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Irish Life | 75 Years of Experience

Monthly Mindshare
February 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 “Investment Manager of the Year” and “Alternatives Investment Manager of the Year” in 2014

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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…

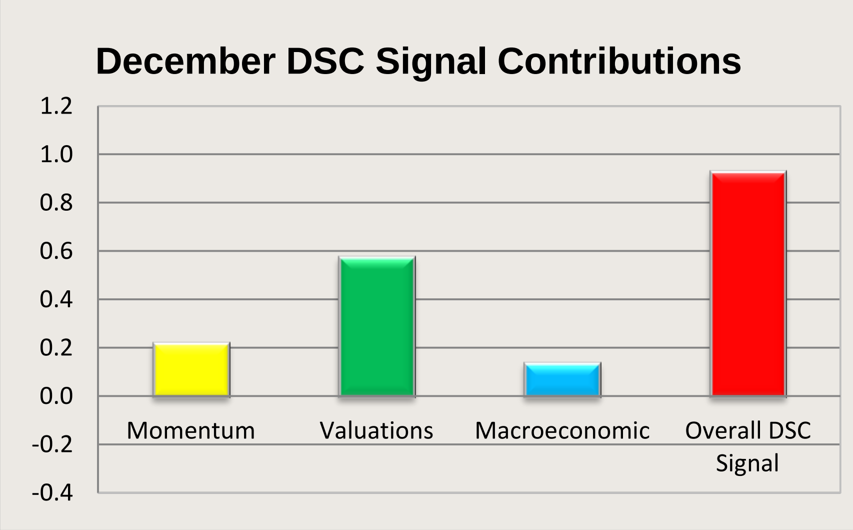
- Which factors were driving the DSC process in January and how the DSC signal was impacted as a result.

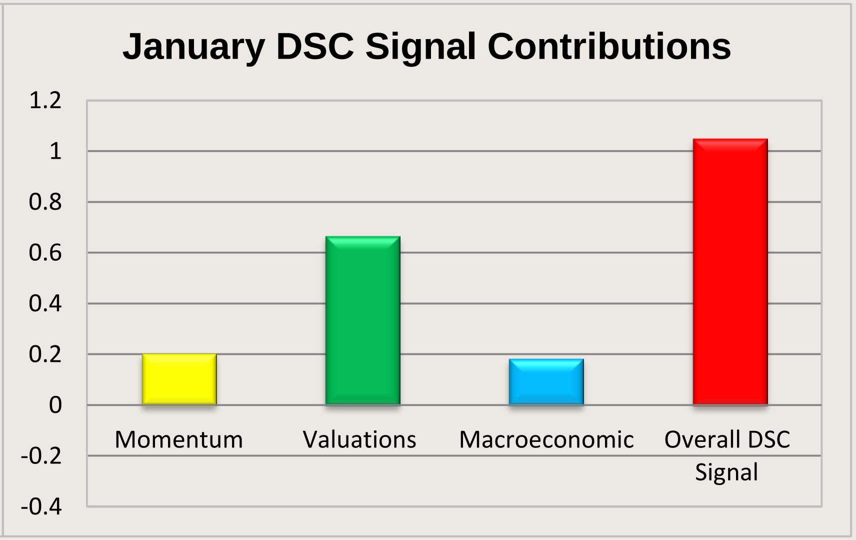
- What has been going on in the major economies around the globe through January.

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 January





- The ***DSC*** signal rose in January and remains in overall positive territory at the end of January. It finished the month at +1.05. All DSC related funds continue to be fully invested in their Developed Market Shares. The largest contribution is still being driven by the Valuations component.

- The **Momentum** category weakened slightly with local stock market price levels slightly lower at the end of January.
- The **Valuation** category strengthened again with company earnings yields improving and is still the largest overall contributor to the signal as outlined above.
- The **Macroeconomic** category also improved further with both lower bond yields and energy prices.

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. The improving macroeconomic 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 the level of stimulus and asset purchases they are undertaking. 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 6/7%, Irish property is expected to return 8/10% pa over the next three years.

- **Cash**
  - Cash returns are expected to remain low through 2015.

Market Developments in January

- The ECB surpassed expectations when announcing a €60bn per month asset purchase programme which will mainly comprise of sovereign bonds and will be operational from March 2015 to September 2016. The programme in effect is open ended and purchases will be undertaken by individual national central banks.

- The anti-austerity/bailout party Syriza won a larger than expected mandate in the Greek general election. The new Greek government immediately adopted a more aggressive negotiating stance than expected after the election which has created some uncertainty and anxiety.

- Expectations for the timing of the first UK rate rise were pushed out to 2016 as inflation fell to 0.5% y/y and the vote at the Bank of England changed from 7:2 to 9:0 in favour of no change in interest rates.

- Expectations for the timing of the first US rate rise were pushed out to late 2015. While the Fed's description of the US economy was upgraded to solid and labour gains were described a strong, inflation was expected to continue to decline in the short term.

- Brent oil fell -7.6% despite a last day rally of 7.9% as supplies continued to exceed demand with US production and inventory levels rising and OPEC refusing to cut production.

- Global economic data was softer than recent months, mainly due to disappointing releases in the US.

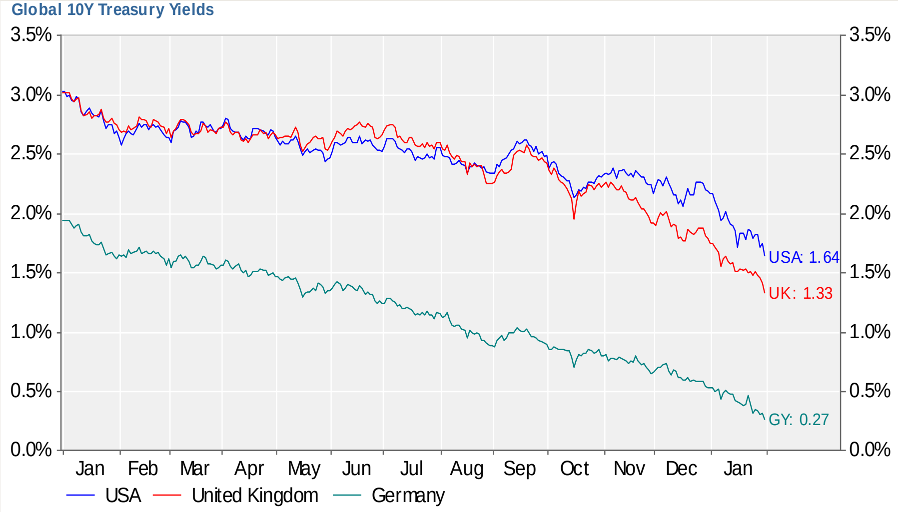
- Global equities fell -0.3% (+5.7% in €) and were volatile through the month. Eurozone >5 year bonds rose 3.5% with German 10 year yields falling to new all time lows of 0.30% following the announcement of the ECB's sovereign bond purchase programme and as Eurozone inflation fell to -0.6% y/y. Peripheral spreads were flat to slightly wider on the month due to the uncertainties relating to Greece. The Euro weakened significantly to 1.128 against the dollar following the Swiss central bank move, the ECB's asset purchase programme and uncertainty relating to Greece. Commodities fell -6.8%, led lower by the fall in oil prices.

Market Signposts

Markets In January	Local Returns	Euro Return
Ireland	4.8	4.8
UK	2.9	6.2
US	-2.9	4.1
North America	-2.7	3.8
Europe	4.2	7.6
Japan	0.5	10.0
Pacific	2.5	7.9
Emerging Markets	1.4	7.9
World	-0.3	5.7
EMU Govt Bonds >5yr	3.5	3.5
Commodities	-6.8	-0.1

Equity Markets Were Volatile Again

Global Bond Yields Lower on Low Inflation and Central Bank Actions



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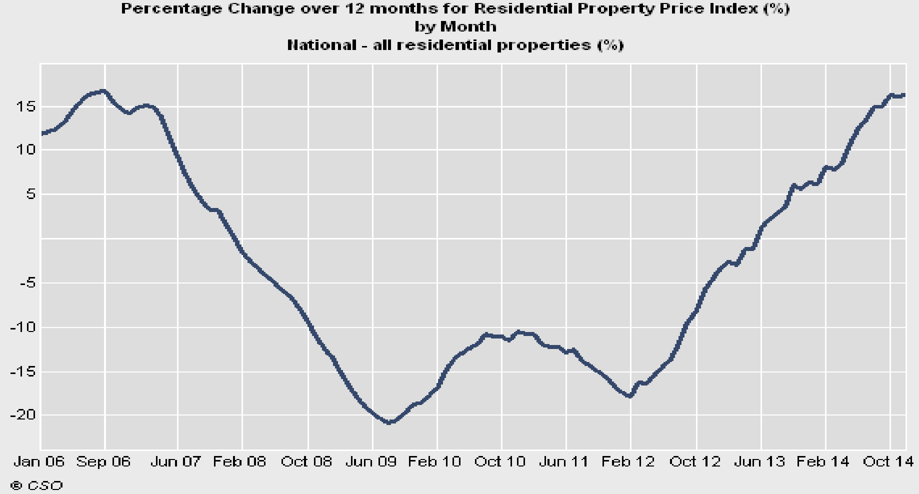
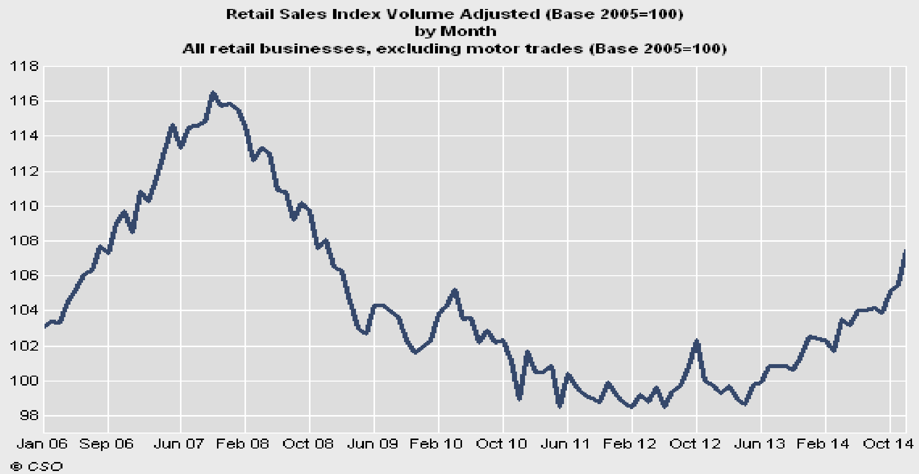
Ireland Economy Review

- **Economy**
  - Economic releases remained positive
  - Numbers on the Live Register fell 3,200 to 363,900; unemployment fell to 10.6%
  - Retail sales rose 0.5% m/m and 5.1% y/y; core sales ex autos rose 1.9% m/m and 4.8% y/y
  - Industrial production remained volatile, rising 4.6% m/m and 36.3% y/y
  - National residential property prices rose 0.7% m/m and 16.3% y/y. Prices in Dublin rose 0.7% m/m and 22.3% y/y. Prices outside Dublin rose 0.7% m/m and 10.2% y/y
  - CPI fell -0.3% m/m and -0.3% y/y from 0.1% y/y previously
  - December Exchequer returns were disappointing with the budget deficit for the year coming in just below 4% of GDP having appeared set to beat the estimate of 3.7% made at the time of the budget. For the year, tax revenues exceeded target by 9.2% although total expenditure was €964m above target, mainly due to overspend in health. Government departments appeared to relax spending discipline towards year end with additional costs also related to pension accruals and Irish Water. The outcome however is significantly better than the deficit of 4.8% forecast at the beginning of 2014. The deficit is likely to be below 3% in 2015

Irish Residential Property Prices Continue to Improve



Irish Retail Sales Continue to Rebound

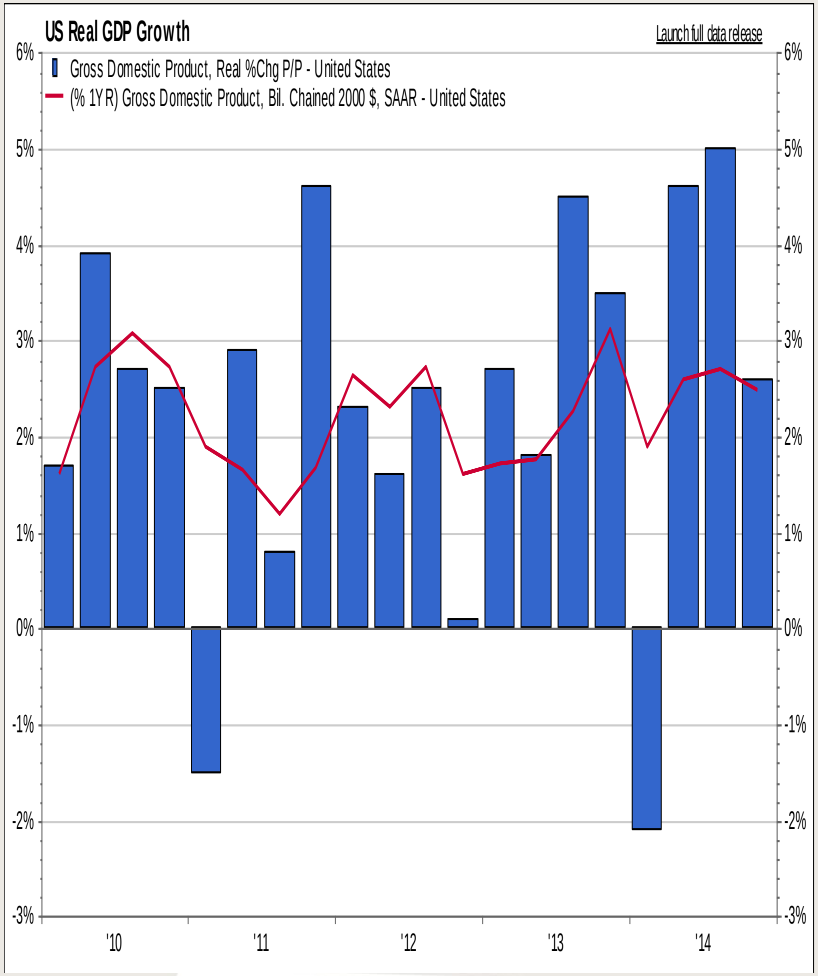


US Economy Review

- **Economy**
  - Data was generally weaker. Q4 GDP was below expectations at 2.6% annualised.
  - ISM manufacturing fell -3.2 to 55.5
  - Non farm payrolls rose 252k; unemployment fell 0.2 to 5.6%; retail sales fell -0.9% m/m; consumer confidence rose 10.3 to 102.9
  - Industrial production fell -0.1% m/m;
  - House prices in the top 20 cities rose 0.7% m/m and 4.3% y/y from 4.5% previously
  - CPI slipped to 0.8% y/y from 1.3% previously

- **Interest Rates**
  - The Fed removed the reference to rates being maintained at current levels for a considerable period but continued to say it would be patient before raising rates
  - The Fed upgraded its assessment of growth to solid and described job gains as strong
  - These hawkish comments were offset by an admission that inflation was likely to decline in the short term and only rise gradually over the medium term towards the 2% target. A reference to concerns over international developments was interpreted as relating to the negative impact of dollar strength on the economy and lowering inflation
  - These latter comments contributed to a pushing out of expectations for the first US rate rise to late 2015

US Q4 GDP Slows and Was Below Expectations



Eurozone Economy Review

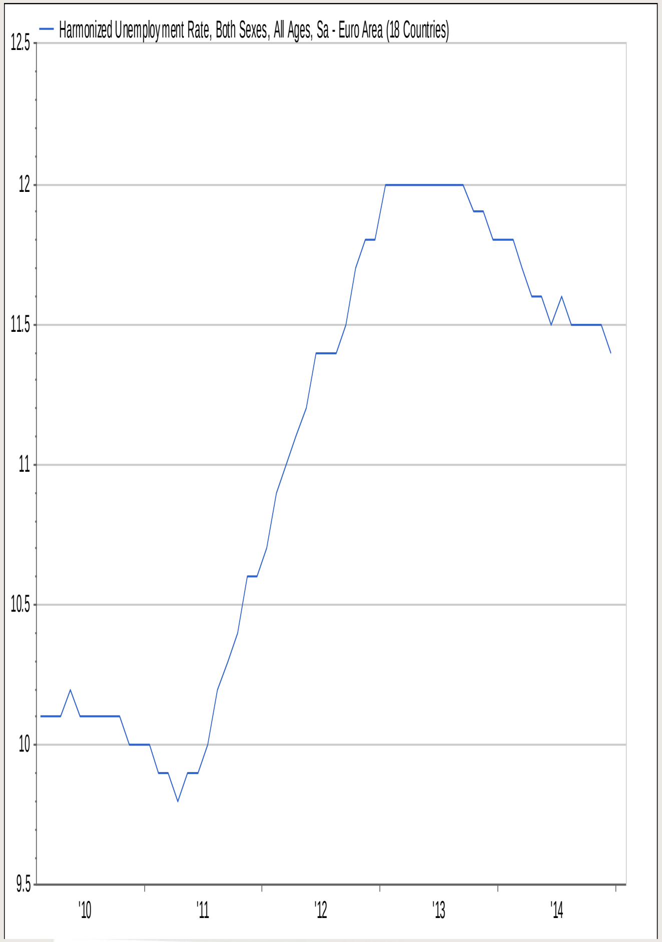
Economy

- Data was generally better. The Eurozone composite PMI rose 0.8 to 52.2
- Industrial production rose 0.2% m/m; construction output fell -0.1% m/m; retail sales rose 0.6% m/m; consumer confidence rose 2.4 to -8.5; unemployment fell 0.1 to 11.4%
- German data was better. The composite PMI rose 0.6 to 52.6; the IFO business climate rose 1.2 to 106.7; consumer confidence rose 0.3 to 9.0
- The French composite PMI fell -0.2 to 49.5; consumer spending rose 1.5% m/m; industrial production fell -0.3% m/m
- Spanish Q4 GDP rose 0.7% q/q; composite PMI rose 0.5 to 54.3; industrial production was flat y/y; retail sales rose 6.5% y/y
- Italian composite PMI fell -1.8 to 49.4; industrial production rose 0.3% m/m; retail sales rose 0.1% m/m; unemployment fell 0.5 to 12.9%

Interest Rates

- The ECB surpassed expectations with a €60bn per month asset purchase programme
- It will mainly consist of sovereign bonds but also includes existing ABS and covered bond purchases, inflation linked bonds and supra national issues and will be operational from March 2015 to September 2016
- In effect it is open ended as the ECB indicated it will continue until inflation moves sustainably back towards its 2% target
- Purchases will be undertaken by individual national central banks
- The ECB will coordinate and control the programme

Eurozone Unemployment Declines Marginally



Asian Economy Review

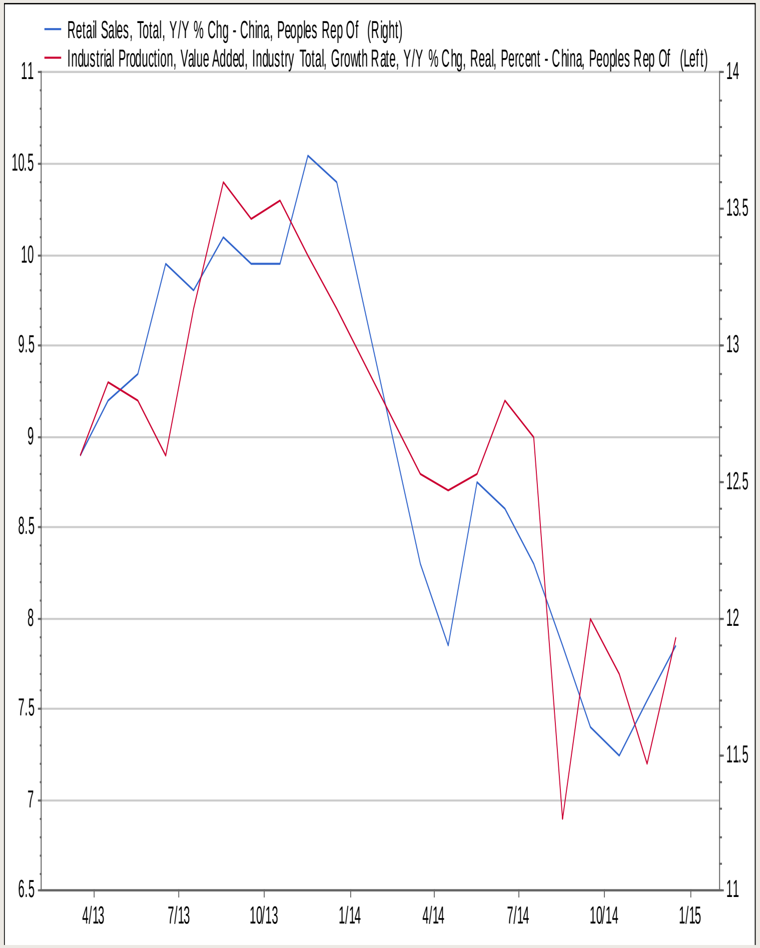
Japanese Economy

- Releases were mixed but suggest positive growth in Q4
- Industrial production rose 1.0% m/m and 0.3% y/y; retail sales fell -0.3% m/m but rose 0.2% y/y; consumer confidence rose 1.1 to 38.8; exports rose 12.9% y/y from 4.9% previously while imports rose 1.9% y/y; the composite PMI rose 0.7 to 51.9; core CPI slipped to 2.5% y/y from 2.7% y/y
- The Bank of Japan (BoJ) left policy unchanged. Economic forecasts were updated with GDP growth of 2.1% expected for fiscal 2015 and 1.6% in fiscal 2016. CPI was forecast at 1% in fiscal 2015 versus the target 2% and 2.2% in fiscal 2016. The economy was described as recovering moderately with the impact of the sales tax rise waning.

Chinese Economy

- Chinese data was generally better
- Q4 GDP was marginally ahead of expectations at 7.3% y/y
- The HSBC composite PMI index rose 0.3 to 51.4; manufacturing rose 0.2 to 49.8 but remained below 50; services rose 0.4 to 53.4
- Industrial production growth improved to 7.9% y/y from 7.2%;
- Exports rose 9.7% y/y from 4.7% previously; imports, a leading indicator of domestic demand and production, fell -2.4% y/y from -6.7% previously
- Industrial profits fell -8.0% y/y from -4.2% previously

Chinese Industrial Production and Retail Sales Improve



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