8% during the first three months of 2011, with Germany and France driving this

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growth. However, Portugal's GDP contracted for the second quarter in a row, leading the economy back into recession, as Portugal became the third Eurozone country to look to Europe and the IMF for a bailout.

The Japanese stock market lost 2.2% over the quarter in yen terms (a -1.8% return in euro terms), while markets in the rest of the Pacific Basin returned -1.9% in local currency terms (-1.6% for Irish investors). Japan was hit by another earthquake during April, leading to increased investor nervousness. The Japanese government proposed a special budget of \$50 billion to provide funds for reconstruction following the earthquakes and tsunami that have devastated the country. The economy shrank by 0.9% over the first quarter of the year, thereby entering its third recession in a decade. Meanwhile, a leading Japanese politician suggested that large banks may have to write-off some of Tokyo Electric Power's debt. In China, the economy expanded by 9.7% in the twelve months to the end of March. Interest rates were increased during April in an effort to curb inflation, while the bank reserve ratio requirement was raised three times during the quarter. Chinese exports rose by 19.4% in the year to May, compared with a 30% rise in the year to April. Imports over the same period increased by 28%. Elsewhere, as a result of the violent weather conditions experienced earlier in the year, the Australian economy contracted by 1.2% during the first quarter of 2011.

Market Index Returns to 30th June 2011

Asset Class	3 Months %		6 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	3.1	3.1	3.7	3.7
- UK	1.5	-0.5	2.8	-2.5
- North America	-0.3	-2.4	5.4	-2.2
- Eurozone	1.0	1.0	5.1	5.1
- Rest of Europe	-1.7	1.4	-1.2	-0.1
- Japan	-2.2	-1.8	-4.8	-11.5
- Pacific Basin	-1.9	-1.6	-0.4	-4.6
Euro Bonds (> 5 Years)	1.6	1.6	0.1	0.1

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3. Other Balanced Managed Funds

Consensus Fund Returns to 30th June 2011

	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	-0.3	1=	-1.0	2	8.0	4	0.8	5	-1.3	5		
Aviva Investors	-0.3	1=	-1.3	4	7.3	6	0.6	6	-1.6	6	0.4	4
Friends First/F&C	-0.4	4	-1.8	5	8.9	1	1.7	1	-0.5	1	1.2	1=
Irish Life Investment	-0.5	5	-1.2	3	8.2	3	1.0	4	-1.0	3	1.2	1=
Standard Life Investments	-1.3	6	-2.4	6	7.9	5	1.2	3	-1.1	4		
State Street Global	-0.3	1=	-0.9	1	8.7	2	1.4	2	-0.7	2	1.1	3
Average	-0.5		-1.4		8.2		1.1		-1.0		1.0	

Multi-Manager Fund Returns to 30th June 2011

	Q2 %	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	-0.5	1=	-2.2	3	6.7	3	0.8	2=	-1.4	1=
Irish Life Investment	-1.1	3	-1.6	2	7.1	2	0.8	2=	-1.4	1=
Standard Life Investments	-0.5	1=	-0.8	1	9.4	1	1.0	1	-1.9	3
Average	-0.7		-1.5		7.7		0.9		-1.6	