Annual Conference 2011

The Continuing Evolution of Growth Asset Investing

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Trends in Defensive & Growth Asset Investing

Clear De-risking trends for Defensive Assets:

- Increased allocation to bonds
- Improved matching of liabilities
- Liability Driven Investing
- Bespoke Solutions
- Trigger Points

Growth Asset Investing also Evolving:

- Traditional model progressing:

Evolution of Equity Exposure + **Expanded Beta Universe** + **Absolute Return**

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Evolution Of Equity Exposure

Late 90's/Early 2000's Traditional Exposure overly-exposed to domestic assets

Since then, majority of schemes improved equity allocation by moving to:

➡ Equity exposures based on discretionary Regional allocations

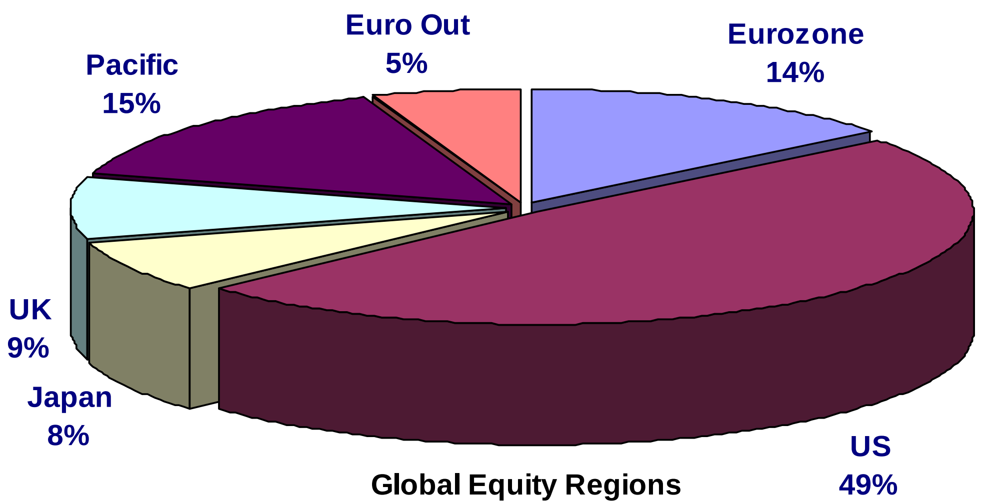
From there to:

➡ Single Global Equity Portfolio

Improved outcome but:

Large Cap, Developed World orientation dominated by OECD countries

=> Mega Cap bias; Slower underlying economic growth given country exposure



Evolution Of Equity Exposure

➢ **Next Stage of Evolution:**

- Expand Geographic Exposure: Emerging Market Equities
- Remove Cap Bias: Small Cap Equities
- Currency Hedging: As greater geographic exposure implies greater currency risk
- Alternative Indexation: Redefined portfolio construction processes

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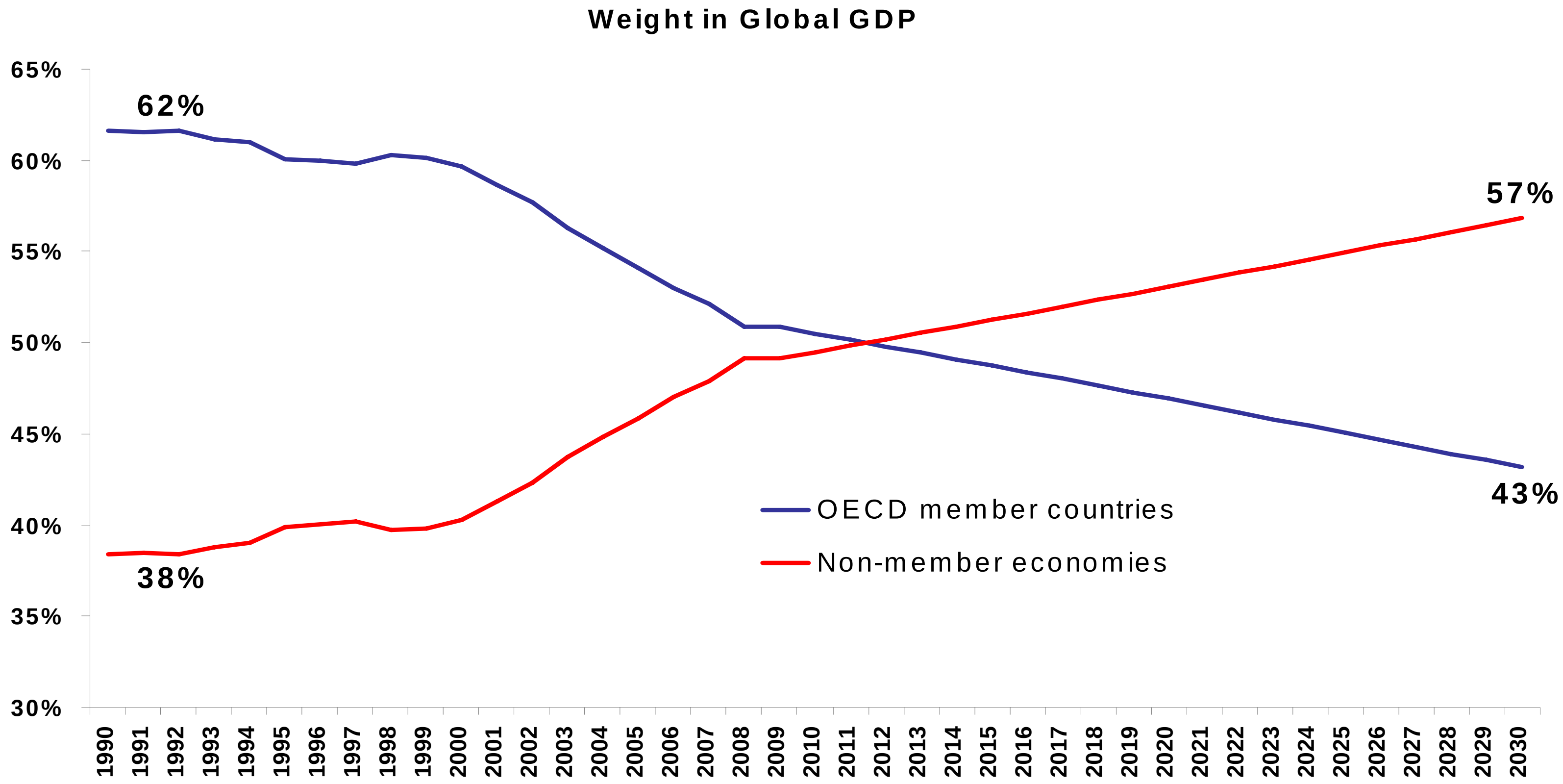
Long Term Rationale for Emerging Market exposure

- Economic diversification – from G8 to G20
- EM growth rates outstrip those of developed world
  - 75% of World GDP growth in next 2 years
- Greater exposure to positive structural investment themes



Source: OECD

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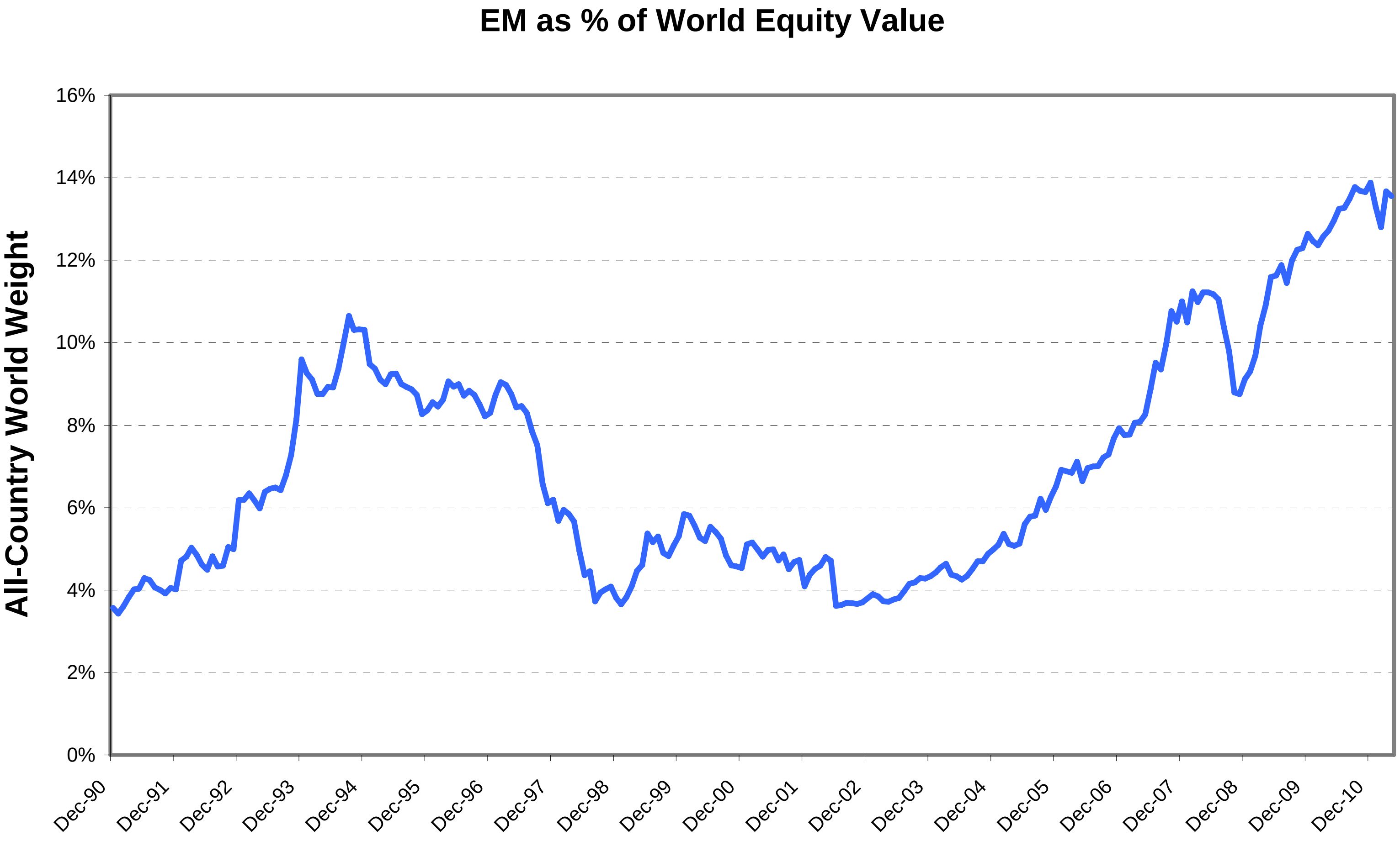
Long Term Rationale for Emerging Market Equities

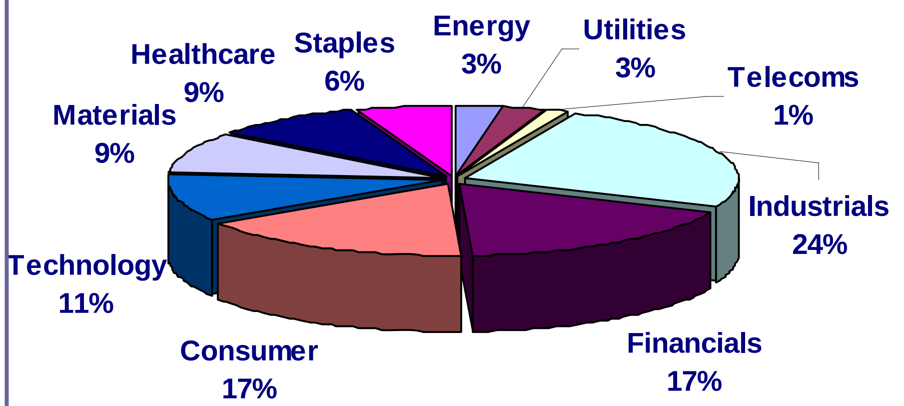
- Emerging Markets remain underweight in most investors portfolios at c. 8%
- Objective Weight = c. 13-15%



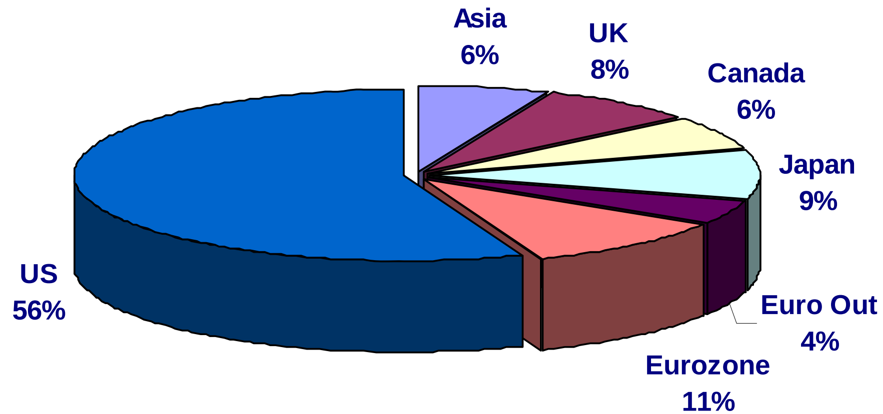
Source: Factset

Long Term Rationale for Small Cap Equities

- Twice as many stocks as the large cap universe
- Increases investment choice => return and diversification possibilities
- Ability to grow at faster rate than large cap, given size
- Can more quickly adapt and change strategy to changing industry dynamics
- Beneficiaries of M&A activity
- Reduces large cap bias of market cap weighted indices



Small Cap by sector



Small Cap by Country

Source: ILIM

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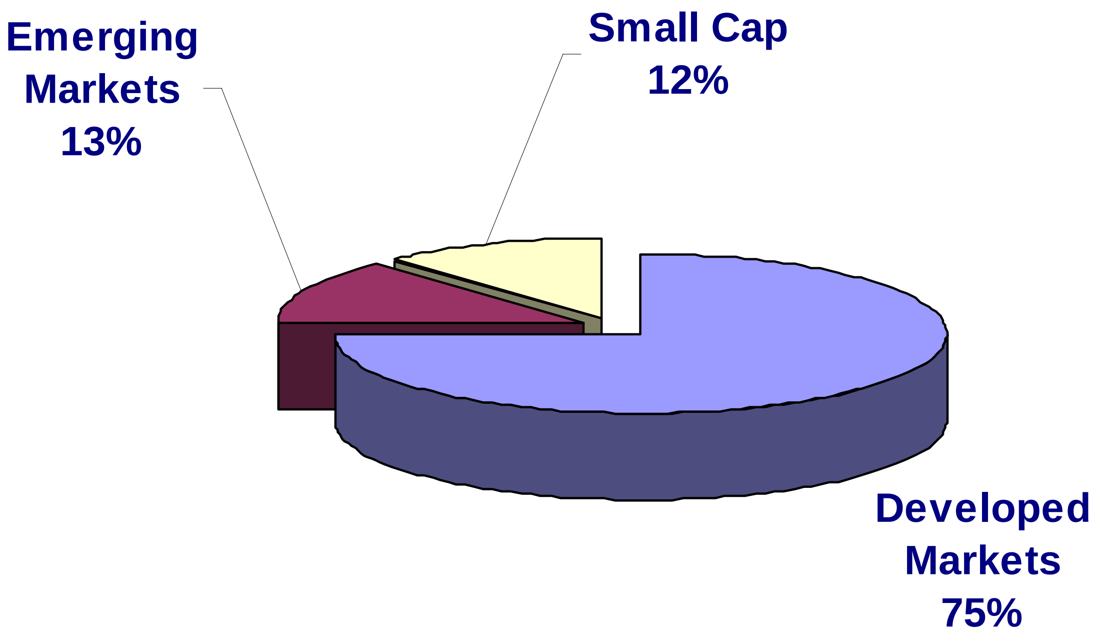
Long Term Rationale for Small Capital Equities

- Small Caps remain underweight in most investors portfolios at <5%
- Objective Weight = c. 10% - 12%

Global Market Weights



Source: ILIM

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Evolution in Portfolio Construction : Currency Hedging

- Move from Eurozone bias to Greater World, EM & Small Cap exposure

  => Significantly greater non -€ exposure

Exposure	Traditional Equity	Global	Blend Incl. EM & Small
Euro	27%	14%	<10%
Non-Euro	73%	86%	>90%

- Hedged Approach = purer exposure to investing themes

- Hedged Portfolio also has better volatility characteristics

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New Frontier: Alternative Equity Indexation Process

- Relatively New Concepts.
- Increased discussion amongst investment community.
- In-depth Research on concepts continues at ILIM.
- ILIM can deliver access by leveraging indexation expertise.
- ILIM Quant capability can advise on characteristics and tactical issues arising.

New Frontier: Alternative Equity Indexation Process

Alternative methods of Portfolio Construction

- Minimum Volatility – MSCI Global Minimum Volatility Index
  - Combines low volatility stocks for a lower risk portfolio

- Maximum Diversification
  - Quant approach based on historic correlations

- Fundamental Indexation
  - Weights stocks based on fundamental factors rather than price
  - No volatility objective

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Expand Beta Universe

Growth Assets not restricted to Equities:

Commodities | **Corporate Bonds** | **Emerging Market Debt**

- Strategic Rationale for alternative Exposure
- Pure play on themes - only indirectly available through Equities
- Correlations with Equities <1 implies improved diversification
- Inflation hedge
- Yield and safety attractions

Strategic Importance Subject to Tactical Implementation Risk

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Absolute Return & Volatility Reduction

- Characteristics of ILIM's Absolute Return Offering

  - Return Expectation of Cash +3% to +5%
  - Volatility Target 6% -10%
  - Constrain Drawdown expectation
  - Address Single Manager and capacity risks

Success Requires Prudence, Expertise & Experience

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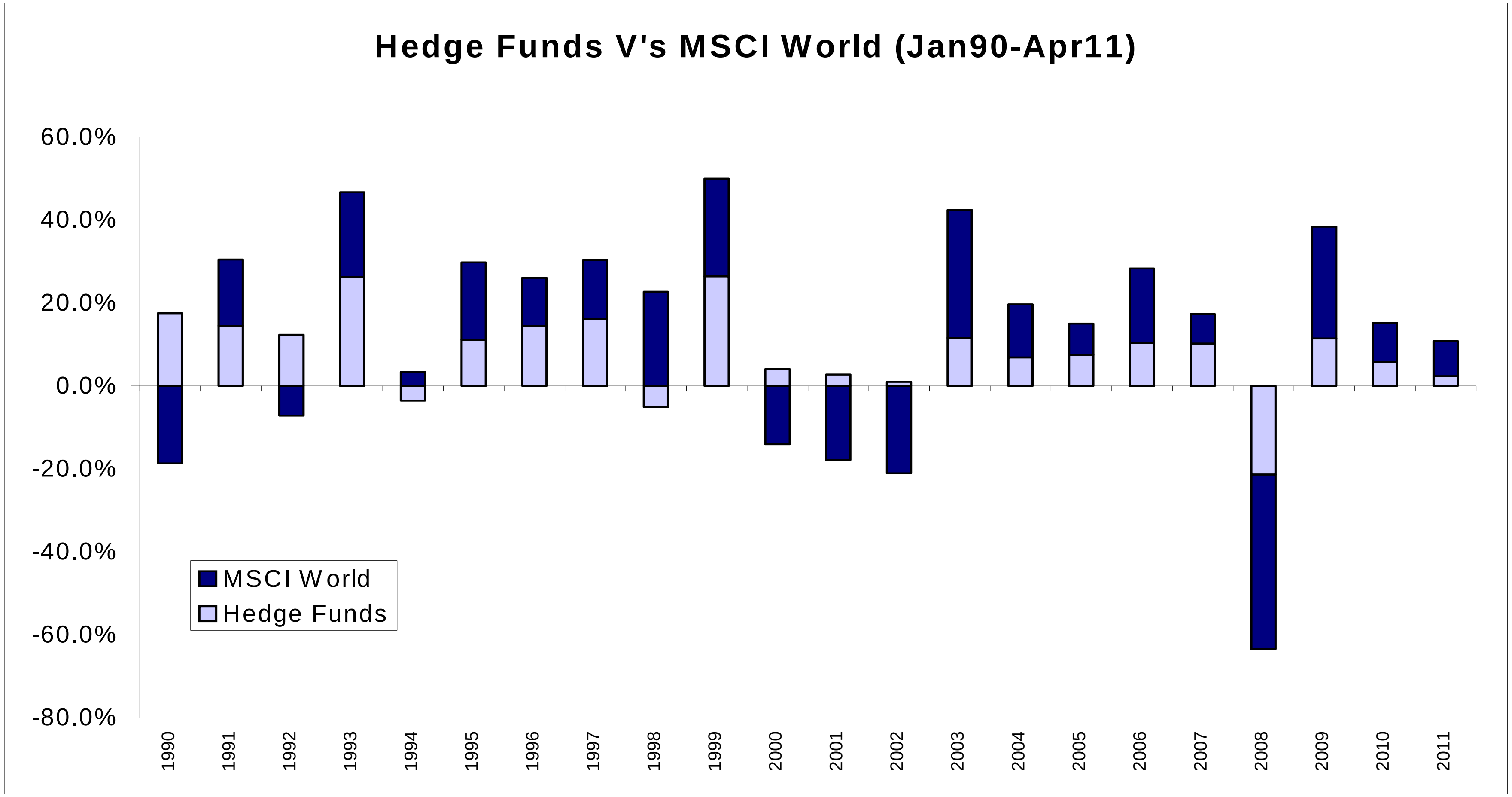
Long Term Volatility Experience



Source: HFRI

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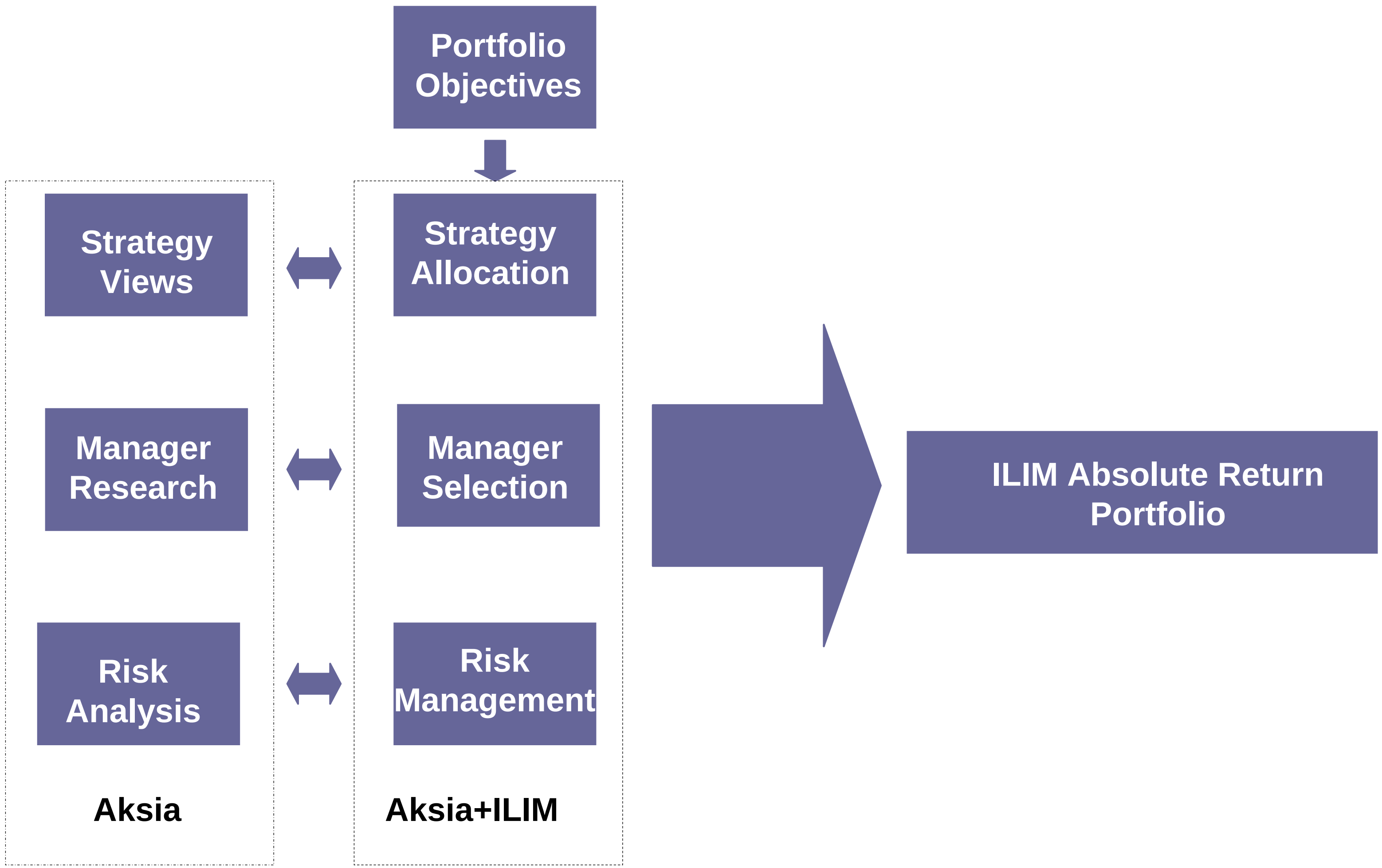
ILIM's Approach to Absolute Return

- Essential that Design & Build Avoids Critical Pitfalls:
  - Operational due diligence
  - Single Manager Risk – best returns, biggest blow-ups
  - Beta dependent strategy
- Partner with Specialist Hedge Fund Advisor to Advise and Co-Manage Fund

How will it work?



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ILIM - Continuous Innovation

Our Mission Statement

ILIM is committed to market leadership through recognition of client needs and through the development and provision of the most appropriate investment solutions for all our customers.

Disclosure Statement

Irish Life Investment Managers is the asset management arm of the Irish Life & Permanent Group. Irish Life Assurance (trading as Irish Life) and Irish Life Investment Managers are regulated by the Central Bank of Ireland.

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Investments may fall as well as rise

Changes in currency exchange rates may have an adverse effect on the value, price or income of the product

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