



National Pensions Reserve Fund
Commission

National Pensions Reserve Fund
Quarterly Performance and Portfolio Update
At 30 June 2010

Friday, 16 July 2010

1. Performance and Asset Allocation

	3 Months 1 April to 30 June 2010	Year to Date 1 January to 30 June 2010	Fund Size at 30 June 2010
	%	%	€ billion
Discretionary Portfolio¹	-2.6	2.3	17.3
Directed Investments²	0.3	4.5	6.8
Total Fund	-1.7	3.0	24.1

The National Pensions Reserve Fund Discretionary Portfolio (the Fund excluding its Directed Investments) earned a return of -2.6% in the three months to end June 2010 and of 2.3% over the first six months of the year. Since the Fund's inception in 2001, the annualised performance of the Discretionary Portfolio is 2.7% per annum compared with an annualised return to the average Irish managed pension fund of 0.7% per annum over the same period.

¹ The Discretionary Portfolio comprises investments made under the Fund's investment policy and for which the Commission is responsible.

² The Directed Investments comprise preference shares and ordinary shares in Bank of Ireland and Allied Irish Banks plc (including dividends on preference shares received in the form of ordinary shares). They also comprise warrants which give an option to purchase up to 21.4% of the enlarged ordinary share capital of Allied Irish Banks plc following exercise of the warrants. The investments were made by the Commission for the purposes of recapitalising both of these banks at the direction of the Minister for Finance.

Following a strong first quarter performance, mainly due to advances in global equity markets, the Discretionary Portfolio lost ground in the second quarter as increased fears about the sustainability of global recovery and sovereign funding in some eurozone economies led to increased market volatility.

The Directed Investment Portfolio secured a return of 0.3% over the quarter and 4.5% for the year to date. In February and May 2010 the Fund received ordinary shares in Bank of Ireland and Allied Irish Banks plc (AIB) respectively in lieu of cash as payment of the first dividend on its preference share investments in these institutions. The payment was made in the form of ordinary shares as the European Commission requested that discretionary coupon payments on Tier 1 and Upper Tier 2 capital instruments in Bank of Ireland and AIB not be paid while it considered each bank's restructuring plan.

In April 2010 the Minister for Finance issued directions to the National Pensions Reserve Fund Commission to convert part of its €3.5 billion holding of Bank of Ireland preference stock into ordinary stock as part of the bank's capital raising exercise. Including the proceeds from the cancellation of the warrants issued in conjunction with the preference stock and fees, the Fund received total cash income of €543m from Bank of Ireland for participation in the transaction.

Following the above transactions the Fund now holds 36.5% of the ordinary shares of Bank of Ireland in issue and 18.6% of the ordinary shares of AIB in issue.

The Total Fund earned a return of -1.7% over the quarter and 3.0% for the year to date. Since inception, the annualised performance of the Total Fund is 1.9%.

At 30 June 2010 the Fund's value stood at €24.1 billion.

Asset Allocation at 30 June 2010			
	€m	% of Discretionary Portfolio	% of Total Fund
Large Cap Equity	7,396	42.8	30.7
Small Cap Equity	840	4.9	3.5
Emerging Markets Equity	1,709	9.9	7.1
Private Equity	794	4.6	3.3
Property	541	3.1	2.3
Commodities	268	1.6	1.1
Bonds	1,408	8.1	5.9
Currency and Asset Allocation Funds	195	1.1	0.8
Cash	4,078	23.6	16.9
Assets Transferred from University Pension Funds on 30 June	50	0.3	0.2
Total Discretionary Portfolio	17,279	100.0	71.8
Directed Investments	6,783		28.2
Total Fund	24,062		100.0

2. Annual Report 2009 and Investment Strategy Review

The NPRF Commission also published its Annual Report 2009 today. The Discretionary Portfolio earned a return of 20.6% in 2009. Taking into account the Directed Investments in bank preference shares and related warrants made during the year, which were held at cost and zero respectively, the Total Fund recorded a return of 11.5% in 2009.

As detailed in the Annual Report the Commission completed a scheduled review of Fund's long term investment strategy for the Discretionary Portfolio during the second half of 2009 and early 2010. Circumstances have changed materially over

the period since the previous target asset allocation was originally determined some years ago. Principally the Exchequer has moved from surplus to deficit, and therefore the Commission decided to include a secondary objective within the Fund's investment strategy of seeking to outperform the cost of government debt over rolling five year periods and has explicitly factored this objective into the level of risk it is satisfied to take with regard to the Fund.

The main features of the updated investment strategy are a reduction in the Fund's quoted equity weighting and enhanced diversification through the inclusion of some new asset classes and increased weightings to others which are more likely to deliver superior longer term growth and to protect against longer term inflation. These increased allocations include emerging markets and small cap equities, inflation linked bonds, commodities, infrastructure and absolute return investments.

NPRF Discretionary Portfolio Strategic Asset Allocation		
	Revised Target 2010	Previous Target End 2009
	%	%
Quoted Equity		
Global Large Cap	29	56
Global Small Cap	10	5
Global Emerging Markets	10	5
Total Quoted Equities	49	66
Financial Assets		
Eurozone Government Bonds	6	11
Eurozone Corporate Bonds	6	2
Eurozone Inflation Linked Government Bonds	5	-
Cash	1	-
Total Financial Assets	18	13
Alternative Assets		
Private Equity	10	8
Property	8	8
Commodities and Forestry	5	2
Absolute Return Investments	5	1
Infrastructure	5	2
Total Alternative Assets	33	21
Total Discretionary Portfolio	100	100

As part of the investment strategy review the Commission also agreed that, while the Fund retained the capacity to bear short-term volatility (and maintain significant exposure to real assets), the consequent risk should be managed more actively on an ongoing basis by varying the Fund's asset allocation around the strategic levels set out above. This policy is based on taking significant positions if and when markets move to extremes, rather than on taking small positions on an ongoing basis or attempting to time the market.