

Pension Protection Fund

Information is correct as at the 30th September 2010

Volatility/Risk



How the Fund Works

We have designed this fund to outperform the **Merrill Lynch EMU Government >10 year index**. The fund managers aim to add value by managing which countries are chosen and how long the bonds will last before they mature.

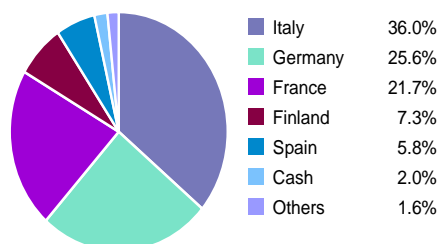
Investment Objective

Historically, pension funds with mature or deferred liabilities have generally tried to match these liabilities by placing some of the fund assets into a typical pension fixed interest fund.

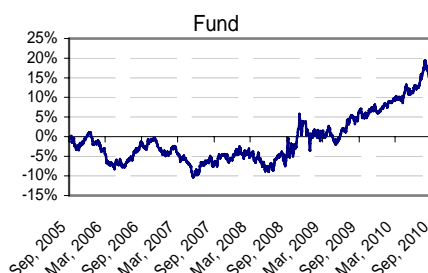
However, the duration of these funds are shorter than the liabilities faced by a typical pension fund. Given the long duration of the liabilities, it is more efficient to match them with longer dated assets and the Pension Protection Fund fulfils this requirement. The yields on the funds assets will better match the discount rates for the liabilities and as such provide protection against adverse market moves in the long term.

The return of this fund since launch (31st March 2003) is 5.30%p.a.

Country Distribution



Performance



Year	Protection Fund	ML EuroZone > 10Yr
2010 YTD	10.5%	9.8%
1 Year	10.1%	8.9%
3 Year %p.a.	7.9%	8.0%
5 Year %p.a.	3.2%	3.6%

The figures quoted are before tax and after management charges. Source: Irish Life.

Market Commentary

During September bond markets gave up some of the dramatic gains seen in August. Better than expected economic data from the US, especially the Non Farm Payroll managed to lift some of the gloom. In Europe Ireland remained the focus and jitters continued through September despite clarity on the future of Anglo with plans to break it into a funding bank and asset recovery bank. The Irish debt auction at the end of September received a lot of press and led to an increase in yields to new highs with the 8 year at 6.02%, up 100bps from 3 months ago and the 4 year was at 4.77% up 110bps from just a month ago. Due to the continued pressure on yields with 10 years near 7%, the Irish government gave more clarity on the banks on the 30th of September. They increased the capital raising programme amounts for Anglo (29.3bn with worst case of 34.3bn), AIB (10.4bn) and Irish Nationwide (5.4bn). Irish bonds rallied on this news and 10 year yields ended the month at 6.64%.

Throughout the month the news from the rest of Europe was mixed. Good economic news including strong Q2 GDP and positive employment numbers from Germany meant that they reduced their debt issuance programmes for Q4 2010 and 2011 estimates were also revised down. France outlined its 2011 budget plan which continued to project deficit falling 1.6% to 6% following cuts in public employment and reducing tax expenditure. Spain finally got downgraded by Moodys from Aaa to Aa1 (outlook: stable), more consistent with the other rating agencies, with the 10 year only widening marginally to 187bps. Portugal continued to follow the Irish yield and reached a peak of 423bps over Germany in the 10 year sector. German bonds showed some volatility rising from an August close of 2.1% to 2.5% by mid month but managed to trade back to 2.26% by month end.

Warning: The value of your investment may go down as well as up. This fund may be affected by changes in currency exchange rates. Past performance is not a reliable guide to future performance.



Irish Life
Investment Managers