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Monthly Mindshare
April 2015

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Irish Life Investment Managers

IRISH LIFE INVESTMENT MANAGERS

- Only Irish winner at 2014 European Pension Awards and
- Only Investment Manager to win two awards
- Irish Pension Awards 2014 – ‘Investment Manager of the Year’ and ‘Alternatives Investment Manager of the Year’

CONTENT

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- Factors driving DSC
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- Economic review - Ireland, Eurozone, U.S., U.K. and Asia

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DYNAMIC SHARE TO CASH IN MAPS

In May 2013, Irish Life Assurance launched their Multi Asset Portfolio range (MAPS) featuring the proprietary **Dynamic Share to Cash (DSC)** process designed by Irish Life Investment Managers.

Using a blend of market signals from three broad categories, the **DSC** aims to identify changes in long term market trends and reduce equity market exposure where signs of impending stress are indicated.

The three broad categories the process tracks are:

(1) Momentum - shorter term trends
(2) Valuations - ongoing, well established and defined market measures of value
(3) Macroeconomic - a top-down global economic perspective on markets

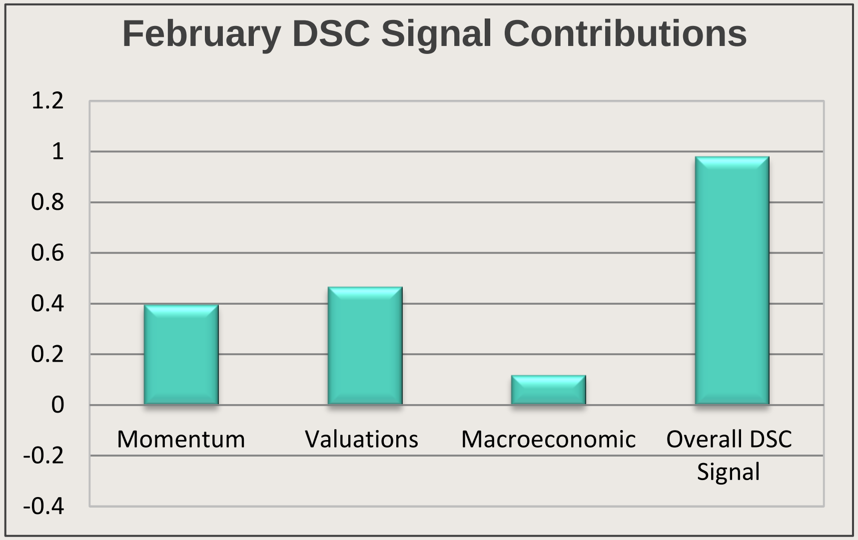
This month we examine…

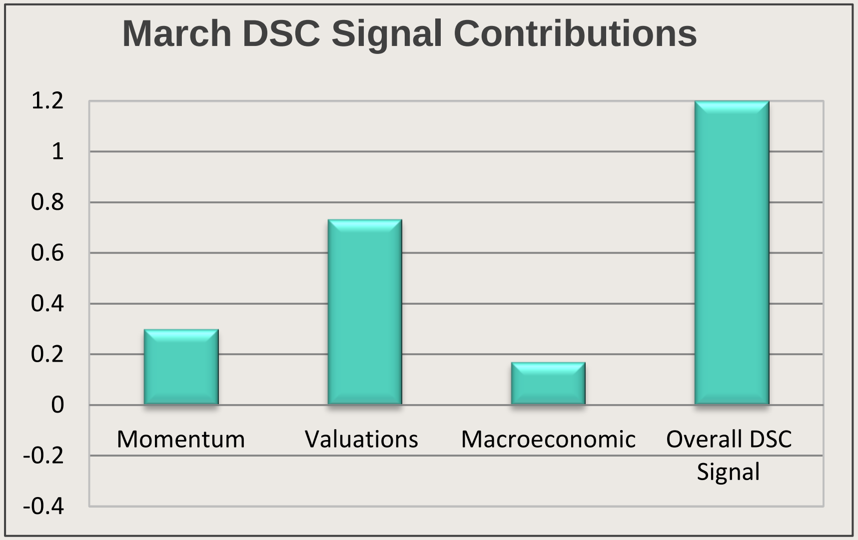
- Which factors were driving the DSC process in March and how the DSC signal was impacted as a result.
- What has been going on in the major economies around the globe through March.

DYNAMIC SHARE TO CASH - FACTORS

FACTOR CATEGORY	OBJECTIVE	INDIVIDUAL FACTOR EXAMPLES
1 MOMENTUM IN MARKETS	Take account of trends in shares	• 12 month share market momentum • 200 day moving average
2 VALUATIONS	Take account of the long-term valuation of shares	• Long-term share values • Earnings quality • Earnings yield • Earnings revisions
3 GLOBAL MACROECONOMICS	Take account of the influence of global economics on shares	• Real GDP growth rate • Bond yield curve slope • Energy price levels

DYNAMIC SHARE TO CASH – FACTOR UPDATE FOR MARCH





- The ***DSC*** signal rose from 0.98 at the end of February to 1.20 at the end of March so remains in overall positive territory. All DSC related funds continue to be fully invested in their Developed Market Shares. The rise to 1.20 came mainly from gains in Valuations fundamentals. Valuations is still the major contributor of the three factors as can be seen above.

- The **Momentum** category reduced somewhat, with the U.S. market stalling so far in 2015 in comparison to some others.
- The **Valuation** category increased as outlined above with an improvement in earnings yields, earnings quality and earnings revision forecasts.
- The **Macroeconomic** category also rose slightly because of lower energy prices and bond yields.

ASSET WATCH

- **Equities**

  The global economic growth outlook, while modest compared to levels evident pre-crisis, is slowly improving, despite periodic concerns over potential slowdowns related to mid cycle soft patches. The improving macro backdrop is positive for the global earnings outlook. Global central banks remain supportive, committing to keep interest rates low for some time yet, facilitated by low levels of inflation. While asset purchases under QE3 in the US have ended, both the ECB and Bank of Japan have increased their level of stimulus and asset purchases. Flows into global equity markets have been positive over the last two years and are expected to continue. Valuations remain supportive of global equities, particularly relative to other assets, providing upside for further gains in equity markets. While mid to high single gains in equities are expected in 2015, greater volatility is likely to be evident as political events and economic and monetary developments give rise to fluctuations in markets from time to time.

- **Bonds**

  While absolute levels of yields in core Eurozone markets are low, policy initiatives from the ECB, including the recent sovereign bond purchase programme, probably cap upside in core yields and support further narrowing of peripheral spreads in the short term. Continued low levels of inflation and supportive ECB policy measures could enable the Eurozone > 5 year benchmark to generate marginal positive returns in 2015.

- **Property**

  The Irish property market has been strong with activity at record levels, which are expected to remain high given the weight of buyer interest. Yields have compressed led by offices and has been supported by the yield gap against bonds. Prime office yields are expected to begin to stabilise with further falls expected in the retail and industrial sectors. Rental growth has been strong in the office sector due to limited supply and is expected to continue while rental growth can recover in the retail and industrial sectors after recent signs of stabilisation. With an overall sector yield of around 6%, Irish property is expected to return 8/10% p.a. over the next three years.

- **Cash**

  Cash returns are expected to remain low through 2015.

MARKET DEVELOPMENTS IN MARCH

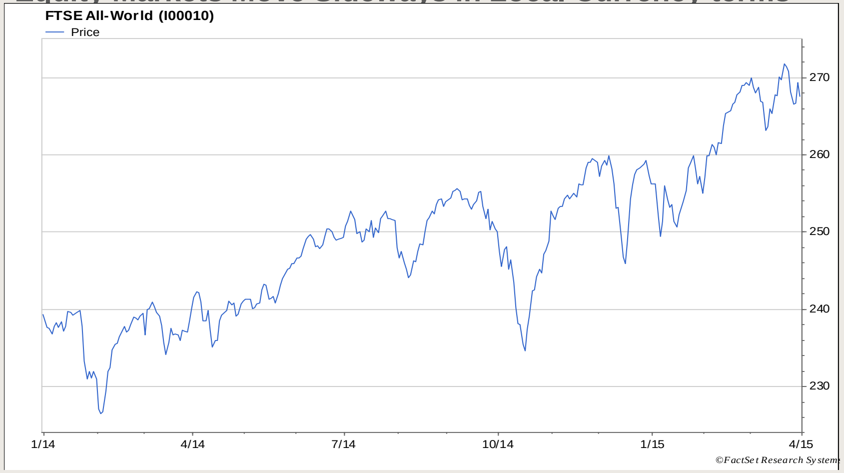
- European economic data continued to improve, particularly sentiment surveys but also in the case of hard data
- The ECB's asset purchase programme of €60bn per month began during the month. The ECB indicated that under the programme it would buy bonds down to negative yields of -0.2%
- Negotiations on the Greek bailout programme continued with Greece yet to sign up to a reform agenda which satisfies the requirements of the Troika and Eurozone finance ministers
- US economic data generally remained soft with the notable exception again of labour market data
- Expectations regarding the timing of the first US rate rise fluctuated through the month. The strong labour market data initially pulled forward expectations for the first hike to June but dovish commentary post the Fed meeting and subsequently from Fed Chairperson Janet Yellen, pushed expectations for the first rise back out to September
- Continued low inflation readings, concerns over Sterling strength and more dovish commentary from the Bank of England also pushed expectations for the first UK rate rise into the second half of 2016
- Brent oil fell -11.9% as US oil production levels continued to rise, US oil inventories rose to record levels and the potential for further increases in supply from Iran and Libya in coming months grew. Commodities overall fell -5.8% (-1.7% in €)
- The Euro fell to 1.074 against the US dollar as the ECB asset purchase programme began and the divergence in policy paths between the ECB and Fed remains in place for the foreseeable future
- Global equities fell -0.3% (+2.9% in €)
- Eurozone >5 year bonds rose 2.0% with German 10 year yields falling to an all time historic low of 0.17% before ending the month at 0.18%. Peripheral yield spreads widened marginally given uncertainties relating to the Greek negotiations and increased issuance across peripherals and other markets

MARKET SIGNPOSTS

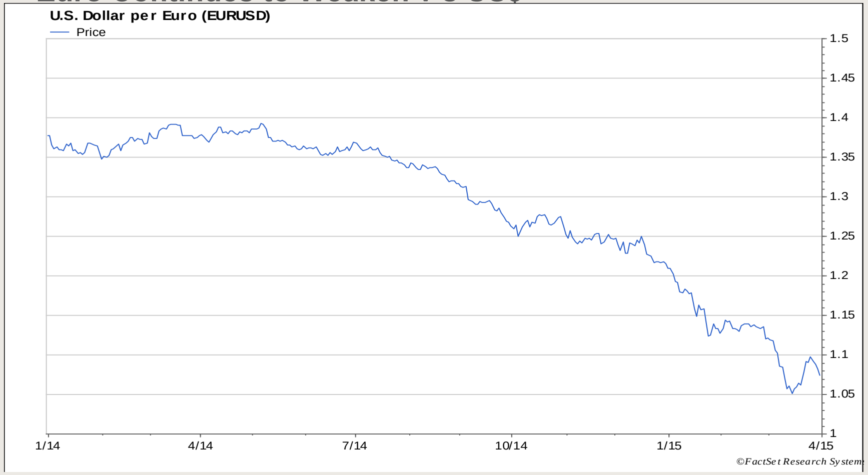
Markets In March		
	Local Returns	Euro Return
Ireland	1.2	1.2
UK	-1.9	-1.6
US	-1.5	2.9
North America	-1.5	2.8
Europe	2.8	3.3
Japan	2.1	6.3
Pacific	0.3	3.6
Emerging Markets	0.2	3.0
World	-0.3	2.9
EMU Govt Bonds >5yr	2.0	2.0
Commodities	-5.8	-1.7

Markets YTD		
	Local Returns	Euro Return
Ireland	16.7	16.7
UK	4.4	12.0
US	1.3	14.1
North America	1.3	13.6
Europe	14.9	18.6
Japan	10.8	24.8
Pacific	6.0	16.2
Emerging Markets	4.9	15.2
World	5.0	15.5
EMU Govt Bonds >5yr	6.7	6.7
Commodities	-5.1	6.9

Equity Markets Move Sideways in Local Currency terms



Euro Continues to Weaken v's US$



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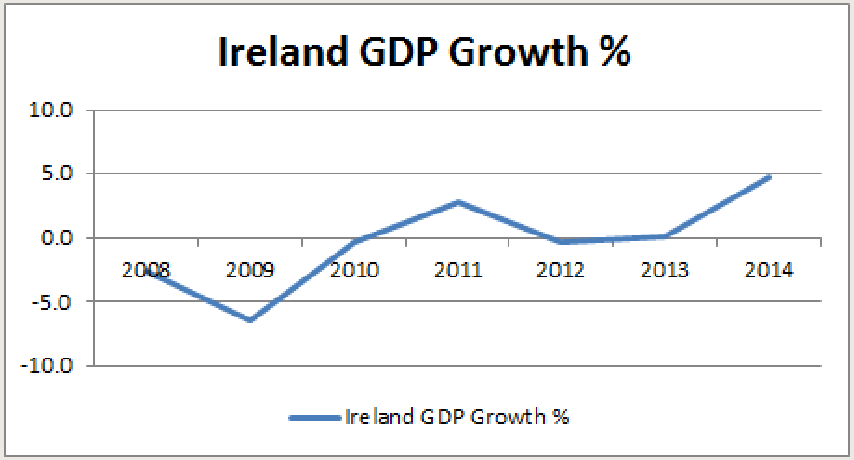
IRELAND ECONOMY REVIEW

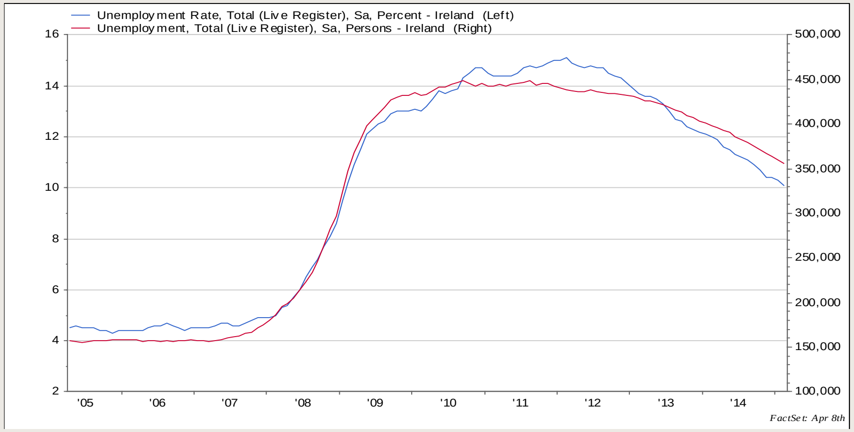
Economy

- Economic releases generally remained positive
- Q4 GDP grew 0.2% q/q resulting in growth of 4.8% in 2014. Domestic demand grew 2.9% y/y, the first positive yearly contribution since 2007. Investment in Q4 slowed to 8.2% y/y from 14.3% in Q3 due to a slowing in construction to 3% y/y although core business investment grew 9% y/y. Consumer spending grew 2.1% y/y in Q4, the best since Q1 2008
- Numbers on the Live Register fell 4,600 to 355,600; unemployment fell 0.4% to 10.1%
- Retail sales fell -0.2% m/m but rose 8.2% y/y; core sales ex autos rose 0.7% m/m and 4.8% y/y
- Industrial production remained volatile, falling -0.1% m/m but rose 10.6% y/y
- The composite PMI rose 0.3 to 60.7; manufacturing PMI rose 2.4 to 57.5; services fell -1.1 to 61.4
- National residential property prices fell -0.4% m/m but were up 14.9% y/y. Prices in Dublin fell -0.7% m/m but rose 21.4% y/y. Prices outside Dublin were flat m/m but were up 8.2% y/y
- CPI rose 0.6% m/m and was down -0.5% y/y
- February Exchequer returns were strong with a budget deficit of €205m year to date versus a deficit of €1,677m in February 2014. Tax revenues were up 15.9% y/y compared to a target for the year of 3.1% while net voted current expenditure was down -3.5% y/y with debt servicing costs down -17.8% y/y excluding one off factors

Strong Irish GDP Growth



Irish Labour Market Continues to Improve



EUROZONE ECONOMY REVIEW

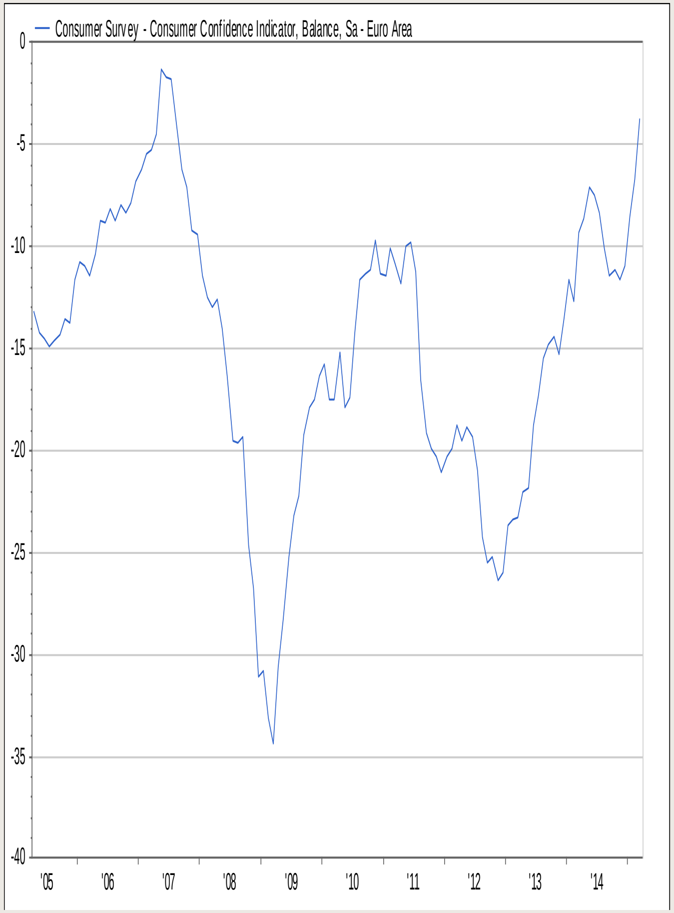
Economy

- Data continued to improve. The Eurozone composite PMI rose 0.8 to 54.1; ZEW expectations rose 9.7 to 62.4; Sentix economic sentiment rose 6.2 to 18.6
- Industrial production slipped -0.1% m/m; retail sales rose 1.1% m/m and 3.7% y/y; consumer confidence rose 3.0 to -3.7, an eight year high
- CPI fell -0.1% y/y from -0.3% y/y previously
- German data was also better. The composite PMI rose 1.5 to 55.3; the IFO business climate rose 1.1 to 107.9; ZEW expectations rose 1.8 to 54.8; industrial production rose 0.6% m/m; factory orders fell -3.9% m/m; retail sales fell -0.5% m/m but rose 3.6% y/y; consumer confidence rose 0.3 to 10.0
- French composite PMI fell -0.5 to 51.7; consumer spending rose 0.1% m/m; industrial production rose 0.4% m/m
- Spanish composite PMI fell -0.9 to 56.0; industrial production rose 0.4% y/y; Italian composite PMI fell -0.2 to 51.0; industrial production fell -0.7% m/m; retail sales rose 0.1% m/m; consumer confidence was unchanged at 110.9

Interest Rates

- The ECB left rates unchanged and made no significant changes to its asset purchase programme but indicated it would buy bonds down to negative yields of -0.2%
- The €60bn per month asset purchase programme began during March
- The ECB highlighted the benefits recent policies were having on the economic and financial environment
- New economic forecasts by ECB staff predicted Eurozone GDP growth of 1.5% in 2015; 1.9% in 2016 and 2.1% in 2017
- Inflation was forecast at 0.1% in 2015; 1.5% in 2016; 1.8% in 2017

Eurozone Consumer Confidence Recovers



U.S. ECONOMY REVIEW

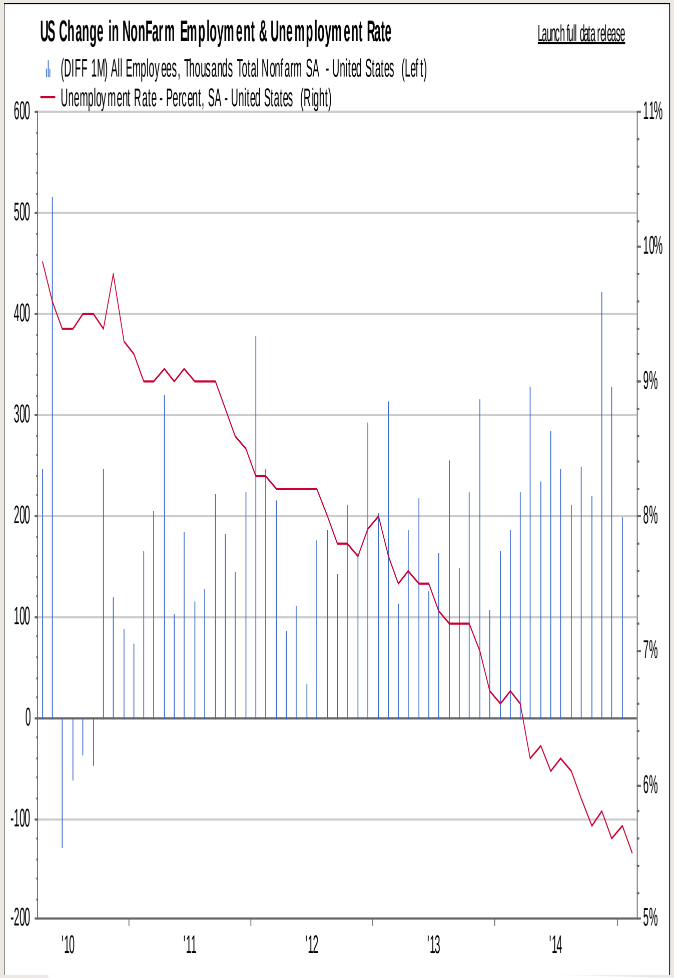
Economy

- Data was again generally softer. Q4 GDP was left unchanged at 2.2% annualised with a marginal upgrade to consumption offset by a downgrade to inventories
- ISM manufacturing fell -0.6 to 52.9; services rose 0.2 to 56.9; composite PMI rose 1.3 to a relatively high 58.5
- Non farm payrolls rose 295,000; unemployment fell 0.2% to 5.5%; average hourly earnings slipped to 2.0% y/y
- Industrial production rose 0.1% m/m; factory orders fell -0.2% m/m; retail sales fell -0.6% m/m; consumer confidence rose 2.5 to 101.3; headline durable goods and core capital goods orders both fell -1.4% m/m; capital goods shipments rose 0.2% m/m
- House prices in the top 20 cities rose 0.9% m/m and 4.6% y/y; new and existing home sales rose 7.8% and 1.2% m/m respectively; housing starts fell -17.0% m/m
- CPI rose 0.2% m/m and was unchanged y/y

Interest Rates

- The Fed removed guidance that it would be patient before raising rates but Fed commentary was generally dovish
- Fed forecasts for the Fed funds rate at the end of 2015/16/17 were each reduced by approx 50/60bps
- The estimated equilibrium level of unemployment was lowered to 5.0/5.2%
- The Fed needs to be reasonably confident that inflation is moving back to its 2% target before raising rates
- This would require further strength in the labour market, rises in price and wage inflation and inflation expectations
- The Fed noted the negative impact of dollar strength on exports
- Yellen highlighted any tightening cycle will be very gradual
- As a result of these comments, expectations for the first US rate rise were pushed out to September

U.S. Labour Market Remained Strong



U.K. ECONOMY REVIEW

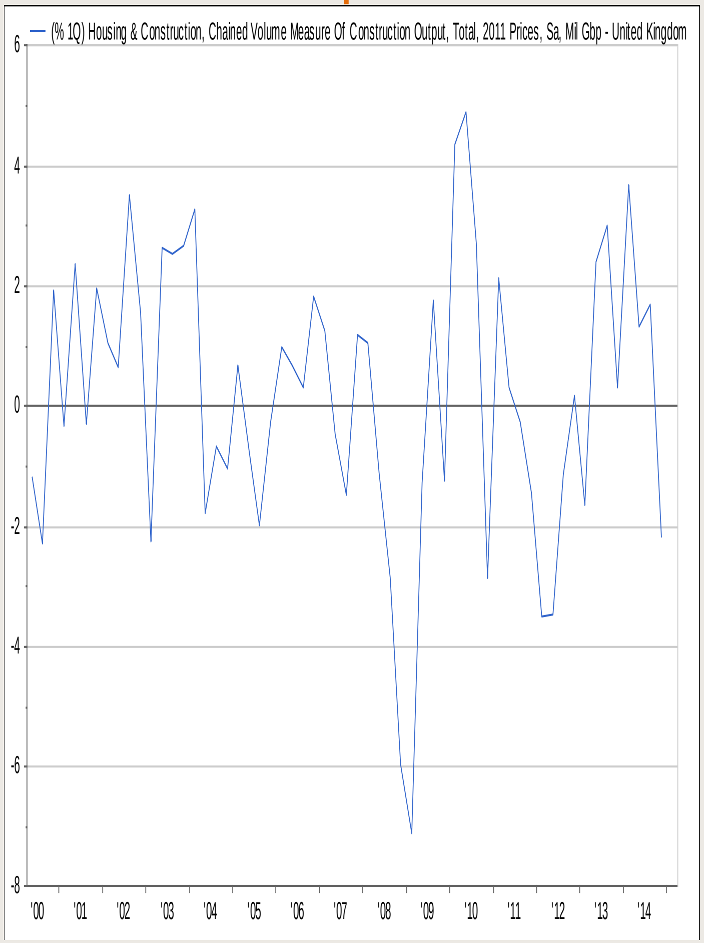
Economy

- U.K. data was mixed
- Q4 GDP was revised up from 0.5% q/q and 2.7% y/y to 0.6% q/q and 3.0% y/y due to upward revisions to private sector services and consumption. Prior quarter revisions contributed to the improvement in the y/y figure
- Retail sales rose 0.7% m/m and 5.7% y/y; consumer confidence rose 3 to 4, a thirteen year high
- Unemployment was unchanged at 5.7%; average earnings ex bonuses slipped to 1.6% from 1.7% annualised
- Industrial production fell -0.1% m/m; construction output fell -2.6% m/m
- The composite PMI was unchanged at 56.7; manufacturing rose 1.1 to 54.1; services fell -0.5 to 56.7; construction rose 1.0 to 60.1
- The Halifax house price index fell -0.3% m/m and rose 8.3% annualised over 3 months from 8.5% previously
- CPI was unchanged y/y, a record low

Interest Rates

- The BoE unanimously agreed to leave policy unchanged
- Two members described the rate decision as finely balanced
- The minutes highlighted the ongoing debate and divide over the potential risks of higher wage and price inflation from the tighter labour market against the continued low levels of actual and expected inflation
- The overall tone of the minutes was slightly more dovish
- Sterling's rise against the Euro was noted and given the divergence in monetary policies, could be expected to continue and thus put downward pressure on inflation
- The details of Q4 GDP mix of growth gave pause for thought given weaker than expected contributions from both investment and consumption
- The committee reiterated its commitment to bring inflation back to its 2% target as quickly as possible, suggesting rates could be kept lower for longer
- These comments helped push expectations for the timing of the first UK rate rise out to the second half of 2016

U.K. Construction Output Weakens



ASIAN ECONOMY REVIEW

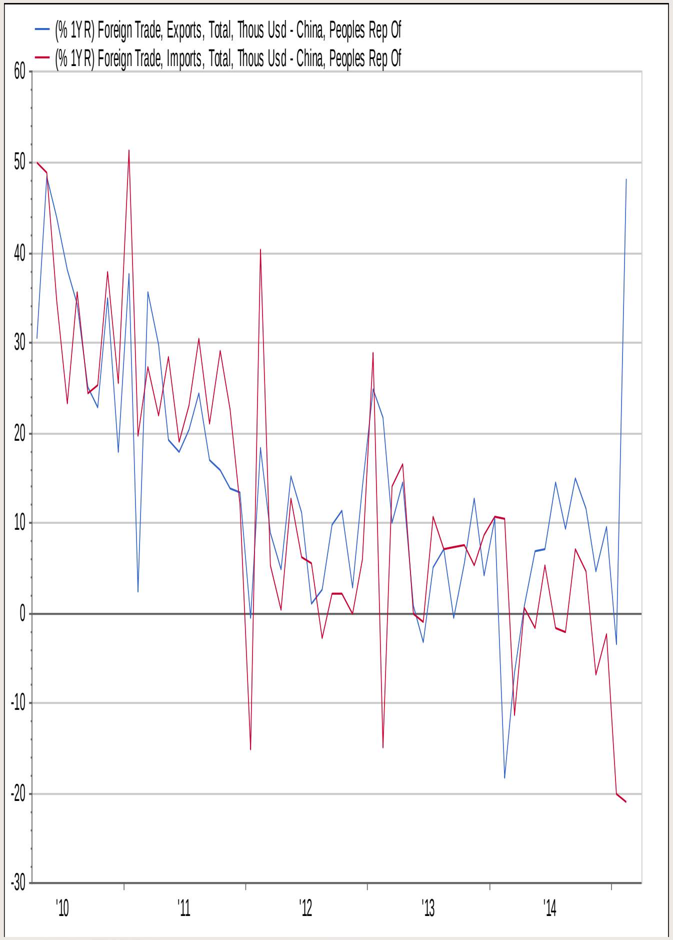
Japanese Economy

- Releases remained mixed
- Q4 GDP was revised down from positive 2.2% annualised to 1.5% due to capex being revised down to -0.1% q/q from +0.1% with inventories also revised down. Industrial production fell -3.4% m/m; machine orders fell -1.7% m/m; retail sales rose 0.7% m/m; consumer confidence rose 1.6 to 40.7; exports rose 2.4% y/y while imports fell -3.6% y/y; the composite PMI fell -1.7 to 50.0; core CPI slipped to 2.0% y/y and excluding the April sales tax rise was unchanged y/y; the Economy Watchers survey current reading rose 4.5 to 50.1 while the outlook reading rose 3.2 to 53.2; bank lending was unchanged at 2.6% y/y
- The Bank of Japan (BoJ) left policy unchanged. The economic assessment was unchanged but the inflation outlook was cut with a suggestion it could remain about zero for the time being. The BoJ however indicated it still believed its longer term 2% inflation target was achievable. A greater focus on underlying inflation trends versus Japanese core inflation suggested a later rather than imminent increase in asset purchases was possible

Chinese Economy

- Chinese data was mixed again, partly distorted by the timing of Chinese New Year
- The HSBC composite PMI index rose 0.8 to 51.8; manufacturing fell -1.5 to 49.2; services rose 0.2 to 52.0
- Official manufacturing PMI rose 0.1 to 49.9; services rose 0.2 to 53.9
- Exports rose 48.3% y/y; imports, a leading indicator of domestic demand and production, fell -20.5 y/y
- Retail sales growth slowed to 10.7% y/y from 11.8% over the most recent two months; industrial production growth eased to 6.8% y/y from 7.6%; fixed asset investment slowed to 13.8% y/y from 15.0%

Mixed Chinese Trade Data



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