



Don't Cut your Benefits **Cut your Investment Risk & Raise your Return**

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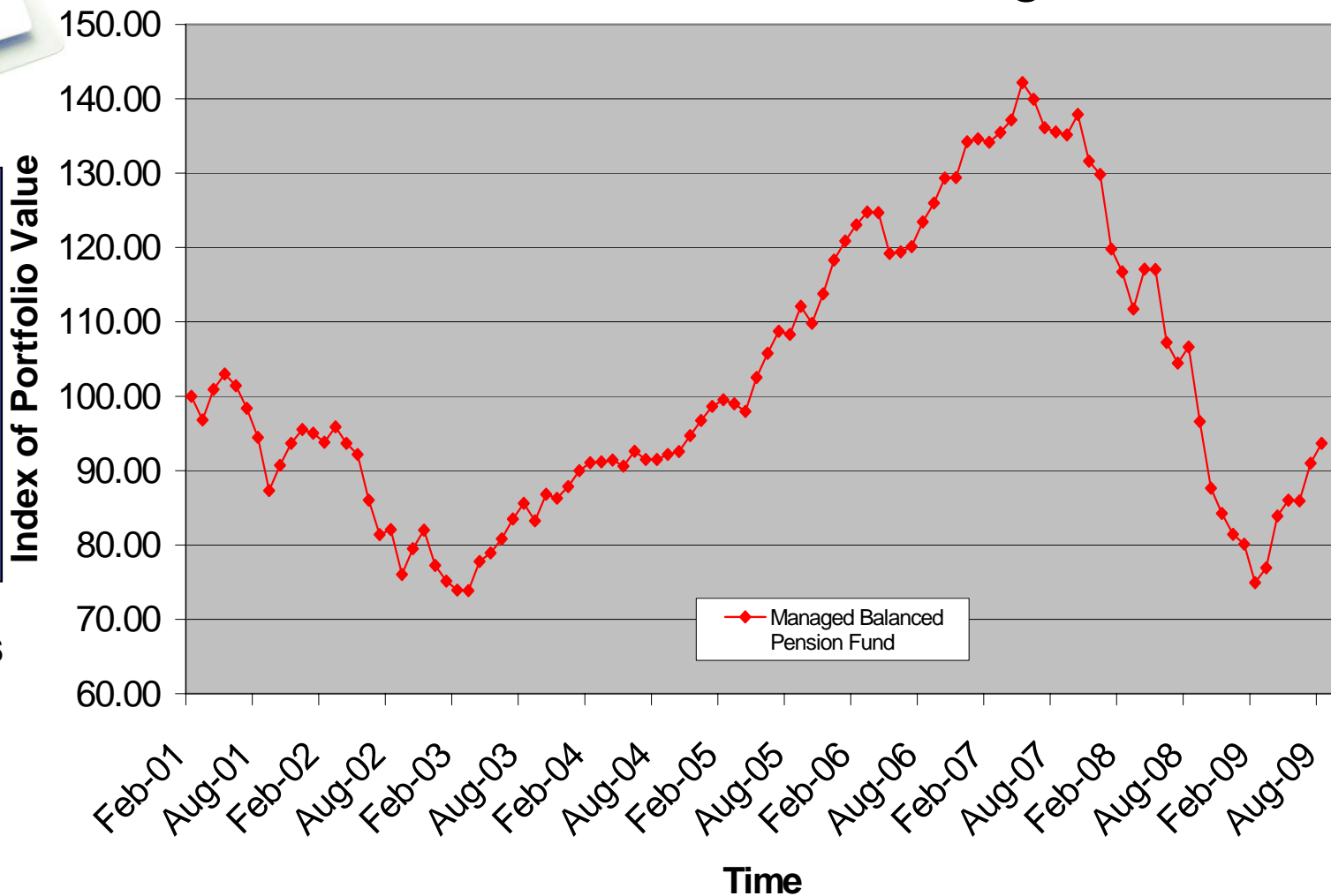


Introduction

- Focus on defined benefit (DB) pension schemes
- Nothing that you don't already know
- Tie a few concepts together

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Progress of a Managed Balanced Pension Fund Over the Last Eight Years



Source:
Friends First
with Alder
Capital
graphics.

Please see
notes to this
chart on slide
13.

**PAST RESULTS
ARE NOT
NECESSARILY
INDICATIVE OF
FUTURE
RESULTS**



Problems for Trustees & Sponsoring Employers when Equities Fall in Value

- Equities are the biggest component of managed funds
 - Coincidence of risks
- Accounting standards
 - Balance sheet implications
- Pensions Board
 - Funding standard



Possible Solutions

- “Write a cheque” to fund the pension deficit
- Cut the scheme benefits
- What about reducing investment risk?

Implications of Risk



Outlook for the Next 10 Years

<u>Event</u> Peak-to-Trough Fall in value of More than:	<u>Managed Fund</u> (11.7% Risk) Percentage Chance of Event
25%	41%

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Source:
Friends First
with Alder
Capital
computations.

Please see
notes to this
table on slide
13.



Possible Solutions

- It's easy to lower risk
- But what are the implications for return?
- What about reducing investment risk **without** diminishing return?



Concepts

- There is no “all-weather” asset class
- *Harry Markowitz’s* Nobel Memorial Prize in Economic Sciences
- Put together assets that have their periods of positive & negative performance at different times



Time Period	Managed Balanced (Ind.) Average	Currency Fund
2001*	- 3.8%	14.1%
2002	-18.4%	16.2%
2003	12.2%	11.3%
2004	9.8%	- 9.7%
2005	19.7%	10.7%
2006	12.8%	11.1%
2007	- 3.5%	7.0%
2008	-34.4%	2.5%
2009**	14.7%	7.4%
Annualised Return 1/3/01 to 1/9/09	- 0.8% p.a.	8.0% p.a.

Source: MoneyMate. Please see notes to this table on slide 13.

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

*1/3/01 - 1/1/02. **1/1/09 - 1/9/09.

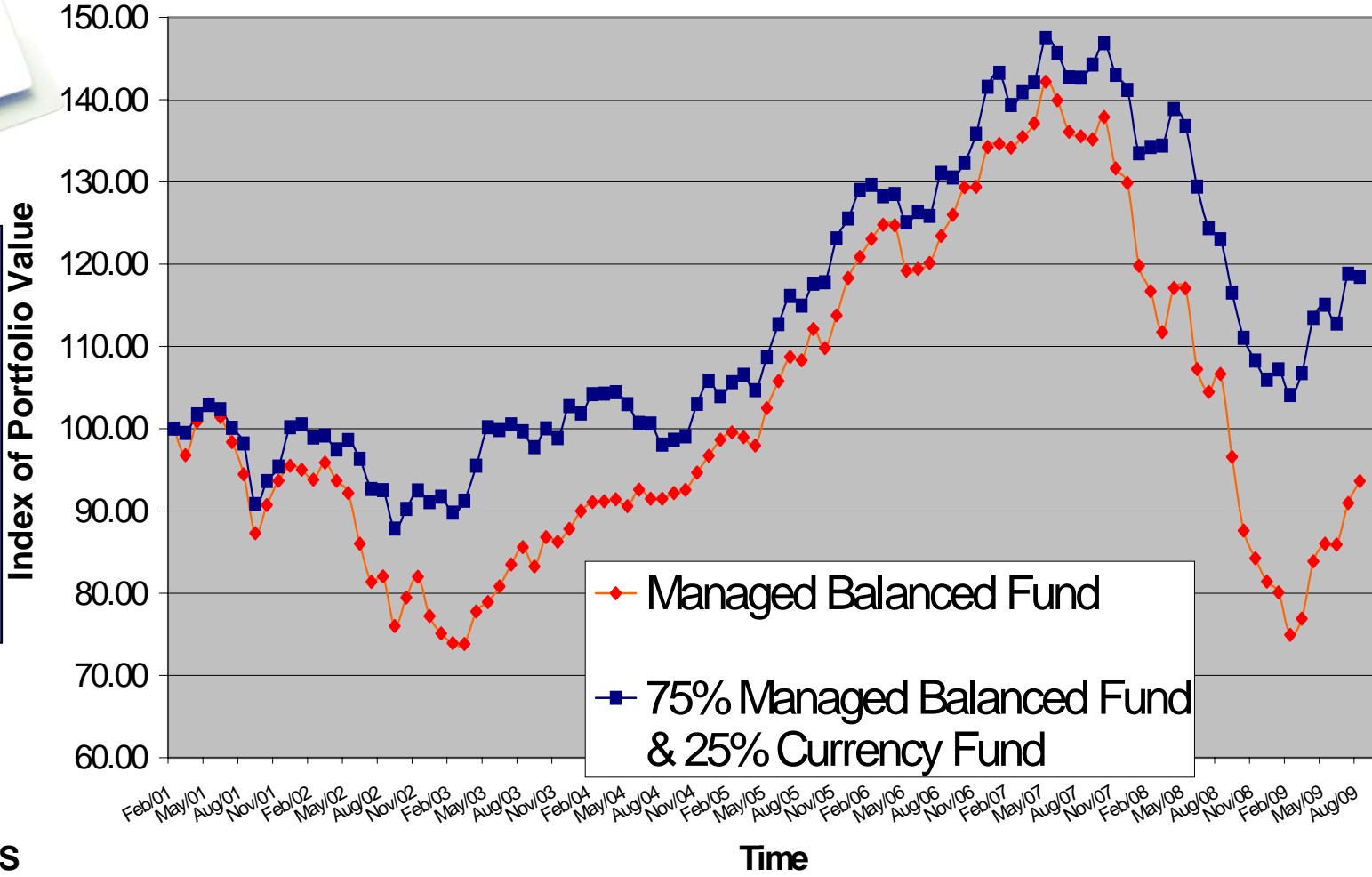


Reduced Risk & Increased Return

Source: Friends First with Alder Capital computations & graphics.

Please see notes to this chart on slide 13.

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS



Simulated performance may not be a reliable guide to future performance.



Revised Risk Implications

Outlook for the Next 10 Years

Source:
Friends First
with Alder
Capital
computations.

Please see
notes to this
table on slide
13.

<u>Event</u> Peak-to- Trough Fall in value of More than:	<u>Managed</u> <u>Fund</u> (11.7% Risk) Percentage Chance of Event	<u>Diversified</u> <u>Managed Fund</u> (9.3% Risk) Percentage Chance of Event
25%	41%	13%

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS



Summary

- Don't solve today's deficits by cutting the benefits or "writing a cheque" until ...
- The underlying cause of the problem:
Investment risk
- Real diversification can lower risk & raise return



Important Notes to Slides

Notes to Slides 3 & 10. Source: Friends First with Alder Capital computations & graphics. Period Covered: 1st March 2001 to 1st September 2009. The returns shown are based on an index of the prices of the Friends First Mixed Pension Fund and an index of the prices of a 75%/25% combination of Friends First Mixed Pension Fund and the Insight Currency Fund. The returns shown do not relate to the returns achieved by any particular investor. The returns shown include the reinvestment of any income, profits and losses generated on the assets of the specified funds, are net of trading costs, fund management charges and, in the case of the Insight Currency Fund, performance fees and are on an investment in the specified funds and not premiums paid under policies linked to the specified funds. The returns on policies linked to the specified funds will be lower because of the effects of various additional charges applied to policies and, where applicable, exit tax. The Insight Currency Fund is a fully-funded account and the returns shown include €-denominated interest income. **These returns have not been achieved without risk of loss. Please see Alder Capital's website (www.aldercapital.com) for details of the variation in return from month to month and over time.** Simulated performance may not be a reliable guide to future performance. The value of a policy linked to the Insight Currency Fund can fall as well as rise and investors may get back less than the amount invested. Changes in exchange rates may have an adverse effect on the value, price or income from investments linked to the Insight Currency Fund. Income may fluctuate in accordance with market conditions and taxation arrangements. The returns shown are before taxation .

Notes to Slide 6 & 11: Source: Friends First with Alder Capital computations. Past risk reduction may not be a reliable guide to future risk reduction. Assumptions: Simulated figures assuming a return of 6.0% per annum net of fees, the risk level stated in the slide and a normal distribution of returns for both the Managed and the Diversified Managed Fund. The annualised standard deviation figures were derived using monthly data for the period 1st March 2001 to 31st December 2008 for the Friends First Mixed Fund and for the simulated returns of the Diversified Managed Fund. The annualised standard deviation of the Diversified Managed Fund is calculated using monthly data from an index of the prices of a 75%/25% combination of Friends First Mixed Pension Fund and the Insight Currency Fund. Simulated risk figures may not be a reliable guide to future risk. The risk calculations are based on offer-to-offer returns, include the reinvestment of any income, profits and losses generated on the assets of the specified funds, are net of trading costs, fund management charges and performance fees and are on an investment in the specified funds and not premiums paid under policies linked to the specified funds. The returns on policies linked to the funds used will be lower because of the effects of various additional charges applied to policies and, where applicable, exit tax. The Insight Currency Fund is a fully-funded account and the returns shown include €-denominated interest income. The value of a policy linked to the funds in question can fall as well as rise and investors may get back less than the amount invested. The returns used to calculate risk are before taxation.

Notes to Slide 9. Source: MoneyMate. *The return for 2001 is from 1st March 2001 to 31st December 2001. **The return for 2009 is from 1st January 2009 to 1st September 2009. Category: MoneyMate Irish Individual Pensions, Managed Balanced (Individual) Average and Specialist. The returns shown are based on the offer-to-offer performance of the funds and do not relate to the returns on a policy linked to the funds. The value of a policy linked to any one of these funds can fall as well as rise and investors may get back less than the amount invested. Changes in exchange rates may have an adverse effect on the value, price or income from investments linked to these investments. Income may fluctuate in accordance with market conditions and taxation arrangements. The returns shown are before taxation. These returns have not been achieved without risk of loss. Please see slide 14 for details of the basis of presentation of the returns of the Insight Currency Fund. **Risk of Loss:** It is important to bear in mind that these returns were not achieved without risk of loss.



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