Pensions, Investments
& Advisory Services

Quarterly Investment Update

30th September 2010

A fresh approach to retirement planning

IFG

Thinking, **Years Ahead**

1. Active Managed Funds

Fund Performance

Over the third quarter of the year, the average fund returned 3.1% as managed funds gained ground in two of the three months. Canada Life/Setanta and Standard Life Investments had the best performing managed funds over the quarter, with returns of 4.5%, while Merrion Investment Managers had the worst performing fund over the quarter with a return of 1.9%.

The average managed fund has advanced 5.1% over the first nine months of the year; with returns ranging from a high of 8.4% (Standard Life Investments) to a low of 2.9% (Aviva Investors). Over the past twelve months the average fund returned 8.5%. Returns for the past year ranged from 12.8% (Standard Life Investments) to 6.9% (Merrion Investment Managers).

The average managed fund return has been a very disappointing -7.1% per annum over the past three years. The five year returns to the end of September are mostly negative, with an average return of -0.9% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.3% per annum on average, well below the Irish inflation rate of 2.4% per annum over the same time horizon. Indeed, none of the managed funds surveyed outperformed inflation over this period, while four of the funds failed to deliver positive returns over 10 years.

Fund Returns to 30th September 2010

	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	3.2	3	5.1	5	7.1	9	-9.3	9	-1.3	6	-0.9	10
Aviva Investors	2.5	9=	2.9	11	7.0	10	-10.0	11	-2.3	10=	-0.6	9
Bank of Ireland Asset	3.0	6	4.5	9	7.7	7	-7.3	6	-2.1	9	0.7	6
Canada Life/Setanta	4.5	1=	5.4	3=	10.4	2	-4.1	1	0.1	4	0.5	7
Eagle Star	2.8	8	4.6	8	8.2	5=	-4.8	2=	1.3	1	1.6	1
Friends First/F&C	2.9	7	5.4	3=	8.8	4	-8.4	8	-1.5	7	-0.3	8
Irish Life Investment	2.5	9=	5.0	6	7.5	8	-7.5	7	-0.9	5	1.0	3
KBC Asset Management	3.1	4=	5.6	2	9.2	3	-9.5	10	-2.3	10=	-2.0	11
Merrion Investment Managers	1.9	11	4.0	10	6.9	11	-4.8	2=	0.5	3	1.3	2
New Ireland	3.1	4=	4.7	7	8.2	5=	-7.1	5	-1.9	8	0.8	4=
Standard Life Investments	4.5	1=	8.4	1	12.8	1	-5.5	4	0.7	2	0.8	4=
Average	***3.1***		***5.1***		***8.5***		***-7.1***		***-0.9***		***0.3***	

Historic One Year Returns (to 30th September)

	2006 %	Rank	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank
AIB Investment Managers	12.8	4	11.5	1	-24.5	4	-7.7	11	7.1	9
Aviva Investors	13.2	3	8.1	4=	-27.6	8	-6.1	10	7.0	10
Bank of Ireland Asset	9.1	10	3.4	11	-25.0	5	-1.3	8	7.7	7
Canada Life/Setanta	8.7	11	5.2	9	-20.4	1	0.3	5=	10.4	2
Eagle Star	12.3	6	10.2	2	-21.8	2	2.0	2	8.2	5=
Friends First/F&C	12.4	5	7.3	7	-28.5	11	-1.0	7	8.8	4
Irish Life Investment Managers	11.5	7	8.1	4=	-27.7	9	1.8	3	7.5	8
KBC Asset Management	13.3	2	6.0	8	-28.3	10	-5.2	9	9.2	3
Merrion Investment Managers	10.2	8	7.8	6	-22.7	3	4.3	1	6.9	11
New Ireland	9.4	9	3.6	10	-26.1	6	0.3	5=	8.2	5=
Standard Life Investments	13.6	1	8.3	3	-26.5	7	1.6	4	12.8	1
Average	***11.5***		***7.2***		***-25.4***		***-1.0***		***8.5***	

Asset Distributions as at 30th September 2010

	AIBIM	Aviva	BIAM	CL/SAM	ES/ZL	FF/F&C	ILIM	KBCAM	MIM	NI	SLI	Average
Equities												
- Irish	4.9%	6.0%	5.5%	4.7%	3.0%	4.9%	5.3%	6.0%	6.2%	4.6%	0.0%	4.6%
- UK	10.9%	7.4%	12.3%	7.1%	10.0%	11.6%	8.2%	9.2%	7.5%	12.2%	11.3%	9.8%
- US	22.7%	21.5%	20.4%	33.1%	23.0%	21.3%	22.2%	20.8%	24.4%	20.4%	21.5%	22.9%
- Euro (ex Irl)	17.3%	18.7%	13.8%	8.9%	16.0%	16.6%	23.9%	16.1%	12.1%	13.4%	16.6%	15.8%
- Rest of Europe	5.5%	2.7%	7.3%	5.0%	6.0%	6.3%	1.3%	6.2%	5.0%	7.5%	9.4%	5.7%
- Japan	3.3%	2.8%	4.0%	4.2%	3.0%	3.9%	3.2%	1.5%	5.0%	3.7%	1.4%	3.3%
- Pacific Basin	10.6%	12.1%	11.0%	6.7%	12.0%	11.4%	7.6%	13.7%	9.4%	11.0%	10.5%	10.5%
Total Equity	**75.1%**	**71.2%**	**74.2%**	**69.7%**	**73.0%**	**76.0%**	**71.7%**	**73.6%**	**69.6%**	**72.8%**	**70.8%**	**72.5%**
Fixed Interest	16.6%	16.2%	11.2%	19.2%	27.0%	14.6%	13.8%	19.7%	13.1%	16.7%	24.0%	17.5%
Property	3.6%	5.9%	5.3%	2.5%	0.0%	4.3%	5.8%	4.1%	1.1%	3.9%	4.3%	3.7%
Cash	4.7%	6.6%	3.9%	6.4%	0.0%	5.1%	6.2%	0.1%	13.0%	6.6%	0.9%	4.9%
Alternative Assets	0.0%	0.0%	5.5%	2.2%	0.0%	0.0%	2.5%	2.5%	3.1%	0.0%	0.0%	1.4%
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 72.5%, down marginally from 72.7% at the end of June. Merrion Investment Managers had the lowest equity weighting at 69.6% while Friends First/F&C had the highest at 76.0%. 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 zero (Standard Life Investments) to a high of 6.2% (Merrion Investment Managers). 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 17.5%, while the average property weighting was 3.7%. Cash made up 4.9% of the managed funds on average, while the average exposure to alternative assets was 1.4%.

2. Market Review

The third quarter was a positive, albeit volatile, period for equity markets across the globe, as attention moved away from Europe's fiscal troubles to focus on the US economic outlook, the results of the EU's stress tests of European banks, and the second quarter earnings results season. Investors' risk appetites increased on the back of positive economic releases and encouraging corporate news flow. The International Monetary Fund increased its global growth expectation for 2010 to 4.6%.

Eurozone bonds returned 3.8% over the quarter. This headline return camouflages a wide range of performances as the yield spread between German bunds and peripheral bonds (including Ireland) widened.

The Irish stock market was the worst performing of the major bourses in which Irish pension funds invest, with a decline of 5.5%, during the three months to the end of September. The financial sector underperformed the rest of the market with a 14.1% decline. Uncertainty over the refinancing requirements of several major banks affected the sector. Standard & Poor's downgraded Ireland from AA to AA-, citing the rising cost of bailing out the banking sector as the reason for the downgrade. On the last day of September, the government released details of the capital requirements for Anglo Irish Bank, Irish Nationwide and AIB. These requirements are expected to see the country's deficit rise to 32% of GDP in 2010. Figures were released showing that the economy contracted by 1.2% in the second quarter (compared with a 2.2% expansion in the first quarter). As a result of the banking sector woes and the GDP data, Irish bond yields reached record highs against German bund yields during the quarter.

UK equities posted a 13.7% gain over the quarter in sterling terms (7.4% in euro terms). The Bank of England's Monetary Policy Committee voted to maintain the official Bank interest rate at 0.5%. The Committee also voted to maintain its quantitative easing programme at £200 billion. In corporate news, there was an uptick in the level of merger and acquisition activity, particularly in the resources sector, with BG Group, Vedanta Resources and Dana Petroleum being involved (or rumoured to be involved) in various consolidation bids. Other sectors also saw corporate activity, as Tesco announced its intention to bid for the Asian stores of Carrefour (valued at around $1 billion), while the BA/Iberia merger looks set to proceed following an agreement on how to deal with BA's pension deficit.

US equities returned 11.1% in dollar terms during the third quarter, with the weakness of the dollar decreasing this to 0.0% for Irish investors. The Federal Reserve kept interest rates at historically low levels during the quarter, downgraded its outlook for the US economy and extended their quantitative easing programme. Fed Chairman, Ben Bernanke, commented that the outlook for the economy was "unusually uncertain" and that he was ready "to take further policy actions", if necessary in order to stimulate growth. He also confirmed that the central bank had the "tools to help support economic activity and guard against disinflation", although he did not give details of what these tools were.

The Eurozone region gained 7.9% over the quarter, while the rest of Europe recorded a 5.6% rise (6.1% in euro terms). The European Central Bank kept interest rates on hold at 1% throughout the quarter. The market initially responded well to the news that only seven of the ninety-one banks that were examined failed the EU's stress tests, and that the recapitalization requirements of the seven that failed were only €3.5 billion. However, there was some criticism of the tests in light of the high pass rate and, later in the quarter; banking stocks struggled on concerns over the adequacy of the stress tests and the impact of the Basel III capital requirements. Meanwhile, the European Commission increased its 2010 growth forecast for the Eurozone, from 0.9% to 1.7%, on the back of strong growth in the second quarter. In particular, Germany's economy recorded a 2.2% expansion in the second quarter, the fastest pace of growth since the reunification of the country in 1990; however, other countries in the region experienced slower growth.

The Japanese stock market returned -0.5% over the quarter in yen terms (-5.4% in euro terms), while markets in the rest of the Pacific Basin delivered a return of 12.3% in local currency terms (8.5% for Irish investors). In the second quarter of 2010, China overtook Japan as the world's second largest economy. Japanese exports declined in July for the fifth month in a row; with the dollar declining to a 15-year low against the yen in August, the outlook for exporters looked bleak. However, the government took action during September to halt the currency's rise. In China, economic growth slowed to 10.3% in the second quarter as government measures to cool the property market began to take effect. Meanwhile, factory output rose by 13.9% in the 12 months to August, while the Purchasing Managers' Index rose to a five-month high in September and is now firmly in expansion territory.

Market Index Returns to 30th September 2010

Asset Class	3 Months %		9 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	-5.5	-5.5	-7.5	-7.5
- UK	13.7	7.4	5.1	7.8
- North America	11.1	0.0	3.9	9.4
- Eurozone	7.9	7.9	-0.8	-0.8
- Rest of Europe	5.6	6.1	6.3	16.3
- Japan	-0.5	-5.4	-7.6	8.2
- Pacific Basin	12.3	8.5	5.3	15.1
Euro Bonds (> 5 Years)	3.8	3.8	7.1	7.1

3. Other Balanced Managed Funds

Consensus Fund Returns to 30th September 2010

	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	3.1	4=	5.7	3	8.2	5=	-7.6	5	-1.1	5		
Aviva Investors	3.0	6	5.3	6	8.2	5=	-7.8	6	-1.5	6	-0.3	4
Bank of Ireland Asset	3.4	3	6.1	2	9.1	2	-7.0	2	-0.6	2	0.4	3
Friends First/F&C	4.4	1	8.2	1	12.4	1	-6.2	1	-0.3	1	0.5	2
Irish Life Investment	3.1	4=	5.5	4	8.5	4	-7.3	3=	-0.7	3	0.6	1
Standard Life Investments	3.5	2	5.4	5	8.7	3	-7.3	3=	-1.0	4		
Average	***3.4***		***6.0***		***9.2***		***-7.2***		***-0.9***		***0.3***	

Multi-Manager Fund Returns to 30th September 2010

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	1.9	3	6.2	1	8.6	2	-7.3	1=	-1.0	1=
Irish Life Investment	2.9	2	5.9	2	8.4	3	-7.3	1=	-1.0	1=
Standard Life Investments	3.0	1	5.7	3	9.4	1	-8.4	3	-1.9	3
Average	***2.6***		***5.9***		***8.8***		***-7.7***		***-1.3***	