

Pensions, Investments
& Advisory Services



Quarterly Investment Update

31st December 2009

A fresh approach to retirement planning



Thinking, **Years Ahead**

1. Active Managed Funds

Fund Performance

Irish pension managed funds delivered positive returns, averaging 3.3%, over the final quarter of the year. Canada Life/Setanta delivered the best performance over the quarter, with a gain of 4.7%, while AIB Investment Managers propped up the league table with a return of 1.9%.

During 2009, all of the managed funds surveyed delivered double-digit growth, with the average fund returning 21.8% for the year. Returns over the twelve months ranged from 29.6% (Merrion Investment Managers) to 13.7% (AIB Investment Managers), representing a difference of 15.9% between the best and worst performing managers over the year.

The average managed fund return has been a very disappointing -8.3% per annum over the past three years. However, the five year returns to the end of December are positive on average, delivering a mean return of 1.0% 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 2.9% 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 31st December 2009

	Quarter 4 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	1.9	11	13.7	11	-9.5	8	0.7	6	-1.0	6
Aviva Investors	4.0	3	20.1	9	-10.3	10	-0.3	8	-0.4	9=
Bank of Ireland Asset	3.1	8	21.0	8	-9.4	7	-0.6	11	1.0	11
Canada Life/Setanta	4.7	1	22.9	4	-5.3	2	2.4	3	1.2	4
Eagle Star/Zurich Life	3.4	4=	22.1	5	-5.1	1	3.7	1	1.4	1
Friends First/F&C	3.2	7	21.2	7	-9.7	9	0.4	7	-0.5	7
Irish Life Investment Managers	2.4	10	25.6	2	-8.5	5	1.2	5	1.2	5
KBC Asset Management	3.4	4=	17.8	10	-11.2	11	-0.5	10	-1.8	9=
Merrion Investment Managers	2.7	9	29.6	1	-5.8	3	2.7	2	2.0	2
New Ireland	3.4	4=	22.0	6	-9.3	6	-0.4	9	0.9	8
Standard Life Investments	4.1	2	24.3	3	-7.6	4	2.2	4	0.2	3
Average	3.3		21.8		-8.3		1.0		0.4	

Historic One Year Returns (to 31st December)

	2005 %	Rank	2006 %	Rank	2007 %	Rank	2008 %	Rank	2009 %	Rank
AIB Investment Managers	22.0	6	14.7	1	1.3	1	-35.7	7	13.7	11
Aviva Investors	19.5	9	14.0	4	-1.7	4	-38.8	11	20.1	9
Bank of Ireland Asset	18.0	10	10.5	10	-7.6	10	-33.4	3=	21.0	8
Canada Life/Setanta	21.7	7	9.1	11	-1.8	5	-29.6	1	22.9	4
Eagle Star/Zurich Life	23.1	2	14.2	2	0.6	2	-30.5	2	22.1	5
Friends First/F&C	22.3	4	13.5	6	-3.3	7	-37.3	9=	21.2	7
Irish Life Investment Managers	23.0	3	12.8	8	-2.9	6	-37.3	9=	25.6	2
KBC Asset Management	22.2	5	13.7	5	-5.3	9	-37.1	8	17.8	10
Merrion Investment Managers	20.6	8	13.2	7	-1.6	3	-34.4	6	29.6	1
New Ireland	17.9	11	11.2	9	-8.2	11	-33.4	3=	22.0	6
Standard Life Investments	23.9	1	14.1	3	-3.9	8	-33.8	5	24.3	3
<i>Average</i>	21.3		12.8		-3.1		-34.7		21.8	

Asset Distributions as at 31st December 2009

	<u>AIBIM</u>	<u>Aviva</u>	<u>BIAM</u>	<u>CL/SAM</u>	<u>ES/ZL</u>	<u>FF/F&C</u>	<u>ILIM</u>	<u>KBCAM</u>	<u>MIM</u>	<u>NI</u>	<u>SLI</u>	<u>Average</u>
Equities												
- Irish	7.5%	6.9%	6.1%	5.8%	3.0%	6.4%	7.6%	8.8%	6.9%	5.5%	1.1%	6.0%
- UK	10.9%	11.7%	11.3%	7.0%	11.0%	9.9%	12.5%	9.7%	8.8%	11.0%	10.8%	10.4%
- US	19.8%	22.5%	18.8%	34.5%	20.0%	21.0%	19.6%	20.0%	22.3%	18.3%	18.8%	21.4%
- Euro (ex Irl)	17.9%	20.1%	16.0%	12.1%	18.0%	16.6%	18.8%	18.5%	17.3%	15.0%	17.8%	17.1%
- Rest of Europe	5.0%	3.5%	8.0%	5.0%	7.0%	6.1%	2.5%	6.2%	6.2%	8.9%	8.8%	6.1%
- Japan	3.7%	0.5%	4.3%	2.1%	3.0%	1.8%	2.1%	2.5%	3.7%	3.9%	2.8%	2.8%
- Pacific Basin	9.8%	10.2%	10.8%	3.8%	12.0%	10.2%	9.0%	12.3%	10.2%	10.7%	8.9%	9.8%
Total Equity	74.7%	75.4%	75.3%	70.2%	74.0%	72.0%	72.1%	78.0%	75.3%	73.3%	69.0%	73.6%
Fixed Interest	19.4%	15.6%	11.6%	20.8%	22.0%	18.0%	15.6%	15.8%	11.9%	16.4%	24.1%	17.4%
Property	3.7%	5.5%	5.2%	2.5%	0.0%	5.1%	3.5%	4.5%	1.2%	4.1%	4.4%	3.6%
Cash	2.2%	3.4%	2.5%	4.3%	4.0%	5.0%	6.0%	0.1%	11.6%	6.2%	2.5%	4.3%
Alternative Assets	0.0%	0.0%	5.5%	2.1%	0.0%	0.0%	2.9%	1.7%	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 December, the average equity weighting of actively managed balanced funds was 73.6%, up from 70.6% at the end of September. Standard Life Investments had the lowest equity weighting at 69.0% while KBC Asset Management had the highest at 78.0%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 6.0% and ranging from a low of 1.1% (Standard Life Investments) to a high of 8.8% (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 17.4%, while the average property weighting was 3.6%. Cash made up 4.3% of the managed funds on average, while the average exposure to alternative assets was 1.1%.



31st December 2009

2. Market Review

Overall, the fourth quarter of 2009 was broadly positive, though volatile, with most equity markets gaining ground. Positive economic news, strong corporate earnings results, an agreement by the G20 to maintain stimulus policies, and an end to the recession in the Eurozone region, all supported markets. However, profit taking, the so-called “Dubai Crisis” and concerns over the credit rating of several countries pushed bourses somewhat in the other direction. The dollar briefly reached a 15-month low during November, before rebounding on comments from Fed Chairman, Ben Bernanke, that he would conduct measures to “help ensure the dollar is strong”. Eurozone bonds returned -0.4% over the quarter, as Greece’s sovereign rating was downgraded to BBB+ by Fitch and Standard & Poor’s.

The Irish stock market was by far the worst performing bourse during the fourth quarter of 2009, with a decline of 10.9%. Having returned 158.9% over the first nine months of the year, financial stocks underperformed the rest of the market significantly during the final quarter, with a decline of 56.2%. The Irish banking sector suffered repeated knocks over the last three months of the year. In October, Minister for Finance, Brian Lenihan, admitted that plans to start transferring the biggest loans from the banks into the National Asset Management Agency (NAMA) by the end of the year could face a delay. Furthermore, subsequent property write-downs, uncertainty over the discounts that will be applied to loans transferred to NAMA, and concerns that the main banks may need further recapitalization from the State, weighed heavily on the sector. International issues also had an impact; notably, poor results and forced asset sales at their international counterparts, and the Dubai crisis.

UK equities posted a 6.1% gain over the quarter in sterling terms (9.2% 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. The Bank also expanded its quantitative easing programme, by £25 billion to £200 billion, in an effort to stimulate economic growth by encouraging lending. Merger and acquisition activity returned to the market as a \$7 billion merger was agreed between British Airways and Iberia, while Ferrero and Hershey revealed that they were considering making an offer for Cadbury, who are subject to a hostile takeover bid from Kraft.

US equities declined 5.7% in dollar terms (7.9% for Irish investors) over the final three months of the year. Figures released during October showed that the US economy had expanded during the third quarter, at an annual rate of 3.5%, indicating that the recession there may be over. The Federal Reserve kept interest rates unchanged throughout the quarter, while reiterating their intention to keep rates at “extremely low levels for an extended period”. However, in December the Fed announced that its emergency lending programs would end from 1 February 2010 due to “improvements in the functioning of financial markets”. Merger and acquisition activity also returned to the US market, with announcements regarding the purchase of railroad company Burlington Northern by Warren Buffet’s company, Berkshire Hathaway, and the acquisition of Black & Decker by Stanley Works.

31st December 2009

Eurozone equities returned 2.4% over the quarter, while the Rest of Europe gained 4.7% in local currency terms. The European Central Bank kept interest rates at the record low of 1.0%. However, in December the Bank announced its intention to start withdrawing stimulus measures earlier than had been anticipated. Investors responded positively to the news that the recession in the Eurozone had come to an end, as the region's economy expanded by 0.4% in the third quarter of the year. Towards quarter end, the banking sector struggled across Europe, as Greece's sovereign debt rating was downgraded (by Fitch and Standard & Poor's) and Standard & Poor's cut their outlook for Spain. Meanwhile, during October, Norway became the first European country to raise interest rates (by 0.25% to 1.5%) in the current cycle.

The Japanese stock market returned 0.8% over the quarter in yen terms (-1.3% in euro terms). For much of the quarter, the Japanese market struggled on the back of a strengthening yen, which negatively affects exporters. Indeed, during November it was announced that the economy had returned to deflation for the first time in three years, while the yen reached its highest level in almost 15 years against the US dollar. In December, the Bank of Japan responded to these developments by pumping ¥10 trillion (approximately US\$114 billion) into the money market in an attempt to stimulate lending. The yen weakened as a result, which in turn provided support to export-oriented companies.

Markets in the rest of the Pacific Basin delivered a return of 4.5% in local currency terms (7.6% for Irish investors). The news that Dubai World (a state-owned investment company) had asked its creditors for a "standstill" on repayment on its debt for six months sent a shockwave through markets across the globe, with the financial sector taking the biggest immediate hit. However, the "Dubai Crisis" was shorter-lived and less severe than had been initially anticipated. The Chinese market was boosted by positive economic news, including the release of third quarter GDP figures, which showed that the economy had expanded by 8.9%, data showing that manufacturing activity in China is growing at the fastest pace in five years, and that industrial output increased 19% in the year to November. Meanwhile, Australia became the first G20 nation to raise interest rates in over a year, as signs of growth re-emerged in the economy, which was one of the few to avoid recession.

Market Index Returns to 31st December 2009

Asset Class	Quarter 4 %		1 Year %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	-10.9	-10.9	29.9	29.9
- UK	6.1	9.2	28.0	39.2
- North America	5.7	7.9	27.4	25.0
- Eurozone	2.4	2.4	28.8	28.8
- Rest of Europe	4.7	6.3	33.0	36.2
- Japan	0.8	-1.3	8.7	2.5
- Pacific Basin	4.5	7.6	54.8	67.4
Euro Bonds (> 5 Years)	-0.4	-0.4	4.0	4.0



3. Other Balanced Managed Funds

Consensus Fund Returns to 31st December 2009

	Quarter 4 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	2.4	6	20.0	5	-9.1	5=	0.7	4		
Aviva Investors	2.7	5	19.3	6	-9.1	5=	0.1	5	-0.2	4
Bank of Ireland Asset	2.9	3	21.8	3	-8.4	2	1.2	1=	0.4	2
Friends First/F&C	3.9	1	22.5	1	-8.3	1	1.0	3	0.3	3
Irish Life Investment	2.8	4	21.3	4	-8.5	3	1.2	1=	0.6	1
Standard Life Investments	3.1	2	22.2	2	-8.7	4				
<i>Average</i>	3.0		21.2		-8.7		0.8		0.3	

Multi-Manager Fund Returns to 31st December 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
<i>Average</i>	11.9		18.5		0.4		-8.4		1.0	