

## QUARTERLY UPDATE

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- > Economic look-back & commentary
- > MAPS asset split
- > Dynamic Share to Cash (DSC) Model
- > DSC update for quarter 3 2014
- > Asset classes explained



## MAPS ANNUAL REVIEW 2014

As MAPS hit its first anniversary in quarter 2, 2014, Irish Life Investment Managers (ILIM) carried out their first annual review of the funds. As we informed investors in August, this review resulted in a number of enhancements to the MAPS offering, which ILIM implemented in September.

### 1. Addition of Property

ILIM have added a portion of property to each of the MAPS funds. This portion varies between 3% and 7.5% depending on the MAPS fund.

Adding property provides even more diversification to MAPS. Initially the property element will consist of Irish commercial property but this may extend and change over time as ILIM identify property opportunities arising.

### 2. Low Volatility Shares

Some of the MAPS funds previously had 10-25% invested in Minimum Volatility Shares, which make up the MSCI Minimum Volatility Index. These are shares which have historically shown lower volatility.

ILIM have replaced these with Low Volatility Shares. Like the MSCI Minimum Volatility Index, these shares are also a subset of the MSCI World Index. They have also shown lower volatility in the past. However, ILIM feel that these shares represent value relative to the Minimum Volatility Shares.

### 3. New External Manager

Part of each MAPS fund is managed by external managers, who are chosen by ILIM for their expertise in managing certain asset classes. As part of the annual review, ILIM are replacing one of these external managers, Hermes, with Blackrock. Blackrock are the world's largest assets manager with over \$4 trillion in assets under management (source: [www.blackrock.com](http://www.blackrock.com)). They will join GMO, Amundi and Pimco as managers of a portion of each of the MAPS funds.

These changes have now been implemented. To see the actual mix of each MAPS fund, see the latest factsheets available on [www.irishlife.ie](http://www.irishlife.ie).

ILIM will continue to monitor and review the assets, asset mix and external managers and may change these over time as markets change and new opportunities arise. However, they will also continue to manage each of the MAPS funds to their appropriate risk rating throughout.

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## ECONOMIC LOOK-BACK & COMMENTARY

Once again, volatility reared its head in quarter 3, 2014 as shares delivered a bumpy, but positive, overall performance. Various global events caused markets to be nervous – the unfolding crises in the Ukraine, Iraq and Gaza in July proved negative for shares but positive for bonds. Similarly, the financial difficulties experienced by the Portuguese bank Espirito Santo Group and the Standard & Poor declaration of default by Argentina did little to ease concerns.



### Markets on the Rebound

Markets rebounded somewhat in August as the US earnings reports were favourable, as indeed they were in Europe and Japan. High levels of corporate merger and acquisition activity also supported stock market confidence. Global central banks continued to indicate that monetary policy would remain accommodative and that the next interest rate rises would be gradual and in 2015 at the earliest.

### Low Inflation

Inflation in the UK is below the Bank of England 2% target level and is expected to stay that way for the next few years. Meanwhile the European Central Bank (ECB) announced that it would engage on an asset purchase programme as it sought to fend off the threat of low and falling inflation within the member community. Indeed, the ECB further cut interest rates to provide an incentive, should it be needed, for commercial banks to lend more. These announcements further supported shares and bonds as did modestly improving global economic news, although mainly focussed on the US market.

### Indian summer or Russian winter?

In fact, stock markets rose to new highs during the course of September but drifted lower into the quarter end as the US Federal Reserve raised fears over the timing and nature of rate rises in 2015. While the earlier ceasefire agreements in Ukraine and Gaza had boosted equity markets, rumours that Russia was looking to freeze overseas assets sparked some concern with investors. Similarly, street protests and increased levels of military intervention in the Middle East crisis have only added to investor anxiety and has contributed to some profit taking.

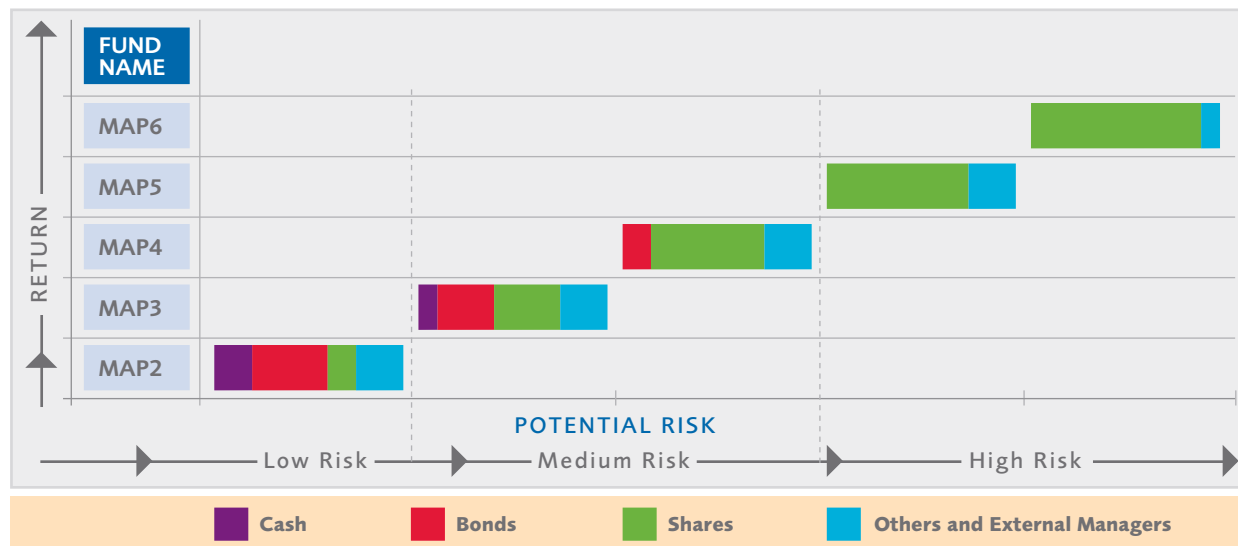
### Data Summary

Over the quarter, the FTSE World equity benchmark index rose 0.9% (+5.9% in euro terms). Japan rose 5.9% (+6% in euro terms) as the sluggish recovery post the April sales tax rise increased the potential for further government support. The US markets rose 0.9% (+9.4% in euro terms) on the better domestic macro and earnings backdrop. Weaker economic data curtailed Pacific Basin equities advancing and were down in local currency although posted a 3.1% gain in euro terms. Lastly, the UK fell 0.9% (+1.8% in euro terms) due to the economic uncertainty raised by the Scottish referendum. Euro bonds continued to rise benefitting from a range of ECB initiatives and peripheral spreads continue to narrow. One of the bigger moves over the quarter has been the Euro currency which has weakened to €1.26 versus the US dollar.

Source: David Haslam, Head of Retail, Irish Life Investment Managers (ILIM ), October 2014.

## MAPS ASSET SPLIT

There are five Multi Asset Portfolio funds to suit different attitudes to risk. The graph below, which is a guide only, shows the broad asset mix of each of the five funds. As you can see the lower risk fund Multi Asset Portfolio 2 (MAP2) has a very high percentage in bonds and cash which are traditionally less volatile assets. The higher risk fund Multi Asset Portfolio 6 (MAP6) is pre-dominantly invested in shares, which are traditionally more volatile than bonds or cash but have, in the past, given better long-term returns.



For the actual Multi Asset Portfolio Fund mix, see the latest factsheets at [www.irishlife.ie](http://www.irishlife.ie)

## DYNAMIC SHARE TO CASH MODEL



Each Multi-Asset Portfolio fund uses our innovative Dynamic Share to Cash (DSC) model. The DSC is a quantitative model that has been developed by ILIM and it uses a number of factors across three broad categories.

The DSC aims to reduce the amount invested in shares and increase the amount in cash when it identifies greater potential for stock market falls.

The factors include:

FACTOR CATEGORY	OBJECTIVE	INDIVIDUAL FACTORS
1 MARKET MOMENTUM	Take account of trends in shares	<ul style="list-style-type: none"> <li>12 month share market momentum</li> <li>200 day moving average</li> </ul>
2 VALUATIONS	Take account of the long-term valuation of shares	<ul style="list-style-type: none"> <li>Long-term share values</li> <li>Earnings quality</li> <li>Earnings yield</li> <li>Earnings Revisions</li> </ul>
3 GLOBAL MACROECONOMICS	Take account of the influence of global economics on shares	<ul style="list-style-type: none"> <li>Real GDP growth rate</li> <li>Bond yield curve slope</li> <li>Energy price levels</li> </ul>

Based on how these factors move over time, the DSC will decide how much of each MAP fund to invest in Developed Market Shares and how much to invest in cash, within the ranges shown in the table on the previous page. ILIM will regularly monitor and review these factors.

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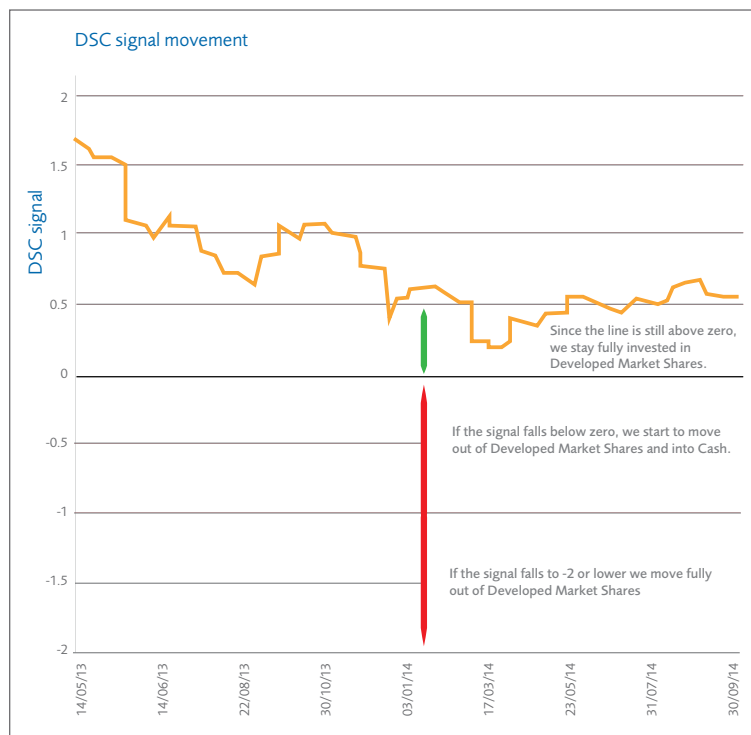
## DSC Signal explained

As mentioned we monitor 3 broad categories of market indicators (Momentum in markets, Valuations and Global Macroeconomics) which have 9 underlying inputs that generate a 'signal'. These signals are represented by a number in the graph.

When the signal number is above zero MAPS funds are fully invested in Developed Market Shares but in stressed markets that can reduce.

In stressed markets, if the signal number falls below zero this triggers a switch from Developed Market Shares to Cash in the MAPS funds. The more markets fall, the more negative the signal number becomes and the more we move out of Developed Market Shares.

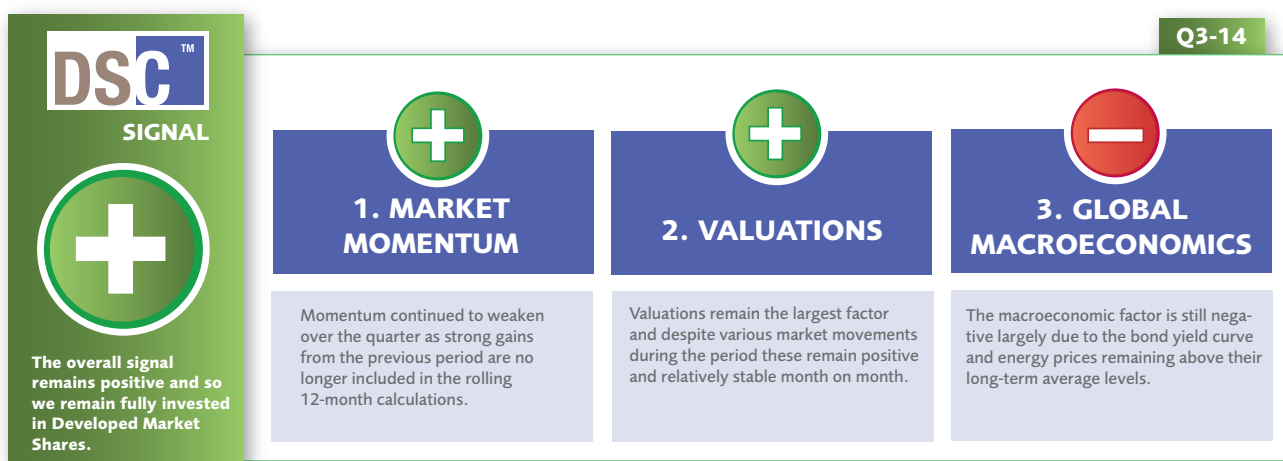
If the signal number reaches -2, the allocation to Developed Market Shares is zero.



The graph shows how the DSC signal has moved since MAPS launched in May 2013. As the graph shows the signal has remained fairly steady over 2014 and remains well above zero. This means that each of the MAPS funds holds their maximum allocation in Developed Market Shares. To see this allocation, see the latest fund factsheets on [www.irishlife.ie](http://www.irishlife.ie).

**Warning: Past performance is not a reliable guide to future performance.**

## Update for Quarter 3 2014



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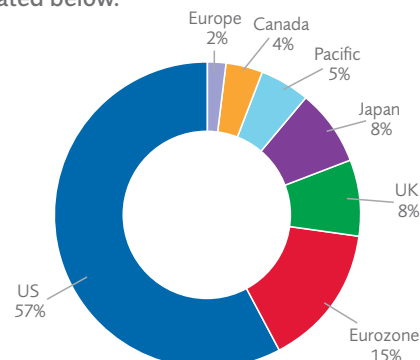
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## 1 Shares

### DEVELOPED MARKET SHARES

- ILIM track the performance of the MSCI World Index created by Morgan Stanley Capital International to provide exposure to Developed Market Shares.
- The index consists of 1,615 individual companies which operate in 10 different sectors.
- We use the DSC model (explained on page 3) on the Developed Market Shares to reduce exposure to risk assets when there is a potential for the stock markets to experience a significant fall.
- For the percentage of Developed Market Shares in each MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

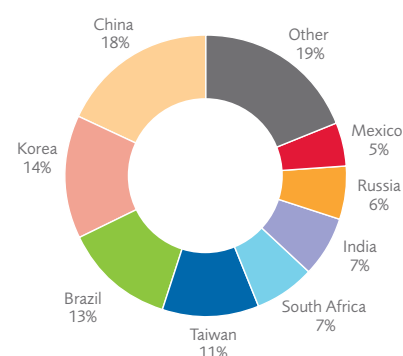
The geographic split of the index is illustrated below.



### EMERGING MARKET SHARES

- ILIM track the performance of the MSCI Emerging Markets Index created by Morgan Stanley Capital International to provide exposure to Emerging Market Shares.
- The index consists of 2,700 individual companies which operate in 21 different markets.
- For the percentage of Emerging Market Shares in each MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

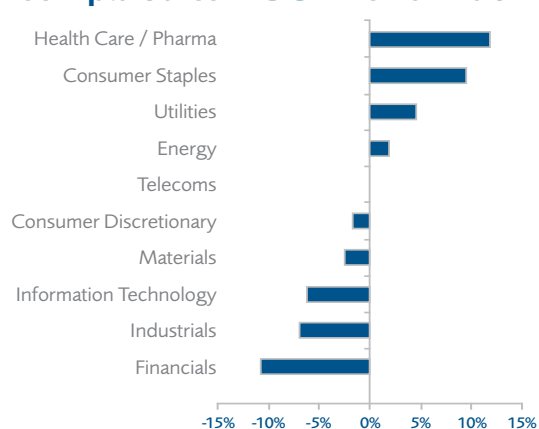
The geographic split of the index is illustrated below.



### LOW VOLATILITY SHARES

- Using a detailed, quantitative strategy, ILIM choose stocks from the MSCI World Index which not only have shown lower volatility in the past but which are also screened for other indicators such as value, for example.
- ILIM choose around 150 stocks to make up their Low Volatility Shares fund.
- For the percentage of Low Volatility Shares in each MAPS fund, see the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie).

#### Low Volatility Shares weight compared to MSCI World Index



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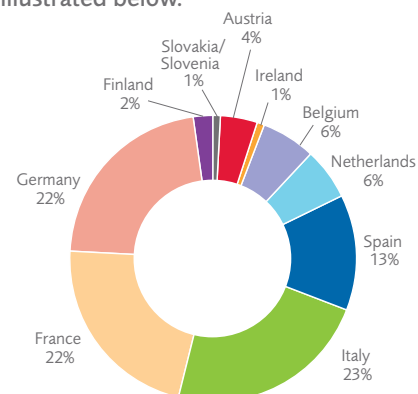
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## 2 Bonds

### GOVERNMENT BONDS

- ILIM currently track the performance of the Merrill Lynch 1-5yr Eurozone Index to provide exposure to government bonds.
- Although the allocation to government bonds is fixed in each MAPS fund, the duration of the bonds chosen is at the discretion of ILIM.

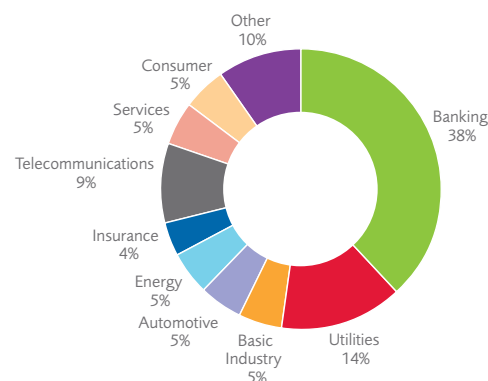
The geographic split of the Merrill Lynch 1-5yr Index is illustrated below.



### CORPORATE BONDS

- ILIM currently track the performance of the Merrill Lynch EMU Large Cap Corporate Index to provide exposure to corporate bonds.
- Although the allocation to corporate bonds is fixed in each MAPS fund, the particular index tracked is at the discretion of ILIM.

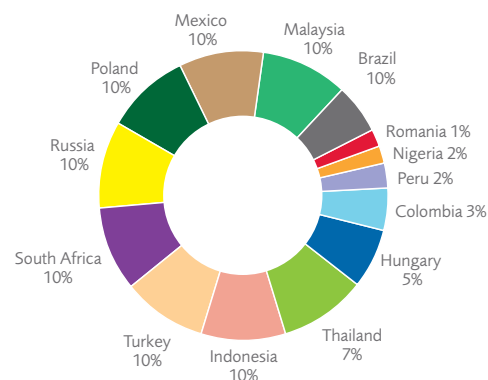
The sector split of the Merrill Lynch EMU Large Cap Corporate Index is illustrated below.



### EMERGING MARKET DEBT

- ILIM currently track the performance of the JP Morgan Government Bond Index Emerging Markets (JP Morgan GBI EM) Global Diversified Bond Index to provide exposure to emerging market bonds.
- Although the allocation to emerging market bonds is fixed in each MAPS fund, the particular index tracked is at the discretion of ILIM.

The geographic split of the JPM EM Global Diversified Bond Index is illustrated below.



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## ASSET CLASSES EXPLAINED

### 3 External Managers/Alternatives

ILIM recognise the need to incorporate alternative strategies within the MAPS funds and have an active pipeline of external managers they monitor on an on-going basis. MAPS currently have four leading global real and absolute return managers making up its exposure to alternative strategies. The percentage allocated to External Managers / Alternatives varies for each MAPS fund and the latest factsheet on [www.irishlife.ie](http://www.irishlife.ie) will show this percentage.

Within this percentage, the target split across the four managers is shown below as well as details of the managers themselves and the fund we invest in.

ILIM actively look for managers that can bring diverse performance at the right price. They monitor this performance on an ongoing basis and may choose to change the allocation to external managers or the target allocation within the External Manager allocation. They may also choose to replace, add or remove External Managers as opportunities arise and market conditions change.

Manager	Assets Managed	Fund Type	Target Split
<b>GMO</b> <small>Source: <a href="http://www.gmo.com">www.gmo.com</a></small>	<b>\$124 billion</b> <ul style="list-style-type: none"> <li>Morningstar award winning equity team</li> </ul>	Global Real Return Fund	60%
<b>BLACKROCK</b> <small>Source: <a href="http://www.blackrock.com">www.blackrock.com</a></small>	<b>€4.32 trillion</b> <ul style="list-style-type: none"> <li>World's largest asset manager</li> </ul>	Absolute Return Bond Fund	15%
<b>PIMCO</b> <small>Source: <a href="http://www.pimco.com">www.pimco.com</a></small>	<b>\$1.97 trillion</b> <ul style="list-style-type: none"> <li>One of the world's largest bond funds</li> </ul>	Unconstrained Bond Fund	10%
<b>AMUNDI</b> <small>ASSET MANAGEMENT</small> <small>Source: <a href="http://www.amundi.com">www.amundi.com</a></small>	<b>€820 billion</b> <ul style="list-style-type: none"> <li>Number 1 European Asset Manager</li> </ul>	Volatility Trading Fund	15%

Date: October 2014

### 4 Property

Each MAPS fund now has an allocation to property. Currently this allocation consists of a mix of commercial, retail and industrial property in Ireland. For the percentage of each fund invested in property see the factsheet on [www.irishlife.ie](http://www.irishlife.ie).

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## ILIM's Credentials

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ILIM have designed the Multi Asset Portfolio Funds. They have also developed and tested the DSC model and will expertly manage it over time.

ILIM currently manage over €42 billion of assets. By investing in one of these funds through an Irish Life pension, savings or investment plan you will benefit from their experience and expertise.

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## MULTI-ASSET PORTFOLIOS:

- > 5 portfolios - managed risk levels
  - > Multi-asset - shares, bonds, cash, alternatives and property
  - > Market first - DSC our innovative dynamic share to cash model
  - > Great value - competitive and transparent pricing
  - > Available across our pension, investment and savings plans
- 

**For more details please see the MAPS flyer at [www.irishlife.ie](http://www.irishlife.ie) or contact your financial broker or financial adviser.**