Pensions, Investments
& Advisory Services

Quarterly Investment Update

31st March 2010

A fresh approach to retirement planning

Thinking, **Years Ahead**

1. Active Managed Funds

Fund Performance

Having declined in January, for the first time since October 2009, Irish pension funds recovered lost ground during February and March. As a result, all of the funds surveyed delivered positive returns over the first three months of the year, with the average return for the quarter coming in at 5.9%. Irish Life Investment Managers took top spot with a return of 7.0% for the quarter, while Aviva Investors propped up the league table with a 4.5% return.

Over the past twelve months all of the managed funds surveyed delivered double-digit growth, with the average fund returning 36.1%. Returns for the past year ranged from 42.9% (Irish Life Investment Managers) to 29.8% (AIB Investment Managers), representing a difference of 13.1% between the best and worst performing managers over the period.

The average managed fund return has been a very disappointing -6.9% per annum over the past three years. However, the five year returns to the end of March are positive, delivering an average return of 1.7% 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 2.7% 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 March 2010

	Quarter 1 %	*Rank*	1 Year %	*Rank*	3 Years % p.a.	*Rank*	5 Years % p.a.	*Rank*	10 Years % p.a.	*Rank*
AIB Investment Managers	5.8	8	29.8	11	-8.5	9	1.4	6	-0.8	10
Aviva Investors	4.5	11	33.0	9	-9.4	10	0.1	9=	-0.5	9
Bank of Ireland Asset	6.2	3=	35.3	7	-7.5	7	0.0	11	1.1	4
Canada Life/Setanta	6.0	6=	37.5	3	-3.7	1	2.7	4	0.9	6
Eagle Star/Zurich Life	5.3	9	35.2	8	-4.1	2	4.2	1	1.5	1=
Friends First/F&C	6.2	3=	36.2	6	-8.2	8	1.1	7	-0.4	8
Irish Life Investment Managers	7.0	1	42.9	1	-6.8	5	2.1	5	1.5	1=
KBC Asset Management	6.0	6=	32.8	10	-9.6	11	0.1	9=	-1.8	11
Merrion Investment Managers	5.1	10	40.4	2	-4.5	3	3.3	2	1.0	5
New Ireland	6.2	3=	36.6	5	-7.4	6	0.2	8	1.2	3
Standard Life Investments	6.5	2	37.2	4	-6.3	4	3.0	3	0.5	7
Average	***5.9***		***36.1***		***-6.9***		***1.7***		***0.4***	

Historic One Year Returns (to 31st March 2010)

	2006 %	*Rank*	2007 %	*Rank*	2008 %	*Rank*	2009 %	*Rank*	2010 %	*Rank*
AIB Investment Managers	25.7	7	11.1	1	-12.8	4	-32.3	8	29.8	11
Aviva Investors	23.8	8	9.3	4	-14.4	5	-34.6	11	33.0	9
Bank of Ireland Asset	19.8	11	5.6	10	-17.5	8=	-29.1	5	35.3	7
Canada Life/Setanta	21.8	9	5.5	11	-12.0	1	-26.3	2	37.5	3
Eagle Star/Zurich Life	26.9	2	9.6	3	-12.3	2	-25.5	1	35.2	8
Friends First/F&C	26.1	3=	8.6	6	-17.5	8=	-31.2	7	36.2	6
Irish Life Investment Managers	26.1	3=	8.7	5	-14.7	6	-33.6	10	42.9	1
KBC Asset Management	25.8	6	8.3	7	-17.5	8=	-32.6	9	32.8	10
Merrion Investment Managers	26.0	5	7.5	8	-12.4	3	-29.2	6	40.4	2
New Ireland	19.9	10	6.0	9	-18.6	11	-28.7	4	36.6	5
Standard Life Investments	27.4	1	10.7	2	-17.0	7	-27.7	3	37.2	4
Average	***24.5***		***8.3***		***-15.2***		***-30.1***		***36.1***	

Asset Distributions as at 31st March 2010

	AIBIM	Aviva	BIAM	CL/SAM	ES/ZL	FF/F&C	ILIM	KBCAM	MIM	NI	SLI	*Average*
Equities												
- Irish	6.6%	7.0%	6.1%	5.0%	3.0%	6.5%	6.7%	8.6%	6.9%	5.3%	0.0%	5.6%
- UK	10.8%	10.5%	11.9%	8.2%	10.0%	11.6%	13.3%	9.8%	7.7%	11.6%	10.8%	10.5%
- US	23.2%	21.8%	19.8%	35.9%	24.0%	20.9%	21.6%	20.6%	27.7%	19.5%	21.5%	23.3%
- Euro (ex Irl)	16.9%	18.8%	15.4%	10.7%	17.0%	17.0%	20.9%	17.8%	13.3%	14.5%	17.7%	16.4%
- Rest of Europe	5.2%	2.9%	7.5%	6.4%	6.0%	6.2%	1.6%	6.3%	6.0%	8.4%	9.5%	6.0%
- Japan	4.0%	0.3%	4.7%	3.0%	3.0%	2.0%	2.8%	2.5%	4.3%	4.4%	1.5%	3.0%
- Pacific Basin	9.8%	12.9%	11.2%	6.2%	12.0%	11.7%	6.6%	12.4%	2.3%	11.3%	9.0%	9.6%
Total Equity	**76.6%**	**74.1%**	**76.6%**	**75.4%**	**75.0%**	**75.8%**	**73.5%**	**77.9%**	**68.1%**	**75.0%**	**70.0%**	**74.4%**
Fixed Interest	16.4%	15.8%	11.2%	18.9%	17.0%	16.7%	12.6%	14.9%	11.5%	15.8%	23.4%	15.8%
Property	3.4%	5.5%	5.0%	2.4%	0.0%	4.4%	5.4%	4.2%	1.1%	3.9%	4.2%	3.6%
Cash	3.6%	4.6%	2.1%	1.3%	8.0%	3.1%	5.5%	1.2%	19.3%	5.3%	2.4%	5.1%
Alternative Assets	0.0%	0.0%	5.2%	2.0%	0.0%	0.0%	3.0%	1.8%	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 March, the average equity weighting of actively managed balanced funds was 74.4%, up from 73.6% at the end of December 2009. Merrion Investment Managers had the lowest equity weighting at 68.1% while KBC Asset Management had the highest at 77.9%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 5.6% and ranging from a low of zero (Standard Life Investments) to a high of 8.6% (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 15.8%, while the average property weighting was 3.6%. Cash made up 5.1% of the managed funds on average, while the average exposure to alternative assets was 1.1%.

2. Market Review

The first quarter of 2010 was a somewhat volatile period for equity markets, as concerns over Eurozone debt default and monetary policy tightening in the US and China were offset as governments and central banks moved to reassure investors. In addition, there was a welcome return to merger and acquisition activity. In currency markets, sterling and the euro weakened on the back of fiscal concerns. Meanwhile, Eurozone bonds returned 3.1% over the quarter.

The Irish stock market was one of the best performing of the major bourses in which Irish pension funds invest, delivering a return of 7.7%, during the first quarter. Financial stocks underperformed the rest of the market, with a return of 5.0%, in the quarter that saw the National Asset Management Agency (NAMA) finally begin transferring impaired loans from the banks. Having completed its valuations, NAMA will apply an average discount of 47% to the loans it is buying from the banks, well ahead of the 30% discount anticipated by the Government last year. Also, Minister for Finance, Brian Lenihan, announced that the scale of the damage in the banking sector is now known and that the banks will need at least €22 billion in new capital, with this figure possibly rising by up to €10 billion.

UK equities gained 6.0% in sterling terms over the quarter, while the weakening of sterling reduced this slightly, to 5.6% for Irish investors. UK GDP data released showed that the economy had expanded by just 0.1% in the fourth quarter of 2009, which was less than had been expected. This was seen as a sign that the economy remains weak despite no longer being in recession. The Bank of England decreased its growth and inflation forecasts in its February Inflation Report; as a result, expectations increased that interest rates would remain low for longer than had been expected and that the Bank might expand its quantitative easing programme in future months. Sterling weakened on the news that the government had recorded a budget deficit, with the looming May general election adding to the currency's woes. In corporate news, there were a number of merger and acquisition deals taking place over the quarter, most notably involving household names like Cadbury, Prudential and BP.

US equities returned 5.3% in dollar terms during the quarter, with the strength of the dollar increasing this to 12.0% for Irish investors. The Federal Reserve increased their discount rate (the rate at which they lend directly to banks) by 0.25%; however they made it clear that this was not a move towards tightening monetary policy and reiterated their intention to keep interest rates low for an extended period. GDP data was released for the fourth quarter of 2009, to show the economy expanded at an annualized rate of 5.6% over the period. It was a busy quarter on the corporate activity front; most notably there was a plethora of merger and acquisitions news in the pharmaceutical sector, in a quarter that saw a landmark overhaul of the US healthcare system passed by the House of Representatives and signed into law by President Obama.

Eurozone equities returned 0.9% over the quarter, while the Rest of Europe gained 7.0% in local currency terms. The European Central Bank kept interest rates on hold at the record low of 1.0%, as expected. Throughout the quarter, investor concerns were focused on the outlook for Greece as the country continued to struggle with massive budget deficits. There was some uncertainty regarding the level of support that the Greek government could expect from their Eurozone peers; however, towards quarter end an agreement was reached that would make a loan facility available to Greece,

if needed, from the Euro member states and the International Monetary Fund. The European Central Bank also offered Greece a lifeline, by keeping the (currently temporarily relaxed) minimum credit threshold for loan collateral unchanged beyond the end of 2010. Meanwhile, economic growth in the region slowed in the final quarter of 2009, with GDP increasing just 0.1% over the three month period. The region's difficulties led to a decline in the euro against the dollar and the yen.

The Japanese stock market gained 8.8% in yen terms during the quarter; this rose to 15.0% for Irish investors due to the weakening of the euro. The Bank of Japan kept interest rates on hold at 0.1% as demand for bank loans fell to a five-year low on the back of corporate spending cuts. Furthermore, the Bank doubled its lending programme (to ¥20 trillion), in an attempt to stimulate growth. Meanwhile, Japan Airlines filed for bankruptcy but will remain in business thanks to State support, which is contingent on sweeping reforms.

Meanwhile, Pacific Basin markets returned 0.6% over the quarter (8.3% for Irish investors). The Chinese government moved to slow the pace of economic growth by increasing the bank reserve ratio in January, and again in February, thereby removing some liquidity from the system in an effort to take some heat out of the economy. During the quarter it was announced that Chinese GDP grew at a rate of 10.7% year-on-year during the final quarter of 2009. Inflation rose to 2.7% in the year to February, while exports increased 46% over the same period. Meanwhile, Chinese auto manufacturer, Zhejiang Geely Holding Co. agreed to buy Volvo Cars from Ford Motor Company for US$1.8 billion in the biggest overseas acquisition by a Chinese automaker. Signs of economic recovery in Asia continued as both the Reserve Bank of Australia and the Reserve Bank of India raised interest rates by 0.25%.

Market Index Returns to 31st March 2010

Asset Class	Quarter 4 %	
	Local Ccy	Euro
Equities		
- Ireland	7.7	7.7
- UK	6.0	5.6
- North America	5.3	12.0
- Eurozone	0.9	0.9
- Rest of Europe	7.0	11.2
- Japan	8.8	15.0
- Pacific Basin	0.6	8.3
Euro Bonds (> 5 Years)		

3. Other Balanced Managed Funds

Consensus Fund Returns to 31st March 2010

	Quarter 1 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	6.1	3=	34.5	5=	-7.7	5	1.5	4		
Aviva Investors	5.7	6	34.5	5=	-7.8	6	0.9	5	-0.2	4
Bank of Ireland Asset	6.4	1	37.1	3	-7.0	2	2.0	1	0.5	2
Friends First/F&C	6.3	2	38.8	2	-6.9	1	1.8	3	0.4	3
Irish Life Investment	6.1	3=	35.8	4	-7.1	3	1.9	2	0.8	1
Standard Life Investments	6.0	5	39.9	1	-7.2	4				
Average	***6.1***		***36.8***		***-7.3***		***1.6***		***0.4***	

Multi-Manager Fund Returns to 31st March 2010

	Quarter 1 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	6.4	2	36.3	2	-7.8	2	1.4	2
Irish Life Investment	6.7	1	36.1	3	-7.5	1	1.7	1
Standard Life Investments	5.7	3	37.3	1	-9.1	3	0.7	3
Average	***6.3***		***36.6***		***-8.1***		***1.3***	