

Pensions, Investments
& Advisory Services



Quarterly Investment Update

31st December 2011

A fresh approach to retirement planning



Thinking, **Years Ahead**

31st December 2011

1. Active Managed Funds

Fund Performance

As a result of gains in 2 of the 3 months, managed funds have enjoyed a 7.6% gain on average over the final quarter of the year. Returns over this period ranged from highs of 8.4% (Kleinwort Benson Investors and Standard Life Investments) to a low of 6.1% (Merrion Investment Managers). Over the whole of 2011, however, the average fund return was a disappointing -3.4%. Returns for the year ranged from 0.5% (Setanta Asset Management) to -5.9% (Merrion Investment Managers).

The average managed fund return has been a healthy 9.3% per annum over the past three years. The five year returns are all negative however, with an average return of -3.8% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 1.3% per annum on average, below the Irish inflation rate of 2.2% per annum over the same time horizon. Only two of the managed funds surveyed (those of Zurich Life and Standard Life Investments) outperformed inflation over this period.

Fund Returns to 31st December 2011

	Quarter 4 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	7.8	5	-2.2	3	7.5	11	-4.2	5	0.6	9
Aviva Investors	6.7	10	-4.1	6=	7.8	10	-5.5	11	0.5	10
Canada Life/Setanta	7.7	6=	0.5	1	10.6	2	-1.3	1	2.0	3=
Friends First/F&C	7.9	3=	-4.6	9	9.0	6=	-4.7	9	1.0	6=
Irish Life Investment	7.7	6=	-5.0	10	9.1	5	-4.6	6=	1.4	5
Kleinwort Benson	8.4	1=	-2.4	4	8.7	8=	-5.2	10	-0.4	11
Merrion Investment	6.1	11	-5.9	11	10.3	3	-2.8	4	2.0	3=
New Ireland	7.5	8=	-4.2	8	9.0	6=	-4.6	6=	1.0	6=
Standard Life Investments	8.4	1=	-3.6	5	11.7	1	-2.4	3	2.3	2
State Street Global	7.5	8=	-4.1	6=	8.7	8=	-4.6	6=	1.0	6=
Zurich Life	7.9	3=	-2.1	2	9.8	4	-1.5	2	3.1	1
Average	7.6		-3.4		9.3		-3.8		1.3	

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Historic One Year Returns (to 31st December)

	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank	2011 %	Rank
AIB Investment Managers	1.3	1	-35.7	7	13.7	11	11.8	3=	-2.2	3
Aviva Investors	-1.7	4	-38.8	11	20.1	9	8.8	11	-4.1	6=
Canada Life/Setanta	-1.8	5	-29.6	1	22.9	4	9.5	9	0.5	1
Friends First/F&C	-3.3	7	-37.3	9=	21.2	7	12.2	2	-4.6	9
Irish Life Investment Managers	-2.9	6	-37.3	9=	25.6	2	9.0	10	-5.0	10
Kleinwort Benson Investors	-5.3	9	-37.1	8	17.8	10	11.8	3=	-2.4	4
Merrion Investment Managers	-1.6	3	-34.4	6	29.6	1	10.2	8	-5.9	11
New Ireland	-8.2	11	-33.4	3=	22.0	6	10.7	6	-4.2	8
Standard Life Investments	-3.9	8	-33.8	5	24.3	3	16.4	1	-3.6	5
State Street Global Advisors	-7.6	10	-33.4	3=	21.0	8	10.6	7	-4.1	6=
Zurich Life	0.6	2	-30.5	2	22.1	5	10.9	5	-2.1	2
Average	-3.1		-34.7		21.8		11.1		-3.4	

Asset Distributions as at 31st December 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>SSqA</u>	<u>Zurich</u>	<u>Average</u>
Equities												
- Irish	4.2%	4.8%	7.3%	4.9%	5.5%	5.9%	5.5%	5.1%	0.9%	6.0%	3.0%	4.8%
- UK	12.2%	12.4%	7.4%	11.7%	13.2%	10.4%	11.1%	10.2%	12.1%	11.3%	10.0%	11.1%
- US	27.9%	26.1%	38.3%	26.9%	26.7%	27.6%	23.9%	27.0%	28.9%	25.0%	28.0%	27.8%
- Euro (ex Irl)	12.7%	10.9%	6.8%	10.7%	16.6%	9.7%	12.2%	11.0%	12.0%	11.0%	7.0%	11.0%
- Rest of Europe	5.4%	6.6%	5.4%	4.7%	0.8%	7.3%	4.0%	5.8%	7.8%	6.0%	6.0%	5.4%
- Japan	3.5%	3.7%	3.9%	4.4%	2.6%	2.3%	6.8%	5.8%	2.4%	6.1%	4.0%	4.1%
- Pacific Basin	10.2%	11.1%	4.4%	11.4%	6.0%	11.2%	9.3%	8.0%	8.2%	8.2%	11.0%	9.0%
Total Equity	76.0%	75.7%	73.5%	74.7%	71.3%	74.4%	72.8%	73.0%	72.3%	73.6%	69.0%	73.3%
Fixed Interest	15.3%	15.9%	18.8%	15.6%	15.8%	12.9%	12.6%	18.0%	20.7%	13.6%	26.0%	16.8%
Property	3.9%	5.0%	2.8%	4.6%	5.7%	4.2%	1.0%	6.0%	4.0%	5.4%	0.0%	3.9%
Cash	4.8%	3.4%	2.5%	5.1%	1.4%	6.2%	10.1%	3.0%	3.0%	1.7%	5.0%	4.2%
Alternative Assets	0.0%	0.0%	2.4%	0.0%	5.9%	2.5%	3.6%	0.0%	0.0%	5.8%	0.0%	1.8%
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 73.3%, up slightly from 72.2% at the end of September. Zurich Life had the lowest equity weighting at 69.0% while AIB Investment Managers had the highest at 76.0%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 4.8% and ranging from a low of 0.9% (Standard Life Investments) to a high of 7.3% (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 16.8%, while the average property weighting was 3.9%. Cash made up 4.2% of the managed funds on average, while the average exposure to alternative assets was 1.8%.



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2. Market Review

The final quarter of 2011 was a positive one for most equity markets across the globe, as governments in Europe worked to resolve the Eurozone debt crisis. Markets received a boost mid-quarter after six of the world's leading central banks (the US Federal Reserve, the European Central Bank, the Bank of England and the central banks of Japan, Canada and Switzerland) announced measures to reduce the cost of borrowing for banks, in an attempt to ensure liquidity in financial markets.

Eurozone bonds declined 1.3% over the quarter, as investors' risk appetites returned and bond yields rose across the region. Indeed, even Germany was not immune from difficulty, as a bond auction in the largest Eurozone economy failed to raise as much money as had been anticipated.

The Irish stock market returned 16.2% during the quarter. However, the financial sector underperformed the rest of the market with a 6.0% return. During a visit to Ireland in October, the International Monetary Fund's Chief Economist commented that the government should be able to resume borrowing by early 2013. In December, the Government announced measures aimed at achieving a fiscal adjustment of nearly €4 billion, with €1.6 billion coming from higher taxes and charges, in the two-day 2012 Budget at the beginning of the month. There was disappointing news from the Central Statistics Office as it was revealed that the economy had contracted during the third quarter of 2011, despite a rise in exports. If there is a further contraction in the fourth quarter, then the country will officially experience a double-dip recession.

UK equities gained 9.3% over the quarter in sterling terms (a 12.7% return in euro terms). During the quarter, the Bank of England's Monetary Policy Committee maintained the official Bank interest rate at 0.5%, while increasing the asset purchase programme by £75 billion. Financial stocks took a hit when ratings agency Moody's downgraded the credit rating of twelve UK banks. There was good news for the economy as a whole, however, when Standard & Poor's reconfirmed the UK's AAA credit rating, suggesting that the economy was well positioned to come through the current sluggish period. In contrast, in a stark Autumn Budget Statement, Chancellor of the Exchequer George Osborne warned that economic growth would be lower than previously forecast in 2011 and 2012. He also announced that the state pension retirement age would rise to 67 in 2026 – ten years ahead of schedule.

US equities returned 10.8% in dollar terms during the quarter, returning 14.8% for Irish investors. Investor confidence returned to the market in the wake of positive economic data and a strong third quarter earnings season. Figures were released which showed that the US economy had grown at an annualized rate of 2.5% in the third quarter (compared with 1.3% in the second quarter). The Federal Reserve pledged to keep interest rates low until the middle of 2013, but did not announce any additional stimulus measures much to the disappointment of the market. In economic news, jobless claims fell to the lowest level since May 2008, while two leading manufacturing indices surprised on the upside.

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The Eurozone region gained 5.6% over the quarter, while the rest of Europe recorded a 7.2% return (8.3% in euro terms). Once again, investor concerns were focused on the outlook for Eurozone debt, with efforts to resolve the crisis ongoing throughout the quarter. At an EU Council Meeting at the end of October, a revised stability plan was agreed. This plan involves increasing the size of the European Financial Stability Facility from €440 billion to €1 trillion, recapitalization of the banking sector and a 50% write-down on the value of Greek debt held by the private sector. A December meeting of the leaders of the 27 European Union nations saw politicians move closer to fiscal union in the region, as 26 of these nations agreed to sign up to a new treaty that will set tighter budget rules for the 17 Eurozone countries - and any other EU country that wants to join. The UK was the only country to refuse to sign up to the new treaty. Meanwhile, Mario Draghi replaced Jean-Claude Trichet as governor of the European Central Bank and quickly reversed his predecessor's two most recent interest rate increases.

The Japanese stock market returned -4.0% over the quarter in yen terms (declining 0.6% in euro terms). The Japanese economy expanded during the third quarter of the year, at an annualized rate of 5.6%, after three consecutive quarterly contractions. Meanwhile, the Bank of Japan released a survey which showed a deterioration in sentiment among the nation's largest manufacturers.

Markets in the rest of the Pacific Basin delivered a return of 2.7% in local currency terms (8.9% for Irish investors). Data was released which showed that the Chinese economy had expanded at an annual rate of 9.1% in the third quarter, its slowest pace since 2009. In other news, Chinese inflation fell to 4.2% in the year to November, from a three-year high of 6.5% in July, while the People's Bank of China surprised markets by reducing the bank reserve ratio requirement by 0.5%. Meanwhile, Hong Kong's economy expanded by 0.1% during the third quarter, compared with a 0.4% contraction in the previous three months.

Market Index Returns to 31st December 2011

Asset Class	3 Months %		12 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	16.2	16.2	2.6	2.6
- UK	9.3	12.7	-2.3	0.3
- North America	10.8	14.8	0.7	3.8
- Eurozone	5.6	5.6	-14.5	-14.5
- Rest of Europe	7.2	8.3	-9.5	-8.4
- Japan	-4.0	-0.6	-18.0	-10.7
- Pacific Basin	2.7	8.9	-12.8	-10.7
Euro Bonds (> 5 Years)	-1.3	-1.3	3.9	3.9

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3. Other Balanced Managed Funds

Consensus Fund Returns to 31st December 2011

	Quarter 4 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	7.3	5=	-2.9	5=	9.3	5	-4.0	5		
Aviva Investors	7.3	5=	-2.9	5=	8.8	6	-4.1	6	0.9	4
Friends First/F&C	7.8	2	-2.6	2	11.1	1	-2.9	1	1.8	1
Irish Life Investment	7.7	3=	-2.7	3=	9.8	4	-3.6	4	1.7	2
Standard Life Investments	8.1	1	-2.5	1	10.3	2	-3.5	3		
State Street Global Advisors	7.7	3=	-2.7	3=	10.1	3	-3.4	2	1.6	3
Average	7.7		-2.7		9.9		-3.6		1.5	

Multi-Manager Fund Returns to 31st December 2011

	Quarter 4 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	7.4	1=	-3.2	2	10.3	2	-3.8	1		
Irish Life Investment	6.8	3	-3.7	3	9.0	3	-4.1	2	1.5	1
Standard Life Investments	7.4	1=	-2.7	1	10.6	1	-4.5	3		
Average	7.2		-3.2		10.0		-4.1		1.5	