InFocus

Stepping stones to diversified portfolios

Stepping Stones to diversified portfolios

Why?

- Cash is currently the asset class of choice
- With inflationary pressures rising, investors and savers need to protect against higher inflation

With what?

- Asset classes that hedge against higher inflation

How?

- Given the uncertain economic times, cash may still be favoured so we suggest that gradual steps to more diversified portfolios could be a better approach
- Start to move out of cash into other funds
  - Protected Consensus Markets fund (Risk rated 3)
  - CORE (Risk rated 4)
  - Consensus (Risk rated 5)
  - Explore funds (Risk ratings range from 1 to 7)

- Irish Life has a very wide range of cash and low risk offerings that can be used in conjunction with the above funds to help the uncertain or nervous investor and include:
  - Global Cash fund (Risk rated 1)
  - Safe Deposit fund (Risk rated 1)
  - Self Invested Deposit fund (Risk rated 1)
  - Structured products (Risk rated 1 and 2)

For information on the CORE, Consensus, PCMF and Explore funds please see the Pension & Investment Options guide.

Irish Life

Fund Snapshot

Cash is currently king – Irish Life has many low risk and secure options for cash

Huge levels of household cash

Cash is currently the asset class of choice for Irish investors. Irish households have in excess of €100 billion sitting in cash and the personal savings ratio is running at around 13% or €12.2 billion per annum. Of this, some of it may be used to pay off debts and some may be used to increase savings. Irish Life has a wide range of cash and low risk funds. These include:

Global Cash fund

- The Global Cash fund has the potential to invest in a wide range of bank deposits from highly rated global banks and cash like instruments (such as short dated notes and bills) from highly rated government issuers.
- At the moment the Global Cash fund is invested 88% with global banks all with a minimum rating of A-, with the exception of a 12% allocation to Irish banks. Currently, there are 15 banks used in the Global Cash fund, 11 international banks and 4 Irish banks. The weighting to Irish banks will be reduced to zero as the Global Cash fund allocation to global banks is completed. The range of banks can vary over time, as ILIM monitor the bank counterparties very closely to ensure they meet the required credit ratings.
- The Global Cash fund is available on our Signature and Complete Solutions product ranges and a number of older products.
- This fund is intended to be a low risk investment, but you should be aware that this fund could fall in value. This fund is a short-term option with a view to investing in other funds on a long term basis.

Safe Deposit fund

- The Safe Deposit fund currently invests in a deposit account from permanent tsb and is able to take advantage of the current high deposit rates available. At the moment the rate is the ECB (European Central Bank) rate +2%. The ECB rate is a variable rate and can go up or down.
- The Safe Deposit fund will only invest in deposit or cash accounts and will aim to take advantage of the prevailing high rates available on deposit accounts.
- The fund is managed by ILIM. ILIM can pick from a panel of banks including, permanent tsb, AIB, BoI, and EBS.
- As the contract is with us, Irish Life Assurance plc, we are committed to passing on the full value of the amounts we receive from this deposit account, less the fund charge. This means that if any of these banks are unable to meet their commitments to Irish Life, then your customer could receive less than the original amount invested in this fund.
- The Safe Deposit fund is available on our Signature and Complete Solutions product ranges. This fund is a short-term option with a view to investing in other funds on a long term basis.

Self Invested Deposit fund

- The aim of the Self-Invested Deposit fund is to allow investors to combine the convenience of a traditional pension plan with the freedom and flexibility of choosing the deposits (from a panel of approved financial institutions) that their pension invests in. The panel of banks include, permanent tsb, AIB, BOI, Rabo, KBC and Investec.
- The options available to investors are fixed term accounts, one-month rolling accounts and on demand deposit accounts. Irish Life does not provide advice on the suitability, or otherwise, of the specific assets selected.
- The Self Invested Deposit fund is available on our Complete Solutions PRSA Options.

For full details on the Self Invested Safe Deposit fund, your client must read 'Your Guide to the Self-Invested Deposit Fund' carefully as it contains important information about the fund.

Fund Snapshot

Stepping stones

Protected Consensus Markets fund (PCMF)

- Performance potential when markets are rising
  - We could invest up to 100% in the Consensus Markets fund which currently has a high equity content. Potential returns are uncapped.
- Built-in protection when markets are falling
  - We will switch to the Protected fund when markets are falling. We could invest up to 100% in this fund.
  - In addition, the protected price pledge is designed so that the unit price will not fall below 80% of its highest value.

Warning: The money invested in the Protected Consensus Markets fund is not 100% protected.

For full details on this fund including important information on the protected price pledge, please refer to our booklet 'Financial Adviser Guide to the Protected Consensus Markets fund' and your customer should read the 'Guide to the Protected Consensus Markets fund' booklet.

CORE

CORE has been designed with the aim of giving a similar return to the typical managed fund, but with a lower level of volatility. By blending a unique mix of uncorrelated assets, CORE gives you the ideal engine to help deliver a smoother performance at the heart of your clients' portfolios.

Why you should consider CORE

- Greater Diversification – Gives a more diversified portfolio than a typical managed fund by blending equities and bonds with alternatives including managed futures.
- Growth potential – Global equities provide the engine for growth complemented by emerging market and infrastructure equities.
- Risk reduced – CORE is classified as risk category 4 on Irish Life's 7 point risk scale. It currently has a volatility of a little over 8% – a typical long dated bond fund currently has a volatility of around 7%, while a typical managed fund currently has around 12%.
- Re-balancing – CORE will be re-balanced each quarter to its target asset mix.

Warning: The value of your investment may go down as well as up. These funds may be affected by changes in currency exchange rates.

Inflation Snapshot

The need to hedge – inflation on the prowl

Cash - safe in the short-term, risky in the long-term

The decision to remain in cash throughout 2009 and 2010 hasn't been an altogether bad one as real returns of 8% and 4% were achievable. However, there was a significant opportunity cost, with global equity markets rallying by approximately 90% (based on the FTSE World Index) from their lows over that period.

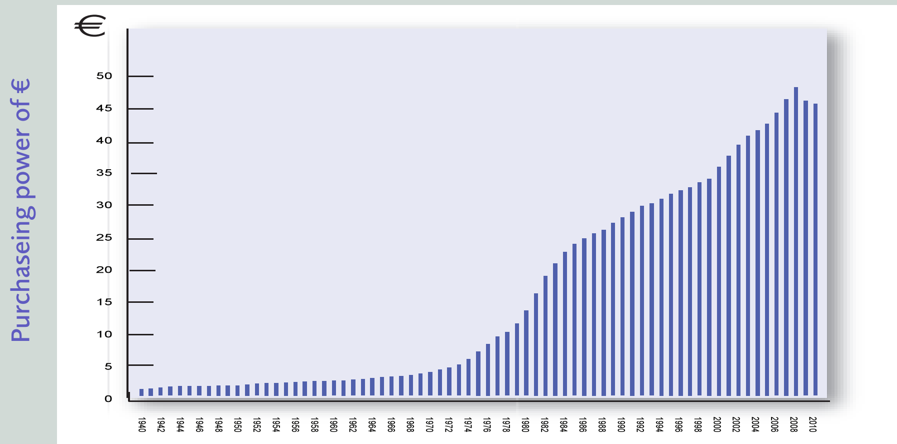
This decision to hold such huge levels of cash is understandable given the uncertainty in the domestic economy and the shock of the credit crisis that saw financial markets collapse in 2008. However, it is unlikely that savers and investors will switch 100% from cash into higher risk products. Nevertheless, with inflation risks mounting and other asset classes continuing to outperform, a shift to real financial assets may be warranted.

Consumer prices fell by an average of 4.5 % in 2009 and with deposit rates running at around 3% to 4%, this meant that the real return for sitting on cash in 2009 was around 8%. Consequently, getting a risk free real return of approximately 8% was very attractive for the risk adverse Irish saver. Unfortunately, this type of real return is an exception and is unlikely to be repeated again.

Money is not what it used to be

Irish inflation is currently running at over 3% and the expectation is that it will increase further as the year progresses. To highlight the impact of inflation it is worth considering the purchasing power of €1 over different time periods. According to the CSO, the purchasing power fell by 25% in the 10-years to 2010 and by 64% in the 20-years to 2010 and by a massive 240% in the intervening 30 years. In fact, €1 in 1940 is now equivalent to over €44 in today's money.

€1 in 1940 is worth over €44 today



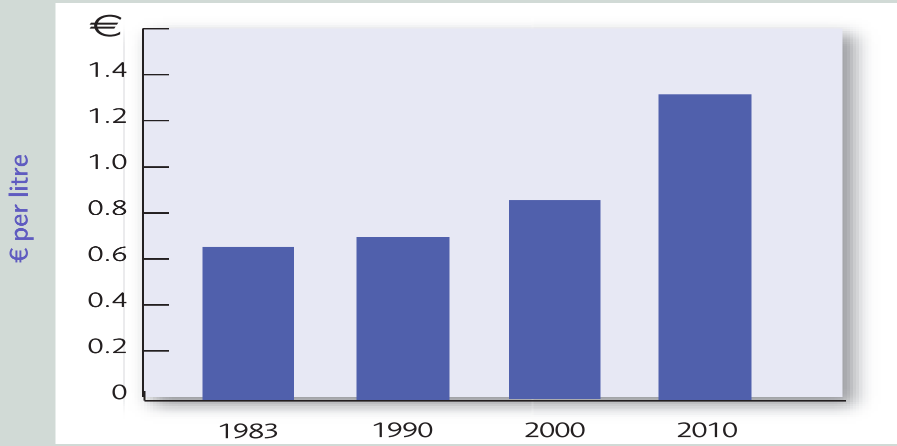
Source: C.S.O.

For example, the average national price for a pint of stout was €1.90 in 1990 and today it costs €3.96 (an increase of 108%), while a litre of diesel cost €0.68 compared with €1.32 at the end of 2010 (an increase of 94%). Also, it is worth remembering that inflation in the last decade was downwardly impacted by two years of significant deflation in 2009 and 2010.

Inflation Snapshot

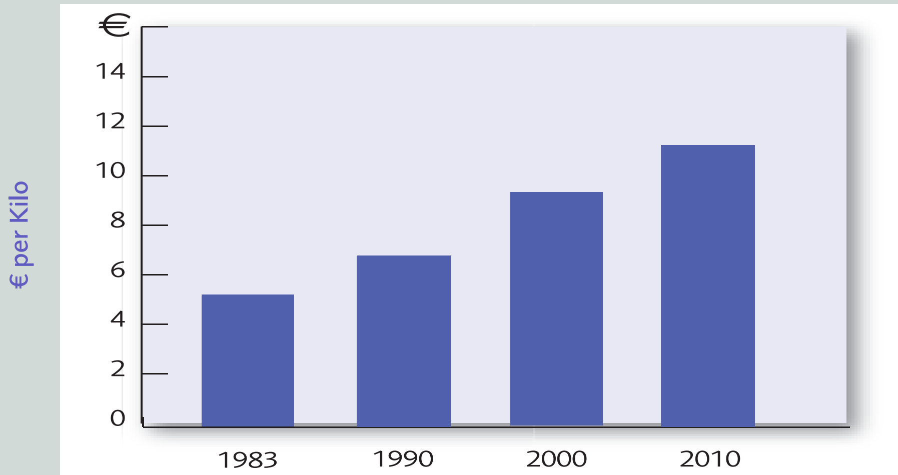
The need to hedge – inflation on the prowl

A litre of diesel up 94% since 1990



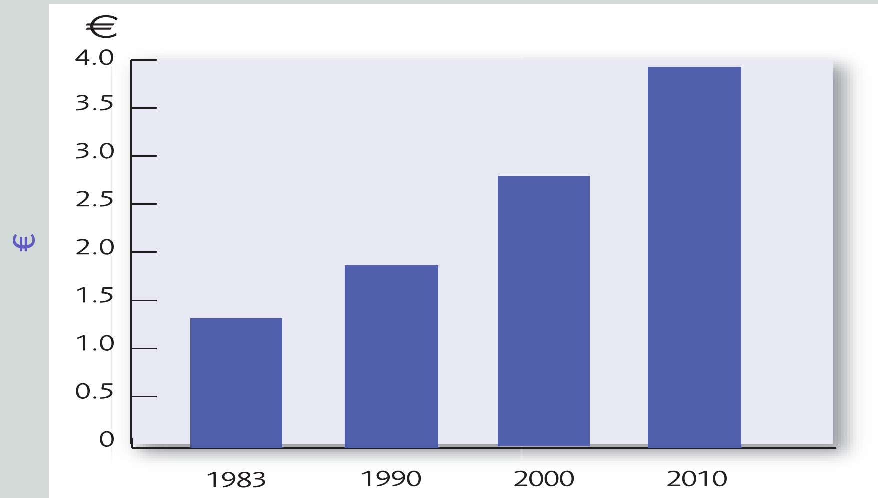
Source: C.S.O.

...rashers up 66%



Source: C.S.O.

...most shockingly of all, a pint of stout is up 108% in 20 years



Source: C.S.O.

Inflation pressures mount...

Prices rise by 3% in the year to March

Consumer Prices in March as measured by the CPI, increased by 0.9% in the month. This compares to an increase of 0.1% recorded in March of last year. Prices on average, as measured by the CPI, were 3% higher in March compared with March 2010.

Source: CSO, February CPI Release

British inflation surges to 4.4%

British inflation surged to a 28-month high of 4.4 per cent last month, reviving speculation that the Bank of England will not wait much longer to raise interest rates.

Source: Irish Times, March 22nd

"STRONG VIGILANCE IS WARRANTED WITH A VIEW TO CONTAINING UPSIDE RISKS TO PRICE STABILITY."

Jean Claude Trichet, ECB President

Everyday higher prices

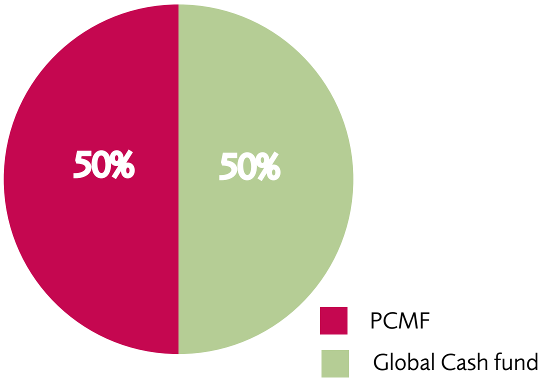
Manufacturers and retailers are desperate to pass on higher commodity prices to their customers

Source: The Economist, Feb 24th, 2011

Solutions Snapshot

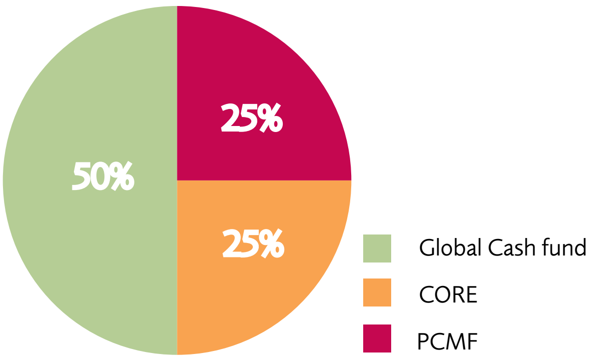
Straightforward and effective solutions – suggested portfolios all on one platform

50% Global Cash fund / 50% PCMF



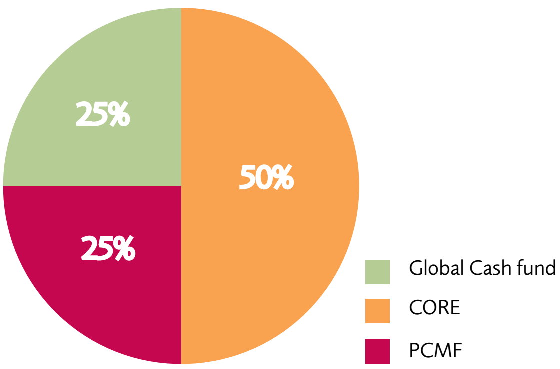
- Still a very conservative portfolio – risk rating 2*
- Daily priced, open-ended funds
- Downside protection
- Exposure to Consensus Markets fund
- Global Cash fund invested across a range of global banks

50% Global Cash fund/25% PCMF/ 25% CORE



- A conservative portfolio – risk rating 2*
- Daily priced, open-ended funds
- Greater exposure to real financial assets
- Very diversified fund, with a significant element of downside protection

25% Global Cash fund/25% PCMF/ 50% CORE



- Slightly more risk – risk rating 3*
- Daily priced, open ended funds
- Exposure to a range of assets to help hedge against inflation
- Diversified portfolio with 25% in cash

* Combined risk level is based on our 1-7 risk scale for an investment customer (< age 66) with a long term investment horizon.

Financial strength of Irish Life Assurance

Financial security of life companies

Irish Life is a secure, well capitalised, low risk company. We operate a low risk business model, with a range of safeguards in place to protect our customers. In addition, as a life insurance company, we have many layers of protection to give our customers financial security, three of which are: unit-linked funds, ring-fenced assets and capital reserves.

Unit-linked funds

Customer's money is usually invested in unit-linked funds. They buy units in a fund and the life company is required to hold all the assets underlying its unit-linked policies (plus an additional amount for 'solvency margin' as described below). A key difference between a life company and a bank is that a bank is not required to hold the full amount of its deposits as liquid assets. As a result, there is no equivalent to a 'run on a bank' for a life company since an insurer will hold matching assets at all times. If the value of assets increases, then the liabilities go up and, if the value of assets decreases then the liabilities decrease as well. Irish Life held €24bn in assets to back unit-linked liabilities at 30 September 2010.

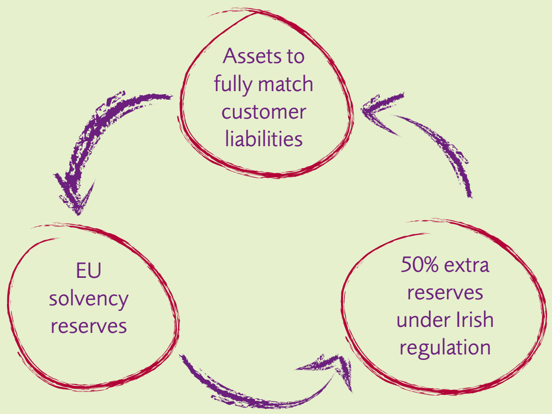
Ring-fenced assets

Life companies must be self-sufficient – their assets must be separate from any parent or other group company. So, in the unlikely event of the insolvency of a parent or holding company, the creditors of the parent / holding company would have no call on the assets of the life company. In the case of Irish Life, our assets are separate from those of permanent tsb and the assets of Irish Life cannot be transferred to other parts of the group. We are also independently regulated.

Capital reserves

Under EU regulations, in addition to holding all the assets underlying their policies, life companies must hold additional reserves on top of this. This is called 'solvency margin' and gives an additional layer of protection for customers. The Central Bank of Ireland requires companies to hold a further 50% of reserves.

So Irish Life must have:



Please note: Details are correct as at 30 March 2011. The information in this flyer may vary over time. Whilst every care has been taken to ensure that the information is accurate, Irish Life Assurance plc. does not accept responsibility for errors contained in this document.

Note: For those funds that are managed by external fund managers, it is important to note the value of any investment placed with external fund managers may be affected if any of the institutions with whom we place money suffers insolvency or other financial difficulty. Where a fund invests in an external fund, we represent the key features of the external fund. However the managers of external funds may retain discretion over the nature and choice of assets, and expenses incurred, within any part of a fund they manage. Our commitment is to pass on the full value of the fund we receive from the external manager for your client's investment. Our commitment is restricted to the returns we actually receive from the external manager.

The importance of Financial Advice

As a financial adviser, it is your responsibility to assess your customer's risk level. You should be aware that adding different funds to the Core Options to make up your customers' portfolio could change the risk and volatility level of the total investment i.e. the risk and volatility levels could move up and down depending on the funds being added. You need to be happy your customers' overall portfolio will match his/her risk profile.

Important Information

As you know Irish Life provides a wide range of funds to deal with all types of investment needs. In our product literature we set out as much detail as possible on the nature of our funds, their risk profile and volatility. This is to help financial advisers to identify funds which may match particular risk attitudes. This can be no more than a useful guide to which fund might be suitable (as part of an overall portfolio approach to investment).

This document does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person. Any comments on specific funds and products are intended as an objective, independent view in relation to it generally, and not in relation to its suitability to any specific person. Irish Life Investment Managers and Irish Life Assurance manage investment funds which may have holdings in stocks commented on in the document.

Pension products are long term savings plans that can only be taken on retirement. Investment and pension funds can fall as well as rise in value. Irish Life Assurance plc and Irish Life Investment Managers are regulated by the Central Bank of Ireland.

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