

THE SUNDAY BUSINESS

IRELAND'S FINANCIAL, POLITICAL & ECONOMIC NEWSPAPER

MAY 16 2010 Wk 23 No 20

www.irishtimes.com

A superior method of co

By Margaret O'Brien

From late 2007 to early 2009, the peak to trough decline in the average managed fund was approximately 45 per cent. The size and scale of this decline cannot be quite as shock to many investors, as most believed that the typical managed fund would protect against such declines.

However, unusually high levels of volatility and correlation across asset classes seriously hampered the performance of diversified portfolios during this period.

"Unfortunately, most of the major asset classes all moved in unison and fell sharply," said Graham Fox, investment manager, Irish Life. "Consequently, there was no hiding place during this period as equities, property, commodities and some credit markets experienced sizeable declines. The only real way of avoiding significant losses was to go to cash or have the ability to actually short many of these asset classes – something that is easier said than done."

"Trying to time asset markets is a fruitless exercise and generally results in most investors doing much worse than buying long-term and holding passive. However, there are other ways to mitigate the risk of holding equities without having to resort exclusively to market timing – this is to implement a strategy of greater diversification by using a wider range of assets and varying management styles."

The US endowment approach, as used by Harvard and Yale, is one such model that has been implemented with reasonable success over



Graham Fox of Irish Life

the years. And while this approach does not eliminate the risk of market falls, it does help to reduce these risks.

"While this approach did experience a peak-to-trough decline of about 70 per cent during the credit crisis, this still compares quite favourably with the peak-to-trough decline in, for example, the S&P 500 of nearly 80 per cent."

Smoothing the investment journey

Irish Life has launched a new investment fund, Core which it believes would have provided investors with more protection against the large falls that were experienced during the credit crisis, but still retain the capacity to deliver strong returns.

"Core is positioned to do this by following a similar approach to the US endowment one, but without the illiquidity disadvantage that has characterised many of these funds," said Fox.

As Ireland's leading investment and pension provider, Irish Life currently manages over €28 billion of Irish people's money. Last year alone it received new investments of over €3 billion. Irish Life has

an outstanding short and long term performance track record – its pension managed fund is up by 30 per cent over the last year, compared with a return of 24.5 per cent on average achieved by other investment managers.

Irish Life enjoys a strong reputation for developing investment innovations, having been the first company in Ireland to offer capital-protected tracker bonds, which its core pension fund is Ireland's biggest, with investment of over €5 billion.

Equities provide growth engine

The equity allocation in Core follows the FTSE World Index. "Equities represent good value for the long-term investor, and we'd warn against assuming that the poor performance of the last decade will continue into the next," said Fox.

"The fact that equity markets in most western economies performed so badly in the last decade actually increases the probability that they will perform strongly over the coming ten years."

In terms of the government bond allocation, Core will be investing in euro government bonds with maturities of less than five years. In contrast to equities, Irish Life feels that long-term government bonds performed very strongly in the last decade and this, combined with the risk of higher inflation over the coming years, means that it is taking a conservative approach by investing in short-term government bonds.

"By taking a nucleus of equities and bonds, and allocating around 25 per cent to alternatives and property, Irish Life has developed a much more diversified portfolio than the tra-

ditional managed fund. Core will contain traditional alternatives such as property, as well as newer concepts such as managed futures. This asset split is designed to lower the volatility of the portfolio while

BUSINESS POST

FINANCIAL AND ECONOMIC NEWSPAPER

Post.ie

Price €2.50 (€1.00/eq)

Interacting portfolio risk

maintaining a strong growth potential?

The benefit of using alternative assets in Core is that it enhances the level of diversification within the fund, without harming the long-term

growth potential.

Specifically, managed futures have traditionally been very lowly correlated with equities, and are capable of producing high single digit returns on a consistent basis.

Thus, combined with the other alternative assets, should help provide some protection when equity markets fall.

"Core could be the ideal solution for those looking for a well-diversified investment or

for those planning for retirement."

For more details on how Life's Core fund, talk to your pension and investment broker or visit www.irelife.co