

INVESTMENT MANAGER

Willis

SURVEY

MARCH 2010

willis.com/ireland

GROUP PENSION MANAGED FUNDS PERFORMANCE STATISTICS AS AT MARCH 31, 2010

MANAGER	1 MTH		3 MTH		YTD		6 MTH		12 MTH		3 YRS PA		5 YRS PA		10 YRS PA	
	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK
ACORN LIFE	7.0	1	8.2	1	8.2	1	10.6	3	40.9	2	-6.2	4	2.4	5	0.1	8
AIBIM	6.0	6=	5.8	9=	5.8	9=	7.8	13	29.8	12	-8.5	10	1.4	7	-0.8	11
AVIVA IRL	5.7	9=	4.5	13	4.5	13	8.7	10	33.0	10	-9.4	12	0.1	10=	-0.5	10
BIAM	6.1	3=	6.2	4=	6.2	4=	9.5	7=	35.3	8	-7.5	8	0.0	12	1.1	4
CANADA LIFE/SETANTA	4.9	11	6.0	7=	6.0	7=	11.0	1	37.5	4	-3.7	1	2.7	4	0.9	6
DAVY	4.3	13	5.8	9=	5.8	9=	8.6	11	21.6	13	-8.9	11	-0.4	13	-1.5	12
F&C	6.1	3=	6.2	4=	6.2	4=	9.6	6	36.2	7	-8.2	9	1.1	8	-0.4	9
IRISH LIFE	6.5	2	7.0	2	7.0	2	9.5	7=	42.9	1	-6.8	6	2.1	6	1.5	1=
KBCAM	6.1	3=	6.0	7=	6.0	7=	9.7	5	32.8	11	-9.6	13	0.1	10=	-1.8	13
MERRION	4.7	12	5.1	12	5.1	12	8.0	12	40.4	3	-4.5	3	3.3	2	1.0	5
NEW IRELAND	6.0	6=	6.2	4=	6.2	4=	9.8	4	36.6	6	-7.4	7	0.2	9	1.2	3
STANDARD LIFE	5.7	9=	6.5	3	6.5	3	10.8	2	37.2	5	-6.3	5	3.0	3	0.5	7
ZURICH	5.8	8	5.3	11	5.3	11	8.9	9	35.2	9	-4.1	2	4.2	1	1.5	1=
AVERAGE	5.8		6.1		6.1		9.4		35.3		-7.0		1.6		0.2	

AIBIM CONSENSUS	5.8	6.1	6.1	8.6	34.5	-7.7	1.5	N/A
AVIVA IRL CONSENSUS	5.6	5.7	5.7	8.5	34.1	-7.8	0.9	-0.1
BIAM CONSENSUS	6.0	6.4	6.4	9.4	37.1	-6.9	2.1	0.5
CANADA LIFE CONSENSUS	5.1	6.0	6.0	8.9	35.9	-8.3	0.7	-0.4
F&C CONSENSUS	6.0	6.3	6.3	10.4	38.8	-6.9	1.8	0.4
IRISH LIFE CONSENSUS	5.9	6.1	6.1	9.1	35.8	-7.1	1.9	0.8
AVERAGE	5.7	6.1	6.1	9.2	36.0	-7.5	1.5	0.2

AVIVA IRL EURO MANAGED	5.4	4.8	4.8	8.5	37.4	-5.1	2.8	0.1
BIAM EURO MANAGED	5.7	5.7	5.7	10.2	36.0	-3.5	2.6	0.7
KBCAM EURO MANAGED	6.0	5.2	5.2	9.5	32.4	-7.3	1.3	N/A
NEW IRELAND IRIS FUND	7.2	7.0	7.0	11.3	44.3	-9.6	-0.7	0.2

AIBIM MULTIMANAGER	6.3	6.4	6.4	8.8	36.3	-7.8	1.4	N/A
IRISH LIFE GLOBAL ACCESS	6.8	6.7	6.7	9.2	36.1	-7.5	1.7	N/A
SLI MULTIMANAGER	6.2	5.7	5.7	9.4	37.4	-9.0	0.7	N/A

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INVESTMENT MARKET REVIEW Q1 2010

EQUITIES

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
MSCI World	9.9%	18.3%	44.9%	-7.7%	0.2%	-5.0%
MSCI Eurobloc	1.2%	6.2%	43.0%	-11.3%	-0.3%	-5.2%
MSCI North America	12.2%	23.2%	43.8%	-5.7%	0.1%	-5.5%
MSCI UK	6.3%	16.5%	51.0%	-11.7%	-2.3%	-4.7%
MSCI Japan	13.9%	14.1%	29.2%	-11.0%	-1.1%	-7.4%
MSCI Asia Pacific ex Japan	9.4%	17.5%	73.4%	-1.4%	7.0%	2.6%
ISEQ Overall	6.8%	-3.8%	39.0%	-30.3%	-12.0%	-5.6%
MSCI World Growth	10.4%	21.4%	46.4%	-3.2%	3.4%	-5.4%
MSCI World Value	10.8%	17.9%	51.7%	-7.0%	2.2%	-0.5%
MSCI World Small Cap	14.8%	22.7%	65.8%	-6.5%	2.2%	1.5%

NB: Returns are in Euro terms

Source: MoneyMate

The Euro weakened significantly over the quarter. For Euro based investors with an unhedged equity portfolio, this had the effect of increasing the returns on non Eurozone equity markets.

- Having increased in excess of 26% in 2009, equity markets started the year nervously. The MSCI World Index (in Euro terms) fell by 0.2% in January before regaining ground in February (up 4.1%) and March (up 5.8%), finishing the quarter up 9.9%.
- Despite the 45% rally in equity markets over the last 12 months, the MSCI World equity index is still approximately 25% below the peaks reached in the summer of 2007 (and 68% above the March 2009 lows).
- All developed regional equity markets recorded positive returns in Q1. Asian equity markets performed well on the back of an improving export market and government stimulus. The Japanese equity market increased by 13.9% and the Asia Pacific ex Japan region (e.g. Australia, New Zealand, Singapore) increased by 9.4%. North American equities continued to perform well (up 12.2%) on the back of strong company earnings, continued low interest rates and improving economic data.
- The UK market underperformed the world equity benchmark, increasing 6.3%. Recent data in the UK has disappointed and the possibility of a hung parliament following the elections in May weighed on market sentiment.
- Eurozone markets were the worst performing region, increasing by only 1.2%. Weaker growth in Germany and Italy was offset by stronger growth in France. However, the real concern during the quarter related to the fiscal problems of the peripheral Eurozone states (particularly Greece). Greece's large fiscal deficit and elevated debt to GDP ratio has investors concerned about the long term financial stability of Greece and the future of the Eurozone economy and currency. Eurozone members have reluctantly pledged support for Greece in the event that they can not raise sufficient capital in the markets to run their economy. Controversially, the International Monetary Fund will also act as a lender of last resort, if required.
- The Irish market underperformed the broader world market, increasing only 6.8%. Although the economic data has shown some signs of improvement, the recovery continues to remain fragile. Unemployment continues to increase and consumer confidence remains muted. As a result, retail sales remain weak. The National Asset Management Agency (NAMA) finally started transferring loans from the banks towards the end of March. It is hoped that removing these toxic assets from the banks balance sheets will enable the resumption of lending and thus free up the supply of credit to the economy. However, given the size of the losses the banks will realise on these loans and the capital requirement conditions of the regulator, it is probable that the resumption of sustained lending will take time.

- The economic recovery continues to be heavily skewed towards emerging market economies. Consumer and government balance sheets are stronger than in the developed markets and this is allowing demand to recover more robustly.
- Fiscal stimulus programmes have seen budget deficits soar around the world. Governments have started to withdraw this extraordinary support and are starting to focus on reducing their substantial budget deficits. Taxes may be raised and spending reigned in, particularly in the US and UK where budget deficits have exceeded the 10% mark.
- Central Banks around the world have started to increase interest rates gradually. The Australian Central Bank has increased interest rates four times since last October. For the US, UK and Eurozone subdued inflation has allowed these Central Banks to maintain historic low interest rates. However, many analysts are anticipating that these economies will start increasing rates towards the end of 2010, though the pace of tightening is likely to be very gradual.
- In summary, the global economy continues to recover. However, it is becoming clear that the recovery is increasingly uneven. Growth in emerging economies is recovering more rapidly, than in developed economies. Developed economy growth is likely to remain somewhat constrained in the near term due to the weak position of household and government balance sheets. Unemployment is unlikely to improve until there is a period of above trend growth, and this may not occur until 2011 or later. However, emerging economies do not, for the most part, face these challenges, with both consumers and government in a stronger position to drive demand going forward. Significant risks to growth remain, including the risk of another serious and sustained period of stress in financial markets, as well as the risk that exit strategies from fiscal and monetary stimulus are not well executed and result in a significant uncertainty.

BONDS

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
Government Bonds						
ML Euro > 5 Year Index	3.3%	2.9%	7.6%	6.1%	4.4%	7.1%
Inflation Linked Bonds						
BarCap Eur Infl-Lkd All Maturities CPI	1.3%	1.0%	6.9%	3.3%	1.6%	3.7%
Corporate Bonds						
ML Euro Corporate AA Rated 10+ Years	5.0%	6.3%	22.7%	3.5%	3.0%	6.2%

Source: MoneyMate

- The Merrill Lynch greater than 5 year government bond index increased by 3.3% in Q1 2010, having increased 4.0% in 2009. The positive return was driven by continued low interest rates and expectations that interest rates would remain lower for longer.
- Strong Eurozone government bond returns were also driven by benign inflation.
- The typical Eurozone government bond indices followed by Irish Pension Funds have a 27% exposure to Italy, a 9% exposure to Spain and a combined exposure of 8% to Ireland, Greece and Portugal. This is relevant given the concerns surrounding the debt levels of these Eurozone economies.
- German and French government bonds continued to be regarded as the most secure government bonds in the Eurozone. Greek, Irish and Portuguese bonds are regarded as the riskiest bonds and consequently trade at a premium to German bonds of approximately 3.0%, 1.4% and 1.0% respectively. Italy and Spain trade at a premium of approximately 0.8%.
- Eurozone corporate bonds continued to perform well, increasing 5.0% in Q1, following a 16% increase in 2009. Yields on investment grade corporate bonds continued to fall on the back of strong corporate earnings.

ALTERNATIVE ASSETS

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
MSCI Emerging Market Equities	10.0%	21.3%	72.9%	2.8%	12.1%	3.8%
Dow Jones/ AIG Commodity Index	1.9%	14.8%	20.4%	-8.5%	-4.6%	-0.4%
Credit Suisse/Tremont Hedge Fund Index	6.0%	11.4%	15.4%	0.9%	4.7%	2.5%
€/\$	-6.0%	-7.6%	2.3%	0.6%	0.9%	3.4%
€/£	-0.3%	-2.8%	-3.8%	8.5%	5.0%	3.8%

NB: Returns are in Euro terms

Source: MoneyMate

- Emerging markets continued to perform strongly in Q1. Strong commodity prices, a partial recovery in world trade and a high level of investment in emerging market economies helped to drive performance.
- Given the continued strong growth in China there are some signs that the economy is overheating and certain sectors are showing bubble like behaviour. In addition, the Chinese are artificially keeping their currency weak which is further fuelling growth. The Chinese are likely to come under mounting pressure to allow their currency to strengthen which should act as a natural restraint on the growth in the economy.
- The Euro weakened significantly against the US Dollar in Q1 2009. This was a result of concerns regarding the debt levels in Greece and the consequences for the future of the Euro currency. In addition, the economic data continued to point to a faster recovery in the US economy coupled with the expectation that rate hikes in Europe will lag those in the US.

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