INVESTMENT MANAGER

Willis SURVEY

DECEMBER 2010

willis.com/ireland

GROUP PENSION MANAGED FUNDS
PERFORMANCE STATISTICS AS AT DECEMBER 31, 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	3.6	6=	7.7	1	10.3	2	15.9	2	15.9	2	-2.9	5	0.4	4	1.6	4
AIBIM	3.5	8	6.3	4	9.8	3	11.8	4=	11.8	4=	-6.5	11=	-1.0	6	0.1	11
AVIVA IRL	3.0	11=	5.8	7=	8.4	10	8.8	12	8.8	12	-7.2	13	-2.2	11	0.3	10
BIAM	4.0	2=	5.8	7=	9.1	5=	10.6	8	10.6	8	-3.8	7	-1.9	10	1.2	6=
CANADA LIFE/SETANTA	3.0	11=	3.9	11	8.6	9	9.5	10	9.5	10	-1.8	2	0.3	5	1.0	8
DAVY	2.3	13	3.6	13	4.0	13	6.8	13	6.8	13	-6.5	11=	-2.7	13	-0.8	12
F&C	3.8	4=	6.5	3	9.5	4	12.2	3	12.2	3	-5.2	9	-1.3	8	0.7	9
IRISH LIFE	4.2	1	3.8	12	6.4	12	9.0	11	9.0	11	-4.9	8	-1.2	7	1.5	5
KLEINWORT BENSON	3.3	9	5.8	7=	9.1	5=	11.8	4=	11.8	4=	-6.1	10	-2.3	12	-0.9	13
MERRION	3.6	6=	5.9	6	7.9	11	10.2	9	10.2	9	-2.1	4	0.9	3	2.1	2
NEW IRELAND	4.0	2=	5.7	10	9.0	7=	10.7	7	10.7	7	-3.5	6	-1.7	9	1.2	6=
STANDARD LIFE	3.8	4=	7.4	2	12.3	1	16.4	1	16.4	1	-1.4	1	1.0	2	2.0	3
ZURICH	3.1	10	6.0	5	9.0	7=	10.9	6	10.9	7	-2.0	3	1.6	1	2.8	1
AVERAGE	3.5		5.7		8.7		11.1		11.1		-4.1		-0.8		1.0	

	1 MTH	3 MTH	6 MTH	YTD	12 MTH	3 YRS PA	5 YRS PA	10 YRS PA
AIBIM CONSENSUS	3.5	5.9	9.2	11.9	11.9	-4.5	-0.9	N/A
AVIVA IRL CONSENSUS	3.4	5.6	8.7	11.1	11.1	-4.7	-1.3	0.7
BIAM CONSENSUS	3.5	6.1	9.7	12.6	12.6	-3.7	-0.2	1.4
CANADA LIFE CONSENSUS	3.5	5.8	9.1	11.5	11.5	-4.8	-1.5	0.3
F&C CONSENSUS	4.6	6.3	10.9	15.0	15.0	-3.1	0.2	1.5
IRISH LIFE CONSENSUS	3.6	6.1	9.4	12.0	12.0	-4.1	-0.5	1.5
AVERAGE	3.7	6.0	9.5	12.4	12.4	-4.2	-0.7	0.9
AVIVA IRL EURO MANAGED	3.5	5.2	9.9	8.7	8.7	-4.7	0.4	1.0
BIAM EURO MANAGED	3.9	5.5	9.2	10.7	10.7	-2.7	0.7	0.8
NEW IRELAND IRIS FUND	5.0	7.7	11.1	12.3	12.3	-5.0	-2.7	0.3
AIBIM MULTIMANAGER	3.2	7.2	9.2	13.8	13.8	-3.7	-0.7	N/A
IRISH LIFE GLOBAL ACCESS	3.2	5.7	8.8	12.0	12.0	-4.0	-0.9	N/A
SLI MULTIMANAGER	3.4	6.3	10.3	13.2	13.2	-4.5	-1.7	N/A

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INVESTMENT MARKET REVIEW Q4 2010

EQUITIES

REGION	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (% P.A.)	5 YEARS (% P.A.)	10 YEARS (% P.A.)
MSCI World	10.8%	14.7%	17.2%	-4.2%	-2.2%	-3.1%
MSCI Eurobloc	3.4%	12.6%	-2.2%	-13.5%	-4.0%	-4.5%
MSCI North America	12.8%	14.4%	21.5%	-1.7%	-1.7%	-3.4%
MSCI UK	6.8%	17.8%	12.5%	-8.0%	-3.7%	-3.6%
MSCI Japan	14.3%	9.1%	21.2%	-3.6%	-6.4%	-3.7%
MSCI Asia Pacific ex Japan	9.9%	22.6%	20.5%	-0.9%	5.0%	4.7%
ISEQ Overall	8.1%	2.9%	-3.3%	-25.4%	-17.1%	-6.6%
MSCI World Growth	12.5%	18.1%	22.9%	-0.3%	1.2%	-1.5%
MSCI World Value	10.0%	13.7%	17.4%	-2.8%	-0.6%	-0.3%
MSCI World Small Cap	16.3%	21.8%	33.0%	3.1%	0.4%	3.8%

NB: Returns are in Euro terms Source: MoneyMate

- After a positive but underwhelming first half of the year, equity markets continued strong, with good gains in Q4. The MSCI World Index (in Euro terms) was up by 10.8%, mainly due to strong gains in November, leaving the return for the year at 17.2%
- The MSCI World equity index is now approximately 21% below the peaks reached in the summer of 2007 (and has increased 75% above the March 2009 lows).
- All regional equity markets recorded positive returns in Q4. Asian markets continued to perform strongly with Japan up 14.3% and the Asia Pacific region up 9.9%, despite hostilities in Korea and a Chinese interest rate increase. North American equities also outperformed the World benchmark with a return of 12.8% for the quarter and 21.5% for the year. The further decline of the Euro currency continued to benefit Irish pension funds invested in non-Euro denominated equities.
- 2010 will be remembered for the sovereign debt crisis and European markets were down 2.2% over the year. Despite the gloom, some analysts are predicting growth of up to 10% for 2011, the theory being that extensive cost cutting will put any increased revenue straight to the bottom line profits. Eurozone equity markets were the weakest performing markets in Q4, increasing by 3.4% as many investors had serious concerns about Ireland's ability to repay any bailout loans and feared contagion. With the ECB set to elect a new president in 2011, uncertainty could be set to continue.
- Irish markets however had mixed responses to news of the EU/IMF bailout package and 4 Year National Recovery Plan but CRH made good gains thanks to quantitative easing announcements in the US, driving The ISEQ Overall to gain 7.1% in December and 8.1% for the quarter. The ISEQ Overall fell by 3.3% during the year, despite the ISEQ Financial Index falling over 60% in the same period. This reflects the now low contribution of Irish financials to the economy; at the start of 2008, financials made up over 40% of the index – now that figure stands at around 5%.
- North American equities performed very strongly during the quarter, returning 12.8%. Most of this gain arose in November when the Federal Reserve launched a second stimulus package. In addition, mid-term elections saw the Republican Party take control of the House of Representatives. The Republicans are generally associated with tax cuts and more frugal spending and cyclical sectors responded accordingly.

- The UK market increased by 6.8% in Euro terms among fears that the VAT hike in 2011 will increase inflation and cause the Bank of England to raise interest rates.
- Further downgrades and interest rate hikes remain a concern going into 2011, with equity and bond markets expected to experience much volatility over the year.

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	-5.9%	-2.5%	0.9%	5.1%	2.7%	6.3%
Inflation Linked Bonds						
BarCap Eur Infl-Lkd All Maturities CPI	-2.9%	-0.6%	0.1%	3.8%	2.3%	-
Corporate Bonds						
ML Euro Corporate AA Rated 10+ Years	-6.2%	-2.1%	6.9%	5.4%	2.0%	5.8%

NB: Returns are in Euro terms Source: MoneyMate

- Bonds continue to be one of the most consistent performing asset classes over the longer term. The prolonged economic uncertainty and safe haven status of core bonds continues to attract investors, even if the peripherals lack stability. Bonds have outperformed equities by a significant 9.4% over 10 years.
- In the shorter term, the Merrill Lynch greater than five year Government Bond Index had a poor quarter as investors demanded higher yields amidst the worsening sovereign debt crisis and returned -5.9% for the quarter. This resulted in a modest increase of 0.9% for the year.
- Long term bond yields in France and Germany rose slightly during the quarter. German government bonds continue to be regarded as the most secure government bonds in the Eurozone. The peripheral Eurozone economies of Greece, Ireland, Portugal and Spain continue to be regarded as the riskiest Eurozone Government bond investments with Italy not far behind. As at 31st December 2010, the 10 year yields were as follows:
  - Germany 2.96%
  - France 3.36%
  - Greece 12.47%
  - Ireland 9.06%
  - Italy 4.82%
  - Portugal 6.60%
  - Spain 5.45%
- In the US, bond yields rose sharply as continued tax cuts were announced, but yields still remain at the low levels experienced in June 2010. However, concerns are beginning to emerge that the US budget deficit is unsustainable.
- While some sort of downgrade was expected, the unexpectedly high five notch slash of Ireland’s credit rating to BAA1 in mid-December, just three notches above “junk” status, caused Irish yields to rise nearly 0.25% overnight and yields rose to over 9% at the end of the year.
- In the near term, bonds continue to provide diversification benefits, a better 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 failed to reach the 16% increase achieved in 2009 and returned 6.9% for the year after a poor quarter.

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	8.6%	17.6%	24.4%	0.2%	7.5%	9.2%
Dow Jones/ AIG Commodity Index	19.6%	20.9%	24.8%	-1.5%	-3.6%	-0.1%
Credit Suisse/Tremont Hedge Fund Index	0.1%	-5.4%	11.5%	2.9%	2.4%	2.8%
€/$	-2.5%	7.2%	-7.0%	-2.9%	2.5%	3.5%
€/£	-1.5%	3.8%	-3.7%	5.0%	4.3%	3.1%

NB: Returns are in Euro terms Source: MoneyMate

- Despite a small underperformance during the quarter, emerging equity markets outperformed developed markets by over 7% in 2010. Due to fears of social unrest over high food prices, China increased interest rates on Christmas Day. The US were concerned that the Chinese were artificially keeping their currency undervalued to keep their export market competitive and this move will allow the Chinese Yuan to appreciate at a faster rate.
- Commodities performed strongly during the quarter, bringing the commodity index up to 24.8% for the year. In particular, poor harvests and floods increased demand and caused massive gains to agriculturals. The Chinese interest rate hike late in Q4 is likely to affect the prices of these commodities in the future however, along with base metals and other raw materials.
- The Euro weakened against the dollar during the quarter by a total of 7% in 2010. The Euro also weakened against the British Pound by 3.7% over the year. A weak Euro will positively impact the economic growth prospects of the Eurozone.

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