

Pensions, Investments  
& Advisory Services



# Quarterly Investment Update

30<sup>th</sup> September 2011

A fresh approach to retirement planning



Thinking, **Years Ahead**

30<sup>th</sup> September 2011

## 1. Active Managed Funds

### Fund Performance

As a result of recent falls, managed funds have suffered an 8.9% loss on average over the third quarter of the year. Returns over the quarter ranged from a high of -5.7% (Setanta Asset Management) to a low of -11.7% (Irish Life Investment Managers). On average over the first nine months of the year, managed funds have declined 10.3%. Returns over this period ranged from a high of -6.6% (Setanta Asset Management) to a low of -11.8% (Irish Life Investment Managers). Over the past twelve months the average fund returned -5.1%. Returns for the past year ranged from -3.0% (Setanta Asset Management) to -8.5% (Irish Life Investment Managers).

The average managed fund return has been a disappointing 0.6% per annum over the past three years. The five year returns to the end of September are all negative, with an average return of -4.0% 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, below the Irish inflation rate of 2.2% per annum over the same time horizon. Only three of the managed funds surveyed (those of Setanta Asset Management, Standard Life Investments and Zurich Life) outperformed inflation over this period.

### Fund Returns to 30<sup>th</sup> September 2011

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
<b>AIB Investment Managers</b>	-8.4	4	-9.4	3	-3.6	2	-1.6	11	-4.3	5	0.7	10
<b>Aviva Investors</b>	-9.0	5=	-10.1	5	-5.0	6	-1.5	10	-5.6	10=	0.8	9
<b>Canada Life/Setanta</b>	-5.7	1	-6.6	1	-3.0	1	2.4	2	-2.1	2	2.3	3
<b>Friends First/F&amp;C</b>	-10.1	10	-11.6	10	-5.9	9	0.4	6	-4.9	8=	1.2	6=
<b>Irish Life Investment</b>	-11.7	11	-11.8	11	-8.5	11	0.1	7=	-4.8	6=	1.5	5
<b>Kleinwort Benson</b>	-9.0	5=	-10.0	4	-4.8	5	-0.5	9	-5.6	10=	-0.2	11
<b>Merrion Investment</b>	-7.8	3	-11.3	9	-6.0	10	1.6	4	-2.7	3=	2.1	4
<b>New Ireland</b>	-9.7	9	-10.8	6	-5.7	8	0.8	5	-4.8	6=	1.2	6=
<b>Standard Life Investments</b>	-9.6	8	-11.1	8	-4.5	4	3.0	1	-2.7	3=	2.5	2
<b>State Street Global</b>	-9.2	7	-10.9	7	-5.6	7	0.1	7=	-4.9	8=	1.2	6=
<b>Zurich Life</b>	-7.6	2	-9.3	2	-3.9	3	2.0	3	-1.8	1	3.3	1
<b>Average</b>	<b>-8.9</b>		<b>-10.3</b>	<b>3</b>	<b>-5.1</b>		<b>0.6</b>		<b>-4.0</b>		<b>1.5</b>	

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**Historic One Year Returns (to 30<sup>th</sup> September)**

	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank	2010 %	Rank
<b>AIB Investment Managers</b>	11.5	1	-24.5	4	-7.7	11	7.1	9	-3.6	2
<b>Aviva Investors</b>	8.1	4=	-27.6	8	-6.1	10	7.0	10	-5.0	6
<b>Canada Life/Setanta</b>	5.2	9	-20.4	1	0.3	5=	10.4	2	-3.0	1
<b>Friends First/F&amp;C</b>	7.3	7	-28.5	11	-1.0	7	8.8	4	-5.9	9
<b>Irish Life Investment</b>	8.1	4=	-27.7	9	1.8	3	7.5	8	-8.5	11
<b>Kleinwort Benson Investors</b>	6.0	8	-28.3	10	-5.2	9	9.2	3	-4.8	5
<b>Merrion Investment</b>	7.8	6	-22.7	3	4.3	1	6.9	11	-6.0	10
<b>New Ireland</b>	3.6	10	-26.1	6	0.3	5=	8.2	5=	-5.7	8
<b>Standard Life Investments</b>	8.3	3	-26.5	7	1.6	4	12.8	1	-4.5	4
<b>State Street Global Advisors</b>	3.4	11	-25.0	5	-1.3	8	7.7	7	-5.6	7
<b>Zurich Life</b>	10.2	2	-21.8	2	2.0	2	8.2	5=	-3.9	3
<b>Average</b>	<b>7.2</b>		<b>-25.4</b>		<b>-1.0</b>		<b>8.5</b>		<b>-5.1</b>	



**Asset Distributions as at 30<sup>th</sup> September 2011**

	AIBIM	Aviva	CL/SAM	FF/F&C	ILIM	KBI	MIM	NI	SLI	SSgA	Zurich	Average
<b>Equities</b>												
- Irish	3.8%	3.5%	6.7%	4.5%	4.9%	6.1%	5.7%	5.1%	0.8%	5.7%	3.0%	4.5%
- UK	11.3%	11.8%	7.4%	11.8%	12.5%	10.1%	10.3%	10.2%	11.0%	10.2%	10.0%	10.6%
- US	25.5%	24.3%	34.3%	25.2%	24.0%	27.7%	25.2%	24.8%	27.8%	22.6%	30.0%	26.5%
- Euro (ex Irl)	12.7%	11.2%	7.7%	11.5%	15.8%	12.5%	9.8%	11.7%	11.8%	11.9%	10.0%	11.5%
- Rest of Europe	6.2%	6.7%	5.6%	4.6%	0.8%	7.3%	4.4%	5.8%	8.6%	6.0%	6.0%	5.6%
- Japan	3.8%	5.8%	4.2%	4.6%	2.6%	3.0%	7.3%	6.6%	2.6%	6.7%	4.0%	4.6%
- Pacific	10.1%	9.8%	4.6%	11.3%	6.5%	12.3%	5.6%	8.8%	8.0%	8.3%	12.0%	8.8%
<b>Total Equity</b>	<b>73.4%</b>	<b>73.1%</b>	<b>70.4%</b>	<b>73.4%</b>	<b>67.2%</b>	<b>79.0%</b>	<b>68.2%</b>	<b>73.0%</b>	<b>70.6%</b>	<b>71.4%</b>	<b>75.0%</b>	<b>72.2%</b>
<b>Fixed Interest</b>	16.8%	15.9%	21.6%	16.7%	17.6%	13.7%	13.9%	18.0%	23.7%	15.2%	23.0%	17.8%
<b>Property</b>	4.2%	6.5%	3.1%	4.7%	6.3%	4.4%	1.1%	5.0%	4.6%	5.7%	0.0%	4.1%
<b>Cash</b>	5.8%	4.6%	2.5%	5.1%	2.9%	0.6%	12.9%	4.0%	1.2%	1.7%	2.0%	3.9%
<b>Alternative</b>	0.0%	0.0%	2.5%	0.0%	6.0%	2.4%	3.9%	0.0%	0.0%	6.1%	0.0%	1.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

At the end of September, the average equity weighting of actively managed balanced funds was 72.2%, down from 73.1% at the end of June. Irish Life Investment Managers had the lowest equity weighting at 67.2% while Kleinwort Benson Investors had the highest at 79.0%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 4.5% and ranging from a low of 0.8% (Standard Life Investments) to a high of 6.7% (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 17.8%, while the average property weighting was 4.1%. Cash made up 3.9% of the managed funds on average, while the average exposure to alternative assets was 1.9%.



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## 2. Market Review

The third quarter was a volatile one in both equity and bond markets, as debt concerns impacted markets on both sides of the Atlantic, while a deteriorating economic outlook further fuelled investor nervousness.

Eurozone bonds gained 5.2% over the quarter, as investors sought a safe haven from the uncertainty of equity markets. During the quarter, German bond yields fell to the lowest level on record.

The Irish stock market delivered a return of -14.8% over the quarter. Financials lagged the rest of the market with a -31.5% return. In a 3-month period that saw a lower interest rate applied to the bailout funds being made available to Ireland from the ECB, as well as an extension to the repayment term on the loan, and the ECB's decision to recommence its bond-buying programme, the yield on Irish 10-year bonds fell below 9% for the first time since February. Meanwhile, inflation fell back to 2.2% in the year to August, as figures were released showing that the hourly cost of labour in Ireland declined at an annual rate of 3.5% during the second quarter. This was the second largest decline in this statistic in the EU – with only Greece's labour costs falling at a faster rate.

UK equities posted a 13.0% loss over the quarter in sterling terms (an 8.8% loss in euro terms). Throughout the quarter, the Bank of England's Monetary Policy Committee (MPC) voted to maintain the official Bank interest rate at 0.5%, and also to maintain the asset purchase programme at £200 billion. Figures were released showing that retail sales had declined by 0.2% in August, leading to expectations that further quantitative easing could be on the way; these expectations were further increased following the release of minutes of the MPC's September meeting.

US equities returned -13.8% in dollar terms during the quarter (-7.5% for Irish investors). At the start of the quarter, investor sentiment was dominated by concerns over the US debt ceiling. As borrowings threatened to breach the existing ceiling, the White House and Congress appeared deadlocked over agreement on how to deal with the problem. Eventually an 11th-hour agreement averted the almost unthinkable default that had threatened. In spite of this, US bonds lost their AAA credit rating for the first time in their history. In September, the Federal Reserve launched "Operation Twist" in an effort to drive down long-term interest rates in order to stimulate the struggling US economy. By swapping \$400 billion of short-term debt with longer-term debt, the Fed hopes to "twist" the yield curve and reduce the spread between long and short-dated bond yields.

The Eurozone region lost 22.9% over the quarter, while the rest of Europe recorded a 14.5% decline (-15.3% in euro terms). The European Central Bank raised interest rates by 0.25% in July, as had been widely anticipated. Markets in the region were focused on the outlook for Eurozone debt, as fears grew that the crisis in peripheral markets could spread to core countries. Concerns were raised over the sustainability of Italian debt levels, as the yield on the country's 10-year bonds rose above 6%. Numerous meetings among political leaders failed to deliver a firm plan on resolving the issue of handling the now almost inevitable write-down (default) of Greek bonds. The contagion effect spread to European banks over concerns regarding their exposure to the bonds of the beleaguered nation. There was some good news as the ECB recommenced its bond purchase programme as a way to support peripheral bond markets. In an attempt to reduce market volatility,

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several European governments introduced temporary bans on the short selling of financial stocks. Elsewhere, the Swiss government intervened in the currency market to protect the Franc.

The Japanese stock market was the best performing major bourse during the three months to the end of September, with a 10.3% loss over the quarter in yen terms (a 1.6% gain in euro terms). Japanese exporters were hurt by the strength of the yen, which rose to its highest level against the dollar since the Second World War. The Japanese economy shrank by 1.3% in the second quarter, which was better than the expected 2.7% contraction. Meanwhile, Moody's downgraded the country's debt rating.

Markets in the rest of the Pacific Basin delivered a return of -14.8% in local currency terms (-14.0% for Irish investors) over the quarter. In China, rising inflation prompted the government to hike interest yet again during the quarter. The government's attempts to combat inflation appear to be having a negative impact on growth, as manufacturing data and industrial production data disappointed, while economic growth fell to 9.5% in the second quarter (compared with 9.7% in the first three months of the year). There was some good news towards quarter-end however, as inflation showed signs of having peaked, falling to 6.2% in August from 6.5% in July. Elsewhere, Australian business confidence fell in August, while New Zealand lost its AAA status, following downgrades by Fitch and Standard and Poor's.

## Market Index Returns to 30<sup>th</sup> September 2011

Asset Class	3 Months %		9 Months %	
	Local Ccy	Euro	Local Ccy	Euro
<b>Equities</b>				
- Ireland	-14.8	-14.8	-11.6	-11.6
- UK	-13.0	-8.8	-10.6	-11.0
- North America	-13.8	-7.5	-9.2	-9.5
- Eurozone	-22.9	-22.9	-19.0	-19.0
- Rest of Europe	-14.5	-15.3	-15.6	-15.4
- Japan	-10.3	1.6	-14.6	-10.1
- Pacific Basin	-14.8	-14.0	-15.1	-17.9
<b>Euro Bonds (&gt; 5 Years)</b>	5.2	5.2	5.3	5.3

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### 3. Other Balanced Managed Funds

#### Consensus Fund Returns to 30<sup>th</sup> September 2011

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
<b>AIB Investment Managers</b>	-8.5	4	-9.5	1=	-4.1	3=	0.9	5	-4.1	5		
<b>Aviva Investors</b>	-8.3	3	-9.5	1=	-4.5	6	0.5	6	-4.5	6	1.1	4
<b>Friends First/F&amp;C</b>	-7.9	2	-9.6	3=	-3.9	2	2.6	1	-3.2	1	1.9	1=
<b>Irish Life Investment</b>	-8.6	5	-9.6	3=	-4.1	3=	1.1	4	-3.9	4	1.9	1=
<b>Standard Life Investments</b>	-7.6	1	-9.8	6	-3.6	1	2.0	2	-3.8	3		
<b>State Street Global Advisors</b>	-8.8	6	-9.6	3=	-4.1	3=	1.5	3	-3.6	2	1.7	3
<b>Average</b>	<i>-8.3</i>		<i>-9.6</i>		<i>-4.1</i>		<i>1.4</i>		<i>-3.9</i>		<i>1.7</i>	

#### Multi-Manager Fund Returns to 30<sup>th</sup> September 2011

	Quarter 3 %	Rank	9 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	5 Years % p.a.	Rank
<b>AIB Investment Managers</b>	-7.8	1	-9.8	2	-3.4	2	1.9	2	-3.9	1		
<b>Irish Life Investment</b>	-8.4	2	-9.9	3	-4.7	3	1.0	3	-4.1	2	2.0	1
<b>Standard Life Investments</b>	-8.6	3	-9.4	1	-3.0	1	2.3	1	-4.7	3		
<b>Average</b>	<i>-8.3</i>		<i>-9.7</i>		<i>-3.7</i>		<i>1.7</i>		<i>-4.2</i>		<i>2.0</i>	