

INVESTMENT MANAGER

Willis

SURVEY

JUNE 2010

willis.com/ireland

GROUP PENSION MANAGED FUNDS PERFORMANCE STATISTICS AS AT JUNE 30, 2010

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	-1.2	1	-2.9	2=	5.1	1	5.1	1	20.3	1=	-8.1	4=	0.5	4	0.5	7
AIBIM	-2.0	10=	-3.8	8	1.8	8=	1.8	8=	15.0	12	-10.8	10=	-0.6	7	-0.9	11
AVIVA IRL	-1.7	5=	-3.9	9	0.4	13	0.4	13	15.5	11	-11.6	12	-1.8	9=	-0.5	10
BIAM	-2.0	10=	-4.5	12	1.4	11	1.4	11	16.7	10	-9.9	8	-2.0	13	0.9	5=
CANADA LIFE/SETANTA	-2.7	13	-4.9	13	0.8	12	0.8	12	16.8	9	-6.1	1	0.4	5	0.4	8
DAVY	-2.2	12	-2.9	2=	2.7	3	2.7	3	13.8	13	-10.8	10=	-1.9	11=	-1.1	12
F&C	-1.8	7	-3.5	7	2.5	4	2.5	4	17.7	6	-10.3	9	-0.9	8	-0.2	9
IRISH LIFE	-1.6	4	-4.3	10	2.4	5=	2.4	5=	20.2	3	-9.6	6	-0.2	6	1.3	3
KBCAM	-1.7	5=	-3.4	6	2.4	5=	2.4	5=	17.2	8	-11.7	13	-1.9	11=	-1.9	13
MERRION	-1.9	8=	-2.9	2=	2.1	7	2.1	7	18.8	4	-6.7	3	1.4	2	1.4	2
NEW IRELAND	-1.9	8=	-4.4	11	1.5	10	1.5	10	17.6	7	-9.8	7	-1.8	9=	1.0	4
STANDARD LIFE	-1.5	2=	-2.6	1	3.7	2	3.7	2	20.3	1=	-8.1	4=	1.1	3	0.9	5=
ZURICH	-1.5	2=	-3.3	5	1.8	8=	1.8	8=	18.3	5	-6.3	2	2.1	1	1.8	1
AVERAGE	-1.8		-3.6		2.2		2.2		17.6		-9.2		-0.4		0.3	

AIBIM CONSENSUS	-1.7	-3.4	2.5	2.5	17.3	-9.7	-0.5	N/A
AVIVA IRL CONSENSUS	-1.7	-3.3	2.3	2.3	17.1	-9.7	-1.0	-0.1
BIAM CONSENSUS	-1.8	-3.5	2.6	2.6	18.1	-9.0	-0.1	0.6
CANADA LIFE CONSENSUS	-1.7	-3.5	2.3	2.3	17.2	-10.1	-1.3	-0.4
F&C CONSENSUS	-2.6	-2.5	3.7	3.7	20.0	-8.6	-0.1	0.6
IRISH LIFE CONSENSUS	-1.8	-3.6	2.4	2.4	17.7	-9.3	-0.2	0.8
AVERAGE	-1.9	-3.3	2.6	2.6	17.9	-9.4	-0.5	0.3

AVIVA IRL EURO MANAGED	-2.4	-5.7	-1.2	-1.2	15.5	-8.4	0.6	-0.2
BIAM EURO MANAGED	-1.8	-4.1	1.4	1.4	18.0	-6.5	0.7	0.2
NEW IRELAND IRIS FUND	-2.3	-5.5	1.1	1.1	20.1	-12.4	-3.0	0.0

AIBIM MULTIMANAGER	-1.5	-2.0	4.2	4.2	18.9	-9.2	-0.2	N/A
IRISH LIFE GLOBAL ACCESS	-0.9	-3.5	2.9	2.9	18.2	-9.4	-0.4	N/A
SLI MULTIMANAGER	-1.7	-2.9	2.6	2.6	19.1	-10.7	-1.4	N/A

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INVESTMENT MARKET REVIEW Q2 2010

EQUITIES

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
MSCI World	-7.1%	2.1%	20.8%	-11.2%	-2.8%	-5.3%
MSCI Eurobloc	-14.3%	-13.2%	5.0%	-17.6%	-4.1%	-6.3%
MSCI North America	-5.3%	6.2%	26.5%	-8.8%	-2.9%	-5.6%
MSCI UK	-10.1%	-4.5%	14.8%	-16.2%	-5.6%	-5.0%
MSCI Japan	-2.4%	11.1%	12.9%	-11.1%	-2.3%	-7.0%
MSCI Asia Pacific ex Japan	-10.2%	-1.7%	29.1%	-7.0%	2.7%	1.9%
ISEQ Overall	-13.8%	-6.0%	3.9%	-33.0%	-15.7%	-5.5%
MSCI World Growth	-5.8%	4.1%	24.3%	-6.8%	0.3%	-5.3%
MSCI World Value	-6.8%	3.3%	23.5%	-10.6%	-1.0%	-1.2%
MSCI World Small Cap	-4.9%	9.2%	32.7%	-9.0%	-0.7%	1.2%

NB: Returns are in Euro terms

Source: MoneyMate

- Having started the year well, equity markets gave back the majority of their returns in Q2. The MSCI World Index (in Euro terms) fell by 7.1% in the quarter, leaving the return for the year to date at just 2.1%.
- The MSCI World equity index is now approximately 32% below the peaks reached in the summer of 2007 (and 43% above the March 2009 lows).
- All developed regional equity markets recorded negative returns in Q2. Just as in Q1, the continued weakness of the Euro currency benefited Irish pension funds invested in non Euro denominated equities. As a result, the MSCI Eurobloc and the ISEQ index, which are both Euro based, underperformed the broader world equity regions.
- Eurozone equity markets were the worst performing region falling over 14%. The markets attention continued to focus on the sovereign debt crisis in Greece and other peripheral Eurozone countries. Austerity packages focusing primarily on public sector spending cuts were introduced in Spain and Italy following similar measures in Ireland, Portugal and Greece earlier this year. The EU governments also agreed a massive €750 billion rescue package for countries in difficulty. This package, initially aimed at Greece, will allow countries to borrow at non-market interest rates for roughly 3 years. The markets initially responded positively to this financial stabilisation programme. However the package failed to address how a country should restructure its debt in the event of insolvency and the need for a co-ordinated Eurozone fiscal policy. Despite the continued concerns regarding Eurozone debt, it is interesting to note that the aggregate amount of debt in the Eurozone is 220% of GDP, compared with 280% in the US, 300% in the UK and 363% in Japan.
- North American equities fell 5.3% on the back of deteriorating economic data. In particular, manufacturing, consumer confidence and export data fell sharply suggesting that the difficulties in the Eurozone were beginning to have an impact on the US. Unemployment data also failed to show signs of any real improvements in economic fundamentals.
- In the UK, the market fell by 10.1%. The British elections resulted in the first coalition government since the Second World War. The new UK Chancellor presented an emergency budget with the majority of cuts coming from public sector spending and VAT increases.
- The Irish equity market fell almost 14%. Ireland technically moved out of recession predominantly due to growth in net exports. However, this statistic masks an underlying weak domestic economy that continues to contract. Unemployment continued to rise during the quarter, reaching a 13 year high.

- With the economic data remaining fragile and equity markets under pressure, the inevitable talk of a double dip recession continued through the quarter. History suggests that double dip recessions are relatively infrequent. Data over the past 125 years shows that just three out of 38 previous recessions met the definition of a double dip recession. These double dip recessions only occurred when the initial recession was mild. Thus for the moment, the likelihood is that we will have a protracted period of slower growth rather than a return to recession.
- With the recent falls in equity markets it is interesting to note that from a historical valuation perspective, equity markets may be considered cheap. For example, US equities are now trading on a forward PE ratio of 11.8 times earnings (based on earnings growth of 37% in 2010 and 17% in 2011). This compares to a long term average of 15.2 times earning. Valuations look even more supportive in Europe and the UK.

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	0.2%	3.5%	7.5%	7.3%	3.5%	7.1%
Inflation Linked Bonds						
BarCap Eur Infl-Lkd All Maturities CPI	-0.3%	1.0%	4.0%	4.0%	1.0%	3.6%
Corporate Bonds						
ML Euro Corporate AA Rated 10+ Years	4.0%	9.3%	19.7%	6.1%	2.6%	6.6%

NB: Returns are in Euro terms

Source: MoneyMate

- The Merrill Lynch greater than 5 year government bond index increased by just 0.2% in Q2 2010, having increased 3.3% in Q1 2010. The positive return was driven by continued low interest rates and expectations that interest rates would remain lower for longer. In fact, long term interest rates in France and Germany hit historic lows during the quarter.
- Greek bonds received a further downgrade by a rating agency in June, triggering the automatic removal from the typical Eurozone government bond indices followed by Irish Pension Funds. Given the ongoing developments in Eurozone bond markets, careful consideration should be given to the most appropriate bond index for pension schemes.
- German and French government bonds continued to be regarded as the most secure government bonds in the Eurozone. The yield differential between German bonds on the riskier peripheral Eurozone countries increased during the quarter. Greek, Portuguese and Irish bonds are regarded as the riskiest bonds and traded at a premium of 7.9%, 3.1% and 2.9% respectively at the end of the quarter. Spanish bonds traded at a premium of 2.0% and Italian bonds yields finished the quarter 1.5% higher than German bond yields.
- In the US, the Central Bank's preferred measure of inflation rose at the slowest pace since records began in 1959. Inflation in Europe was similarly weak. This has supported lower yields. In the near term, bonds continue to provide diversification benefits, a match for pension scheme liabilities and protection against another deflationary shock. Over the medium term, however, these low yields do not seem sustainable.
- Eurozone corporate bonds continued to perform well, increasing 4.0% in Q2, following a 5.0% increase in Q1. This follows a record quarter for corporate earnings. Corporate bonds have now increased almost 20% in the last 12 months.

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	-3.8%	5.9%	33.5%	-2.4%	9.0%	4.6%
Dow Jones/ AIG Commodity Index	1.3%	3.2%	14.5%	-7.3%	-5.0%	-0.9%
Credit Suisse/Tremont Hedge Fund Index	8.6%	18.7%	28.3%	3.5%	5.5%	4.0%
€\$	-8.7%	-15.2%	-13.5%	-2.7%	0.8%	2.6%
€£	-7.5%	-7.8%	-4.1%	6.5%	3.9%	2.6%

NB: Returns are in Euro terms

Source: MoneyMate

- Emerging equity markets continued to outperform developed market equities in Q2. The economic data from most emerging market economies continues to point to above trend growth. This has prompted some concerns regarding overheating. In fact, strong growth in these economies is now leading to elevated inflationary pressures and concerns regarding asset valuation.
- The Euro continued to weaken against the US Dollar in Q2 2009. Persistent concerns regarding the Eurozone government bond market and the relatively better economic data in the US kept the single currency under pressure. The Euro also weakened significantly against the British Pound. The weaker Euro is benefiting Eurozone exporters. It is estimated that the current Euro weakness will provide an average 14% boost to corporate profitability and add 1% to Eurozone GDP.

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