

Indexed European Gilts Fund

Information is correct as at the 30th September 2010

Volatility/Risk

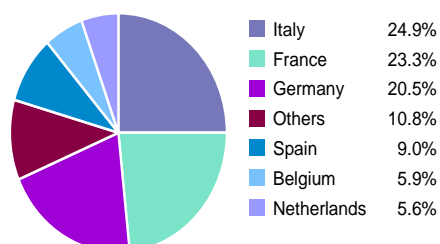


How the Fund Works

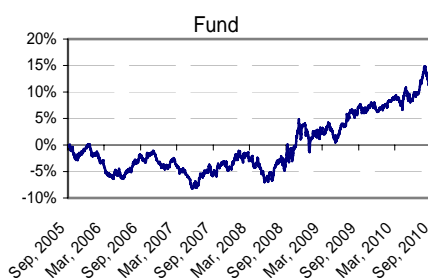
The idea behind indexed fund management is to consistently perform in line with the agreed benchmark index, in this case the **Merrill Lynch EMU Government >5 years**. We do this by either investing in the same bonds as that of the index or holding bonds that will perform in line with the index. This strategy allows investors to remove the risk of poor manager selection risk.

The return of this fund since launch (18th May 2001) is 4.65%p.a.

Country Distribution



Performance



Year	European Gilts Fund	ML EuroZone > 5Yr
2010 YTD	6.1%	7.1%
1 Year	5.2%	6.7%
3 Year %p.a.	6.0%	7.5%
5 Year %p.a.	2.4%	4.0%

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