

# Personal Retirement Savings Accounts (PRSAs) Investment Report

Irish Life - PRSAs Made Easy

January 2012

Thank you for taking out a **PRSA** policy with Irish Life. This is your investment report, which lets you know how the funds under your **PRSA** have performed. We will send you one of these investment reports every six months.

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## 1. PRSA Investment Update

The outlook is mixed for the global economy. While positive indicators in the US point to its economy avoiding a double dip, recession seems increasingly likely in Europe where the sovereign crisis will continue to create turbulence in the markets.



You should remember that the aim of your PRSA pension fund is to achieve long term returns as the investment time frame until retirement for most people is for the long term.

Stock market returns always involve a certain level of risk and can show considerable variation in year to year returns. Our funds each have a risk indicator that helps show what levels of volatility could typically be expected for that fund. Volatility is the measure of the level of fluctuations in the price of the fund over time, and is based on each fund's past performance. It is important to note that you can change your investment choices at no cost at any stage.

## 2. Market information for the six month period to end December 2011

(Source: Irish Life Investment Managers)

**Ireland** - Irish government bonds bottomed in July as the yield on the ten year Irish government bond fell from a high of 14.2% to finish the year at 8.3%. Positive sentiment towards Ireland's ability to repay its debt and grow its way out of the crisis improved as the government renegotiated a lower interest rate on debt borrowed from the EU and IMF. This confidence was reinforced by a group of US investors deciding to purchase a 15% stake in Bank of Ireland. Furthermore Ireland also moved out of recession in the first half of 2011 on the back of the resilient export sector. However the domestic economy remains weak and is weighing on the outlook for 2012.

**Eurozone** - The Eurozone sovereign debt crisis has intensified and spread to the larger economies of Spain and Italy. As a result policy makers in Europe have been trying to take steps to ease these concerns. For example the ECB has lent €489bln to the banking system in Europe for three years at an interest rate of 1% and cut interest rates to 1%. EU leaders have also been taking steps to move towards close fiscal unity, on the condition that individual governments take further austerity measures to bring their deficits back to more sustainable levels.

**US** - Although the S&P rating agent downgraded the US government's rating from AAA to AA+ government bond yields in the US have continued to fall. The economic picture has also stabilized from the weaker economic outlook in the second quarter of the year and now the US economy is expected to expand by 2.5% in 2012. Data from the labour market has also been pointing to a continued recovery. However the government has yet to address the large government deficit.

**UK** - The UK economy has had a lacklustre performance in the second half of 2011 as the austerity programme that is being currently implemented by the government continues to hamper economic growth. However the Bank of England has continued to adopt a very loose monetary policy and announced another round of bond purchases recently.

**Japan** - The rebuild of the Japanese economy boosted the Japanese economy in the second half of 2011. However the yen strengthened significantly against both the dollar and Euro during the quarter which has eroded Japanese exports. As a result the outlook for 2012 has been more uncertain.



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### 3. PRSA fund descriptions and risk ratings

Your fund is invested in one (or more) of the following funds. Your fund choice is listed in your PRSA communication statement. Funds are categorised by the level of risk involved. We have a risk ratings system from 1 to 7, with 1 being the lowest risk and 7 the highest risk level.



Risk Rating	Fund Risk	Fund Name
1	<p>This is a very low risk fund. While there will be a very low level of volatility in fund returns, there is also only a very low potential for gains. It is suitable for investors who are very close to retirement or have a very low appetite for risk.</p>	PRSA Cash Fund
2	<p>This is a low risk fund. While there will be a low level of volatility in fund returns, there is also only a low potential for gains. It is suitable for investors who are very close to retirement or have a low appetite for risk.</p>	PRSA Pension Stability Fund
3	<p>This is a medium risk fund which can have some level of volatility. The potential return from the fund will also be medium. It is suitable for investors who will accept some level of risk.</p>	PRSA Pension Protection Fund PRSA Fixed Interest Fund PRSA Flexible Fund PRSA Pension for Life Fund
4	<p>This is a medium to high risk fund with expected volatility in the medium to high range. Therefore it may not be suitable for investors who have less than 7 years to retirement.</p>	PRSA Consensus Cautious Fund
5	<p>This is a high risk fund which can have a high level of volatility. Therefore it may not be suitable for investors who have less than 10 years to retirement. The fund is most suitable for long term investment.</p>	PRSA Consensus Fund PRSA Active Fund
6	<p>This is a very high risk fund which can have a very high level of volatility. Therefore it may not be suitable for investors who have less than 13 years to retirement. The fund is most suitable for long term investment.</p>	PRSA Equity Fund PRSA Indexed 50/50 Fund PRSA Indexed UK Equity Fund PRSA Indexed North American Equity Fund PRSA Indexed Japanese Equity Fund PRSA Indexed European Equity Fund PRSA Indexed Global Equity Fund PRSA Indexed World Equity Fund
7	<p>This is one of the highest risk funds which can have the highest level of volatility. As there is little diversity in this fund, it is not advisable to have all investments in this type of fund.</p>	PRSA Indexed Pacific Equity Fund

# Your pension funds explained

The following figures reflect the performance of Irish Life's funds up to 31st December, taking into account the PRSA fund management charge of 1% p.a. The actual value of your contract is outlined in your PRSA communication statement.

1 PRSA Cash Fund	Invests in deposits and short-term investments in international money markets and so is very secure, but has very limited growth potential.
2 PRSA Pension Stability Fund	Is mainly invested in short term bonds.
3 PRSA Flexible Fund	Is mainly invested in bonds, with some investment in cash, equities and alternative assets such as emerging markets equity and corporate bonds.
3 PRSA Pension for Life Fund	Is a passively managed fund, which invests entirely in long-dated Eurozone securities. These securities are effectively loans to governments with repayment dates of ten years or more. The fund's objective is to match the Merrill Lynch EMU Government Index, a 10 year index.
3 PRSA Fixed Interest Fund	Mainly invests in government securities.
3 PRSA Pension Protection Fund	Invests predominantly in long-dated Euro-denominated government securities. The returns on these assets come from a combination of the interest paid and any capital appreciation or depreciation on the value of the securities.

The **PRSA Pension Protection Fund**, the **PRSA Pension for Life Fund** and the **PRSA Fixed Interest Fund** should broadly follow the long term changes in annuity prices due to interest rates i.e. if long-term interest rates fall, the value of these funds will increase to roughly compensate for the rise in annuity prices. Long term interest rates are just one of the main factors that determine the cost of an annuity. However, there will be times when the funds will not track annuity prices closely and no guarantee can be given in relation to such movements.

4 PRSA Consensus Cautious Fund	Is split between the Consensus Fund (65%) and European fixed interest securities. The Consensus Fund invests in the same assets as the main Irish pension investment managers, i.e. it mirrors their choice of shares, property, bonds and cash. The European fixed interest securities are Eurozone bonds that typically have less than five years to maturity. The aim of the Consensus Cautious Fund is to provide low to mid range managed fund returns with lower levels of volatility.
5 PRSA Active Fund	Aims to deliver above average managed fund returns on a consistent basis by actively investing in shares and other assets. The core principle of the fund approach is to identify and invest in shares that represent value in the marketplace and have the best potential to return to their fair value in the medium term.
5 PRSA Consensus Fund	Is Ireland's most popular unit-linked fund. It aims to deliver performance that is consistently in line with the average of all managed funds in the marketplace by replicating the average asset allocation of the Irish fund managers. The Consensus Fund is considered a high risk fund for short term investors e.g. 10 years or less. However, generally the longer investments are held the less volatile they become, so the fund is considered medium risk for longer term pension investors, especially if used as part of the Default Investment Strategy.
6 PRSA Equity Fund	Is 100% invested in shares, and aims to deliver higher than average equity fund returns by investing in those shares that represent value in the marketplace.
6 PRSA Indexed 50/50 Fund	Is 100% invested in equities. The fund invests 50% in Eurozone assets and 50% in assets from the rest of the world. The stock selection within each market is on an indexed basis.

<b>6 PRSA Indexed European Equity Fund</b>	Is 100% invested in European equities. The fund aims to track the FTSE Europe (excluding UK) and Eurobloc indices. The stock selection within the fund is on an indexed basis. The fund is designed to achieve average European equity fund returns on a consistent basis, eliminating manager selection risk.
<b>6 PRSA Indexed Global Equity Fund</b>	Aims to achieve consistent average global equity fund returns. It is 100% invested in shares, with the country allocation based on the composition of the average managed pension fund.
<b>6 PRSA Indexed Japanese Equity Fund</b>	Is 100% invested in Japanese equities. The fund aims to track the FTSE Japanese Index. The stock selection within the fund is on an indexed basis. The fund is designed to achieve average Japanese equity fund returns on a consistent basis, eliminating manager selection risk.
<b>6 PRSA Indexed North American Equity Fund</b>	Is 100% invested in North American equities. The fund aims to track the FTSE North America Index. The stock selection within the fund is on an indexed basis. The fund is designed to achieve average North American equity fund returns on a consistent basis, eliminating manager selection risk.
<b>6 PRSA Indexed UK Equity Fund</b>	Is 100% invested in UK equities. The fund aims to track the FT All World UK Index. The stock selection within the fund is on an indexed basis. The fund is designed to achieve average UK equity fund returns on a consistent basis, eliminating manager selection risk.
<b>6 PRSA Indexed World Equity Fund</b>	Is 100% invested in global equities, with country allocation based on the composition of the FTSE World Index. The stock selection within each market is on an indexed basis.
<b>7 PRSA Indexed Pacific Equity Fund</b>	Is 100% invested in Pacific equities. The fund aims to track the FTSE Asia Pacific basin excluding Japanese index. The stock selection within the fund is on an indexed basis. The fund is designed to achieve average Pacific equity fund returns on a consistent basis, eliminating manager selection risk.

*Source: Irish Life Investment Managers.*

## 4. Default Investment Strategy

The Default Investment Strategy in our PRSA products is our Personal Life Style Strategy (PLS).

The strategy aims are to;

- initially invest in assets that are expected to achieve a return that is greater than inflation
- help protect PRSA fund values from fluctuations in the market as the PRSA holder gets closer to retirement
- direct PRSA holdings into funds that will appropriately match how the PRSA holder is likely to take their retirement benefits

To help achieve these aims PLS is split into two phases

### Phase 1 Growing Safely Period

This puts PRSA holders in funds suitable to achieve investment growth while at the same time balancing investment risk. Initially funds are completely invested in the PRSA Consensus Fund.

With 20 years to retirement we start to gradually move funds into the PRSA Pension Stability Fund. This helps to protect the PRSA fund against volatile markets.

### Phase 2 Switches into Benefit Target Funds

This moves PRSA fund into investment funds that will be most suitable to match how the PRSA holder is most likely to use their pension savings upon reaching retirement. They may, for example, be taking a lump sum benefit, purchasing a pension for life or keeping part of the fund for a post-retirement investment.

Depending upon their individual circumstances we will switch their savings into investment funds that target the benefits most suitable to them.

The Default Investment Strategy is suitable for contributors who intend to use their PRSA to take a tax-free lump sum\* and use the balance to secure a pension for life (annuity) up to 25% of their final earnings, before investing any remainder in a more flexible post retirement vehicle such as an Approved Retirement Fund (ARF).

\*The lifetime limit for a tax-free lump sum is €200K effective from December 2005.

## 5. PRSA Fund Performance Update

Fund Performances are for the periods indicated up to the 31st December 2011 for all PRSA funds. PRSA Fund Performance details are provided by Irish Life Investment Managers.

Fund Returns and Risk Ratings	Launch Date	3 mths	6 mths	1 yr	3yrs p.a.*	5yrs p.a.*	Since Launch p.a.	Risk Rating***
<b>ILIM Specialised Funds</b>								
PRSA Cash Fund	12/02/2003	0.00%	0.08%	0.08%	1.25%	2.17%	1.87%	1
PRSA Pension Stability Fund	03/10/2011	**	**	**	**	**	0.30%	2
PRSA Flexible Fund	03/10/2011	**	**	**	**	**	-1.52%	3
PRSA Pension for Life Fund	03/10/2011	**	**	**	**	**	-1.92%	3
PRSA Fixed Interest Fund	12/02/2003	-1.66%	1.72%	2.64%	2.60%	3.49%	3.56%	3
PRSA Pension Protection Fund	12/02/2003	-0.97%	4.39%	4.47%	3.16%	3.34%	4.09%	3
PRSA Consensus Cautious Fund	17/08/2009	4.78%	-0.53%	-1.58%	**	**	4.85%	4
PRSA Active Managed Fund	25/02/2003	7.79%	-4.91%	-5.28%	8.93%	-5.06%	4.24%	5
PRSA Consensus Fund	12/02/2003	7.52%	-1.87%	-3.28%	9.11%	-4.13%	4.36%	5
PRSA Equity Fund	25/02/2003	11.40%	-6.33%	-7.13%	14.35%	-5.77%	4.85%	6
PRSA Indexed 50/50 Equity Fund	12/08/2009	8.33%	-9.02%	-9.12%	**	**	5.11%	6
PRSA Indexed European Equity Fund	12/08/2009	6.23%	-15.78%	-13.46%	**	**	1.83%	6
PRSA Indexed Global Equity Fund	12/02/2003	10.45%	-3.22%	-4.87%	13.14%	-5.03%	7.19%	6
PRSA Indexed Japanese Equity Fund	12/08/2009	-0.86%	0.44%	-11.65%	**	**	2.23%	6
PRSA Indexed North American Equity Fund	12/08/2009	14.37%	5.52%	2.58%	**	**	14.38%	6
PRSA Indexed UK Equity Fund	12/08/2009	12.42%	2.31%	-0.72%	**	**	10.79%	6
PRSA Indexed World Equity Fund	12/08/2009	10.72%	-1.27%	-4.46%	**	**	10.11%	6
PRSA Indexed Pacific Equity Fund	12/08/2009	8.66%	-6.82%	-11.48%	**	**	12.34%	7

The fund management charges for all these funds are 1%.

Source: Irish Life Investment Managers.

\*Yearly figures have been annualised.

\*\*Historic information not available.

\*\*\*Funds are categorised by the level of risk involved. The risk ratings system ranges from 1 to 7, with 1 being the lowest risk and 7 the highest risk level.

**Warning: If you invest in this product you will not have access to your money before you reach age 60 or until you retire. If you use your PRSA purely for Additional Voluntary Contributions you will not have access to your money until you retire.**

**Warning: These funds may be affected by changes in currency exchange rates.**

**Warning: Past performance is not a reliable guide to future performance.**

**Warning: The value of your investment may go down as well as up.**

These funds may engage in securities lending to earn returns.

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