

Pensions, Investments
& Advisory Services



Quarterly Investment Update

31st March 2011

A fresh approach to retirement planning



Thinking, **Years Ahead**

31st March 2010

1. Active Managed Funds

Fund Performance

As a result of the poor returns during March, the average managed fund lost 0.9% over the first quarter of 2011; with returns ranging from a high of 0.3% (Setanta Asset Management and Irish Life Investment Managers) to a low of -2.1% (Merrion Investment Managers). Over the past twelve months the average fund returned 4.0%. Returns for the past year ranged from 8.4% (Standard Life Investments) to 2.2% (Irish Life Investment Managers).

The average managed fund return has been a disappointing -0.4% per annum over the past three years. The five year returns to the end of March are mostly negative, with an average return of -1.9% 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, well below the Irish inflation rate of 2.3% per annum over the same time horizon. Indeed, only two of the managed funds surveyed (those of Eagle Star/Zurich Life and Standard Life Investments) outperformed inflation over this period.

Fund Returns to 31st March 2011

	Quarter 1 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-0.6	3=	4.9	2	-2.7	10	-2.2	6	0.6	10
Aviva Investors	-0.7	5	3.4	7	-3.5	11	-3.4	10	0.8	9
Canada Life/Setanta	0.3	1=	3.7	5	1.7	2	-0.5	3	1.8	4=
Eagle Star/Zurich Life	-1.6	10	3.6	6	1.4	3	0.1	1	3.2	1
Friends First/F&C	-1.4	9	4.2	4	-0.8	7	-2.6	7	1.2	8
Irish Life Investment Managers	0.3	1=	2.2	11	-1.0	8	-2.1	5	1.8	4=
Kleinwort Benson Investors	-0.6	3=	4.8	3	-2.1	9	-3.5	11	-0.4	11
Merrion Investment Managers	-2.1	11	2.6	10	0.7	4	-0.8	4	2.2	3
New Ireland	-1.2	7	2.9	8	0.1	5	-2.8	8	1.5	6
Standard Life Investments	-0.8	6	8.4	1	2.5	1	-0.2	2	2.5	2
State Street Global Advisors	-1.3	8	2.8	9	-0.5	6	-3.0	9	1.4	7
Average	-0.9		4.0		-0.4		-1.9		1.5	



Historic One Year Returns (to 31st March)

	2007 %	Rank	2008 %	Rank	2009 %	Rank	2010 %	Rank	2011 %	Rank
AIB Investment Managers	11.1	1	-12.8	4	-32.3	8	29.8	11	4.9	2
Aviva Investors	9.3	4	-14.4	5	-34.6	11	33.0	9	3.4	7
Canada Life/Setanta	5.5	11	-12.0	1	-26.3	2	37.5	3	3.7	5
Eagle Star/Zurich Life	9.6	3	-12.3	2	-25.5	1	35.2	8	3.6	6
Friends First/F&C	8.6	6	-17.5	8=	-31.2	7	36.2	6	4.2	4
Irish Life Investment Managers	8.7	5	-14.7	6	-33.6	10	42.9	1	2.2	11
Kleinwort Benson Investors	8.3	7	-17.5	8=	-32.6	9	32.8	10	4.8	3
Merrion Investment Managers	7.5	8	-12.4	3	-29.2	6	40.4	2	2.6	10
New Ireland	6.0	9	-18.6	11	-28.7	4	36.6	5	2.9	8
Standard Life Investments	10.7	2	-17.0	7	-27.7	3	37.2	4	8.4	1
State Street Global Advisors	5.6	10	-17.5	8=	-29.1	5	35.3	7	2.8	9
Average	8.3		-15.2		-30.1		36.1		4.0	

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Asset Distributions as at 31st March 2010

	<u>AIBIM</u>	<u>Aviva</u>	<u>CL/SAM</u>	<u>ES</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>Average</u>
Equities												
- Irish	3.9%	4.6%	6.4%	2.0%	5.1%	5.1%	6.3%	6.1%	3.8%	0.6%	5.6%	4.5%
- UK	10.1%	15.8%	6.8%	10.0%	10.5%	7.8%	9.8%	9.5%	9.2%	10.0%	10.9%	10.0%
- US	24.7%	26.2%	32.5%	25.0%	25.1%	27.5%	25.8%	24.9%	19.5%	26.8%	22.4%	25.5%
- Euro (ex Irl)	14.7%	12.9%	9.5%	15.0%	16.3%	20.2%	14.2%	15.7%	12.9%	15.9%	15.0%	14.7%
- Rest of Europe	7.3%	5.0%	4.3%	6.0%	5.6%	1.3%	6.9%	5.6%	5.7%	9.4%	6.5%	5.8%
- Japan	3.5%	1.3%	4.1%	4.0%	4.8%	4.4%	1.4%	6.0%	4.5%	2.3%	5.6%	3.8%
- Pacific Basin	10.4%	11.5%	5.5%	12.0%	11.4%	8.4%	12.7%	7.7%	8.4%	9.6%	9.3%	9.7%
Total Equity	74.6%	77.3%	69.0%	74.0%	78.8%	74.8%	77.1%	75.5%	64.0%	74.6%	75.3%	74.1%
Fixed Interest	19.1%	15.5%	19.4%	14.0%	13.5%	12.8%	14.4%	11.4%	24.8%	20.6%	11.6%	16.1%
Property	3.7%	5.6%	2.8%	0.0%	4.2%	5.5%	4.0%	1.0%	3.9%	4.3%	5.2%	3.6%
Cash	2.6%	1.5%	6.4%	12.0%	3.5%	5.1%	1.9%	8.5%	7.3%	0.6%	2.6%	4.7%
Alternative Assets	0.0%	0.0%	2.4%	0.0%	0.0%	1.8%	2.4%	3.6%	0.0%	0.0%	5.3%	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 March, the average equity weighting of actively managed balanced funds was 74.1%, down from 75.1% at the end of December. New Ireland had the lowest equity weighting at 64.0% while Friends First/F&C had the highest at 78.8%. 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 0.6% (Standard Life Investments) to a high of 6.4% (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 16.1%, while the average property weighting was 3.6%. Cash made up 4.7% of the managed funds on average, while the average exposure to alternative assets was 1.4%.



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2. Market Review

Equity markets had a volatile start to 2011. Increased merger and acquisition activity, positive economic data and upbeat earnings reports supported markets. However, environmental and geopolitical instability had a detrimental impact. Eurozone bonds lost 1.5% over the first quarter of 2011, as demand for bonds due to their safe-haven status during the quarter was offset by concern over rising inflation and interest rates.

The Irish stock market gained 0.6% during the quarter. Financials had a difficult quarter, losing 37.4%. Comments from the Financial Regulator suggesting that foreign buyers may be needed to stimulate the banking sector had a negative impact, as did the publication of the results of stress tests that showed the main Irish banks will need a further €24 billion of capital. A banking sector restructuring plan was announced in the wake of the stress test results. In January, the Finance Bill (which brings the changes announced in the budget into effect) was passed by both the Dáil and the Seanad. This paved the way for the dissolution of the Dáil and the calling of a general election on 25 February, which resulted in the near-wipeout of the two government parties. In economic news, provisional figures released by the Central Statistics Office indicated that manufacturing production had increased by 8.4% in 2010, boosted by an almost 40% increase in production by the pharmaceutical sector, and that the value of exports had increased by 21% in the year to December. Meanwhile, the unemployment rate remained at 13.5% in February despite the number of people on the Live Register declining for the second month in a row. Statistics released later in the quarter showed that the economy had contracted for the third year in a row during 2010 (by 1.0%).

UK equities returned 1.2% over the quarter in sterling terms (a -2.0% return in euro terms). The Bank of England's Monetary Policy Committee maintained the official Bank interest rate at 0.5%, and kept the asset purchase programme at £200 billion. In economic news, it was announced that GDP had contracted by 0.6% during the final quarter of 2010, while manufacturing activity increased at its fastest past in 16 years in December. House prices declined at the fastest pace in sixteen months during February, potentially making it more difficult for the Bank to raise interest rates in an effort to curb inflation, which is currently at an annual rate of 4.4%. Meanwhile, the VAT rate increased from 17.5% to 20% in January. During March, Chancellor of the Exchequer George Osborne announced his annual budget, which focussed on "growth and jobs", while lowering the official economic growth forecast for 2011 to 1.7%.

US equities returned 5.7% in dollar terms during the first three months of 2011, returning 0.2% for Irish investors. In corporate news, the fourth quarter earnings season got underway, with most companies delivering better than expected results. There was good news on the employment front, as the unemployment rate fell to 8.9% in February. Despite record levels of exports, the US trade deficit grew by more than expected during January due to a surge in imports driven by higher oil prices. Meanwhile, it was confirmed that the economy had expanded at an annual rate of 3.1% in the fourth quarter of 2010.

The Eurozone region recorded a 4.0% rise over the quarter, while the rest of Europe gained 0.4% (a -1.5% return in euro terms). The European Central Bank held interest rates at the historic low of 1% throughout the quarter. However, ECB president Jean-Claude Trichet said a rate increase in April



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was “possible, but not certain”. Speculation mounted that Portugal may be the next country to need a bailout from the EU, following the resignation of the country’s Prime Minister after he failed to pass austerity measures through parliament.

The Japanese stock market lost 2.6% over the quarter in yen terms (a -9.9% return in euro terms). Japan’s credit rating was cut by Standard & Poor’s (to AA-) on the back of an \$11 trillion debt burden, while Moody’s downgraded its outlook for Japan from “stable” to “negative”. On 11 March, Japan was struck by its largest ever earthquake, which in turn led to a tsunami, resulting in thousands of deaths and in the temporary closure of many businesses in the world’s third largest economy. Subsequently, Japan declared a state of emergency following the failure of the cooling system at the Fukushima Nuclear Power Plant.

Markets in the Pacific Basin delivered a return of 1.5% in local currency terms (-3.1% for Irish investors). In China, it was revealed that the economy had expanded by 10.3% during 2010. China’s central bank raised interest rates as inflation rose to 4.9% in the year to January. Furthermore, the reserve ratio requirement for banks was increased three times during the quarter. Meanwhile, it was revealed that China had overtaken Japan to become the world’s second largest economy in 2010. Elsewhere in the region, Australia was hit by severe weather conditions, which had a negative impact on mining stocks, while New Zealand’s second most populous city was hit by a 6.3-magnitude earthquake in February. Interest rates were also increased in South Korea, Thailand, India and Indonesia.

Market Index Returns to 31st March 2011

Asset Class	3 months %	
	Local Ccy	Euro
Equities		
- Ireland	0.6	0.6
- UK	1.2	-2.0
- North America	5.7	0.2
- Eurozone	4.0	4.0
- Rest of Europe	0.4	-1.5
- Japan	-2.6	-9.9
- Pacific Basin	1.5	-3.1
Euro Bonds (> 5 Years)	-1.5	-1.5

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3. Other Balanced Managed Funds

Consensus Fund Returns to 31st March 2011

	Quarter 1 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-0.7	2=	4.7	5	-0.7	5	-2.0	5		
Aviva Investors	-1.0	4	4.2	6	-0.9	6	-2.4	6	1.0	4
Friends First/F&C	-1.5	6	6.5	1	0.4	1	-1.3	1	1.8	2
Irish Life Investment	-0.7	2=	4.9	4	-0.3	4	-1.6	3	1.9	1
Standard Life Investments	-1.1	5	5.1	3	0.2	2	-1.8	4		
State Street Global	-0.6	1	5.2	2	0.1	3	-1.4	2	1.7	3
Average	-0.9		5.1		-0.2		-1.8		1.6	

Multi-Manager Fund Returns to 31st March 2011

	Quarter 1 %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	-1.7	3	5.1	2	-0.3	2	-2.2	2		
Irish Life Investment	-0.5	2	4.5	3	-0.4	3	-2.1	1	1.9	1
Standard Life Investments	-0.4	1	6.7	1	-0.2	1	-2.8	3		
Average	-0.9		5.4		-0.3		-2.4		1.9	