

# INVESTMENT MANAGER

Willis

# SURVEY

DECEMBER 2009

willis.com/ireland

## GROUP PENSION MANAGED FUNDS PERFORMANCE STATISTICS AS AT DECEMBER 31, 2009

MANAGER	1 MTH		3 MTH		6 MTH		YTD		12 MTH		3 YRS PA		5 YRS PA		10 YRS PA	
	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK	%	RANK
ACORN LIFE	4.2	11	2.2	12	14.5	10=	25.2	3	25.2	3	-8.3	5	1.3	5	0.0	8
AIBIM	4.3	9=	1.9	13	12.9	12	13.7	12	13.7	12	-9.5	9	0.7	7	-1.0	11
AVIVA IRL	4.9	3=	4.0	3	15.0	8	20.1	10	20.1	10	-10.3	12	-0.3	9	-0.4	9
BIAM	5.0	1=	3.1	8	15.1	7	21.0	9	21.0	9	-9.4	8	-0.6	12	1.0	5
CANADA LIFE/SETANTA	4.3	9=	4.7	1	15.9	5=	22.9	5	22.9	5	-5.3	2	2.4	3	1.2	3=
DAVY	4.0	13	2.7	9=	10.8	13	7.3	13	7.3	13	-10.0	11	-1.2	13	-1.4	12
F&C	4.4	8	3.2	7	14.9	9	21.2	8	21.2	8	-9.7	10	0.4	8	-0.5	10
IRISH LIFE	4.8	5=	2.4	11	17.4	1	25.6	2	25.6	2	-8.5	6	1.2	6	1.2	3=
KBCAM	5.0	1=	3.4	4=	14.5	10=	17.8	11	17.8	11	-11.2	13	-0.5	11	-1.8	13
MERRION	4.8	5=	2.7	9=	16.4	2	29.6	1	29.6	1	-5.8	3	2.7	2	2.0	1
NEW IRELAND	4.9	3=	3.4	4=	15.9	5=	22.0	7	22.0	7	-9.3	7	-0.4	10	0.9	6
STANDARD LIFE	4.1	12	4.1	2	16.1	4	24.2	4	24.2	4	-7.6	4	2.2	4	0.2	7
ZURICH	4.5	7	3.4	4=	16.3	3	22.1	6	22.1	6	-5.1	1	3.7	1	1.4	2
AVERAGE	4.6		3.2		15.1		21.0		21.0		-8.5		0.9		0.2	

AIBIM CONSENSUS	4.4	2.4	14.4	20.0	20.0	-9.1	0.7	N/A
AVIVA IRL CONSENSUS	4.3	2.7	14.5	19.0	19.0	-9.0	0.1	-0.2
BIAM CONSENSUS	4.5	2.9	15.1	21.8	21.8	-8.3	1.2	0.5
CANADA LIFE CONSENSUS	4.5	2.7	14.6	20.8	20.8	-9.6	-0.1	-0.5
F&C CONSENSUS	2.9	3.9	15.7	22.5	22.5	-8.3	1.0	0.3
IRISH LIFE CONSENSUS	4.6	2.8	15.0	21.3	21.3	-8.5	1.2	0.6
AVERAGE	4.2	2.9	14.9	20.9	20.9	-8.8	0.7	0.1

AVIVA IRL EURO MANAGED	4.3	3.5	16.9	21.4	21.4	-6.2	2.4	0.2
BIAM EURO MANAGED	4.8	4.3	16.4	21.5	21.5	-5.2	2.0	0.7
KBCAM EURO MANAGED	4.6	4.1	15.3	17.5	17.5	-8.4	0.9	N/A
NEW IRELAND IRIS FUND	6.1	4.0	18.7	26.4	26.4	-11.7	-1.4	-0.2

AIBIM MULTIMANAGER	4.3	2.2	14.0	21.9	21.9	-9.3	0.7	N/A
IRISH LIFE GLOBAL ACCESS	4.3	2.4	14.9	20.3	20.3	-9.0	0.9	N/A
SLI MULTIMANAGER	5.4	3.5	16.0	22.7	22.7	-10.4	0.1	N/A

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# Investment Market Review 2009

## Equities

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
<b>FTSE World</b>	6.0%	19.5%	26.4%	-9.2%	0.0%	-4.5%
<b>FTSE Eurobloc</b>	1.9%	23.0%	23.4%	-11.2%	0.5%	-3.7%
<b>FTSE North America</b>	7.3%	18.6%	22.0%	-9.3%	-1.5%	-5.4%
<b>FTSE UK</b>	8.4%	22.3%	33.5%	-12.9%	-2.0%	-5.2%
<b>FTSE Japan</b>	-1.4%	-0.2%	0.6%	-14.3%	-3.5%	-8.2%
<b>FTSE Asia Pacific ex Japan</b>	7.2%	27.9%	62.0%	-2.0%	7.2%	1.4%
<b>ISEQ Overall</b>	-11.1%	9.9%	27.0%	-31.9%	-13.7%	-5.1%

NB: Returns are price returns in Euro terms

Source: MoneyMate

- The FTSE World Index returned 26.4% (in Euro terms) in 2009.
- Following a poor start to the year, equity markets across the world rallied from mid March onwards as investors became more confident that a repeat of the 1930's depression was unlikely. In fact, from mid March until the end of the year, the FTSE World Index increased by approximately 45%.
- All developed regional equity markets recorded positive returns over the year. The Asia Pacific ex Japan region (e.g. Australia, New Zealand, Singapore) was the best performing region, increasing by 62%. This region has a large commodity market and higher prices for commodities in 2009 led to strong growth in the region. Japan was the worst performing region, increasing by only 0.6% as the Japanese export market struggled to cope with the stronger Japanese Yen. North American and UK equity markets increased by 22% and 33.5% respectively as better than expected economic data (particularly manufacturing and housing) and company earnings helped spur investor confidence.
- In Ireland, the equity market increased by 27.0%, after falling by 66% in 2008. The distribution of stocks in the Irish Index (ISEQ) remains very concentrated with CRH, Ryanair and Kerry Group making up approximately 50% of the index at the end of December. Although the economic data has shown some signs of improvement in recent months, the recovery remains fragile. Irish government borrowing has increased substantially in 2009 and is now close to the European average (as a percentage of GDP). However, it is the government's ability to service this borrowing and the uncertainty surrounding the banking sector (following the collapse in property prices) that is concerning investors.
- It is worth noting that the recovery is heavily skewed towards emerging market economies such as China, India and Brazil. The International Monetary Fund (IMF) anticipate that in 2009 the world economy contracted by 1.1%, the worst performance since World War II. That drop was split between a 3.4% decrease in developed economies and a 1.7% rise in emerging market economies. For 2010, the IMF predict that global growth will be 3.1%, split between an expansion in developed economies of 1.3% and 5.1% growth in emerging market economies.
- Much of the economic improvement is attributed to the scale and scope of policy initiatives to rescue the banking system and offset the collapse in private sector demand. European and US governments have provided more than \$15 trillion in guarantees, cash injections and other supports to help stabilise the world economy. To put this into context, this is equivalent to a quarter of the world's gross domestic product. These fiscal stimulus programmes have seen budget deficits soar around the world. In 2010, governments will start to withdraw this extraordinary support and start 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. We have already seen action by the Irish government in this regard.

- It is also anticipated that Central Banks around the world will start to increase interest rates gradually from current historic lows. In fact, some countries such as Australia have already started this process. For the US, UK and Eurozone it is expected that as long as the unemployment rate remains high, the financial and housing market remain fragile and credit conditions remain tight, interest rates will only increase at a slow pace.
- Analysts are cautiously optimistic on the outlook for 2010. However, as governments around the world withdraw their several emergency supports for economic recovery it remains uncertain as to whether the global economy has recovered sufficiently to operate independently. The actions of governments and central banks in this regard will likely determine if equity markets continue to move higher in 2010.

## Bonds

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
<b>Government Bonds</b>						
<b>ML Euro &gt; 5 Year Index</b>	-0.4%	3.8%	4.0%	4.9%	4.1%	7.1%
<b>Inflation Linked Bonds</b>						
<b>BarCap Eur Infl-Lkd All Maturities CPI</b>	-0.2%	3.0%	5.9%	2.5%	7.2%	3.4%
<b>Corporate Bonds</b>						
<b>ML Euro Corporate AA Rated 10+ Years</b>	1.5%	9.5%	16.0%	1.7%	2.3%	5.9%

Source: MoneyMate

- The Merrill Lynch greater than 5 year government bond index increased by 4.0% in 2009, having increased 10.4% in 2008. 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 through 2009, with Eurozone HICP inflation predicted to be just 0.9% in 2009.
- However, concerns regarding the exit from emergency policy settings – which is bound to have some impact on bond markets – kept the broader Eurozone bond markets in a trading range in the past few months. However, peripheral bond markets, such as Ireland and Greece have been more volatile of late as investors become more sensitive to the fiscal positions of these countries. At the end of 2009, Irish 10 year government bonds were yielding 1.60% more than German 10 year government bonds reflecting the greater uncertainty in the Irish situation. However, this spread was down from 2.70% at the peak of the crisis.
- Eurozone inflation linked bonds performed well in 2009, increasing by 5.9%. This increase was a result of long term inflation expectations increasing from 1.6% at the end of 2008 to 2.2% at the end of 2009.
- Eurozone corporate bonds returned a strong 16.0% in 2009. Yields on corporate bonds fell once it became clear that corporate bond defaults would be much less than the market initially anticipated. At one stage in early 2009, the market was anticipating that over 30% of corporate bonds would default.

## 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	10.3%	27.1%	69.1%	-0.1%	11.6%	3.5%
Dow Jones/ AIG Commodity Index	11.1%	11.0%	15.0%	-8.4%	-2.0%	0.5%
Credit Suisse/Tremont Hedge Fund Index	-0.5%	2.5%	8.8%	-2.0%	3.5%	2.3%
€/\$	-1.9%	2.2%	3.1%	2.8%	1.1%	3.5%
€/£	-2.9%	4.1%	-8.8%	8.8%	4.4%	3.5%

NB: Returns are price returns in Euro terms

Source: MoneyMate

- Emerging markets delivered stellar performance in 2009. The MSCI Emerging Market Index increased by 69.1% led by strong performance in Taiwan (+70%), Indonesia (+113%) and Brazil (+114%). Strong gains in emerging markets were a result of strong growth in GDP relative to developed markets and renewed investor appetite for riskier assets. Although not part of the MSCI Emerging Market Index, the Dubai equity market reminded investors of the volatility in emerging markets as the market fell sharply in November over concerns regarding the ability of the Dubai government to meet its debt repayments (following substantial falls in property prices).
- Commodities performed well in 2009, increasing by 15%. This was driven by the increase in the price of gold and oil. Gold prices increased by approximately 30% as investors bought gold as a hedge against economic uncertainty. In addition, crude oil increased almost 25% in 2009, driven mainly by speculative demand.
- The Credit Suisse Hedge Fund Index (which represents a broad range of hedge fund strategies) increased by almost 9% in the year. Although hedge fund returns were positive in 2009, they underperformed equity markets. This is a characteristic of hedge funds – they tend to underperform when the general equity market is rising.
- The performance of the Euro was mixed over the year, increasing in value against the US Dollar but falling in value against the British Pound. Currency analysts grew increasingly wary of the Euro towards the end of 2009 amid growing talk of sovereign debt issues in Greece, Spain and Ireland, as well as obvious banking weakness in several Eurozone countries.

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