



MULTI MANAGER TARGET RETURN FUND

QUARTER 3 (Q3) 2016: JULY TO SEPTEMBER

Welcome to the third edition of the Multi Manager Target Return Fund quarterly updates. In this edition...

- We review some key moments and economic events impacting on stock markets and investor confidence during quarter three (from July to September)
- Which asset classes were up and which were down?
- A review of the structure of the fund and a summary of the fund managers and their strategies
- An insight from Peter Haran, Head of Alternative Strategies, on how the managers' funds and strategies performed
- We take a look at the drivers of the very strong performance since launch in January (+7.0%) by strategy and by individual fund.

The Multi Manager Target Return Fund invests in a number of external funds managed by expert investment managers. The underlying funds invest in a wide range of assets, using a variety of investment strategies. This fund aims to achieve a gross return of 4% over cash, measured over a rolling four-year period. This is an Irish Life fund managed by Irish Life Investment Managers (ILIM).

1 UNIQUE MULTI MANAGER APPROACH:

- Accesses world class, diversified manager styles and skill sets
- Reduces single manager or single fund selection risk
- A robust and flexible manager selection process seeks to maximise investment opportunities

2 CLEAR CASH + TARGET RETURN:

- Aims for a gross return of 4% per annum over cash* measured over a rolling 4-year period**
- Targets positive returns not directly linked to market ups and downs

3 BENEFIT OF TARGET RETURN FUNDS:

- Seeks equity-like returns with less volatility (volatility is potential ups and downs that a fund may experience over time)
- Diverse source of return which helps smooth the investment journey.

Warning: If you invest in this fund you may lose some or all of the money you invest.

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* 4% return over cash, where cash is measured by EONIA (Euro Over Night Index Average) which is the rate at which banks provide loans to each other with a duration of 1 day. 4% target is gross of standard charges and net of external manager variable charges.

** This means that the return will be calculated as the average annual return achieved over the previous four years.

QUARTER 3 2016 ECONOMIC LOOK-BACK

By David Haslam

CENTRAL BANKS WIDE OF THE MARK...

Central Banks around the world are faced with different yet significant challenges as a result of the two speed nature of the economic recovery. Markets were disappointed with the European Central Bank for neither cutting rates nor expanding the existing support programme. Meanwhile the US Federal Reserve did not raise rates in September when expected to, but indicated an increase in December is increasingly likely. The Bank of England surprised markets positively by re-launching asset purchases and cutting interest rates. The common backdrop is global growth in positive territory (forecast at 2.4 % for 2016) and stronger than feared when recessionary concerns were at their peak in Quarter 1.

MONEY, MONEY, MONEY...

Company Earnings for Quarter 2 were released in Quarter 3 and exceeded expectations by approximately 5% in the US, 3% in Japan and 2% in Europe which provided some support for stock markets although forecasts had been downgraded previously.

BREXIT...

Certainty around the early appointment of Theresa May may have helped ease political concerns initially but her conviction that "Brexit means Brexit" has not eased market concerns. That said, UK economic releases were much more resilient than expected but currency markets are watching and sterling is showing signs of potentially weakening as article 50 (that sets Brexit in motion) becomes more of a reality.

(TURM)OIL...

A volatile quarter with oil prices trading in a 22% range although ending up only -1.2%. This was largely driven by higher output and rising inventory levels and uncertainty about supply versus demand heading into the key winter period. OPEC has since announced their intention to cap production, supporting the price rebound towards the end of the quarter.

CHINESE WISPA...

'Official' economic data was somewhat mixed during the quarter but finished on an improving note in September. Growth looks to have stabilised at around 6.5%, around the same growth rate predicted for chocolate sales out to 2020!

SHARES, BONDS, COMMODITIES AND CURRENCIES

Investment markets continued the rebound post Brexit and generated strong returns, particularly in shares. In the US, economic data strengthened early in the quarter, easing concerns relating to the global economy. Bonds once again experienced steady gains over the quarter benefiting from persistent low inflation and the continued decline in future inflation expectations. The Eurozone 5 year plus sovereign bond rose 1.1% during the quarter. German 10 year yields fell to new all-time lows of -0.20% before ending the quarter at -0.12%. The Euro rose against the US dollar from \$1.111 to \$1.124 while Brexit is starting to weigh on the value of sterling.

Over the quarter, the MSCI AC World equity benchmark rose 5.2% (4.2% in euro). Emerging markets rose 7.7% (7.9% in euro) as economic data across Emerging Market countries continued to stabilise and Emerging Market equity funds experienced strong inflows. The UK rose 7.0% (2.8% in euro) as economic releases post Brexit were more resilient than expected while a weaker sterling continued to support exporters. The US lagged, rising 4.1% (2.9% in euro), impacted by growing expectations of a rate rise in December and uncertainty related to the upcoming Presidential election.

Source: David Haslam, Head of Retail, Irish Life Investment Managers (ILIM), October 2016.

QUARTER 3 2016 FUND UPDATE

By Peter Haran, Head of Alternative Strategies

Peter Haran is the Head of Alternative Strategies at ILIM. Peter joined ILIM from the National Treasury Management Agency (NTMA) in 2014 where he was Head of Investment Strategy for the National Pensions Reserve Fund (NPRF) for seven years. As chair of the NPRF Investment Committee, Peter was responsible for identifying investment opportunities and proposing tactical asset allocation positions across all asset classes. Before joining the NTMA Peter was a fund manager at IIU Asset Strategies.

Peter has a degree in Applied Mathematical Sciences and a Masters in Computer Applications from Dublin City University.



The Multi Manager Target Return Fund was launched in January 2016. The fund invests in a range of external funds managed by world class investment managers. We strongly believe that target return funds should be delivered in a manner that reduces fund selection and single manager risks, while benefiting from the increasing number and type of strategies available in the market place. This is achieved in the Multi Manager Target Return Fund by investing in a range of investment strategies through multiple external fund managers.

FUND STRATEGIES

The Multi-Manager Target Return Fund returned +1.7% in the third quarter and has returned +7.0% since it was launched in January of this year.

The positive performance in the third quarter was largely the result of strong performance in the Core portfolio which includes allocations to Diversified Market Return strategies. In August a change was made in this portfolio when the Putnam Total Return Fund was replaced by the Putnam Multi Asset Absolute Return Strategy (MAARS) Fund. In contrast to the Putnam Real Return Fund, the Putnam MAARS Fund uses half of its risk budget to pursue non-market directional strategies. The MAARS fund also has greater flexibility to use short positions to implement portfolio positions. As a result the impact of this change is to reduce the Multi-Manager Target Return Fund's exposure to the performance of the equity and bond markets going forward.

Credit strategies continued to perform well. The PIMCO Income fund in particular was up a further 2.4% during the quarter and has now delivered +6.3% year to date.

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

FUND STRUCTURE

The Multi Manager Target Return Fund consists of a mix of core and satellite fund strategies.

The "core" portion of the portfolio is invested primarily to provide exposure to more traditional asset types such as equities and bonds. By investing in a variety of different investment styles, the core strategy aims to deliver diverse market based returns with lower risk than broader equity markets.

The "satellite" portion is invested to provide diversification to these traditional asset types. Satellite strategies make up a smaller portion of the fund and seek to achieve higher returns through external manager skill rather than market performance alone.

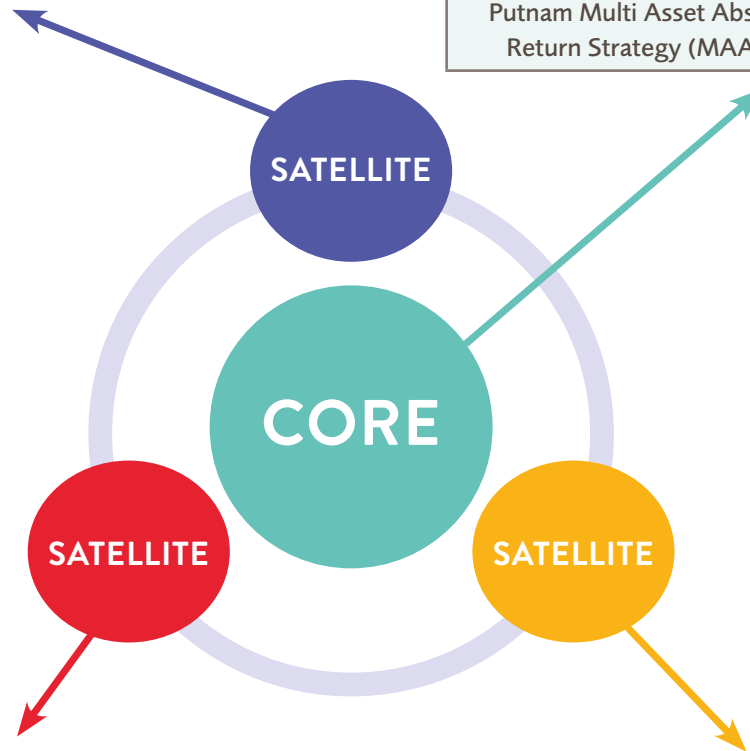
CORE AND SATELLITE STRATEGIES

Alternative Return Strategies

FUND	MANAGER ASSETS
JP Morgan Systematic Alpha Fund	€1.6tn*
AQR Style Premia Fund	\$172.4bn**

Diversified Return Strategies

FUND	MANAGER ASSETS
GMO Real Return Fund	\$91bn*
AQR Global Risk Parity Fund	\$172.4bn**
Putnam Multi Asset Absolute Return Strategy (MAARS)	\$154bn**



Global Opportunity Strategies

FUND	MANAGER ASSETS
Montlake Dunn WMA Fund	\$1.03bn*
Morgan Stanley Alpha Fund	\$2tn*

Credit Strategies

FUND	MANAGER ASSETS
Blackrock FIGO Fund	\$4.89tn*
PIMCO Income Fund	\$1.51tn*

*Correct as at June 30 2016.

**Correct as at September 30 2016.

ALTERNATIVE RETURN STRATEGIES

These are non-traditional strategies relying on 'hedge fund' / skill based strategies.

DIVERSIFIED RETURN STRATEGIES

These strategies aim to deliver equity market type returns using different investment approaches.

GLOBAL OPPORTUNITIES STRATEGIES

These managers monitor themes or trends in markets and invest to take advantage of identified opportunities. Some are very short term, some are over longer periods.

CREDIT STRATEGIES

These strategies aim to generate return by investing in traditional and non-traditional types of credit such as corporate bonds and mortgage backed securities.

FUND SUMMARY

DIVERSIFIED RETURN STRATEGIES

GMO Real Return Fund	This is an actively managed portfolio of assets with GMO choosing these assets across different asset classes driven by their own internal models, which focus strongly on valuations.
AQR Global Risk Parity	This large, well-diversified fund chooses investments based on a risk-weighting approach and aims to provide higher risk-adjusted returns than traditional market exposures. The fund consists of over 50 underlying investments across three main asset categories.
Putnam Multi Asset Absolute Return Strategy (MAARS)	This actively-managed fund has two parts - one investing in a number of asset classes across broad and diversified market exposures. The other is around opportunistic pair trading. This is where skilful managers take opposite positions (buy/sell) in two different stocks aiming to make more in one than they lose in another which gives a neutral market position overall and avoids market risk.

ALTERNATIVE RETURN STRATEGIES

AQR Style Premia	This fund aims to produce high, risk-adjusted returns while maintaining low-to zero correlation to traditional markets. This is achieved by constructing a global diversified, absolute return portfolio with exposure to a number of investment styles.
JP Morgan Systematic Alpha	This fund consists of a global portfolio of investments and aims to provide a total return in excess of its cash benchmark by implementing strategies similar to those employed by hedge funds using liquid instruments.

CREDIT STRATEGIES

BLACKROCK FIGO	This fund is a global fixed interest fund that aims to generate returns from long and short exposures in credit markets. Typically, the fund may have exposure to many non-traditional credit risks such as mortgage-backed securities and emerging market debt which helps diversify the more traditional fixed interest investment exposures found in multi-asset funds.
PIMCO Income	This fund seeks to generate a competitive monthly dividend while also maintaining a focus on a long term return. The fund aims to achieve this by employing PIMCO's best income generating ideas across global fixed income sectors with an explicit mandate on risk-factor diversification.

GLOBAL OPPORTUNITIES STRATEGIES

Montlake Dunn WMA	This fund focusses on medium to long-term investment trends. It takes long and short positions in financial, energy, metal and agricultural futures markets. This fund aims to generate profits from investments with a very low correlation to traditional asset classes.
Morgan Stanley Diversified Alpha	This fund aims to give a net 10% annual return over a market cycle, with lower than equity market volatility. This is achieved by identifying several, multi-year investment trends (for example China weakening, a European recovery and US rates rising sooner than the market expects) and investing in asset classes that will benefit accordingly. All positions and themes are actively reviewed and managed.



The funds that the Multi Manger Target Return Fund invests in may change over time. For the actual Multi Manager Target Return Fund mix, see the latest factsheet at www.irishlife.ie

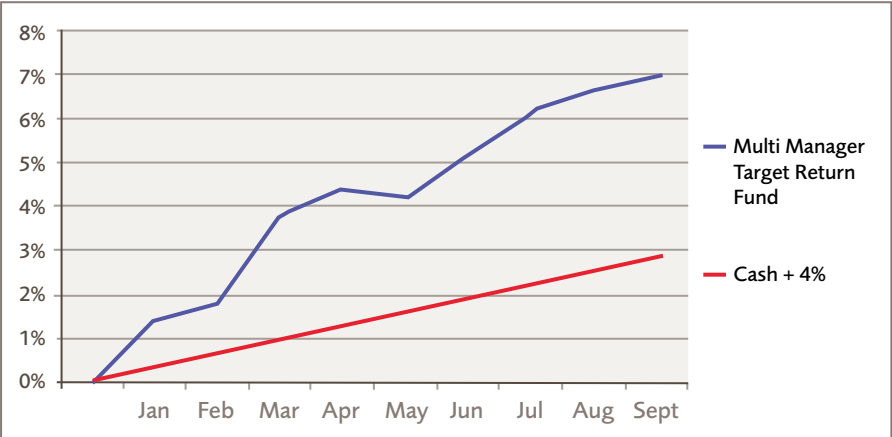
PERFORMANCE

Market Volatility

The quarter saw a more positive market outlook following the uncertainty of the second quarter. The quarter began with steady performance across risk assets and reduced volatility in the aftermath of the Brexit result, which the portfolio benefitted from. High yield credit and emerging market shares were among the areas to benefit the most from more sanguine conditions.

PERFORMANCE AGAINST CASH PLUS 4% BENCHMARK

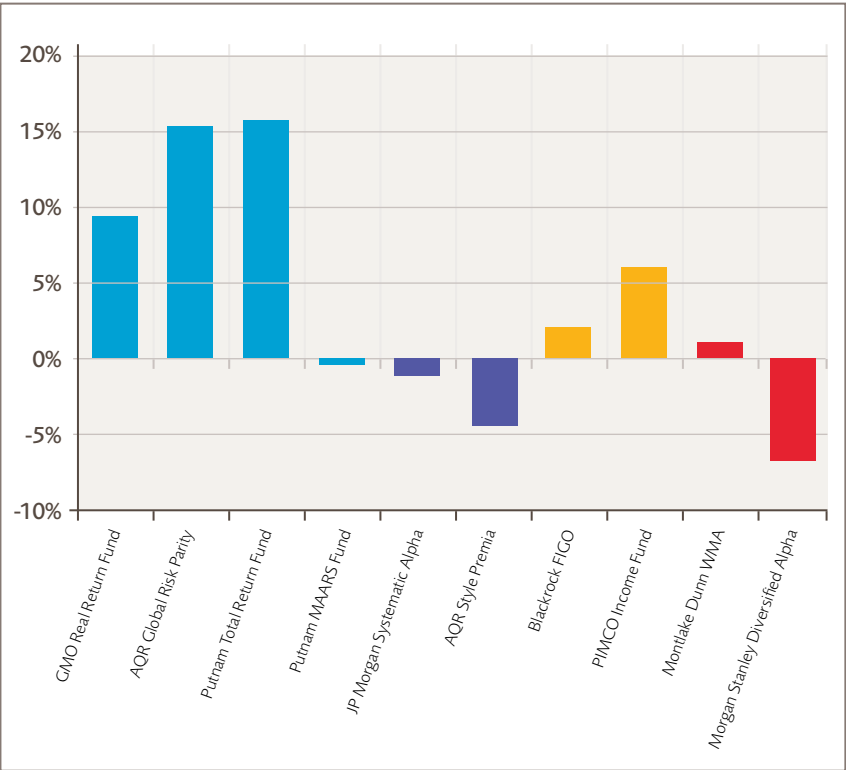
The fund has continued its strong start and is performing in excess of benchmark. Diversified returns continue to perform strongly with all three managers contributing. Credit returned positively each month of the quarter in a good period for credit markets.



Source: Irish Life Investment Managers (ILIM).
Returns show to 30 September 2016.

PERFORMANCE BY FUND

GMO benefitted from exposure to emerging market and non-US equities and continued its strong year to date performance. Risk Parity as a strategy has seen a strong 2016 as seen from AQR returns. JP Morgan Systematic Alpha had an improved quarter as hedge-fund like returns were positive in Q3.



Note: the contribution to performance of an individual strategy or fund depends on the weight of that strategy or fund in the overall fund. Source: Irish Life Investment Managers (ILIM). Returns shown to 30 September 2016.

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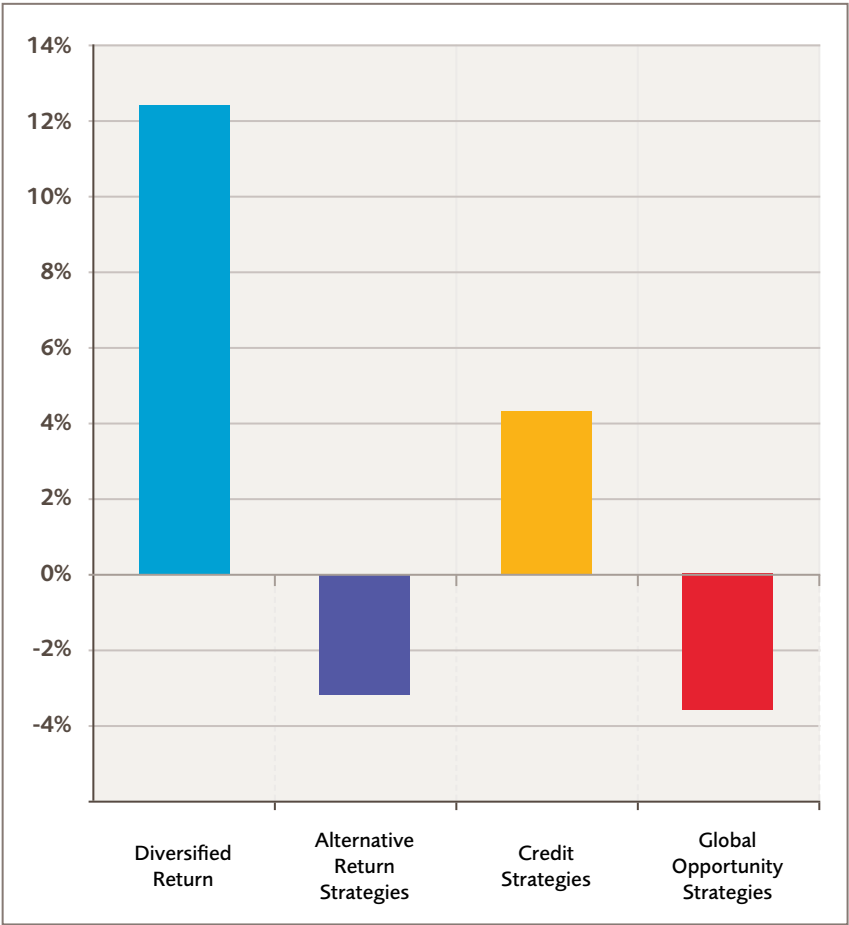
PERFORMANCE BY STRATEGY

Diversified Returns – This strategy has exposure to risky assets such as shares and bonds, performed strongly from the launch in January through to the end of the quarter as markets rallied from a weak start. GMO Real Return, AQR Global Risk Parity and Putnam Total Return Fund all contributed positively. The Putnam fund alone was up over 8% in that timeframe benefitting from the improving economic sentiment as the quarter progressed.

Alternative Returns – Alternative Returns, which replicate hedge fund type strategies, have seen mixed results since launch. This is not surprising as the broader hedge fund universe endured a difficult period. AQR Style Premia saw losses under its Momentum strategy in particular.

Credit – The Credit portion of the portfolio was also up over the quarter. Blackrock FIGO and PIMCO Income benefited from good returns in high yield and investment grade credit, as well as some elements of emerging market debt (such as Russia) held in their portfolios.

Global Opportunities – No changes were made to the manager lineup since launch but we continue to monitor the current portfolio and likely prospects on an ongoing basis.



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ILIM'S CREDENTIALS

About Irish Life's investment managers

Our investment manager is internationally recognised for their expertise, innovation and track record and are multi award winners:



2014 European Pension Award Winners -

- Best Equity and
- Best Passive Manager Awards.

The only Irish investment manager to win an award and the only manager in Europe to win 2 awards.



2014 Irish Pension Awards

- Alternatives Investment Manager of the Year.

2015 Irish Pension Awards

- Investment Manager of the Year.



Our investment manager takes care of over

€50 BILLION.

For more details please see www.irishlife.ie/investments or contact your financial broker or financial adviser.

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Irish Life Assurance plc is regulated by the Central Bank of Ireland.