Pension Protection Fund

Information is correct as at the 31st December 2011 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.

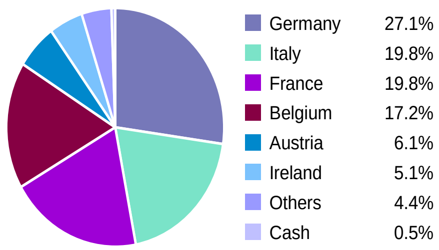
Investment Objective

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.

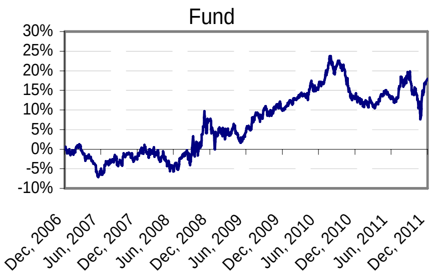
However, the duration of these funds are shorter than the liabilities faced by a typical pension fund. Given the long duration of the liabilities, it is more efficient to match them with longer dated assets and the Pension Protection Fund fulfils this requirement. The yields on the funds assets will 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 4.18%p.a.

Country Distribution



Performance



Year	Protection Fund	ML EuroZone > 10Yr
2011	4.5%	4.2%
3 Year %p.a.	3.2%	2.9%
5 Year %p.a.	3.3%	3.4%

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

Market Commentary

Eurozone Government bonds had another volatile month. Overall it took a second EU summit in December to restore some calm for markets. Eurozone Governments reaffirmed the €440bn EFSF fund and declared that €200bn would be made available for the IMF. However, the summit's success was overshadowed by the UK's veto, which will not allow for a new and stronger EU treaty, but instead the remaining countries had to resort to bilateral agreements. EU bond markets were also supported by the new 3 year ECB tender for banks, which received a take up of €489bn by Eurozone banks. With banks investing the bulk of this money into Government bonds the market received a welcome boost. The Merrill Lynch Eurozone >5 year index recovered 5.29% in December which helped the full year return to a respectable 3.9%.

As the month progressed liquidity in the bond markets started to decline. Daily turnovers in the futures markets declined by 50% and liquidity in the peripheral bond markets reduced strongly. Irish bond volumes collapsed from about €400m per day to as low as €20m. Most liquidity came in the primary issuance where Italy managed to issue about €7bn in new bonds on the second last trading day of the year. With strong new issuance starting in January bond markets will be put to the test early in the new year.

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