Irish Life Investment Managers

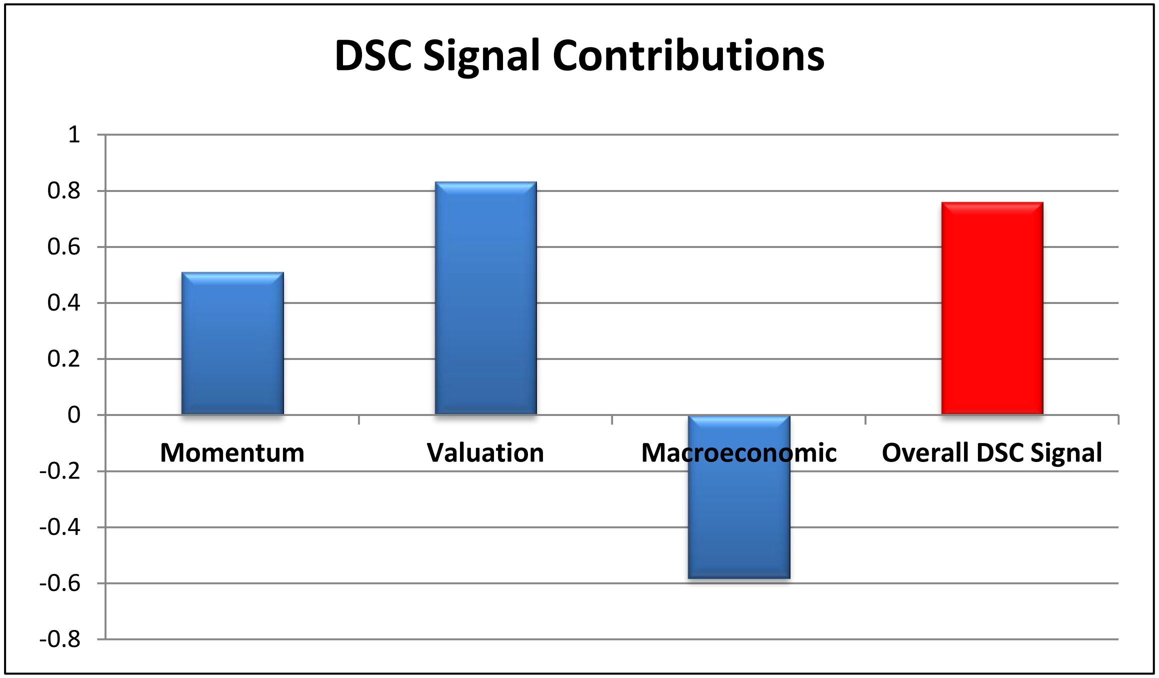
Monthly Mindshare November 2013

Irish Life Investment Managers (ILIM) is regulated by the Central Bank of Ireland

Dynamic Share to Cash (DSC)

- Irish Life Assurance recently launched their Multi Asset Portfolio range (MAPS) featuring the proprietary **Dynamic Share to Cash (DSC)** model designed by Irish Life Investment Managers
- Using a bespoke mix of market inputs from three broad factor categories, the **DSC** aims to identify changes in long term market trends and reduce equity market exposure where signs of impending stress are signalled
- The three factor categories the process tracks are:
  (1) momentum
  (2) valuation
  (3) macroeconomic
- We take a look at which factors were driving the DSC process in November and how the DSC signal was impacted as a result
- We also look at volatility – what is it? How does it affect funds? How MAPS aims to reduce it and even profit from it!

Dynamic Share to Cash (DSC)

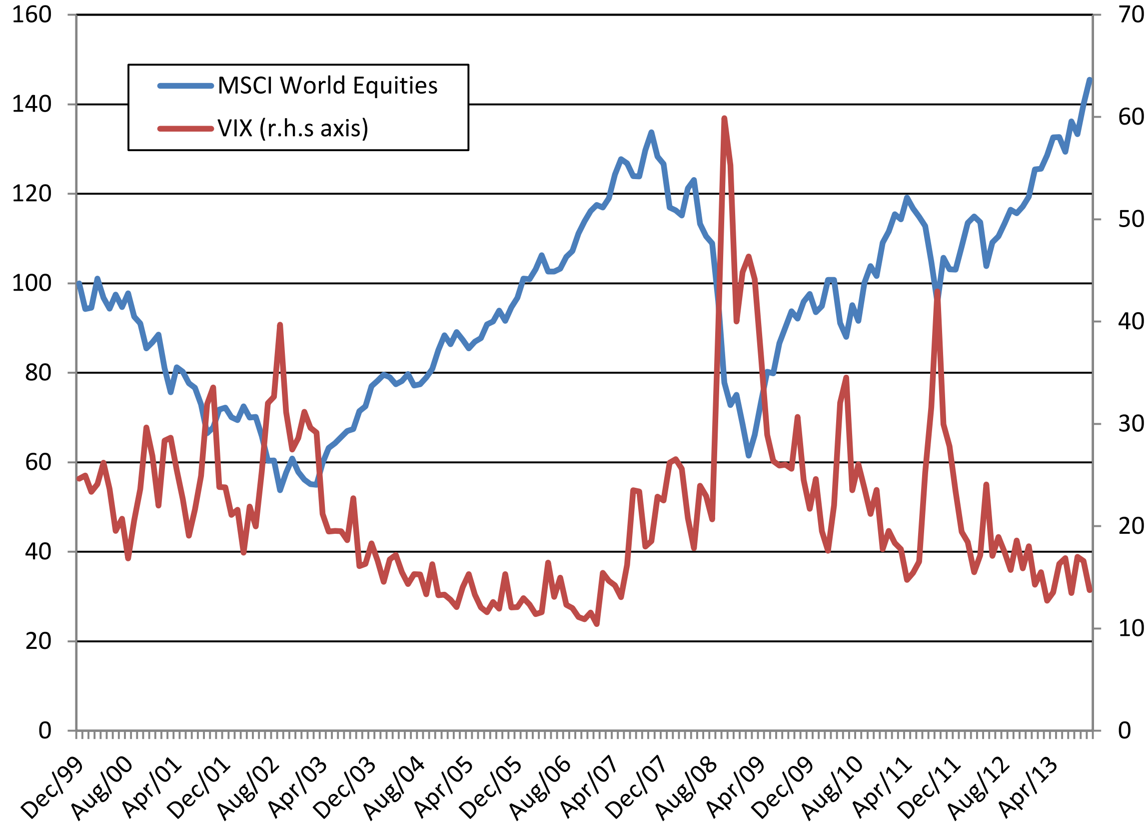


- The DSC signal is positive (0.74) indicating all MAPS are currently fully invested in Global Equities
- The ***Momentum*** category was largely unchanged through November with the 200 day Moving Average indicator remaining positive
- The ***Valuation*** category is still the strongest positive category despite a fall back in the Earnings Yield and Earnings Revisions indicators
- The ***Macroeconomi***c category saw minor moves in Energy prices and Bond Yield Curve broadly cancel each other out and it remains a negative indicator to the signal

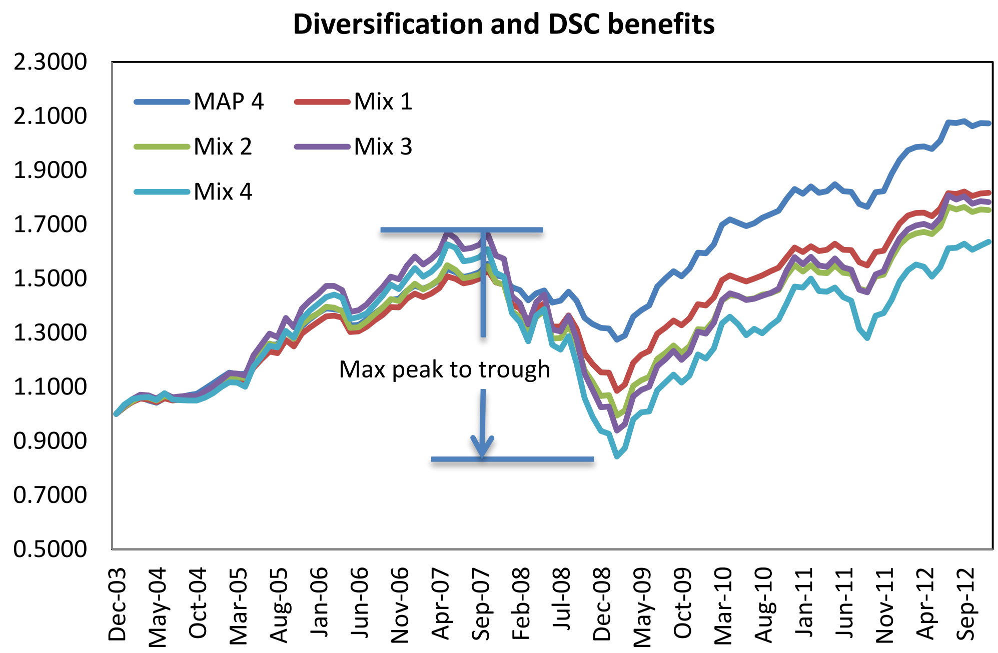
MAPS - Volatility

- Volatility measures the frequency with which markets move up and down
- These moves are captured by the VIX index and can be graphed as per the chart opposite (red line)
- Falling markets are usually mean high volatility
- Rising markets are usually mean low and stable levels of volatility
- Equity markets (blue line) tend to move in the opposite direction to the VIX (red line)
- **The greater the level of diversification within a portfolio, the less affected that portfolio will be by volatility**

MSCI World vs VIX Index



MAPS - Volatility



	MAP 4	1	2	3	4
Global Equities	30-0%	30%	40%	50%	100%
Emerging Market Equities	5%	5%	6.5%	10%	
Minimum Volatility Equities	25%	25%	33.5%	40%	
1-5yr Bonds	7.5%	7.5%	10%		
Corporate Bonds	4.5%	4.5%	6%		
EM Debt	3%	3%	4%		
External Managers	25%	25%			
Cash	0-30%				
Total	100%	100%	100%	100%	100%
Max Drawdown	18%	29.2%	35.8%	43.8%	48.2%

- The table on the right shows MAP 4 and how, over the last 10 years, it would have had a maximum peak to trough fall of 18% (max ‘drawdown’ number in red). This is also represented by the graph on the left
- Mix 1 then removes the DSC and shows how drawdown would have increased to 29.2% as a result. Mix 2 further removes the alternative strategies, Mix 3 further removes the bonds and Mix 4 is just 100% Global Equities. In each case, **less diversification** results in **higher peak to trough falls**
- **MAPS aims to <u>maximise</u> diversification and use DSC to <u>minimise</u> volatility**

Alternative Strategy Watch - Volatility

- Amundi are one of the four managers in our alternative strategies
- They manage and trade a Volatility Fund, which is now in excess of €1bn in FUM and has seen significant institutional inflows in 2013
- These inflows have been driven by the expectation that quantitative easing will be reduced globally in 2014, led by the US bond repurchase programme. That, in turn, is likely to increase volatility from the current low levels (c.14% in the US) to more normal long terms levels (c.20%)
- Amundi have a strong track record of performance in trading volatility and we think 2014 will be a very positive environment for them

Amundi
ASSET MANAGEMENT

€750bn

- €37.5bn in alternative investments

Volatility Trading Fund

Asset Watch

- **Equities**
  - The global economic growth outlook, while modest compared to levels evident pre-crisis, is showing signs of improvement, with some recent signs of stabilisation in China after slowing momentum through the first half of the year. Global central banks remain supportive although QE3 in the US could begin to be reduced in coming months. Risks have reduced across Europe post policy initiatives. Valuations remain attractive, particularly relative to other assets, supporting further gains in equity markets.

- **Bonds**
  - Given the low absolute level of yields in core markets, Eurozone bonds are expected to show modest positive returns in 2013 as a whole.

- **Property**
  - The Irish property market is beginning to show some signs of stability with returns underpinned by an income return of around 9%. Activity levels have begun to pick up in the investment market with the prime office sector likely to improve. Other sectors such as retail remain difficult although there are some signs of stability evident in prime retail areas. Mid to high single digit returns from the overall property market are possible in 2013.

- **Cash**
  - Cash returns are expected to remain low through 2013.

Market Developments in November

- ECB cuts main refinancing rate by 0.25% to historic low of 0.25% following surprisingly low inflation reading of 0.7% y/y

- Suggestions by the ECB that further stimulus measures are possible

- Fed continues to try and separate QE3 tapering from interest rate rises and improve communications with the market in this regard. Minutes slightly more hawkish than expected suggesting tapering in next few meetings

- Bank of England forecasts unemployment to fall to 7% earlier than previously expected. Emphasizes that 7% unemployment is not necessarily a trigger for higher rates

- Bank of Japan confirms current policy measures but evidence of some disagreement among members. Expectations of additional stimulus measures around April 2014 to offset a sales tax hike

- Economic data generally better through November. Global inflation remains low

- Chinese reform agenda more ambitious and wide ranging than expected and should improve the medium term growth outlook

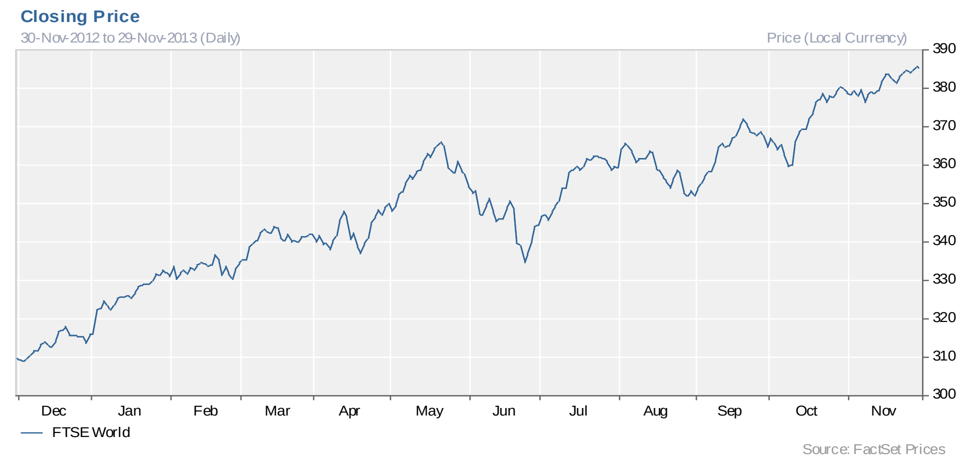
Market Signposts

Markets In November

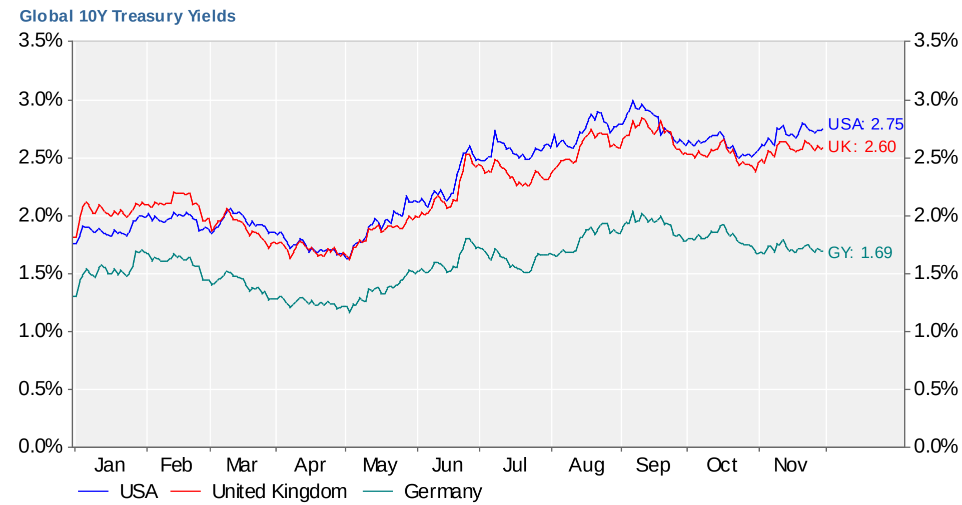
	Nov	YTD 2013
Ireland	2.4	34.9
UK	-0.8	17.0
US	2.9	29.3
North America	2.7	27.9
Europe	1.3	22.8
Japan	5.9	49.6
Pacific	-0.3	11.3
Emerging Markets	0.0	-1.6
World	2.0	25.0
Bonds	0.4	3.3

Oil	-3.8	1.0
Gold	-5.5	-25.4
Commodities	-0.4	-4.1

Equity Markets Continue to Rally



Bond Yields Mixed: US and UK higher; Germany flat

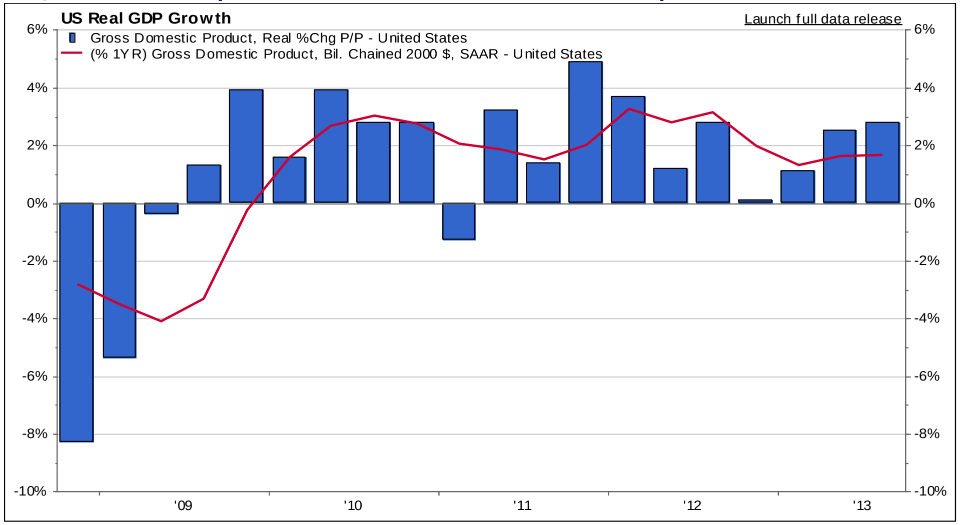


Irish Life Investment Managers

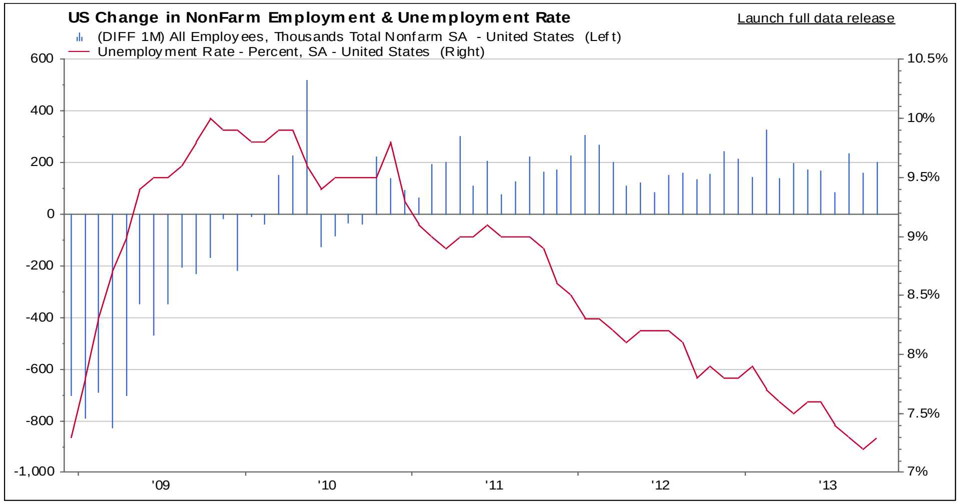
US Economy Review

- **Economy**
  - Data generally improved in November. Q3 GDP was 2.8% annualised v's forecasts of 2.0%
  - Non farm payrolls rose 204k; weekly initial unemployment claims fall to 316k from 340k; unemployment rises 0.1% to 7.3% due to government shutdown
  - Core retail sales up 0.2% m/m; consumer confidence down -0.8 to 70.4
  - Housing mixed as top 20 city house prices up 1.0% m/m and 13.3% y/y;
  - Durable goods orders fell -2.0% m/m; core capital goods orders down -1.2% m/m; industrial production fell -0.1% m/m
- **Interest Rates**
  - Lack of clear guidance on timing of QE3 tapering. Many Fed participants said decision will be data dependent but asset purchases could be slowed at the next few meetings
  - Attempts to improve communication relating to the maintenance of accommodative policy and timing of rate rises post tapering focused on possibly changing the unemployment threshold for rate rises;
  - Stocks: JP Morgan (+11%) banks recovered following recent weakness as they moved closer to resolving regulatory issues and JP Morgan announced a $13bn settlement with the Department of Justice

Q3 GDP Improves and Better Than Expected



Non-Farm Payrolls over 200,000

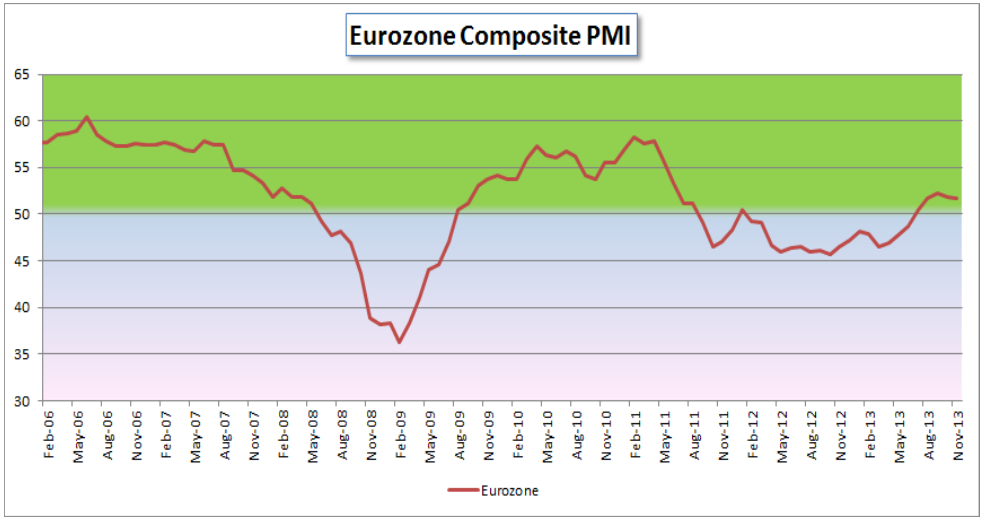


Irish Life Investment Managers

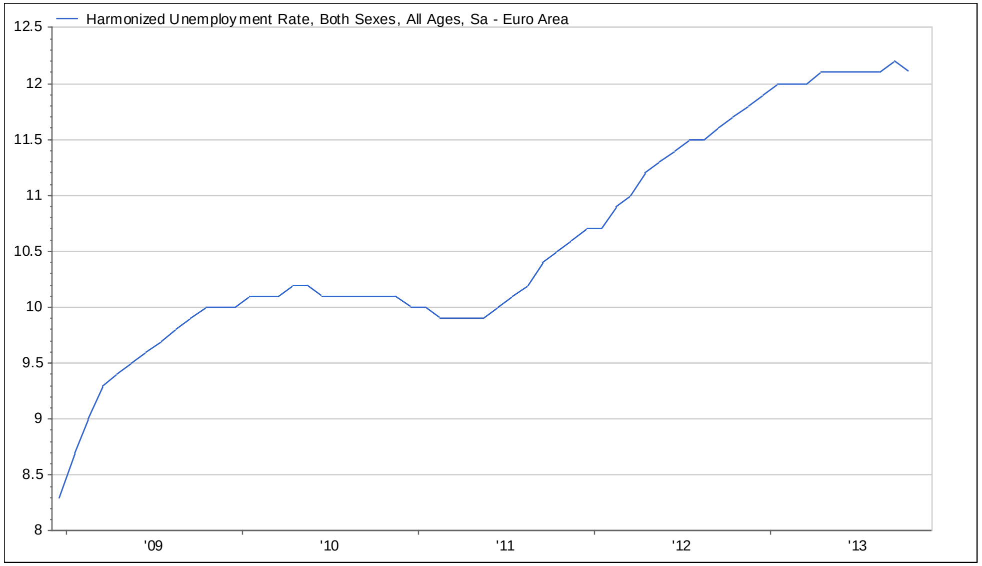
Eurozone Economy Review

- **Economy**
  - Data was generally disappointing. Eurozone composite PMI fell for a 2nd month by -0.2 to 51.7; services PMI fell -0.5 to 51.2; manufacturing PMI however up 0.3 to 51.6, all PMI's however remain above 50 in expansionary territory.
  - Other sentiment surveys better: Sentix business sentiment rose 3.2 to 9.3; economic confidence up 0.7 to 98.5; industrial confidence up 0.9 to -3.9; services confidence up 2.9 to -0.8
  - Eurozone unemployment fell for the first time since February 2011 by 0.1% to 12.1%; CPI rose 0.2% to 0.9% y/y
  - German data was strong. IFO business climate rose 1.9 to 109.3; Q3 GDP rose 0.3% q/q;
  - French data was weak. Q3 GDP fell -0.1% q/q;
  - Spanish Q3 GDP was +0.1% q/q; industrial production rose 3.5% y/y; manufacturing PMI fell below 50 to 48.6; retail sales fell back into negative territory at -0.5% y/y
- **Interest Rates**
  - The ECB reduced interest rates by 0.25% in response to the low inflation reading of 0.7% y/y in October
  - The ECB is ready to undertake further easing if required including further interest rate cuts; a negative deposit rate;
- **Stocks**
  - Carlsberg (+10%) The company reiterated full year guidance when reporting results providing comfort to the market that the earnings downgrade cycle is over

Eurozone Composite PMI Declines For a Second Month



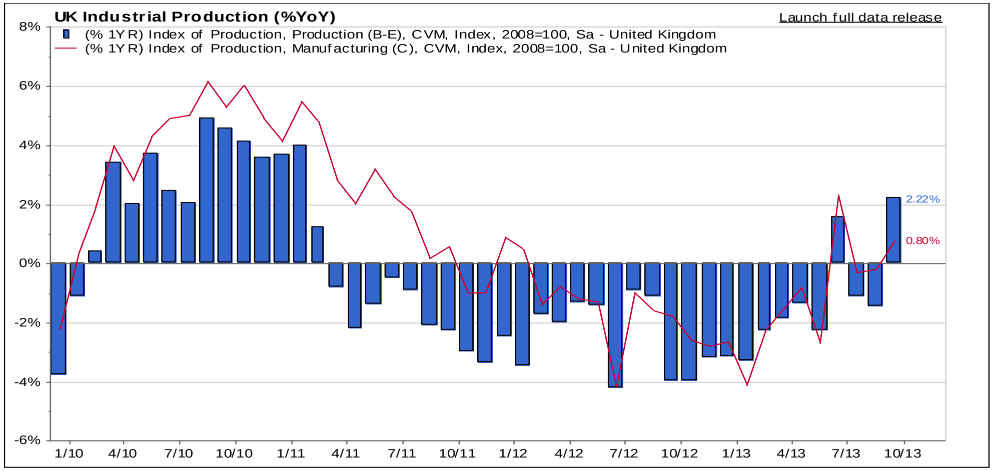
Eurozone Unemployment Declines For 1st Time Since Feb 2011



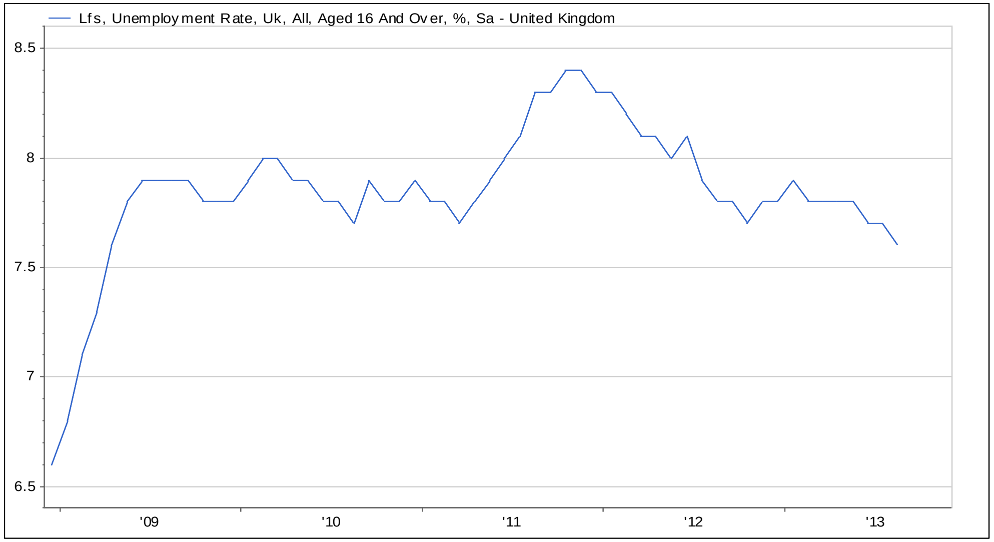
UK Economy Review

- **Economy**
  - Economic data generally remained strong
  - All PMI's remain well in expansionary territory above 50
  - Industrial production rose 0.9% m/m and 2.2% y/y; unemployment fell 0.1% to 7.6%
  - Halifax house price index rose 0.7% m/m and 6.9% over 3 months on a y/y basis;
  - Q3 GDP confirmed at 0.8% q/q.
  - CPI fell to 2.2% y/y from 2.7% y/y
  - Core retail sales fell -0.6% m/m; consumer confidence fell 1 to -12
- **Interest Rates**
  - The BoE left policy unchanged
  - The BoE brought forward the time it expects the 7% unemployment threshold level to be reached which will be used to review interest rates
  - The 7% threshold level is forecast to be reached in Q4 2014 if base rates are unchanged and Q3 2015 if rates rise in line with market forecasts
  - The BoE emphasized that 7% unemployment will not automatically trigger rate rises but will only lead to a review of rates with other measures of economic slack also being
  - GDP growth forecasts were revised up with growth of 3.2% predicted for Q4 2014
  - Stocks: Easyjet (+9%) Good results for the year to September, the announcement of a special dividend and a more positive outlook on fares boosted the shares

UK Industrial Production Improves



UK Unemployment Continues To Fall



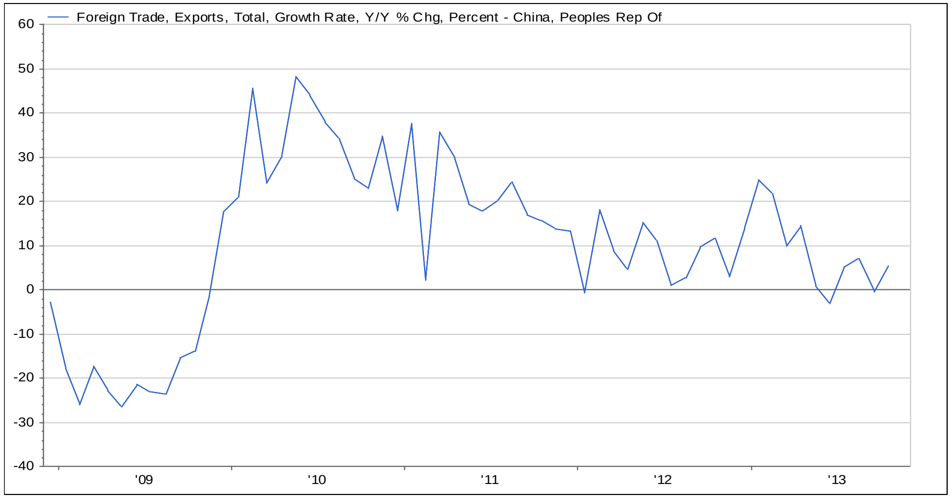
Asian Economy Review

- **Japanese Economy**
  - Japanese data remained firm. Industrial production rose 0.5% m/m and 4.7% y/y; exports rose 18.6% y/y from 11.5% y/y; Q3 GDP rose 1.9% annualised; small business confidence rose 0.3 to 51.1;
  - The Bank of Japan left policy unchanged. Minutes of the meeting revealed disagreements among members with some questioning if the 2% inflation target will be met and if the economic outlook was too optimistic.
- **Chinese Economy**
  - Manufacturing PMI was flat at 51.4; retail sales improved to 13.0% y/y ytd from 12.9%
  - An economic reform agenda was more wide ranging and ambitious than expected outlining 60 policy target areas. If these initiatives are implemented they will significantly improve the GDP growth profile in the medium to long term

Asia Pacific Ex Japan	Nov
Hong Kong	0.9
Taiwan	-0.7
Korea	0.9
Singapore	-0.7
Australia	-0.9
New Zealand	-5.2

Japanese Industrial Production Continues To Rise

Chinese Exports Rebound



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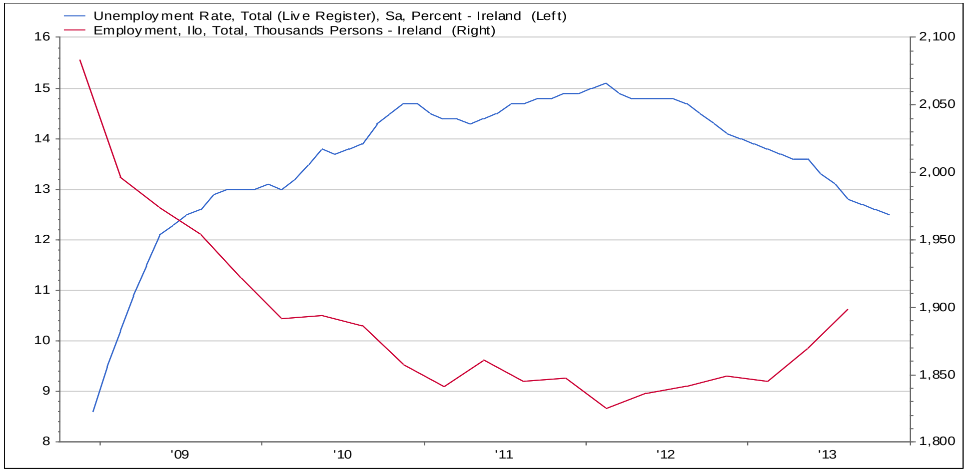
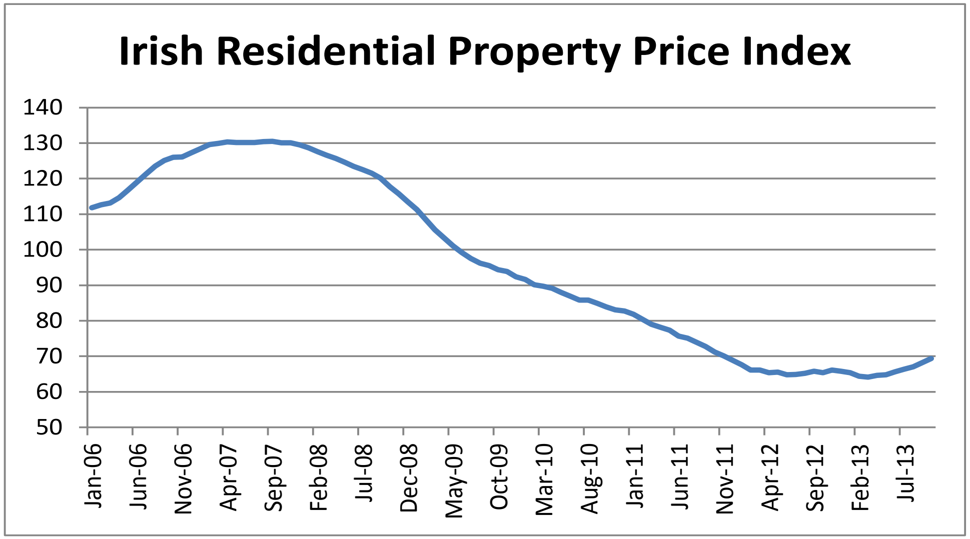
Ireland Economy Review

- **Economy**
  - Economic releases were mixed but generally positive
  - Industrial production rose 2.9% m/m and 11.7% y/y
  - Numbers employed rose 1.8% in Q3 and 3.2% y/y
  - Unemployment fell to 12.5%
  - Residential property prices rose 1.8% m/m and 6.1% y/y; Dublin prices rose 2.3% m/m and 15.0% y/y; prices outside Dublin rose 1.5% m/m and fell -0.3% y/y
  - Retail sales fell -0.2% m/m and -0.9% y/y
  - Consumer confidence fell -5.2 to 71.0
  - Manufacturing PMI fell 2.5 to 52.4; services PMI fell -3.0 to 57.1
  - November exchequer returns exceeded forecasts. Tax revenues were 3.1% ahead of target for the month and are up 4% y/y and €200m ahead of budget.. The exchequer deficit by November at €8.6bn is down from €13bn in 2012 with the target deficit at 7.3% of GDP likely to be beaten
- **Stocks**
  - Bank of Ireland (+6%) The stock rose ahead of an expected capital exercise to enable it to redeem the governments preference share holding before a step up in the repurchase price due to be triggered in 2014

Numbers Employed Rise And Unemployment Falls



Irish Residential Property Prices Rise From The 2012 Lows



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Appendix

Currency/Country Positions

Currency Position

Currency	Position
Euro	-3.24%
Australia $	-1.93%
Canada $	-2.56%
Japan Yen	-0.35%
Norway Kr	0.89%
Sweden Kr	-1.56%
Switz Fr	5.39%
UK £	2.30%
US $	1.07%

As of 5th December

Country Position

Country	Position
Australia	0.91%
Canada	-0.19%
France	-1.25%
Germany	-0.10%
Hong Kong	0.59%
Italy	0.29%
Japan	1.09%
Korea	-0.47%
Netherlands	1.06%
Singapore	-0.18%
Spain	0.04%
Sweden	-0.69%
Switzerland	-1.26%
Taiwan	-0.36%
UK	-0.10%
US	0.62%

As of 5th December

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