

Pensions, Investments
& Advisory Services



Quarterly Investment Update

30th September 2009

A fresh approach to retirement planning



Thinking, **Years Ahead**

30th September 2009

1. Active Managed Funds

Fund Performance

The third quarter of 2009 was the best quarter for Irish pension funds since the fourth quarter of 1999, and saw an average return of 11.8%. Irish Life Investment Managers were the best performing manager over the quarter, as their managed fund returned 14.7%, while Aviva Investors were the worst, delivering a managed fund return of 10.6% for the three months.

Returns are also positive for the year to date, with the average fund having gained 17.9% over this period. In the nine months to the end of September, returns ranged from 26.1% (Merrion Investment Managers) to 11.6% (AIB Investment Managers), representing a difference of 14.5% between the best and worst performing managers so far this year. Over the past twelve months the average fund delivered -1.0%, with returns ranging from 4.3% (Merrion Investment Managers) to -7.7% (AIB Investment Managers).

The average managed fund return has been a very disappointing -7.5% per annum over the past three years. However, the five year returns to the end of September are once again positive on average, delivering a mean return of 1.4% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 1.5% per annum on average, well below the Irish inflation rate of 3.0% per annum over the same time horizon. Indeed, only Merrion Investment Managers outperformed inflation over this period with a return of 4.1% per annum, while all of the other fund managers, except KBC Asset Management, delivered positive returns over 10 years.

Fund Returns to 30th September 2009

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	10.9	8	11.6	11	-7.7	11	-8.1	6	1.4	6	0.0	10
Aviva Investors	10.6	11	15.5	9	-6.1	10	-9.8	10	-0.2	9=	0.6	8=
Bank of Ireland Asset	11.6	5	17.3	8	-1.3	8	-8.5	7=	-0.3	11	1.8	5
Canada Life/Setanta	10.7	9=	17.4	6=	0.3	5=	-5.7	3	2.3	4	1.9	4
Eagle Star	12.4	3	18.1	4	2.0	2	-4.2	1	4.1	1	2.7	2
Friends First/F&C	11.3	7	17.4	6=	-1.0	7	-8.8	9	0.7	7	0.6	8=
Irish Life Investment	14.7	1	22.7	2	1.8	3	-7.3	5	1.8	5	2.0	3
KBC Asset Management	10.7	9=	13.9	10	-5.2	9	-10.4	11	-0.2	9=	-0.8	11
Merrion Investment Managers	13.3	2	26.1	1	4.3	1	-4.6	2	3.0	2	4.1	1
New Ireland	12.1	4	18.0	5	0.3	5=	-8.5	7=	-0.1	8	1.7	6
Standard Life Investments	11.5	6	19.4	3	1.6	4	-6.8	4	2.4	3	1.4	7
Average	11.8		17.9		-1.0		-7.5		1.4		1.5	



Historic One Year Returns (to 30th September)

	2005 %	Rank	2006 %	Rank	2007 %	Rank	2008 %	Rank	2009 %	Rank
AIB Investment Managers	22.3	5	12.8	4	11.5	1	-24.5	4	-7.7	11
Aviva Investors	18.8	9	13.2	3	8.1	4=	-27.6	8	-6.1	10
Bank of Ireland Asset	18.2	11	9.1	10	3.4	11	-25.0	5	-1.3	8
Canada Life/Setanta	23.0	2	8.7	11	5.2	9	-20.4	1	0.3	5=
Eagle Star	24.0	1	12.3	6	10.2	2	-21.8	2	2.0	2
Friends First/F&C	21.6	6	12.4	5	7.3	7	-28.5	11	-1.0	7
Irish Life Investment Managers	22.9	3	11.5	7	8.1	4=	-27.7	9	1.8	3
KBC Asset Management	21.0	8	13.3	2	6.0	8	-28.3	10	-5.2	9
Merrion Investment Managers	21.1	7	10.2	8	7.8	6	-22.7	3	4.3	1
New Ireland	18.3	10	9.4	9	3.6	10	-26.1	6	0.3	5=
Standard Life Investments	22.7	4	13.6	1	8.3	3	-26.5	7	1.6	4
Average	21.3		11.5		7.2		-25.4		-1.0	

Asset Distributions as at 30th September 2009

	AIBIM	Aviva	BIAM	CL/SAM	ES/ZL	FF/F&C	ILIM	KBCAM	MIM	NI	SLI	Average
Equities												
- Irish	8.9%	8.0%	7.2%	8.4%	5.0%	8.1%	8.0%	9.3%	8.6%	6.5%	5.7%	7.6%
- UK	9.7%	9.7%	10.2%	6.3%	10.0%	8.2%	12.4%	8.7%	8.7%	9.8%	9.8%	9.4%
- US	19.1%	12.7%	18.5%	30.2%	17.0%	18.5%	16.7%	15.3%	19.2%	18.2%	18.5%	18.5%
- Euro (ex Irl)	17.3%	22.2%	16.0%	12.0%	22.0%	16.0%	18.6%	17.3%	18.3%	15.0%	14.3%	17.2%
- Rest of Europe	3.9%	3.0%	7.7%	5.5%	7.0%	6.1%	2.0%	5.6%	5.5%	9.0%	6.4%	5.6%
- Japan	3.9%	4.4%	4.6%	1.8%	2.0%	2.9%	1.7%	4.2%	3.4%	4.3%	3.1%	3.3%
- Pacific Basin	7.5%	8.8%	9.4%	3.7%	12.0%	11.3%	9.2%	11.3%	9.0%	9.3%	8.0%	9.0%
Total Equity	70.3%	68.8%	73.6%	67.9%	75.0%	71.1%	68.6%	71.7%	72.7%	72.1%	65.8%	70.6%
Fixed Interest	20.1%	18.9%	11.5%	20.5%	20.0%	18.7%	17.9%	18.1%	12.6%	17.1%	26.6%	18.4%
Property	3.9%	6.0%	6.6%	2.1%	0.0%	5.0%	3.5%	4.9%	1.3%	4.0%	3.5%	3.7%
Cash	5.7%	6.3%	2.8%	7.6%	5.0%	5.2%	7.1%	3.8%	13.4%	6.8%	4.1%	6.2%
Alternative Assets	0.0%	0.0%	5.5%	1.9%	0.0%	0.0%	2.9%	1.5%	0.0%	0.0%	0.0%	1.1%
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 September, the average equity weighting of actively managed balanced funds was 70.6%, up from 67.2% at the end of June. Eagle Star/Zurich Life had the highest equity weighting at 75.0% while Standard Life Investments had the lowest at 65.8%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 7.6% and ranging from a low of 5.0% (Eagle Star/Zurich Life) to a high of 9.3% (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 18.4%, while the average property weighting was 3.7%. Cash made up 6.2% of the managed funds on average, while the average exposure to alternative assets was 1.1%.

2. Market Review

Despite experiencing a four-week downturn between the end of June and the beginning of July, equity markets rallied strongly over the remainder of the quarter. Encouraging economic data, combined with a better-than-expected start to the second quarter earnings season, boosted investor sentiment worldwide. However, towards the end of the quarter, markets stuttered a little as investors feared that the market recovery was overdone ahead of the release of third quarter corporate earnings results in October. Eurozone bonds returned 4.1% over the quarter, as the outlook for inflation and interest rates remains benign.

Irish equities continued to recover from the low levels reached in March, returning 24.2% over the quarter. Financial stocks continued to outperform the rest of the market, returning 83.0% as draft legislation for the National Assets Management Agency (NAMA) was published and details of how the agency will work were revealed. NAMA will buy “appropriate loans” from the banks, paying for these with bonds issued by either the Government or NAMA. This will allow the banks to replace non-performing loans with cash-like assets on their balance sheets. During September, it was revealed that NAMA will buy approximately €77 billion of loans from the main banks, at a discount of around 30%.

UK equities posted a 22.1% gain over the quarter in sterling terms (13.8% in euro terms). The Bank of England kept interest rates at the historically low level of 0.5%, having cut interest rates by 4.5% between October 2008 and March 2009. At their August meeting, the Bank expanded its quantitative easing programme, by allocating an additional £50 billion to the £125 billion already committed. Merger and acquisition activity showed signs of returning to the market, as it was announced that Unilever had agreed to purchase the personal-care brands of US rival Sara Lee, and Cadbury rejected a \$16 billion takeover offer from Kraft Foods, believing the offer undervalued the company.

US equities returned 15.1% in dollar terms (11.2% for Irish investors) during the third quarter. The economy contracted by 1.0% annualized during the second quarter of 2009, which was better than had been expected and follows a 6.4% decline in the first quarter. The Federal Reserve kept interest rates on hold throughout the quarter, stating that it would hold the benchmark rate “exceptionally low for an extended period”. At the G20 meeting in September, the Fed announced that it would commence scaling back its emergency liquidity programmes. On the economic front, news was somewhat mixed. Although the level of unemployment fell back in July, it rose again in August to a high of 9.7%. The housing market showed signs of improvement throughout most of the quarter; however, sales of existing homes fell in August for the first time in five months.

The Eurozone region returned 21.2% over the quarter, while the rest of Europe recorded a 16.7% rise. The European Central Bank kept interest rates at the record low of 1.0%. During September ECB President, Jean-Claude Trichet, said that “the Bank won’t necessarily raise interest rates when the time comes for it to start withdrawing other emergency stimulus measures”. In economic news, inflation was negative throughout the quarter, hitting an all-time low of -0.7% in July, while unemployment reached the highest level in a decade at 9.5%. Second quarter GDP figures released during the quarter showed that the German and French

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economies had expanded, while the region as a whole only contracted by 0.1%, compared with a 2.5% decline in the first quarter.

The Japanese stock market returned -1.5% over the quarter in yen terms (+1.9% in euro terms). Although the Japanese economy expanded by 3.7% in the second quarter, compared with a contraction of 11.7% in the first three months of the year, negative economic news dampened the market. Unemployment rose to a record level of 5.7% in July, while inflation for the twelve months to the end of July was a negative 2.2%. Furthermore, the market struggled on the back of a weaker dollar, which negatively affects exporters. Towards the end of the quarter, the Bank of Japan upgraded its assessment of the economy, saying that it sees “signs of recovery”.

Markets in the rest of the Pacific Basin delivered a return of 19.4% in local currency terms (20.7% for Irish investors), as the improvement in the US economy provided support to the export-focused region. China’s economy expanded by 7.9% in the second quarter, having seen GDP growth of 6.1% in the first quarter. China’s economy expanded further in August, as record lending of \$1.1 trillion in the first half of the year helped to offset the impact of falling exports.

Market Index Returns to 30th September 2009

Asset Class	3 Months %		9 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	24.2	24.2	45.9	45.9
- UK	22.1	13.8	20.6	27.6
- North America	15.1	11.2	20.6	15.9
- Eurozone	21.2	21.2	25.7	25.7
- Rest of Europe	16.7	19.3	27.0	28.1
- Japan	-1.5	1.9	7.8	3.8
- Pacific Basin	19.4	20.7	48.1	55.5
Euro Bonds (> 5 Years)	4.1	4.1	4.4	4.4

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3. Other Balanced Managed Funds

Consensus Fund Returns to 30th September 2009

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	11.8	4	17.2	5	-1.1	5	-7.9	5	1.3	3		
Aviva Investors	11.6	5	16.1	6	-1.7	6	-8.4	6	0.4	5	0.7	4
Bank of Ireland Asset	11.9	2=	18.4	2	-0.1	3	-7.4	1	1.6	2	1.3	2
Friends First/F&C	11.4	6	18.0	3	0.2	2	-7.7	3=	1.2	4	1.1	3
Irish Life Investment	11.9	2=	17.9	4	-0.6	4	-7.6	2	1.7	1	1.5	1
Standard Life Investments	12.9	1	18.5	1	1.2	1	-7.7	3=				
Average	11.9		17.7		-0.4		-7.8		1.2		1.2	

Multi-Manager Fund Returns to 30th September 2009

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	11.5	3	19.3	1	0.8	1	-7.8	1=	1.2	2
Irish Life Investment	12.2	1	17.5	3	-0.4	3	-7.8	1=	1.4	1
Standard Life Investments	12.1	2	18.7	2	0.7	2	-9.5	3	0.5	3
Average	11.9		18.5		0.4		-8.4		1.0	