

asset allocation survey 2005



IAPF ASSET ALLOCATION SURVEY 2005

1. Irish pension funds experienced strong growth during 2005. At year end assets under management amounted to €77.9bn compared with €62.3bn at end 2004. The 25% increase reflects the positive market environment throughout 2005, together with continued inflows from plan sponsors to support scheme solvency positions.
2. The split between segregated and unitised assets changed somewhat during the year. Segregated assets as a percentage of total assets under management fell by approximately 3%, from 46.5% at the end of 2004 to 44.0% at the end of 2005. Unitised assets rose by 4%, from 42.0% to 46.0% of total assets. This percentage shift from segregated to unitised assets partly reflects the movement of monies from active segregated funds to passive unitised vehicles. This trend is discussed further below. Insured assets as a percentage of total funds under management fell slightly, from 11.5% of total assets at the end of 2004 to 10.1% at the end of 2005.

In recent years we have seen a steady increase in funds moving to passive management. Throughout 2005 this trend continued, although at a slower pace than in 2004. By the end of 2005, the proportion of assets under passive management rose to 27.8% compared with 25.8% at the end of 2004.

3. By year end equities accounted for 65.0% of assets under management compared with 63.1% at end 2004. However, this rise may camouflage a strategic move away from equities as, given the outperformance of equities relative to other asset classes during 2005, this proportion could have been expected to increase to around 66% based on performance alone.
4. The Irish equity content decreased by 0.8% over the year, from 12.2% at 31 December 2004 to 11.4% at the end of 2005. The Eurozone region weighting was virtually unchanged at 17.4% at the end of 2005. As a result, Irish equities represent 39.6% of total Eurozone equity holdings, a drop of 1.5% compared with the end of the previous year.

Figure 1:
Total Value of Irish Pension Fund Assets (€bn)

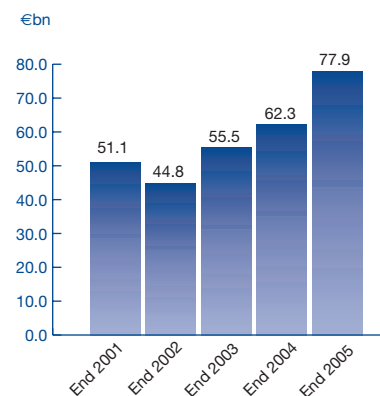


Figure 2:
Structural Split of Pension Fund Assets

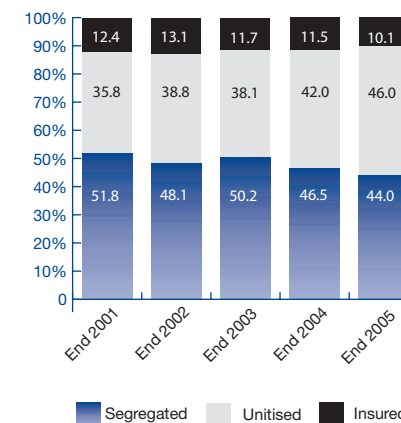
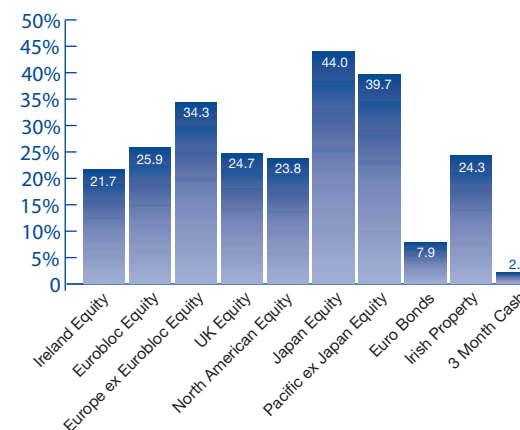


Figure 3:
2005 Asset Class Returns (in euros)
(Source: Rubicon Investment Consulting)



Exposure to the UK equities increased slightly during 2005, while the proportion of assets invested in US, Pacific Basin and Other European equities remained largely unchanged over the year. Japanese equity holdings increased by 0.8% to 4.4%, reflecting the outstanding performance of this market over the year. The allocation to other equities (mainly emerging markets) more than doubled from 0.9% to 2.0% during 2005.

5. The overall proportion held in fixed interest and index-linked stock dropped from 23.5% at the end of 2004 to 21.5% at 31 December 2005. This drop largely reflects the underperformance of bonds relative to equities and property during the year. Government issue represented 18.3% with corporate and index-linked bonds rising to 3.2%.
6. Over the year the property content increased from 7.4% to 8.0%. Cash and other short term instruments fell back marginally from 4.7% to 4.5% at year end.
7. This year, for the first time, we asked respondents to provide further information on the 0.8% of assets falling under 'Other' category. 0.7% of these are unit trusts which cannot be analysed but ultimately mainly consist of equity investments across many markets. The remaining 0.1% is made up of "alternative assets", including private equity, hedge funds and currency overlays.
8. Another new question that was introduced related to the type of mandates under which assets are managed. As this question was answered in relation to just under 60% of the assets in the survey, it is doubtful how meaningful the results are. However, of these assets, 62% are invested with a single manager across a range of

asset classes (multi asset mandates), 36% are invested on the basis of an individual fund manager investing in one asset class only (single or "specialist" mandates), while just under 2% were invested in multi manager products (where, within a single portfolio, a number of managers invest across a range of asset classes.)

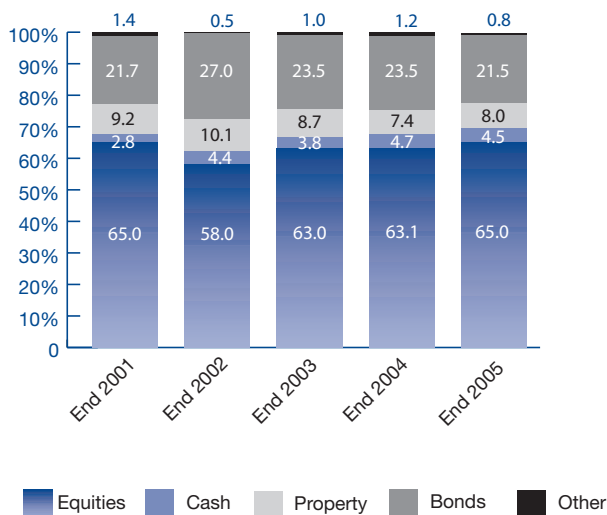
9. Of the €77.9bn of assets under management for Irish pension funds, approximately €42bn (54%) was managed according to scheme-specific benchmarks. That is, the trustees of these schemes have given direction to the investment managers regarding the proportion of their funds that should be invested in each of the various asset classes. On average, the equity weighting of these assets was 54% while the average allocation to bonds was 29%. Investment managers retained full discretion over the asset allocation of the remaining €36bn. Of this 78% was invested in equities and 12% was invested in bonds.

Survey Methodology

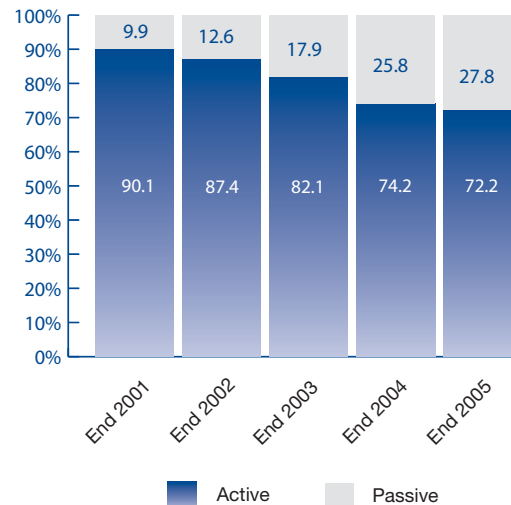
The survey was conducted by circulating a questionnaire to financial institutions involved in pension fund asset management. Again this year, the range of foreign-based managers was increased to reflect the growing use of specialist managers for specific portfolios. Complementing this source, the largest Irish pension funds were asked on a similar basis to return information on any assets where management was not delegated to one of the financial institutions already contacted.

Irish Association of Pension Funds
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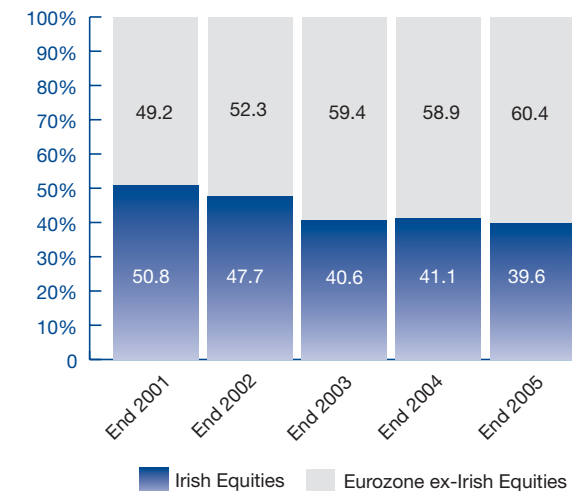
**Figure 4:
Asset Class Weights**



**Figure 5:
Split between Active and Passive Assets**



**Figure 6:
Domestic Equity - Split between Irish and Eurozone ex Ireland Equities**



Appendix A: Irish Pension Fund Asset Analysis - End 2005

	Segregated Assets		Unitised Assets		Insured Assets		Total Assets	
	€m	%	€m	%	€m	%	€m	%
MARKET VALUE OF ASSETS	34252.1	100.0	35837.0	100.0	7843.7	100.0	77932.8	100.0
ASSET DISTRIBUTION BY SECTOR								
Equities								
Irish	3799.6	11.1	4222.8	11.8	878.5	11.2	8900.9	11.4
Euro	7521.8	22.0	5670.6	15.8	389.1	5.0	13581.5	17.4
UK	2825.8	8.3	2838.3	7.9	306.5	3.9	5970.6	7.7
US	7654.4	22.3	4361.7	12.2	414.9	5.3	12431.0	16.0
Rest of Europe	1220.0	3.6	1218.5	3.4	145.7	1.9	2584.3	3.3
Japanese	1960.2	5.7	1381.1	3.9	99.6	1.3	3440.9	4.4
Pacific Basin ex Japan	849.7	2.5	1308.8	3.7	76.3	1.0	2234.7	2.9
Other	831.5	2.4	707.3	2.0	7.1	0.1	1546.0	2.0
TOTAL	26663.0	77.8	21709.1	60.6	2317.7	29.5	50689.8	65.0
Bonds								
Euro Government	3503.3	10.2	5811.6	16.2	4127.7	52.6	13442.5	17.2
Euro Corporate	493.1	1.4	607.2	1.7	535.7	6.8	1636.0	2.1
Non Euro Government	673.0	2.0	164.2	0.5	26.9	0.3	864.1	1.1
Non Euro Corporate	348.5	1.0	167.4	0.5	180.9	2.3	696.8	0.9
Index Linked	88.8	0.3	36.8	0.1	17.8	0.2	143.4	0.2
TOTAL	5106.7	14.9	6787.2	18.9	4888.9	62.3	16782.8	21.5
Property								
Euro	1580.5	4.6	3899.6	10.9	182.3	2.3	5662.4	7.3
Non Euro	124.6	0.4	479.7	1.3	0.1	0.0	604.4	0.8
TOTAL	1705.2	5.0	4379.3	12.2	182.4	2.3	6266.8	8.0
Cash and Cash Instruments								
Euro	654.6	1.9	2407.3	6.7	436.0	5.6	3497.8	4.5
Non Euro	38.9	0.1	-0.3	0.0	0.0	0.0	38.6	0.0
Other	83.8	0.2	554.5	1.5	18.6	0.2	656.9	0.8
TOTAL ASSETS	34252.1	100.0	35837.0	100.0	7843.7	100.0	77932.8	100.0

Appendix B: Irish Pension Fund Asset Analysis - End 2004

	Segregated Assets		Unitised Assets		Insured Assets		Total Assets	
	€m	%	€m	%	€m	%	€m	%
MARKET VALUE OF ASSETS	28956.0	100.0	26183.6	100.0	7194.0	100.0	62333.7	100.0
ASSET DISTRIBUTION BY SECTOR								
Equities								
Irish	3331.7	11.5	3433.9	13.1	848.1	11.8	7613.7	12.2
Euro	6284.3	21.7	4274.1	16.3	358.0	5.0	10916.4	17.5
UK	2313.2	8.0	1902.7	7.3	284.1	3.9	4499.9	7.2
US	6540.2	22.6	3161.1	12.1	272.9	3.8	9974.2	16.0
Rest of Europe	916.3	3.2	855.2	3.3	111.8	1.6	1883.3	3.0
Japanese	1386.6	4.8	775.5	3.0	62.5	0.9	2224.6	3.6
Pacific Basin ex Japan	696.2	2.4	914.3	3.5	69.5	1.0	1680.0	2.7
Other	354.2	1.2	210.9	0.8	1.8	0.0	566.9	0.9
TOTAL	21822.6	75.4	15527.7	59.3	2008.8	27.9	39359.1	63.1
Bonds								
Euro Government	3510.4	12.1	5041.4	19.3	3559.4	49.5	12111.2	19.4
Euro Corporate	479.7	1.7	398.3	1.5	488.1	6.8	1366.2	2.2
Non Euro Government	567.9	2.0	185.7	0.7	65.8	0.9	819.4	1.3
Non Euro Corporate	49.5	0.2	50.8	0.2	115.6	1.6	215.9	0.3
Index Linked	95.8	0.3	28.2	0.1	36.0	0.5	160.0	0.3
TOTAL	4703.4	16.2	5704.4	21.8	4264.9	59.3	14672.7	23.5
Property								
Euro	1619.2	5.6	2331.0	8.9	243.3	3.4	4193.4	6.7
Non Euro	97.1	0.3	300.8	1.1	0.1	0.0	398.0	0.6
TOTAL	1716.3	5.9	2631.8	10.1	243.4	3.4	4591.5	7.4
Cash and Cash Instruments								
Euro	685.0	2.4	1737.4	6.6	493.3	6.9	2915.8	4.7
Non Euro	2.0	0.0	25.3	0.1	0.1	0.0	27.4	0.0
Other	26.7	0.1	557.0	2.1	183.5	2.6	767.2	1.2
TOTAL ASSETS	28956.0	100.0	26183.6	100.0	7194.0	100.0	62333.7	100.0