



## Coimisiún an Chúlchiste Náisiunta Pinsean National Pensions Reserve Fund Commission

### National Pensions Reserve Fund Quarterly Performance and Portfolio Update At 30 June 2012 and publication of the Annual Report for 2011

#### 1. Fund Overview

The Discretionary Portfolio (the Fund excluding the public policy investments in Allied Irish Banks and Bank of Ireland) was valued at €5.8 billion at 30 June 2012.

The Directed Portfolio (public policy investments in Allied Irish Banks and Bank of Ireland made at the direction of the Minister for Finance) was valued, following the completion of an independent valuation review, at €8.1 billion at 30 June 2012. The Directed Portfolio comprises ordinary shares (valued at €0.0076 [0.76 cent] per share and at market price respectively) and preference shares (valued at 63.5% of par and 80.2% of par respectively).\*

The Total Fund size at 30 June 2012 was €13.9 billion.

<b>Fund at 30 June 2012</b>	<b>€bn</b>	<b>% Fund</b>
Discretionary Portfolio	5.8	41.7%
Directed Portfolio	8.1	58.3%
<b>Total Fund</b>	<b>13.9</b>	<b>100.0%</b>

*Numbers are rounded*

\*Bank of Ireland and AIB Preference shares and AIB Ordinary share valuations are unchanged from 31 December 2011. Bank of Ireland Ordinary shares are valued at market price.

## 2. Fund Performance

The NPRF's Discretionary Portfolio earned a preliminary return of +0.1 per cent in the second quarter of 2012 and a year-to-date return of +3.1 per cent. Since the Fund's inception in April 2001, the Discretionary Portfolio has delivered an annualised return of +3.5 per cent per annum compared with +1.6 per cent per annum for the average Irish managed pension fund.

Performance	1 April 2012 to 30 June 2012	1 January 2012 to 30 June 2012
Discretionary Portfolio	0.1%	3.1%
Directed Portfolio	-1.0%	3.7%
<b>Total Fund</b>	<b>-0.5%</b>	<b>3.5%</b>

## 3. Sub Portfolios

### (a) Discretionary Portfolio

The Discretionary Portfolio Asset Allocation as at 30 June 2012 is set out below:

Asset Allocation 30 June 2012		
Asset Class	€ m	% of Discretionary Portfolio
Large cap equity	1,680	28.9%
Small cap equity	187	3.2%
Emerging markets equity	463	8.0%
<b>Quoted Equity</b>	<b>2,330</b>	<b>40.1%</b>
Eurozone inflation linked bonds	101	1.7%
Eurozone corporate bonds	346	5.9%
Cash	771	13.3%
<b>Financial Assets</b>	<b>1,218</b>	<b>20.9%</b>
Private Equity	757	13.0%
Property	495	8.5%
Commodities	262	4.5%
Infrastructure	354	6.1%
Absolute return funds	174	3.0%
<b>Alternative Assets</b>	<b>2,042</b>	<b>35.1%</b>
<b>Value of equity put options</b>	<b>224</b>	<b>3.9%</b>
<b>Total Discretionary Portfolio</b>	<b>5,814</b>	<b>100%</b>

## **(b) Directed Portfolio**

The Directed Portfolio consists of public policy investments in Allied Irish Banks and Bank of Ireland that were undertaken on foot of directions from the Minister for Finance. Since 2009 the Fund has invested €20.7 billion in preference shares and ordinary shares in the two banks, comprising €4.7 billion in Bank of Ireland (where the Fund's shareholding is 15.1 per cent) and €16.0 billion in Allied Irish Banks (where the Fund's shareholding is 99.8 per cent).

On 20 February 2012 Bank of Ireland paid a preference share dividend of €188.3m in cash.

On 14 May 2012 Allied Irish Banks paid the preference share dividend of €280m in the form of ordinary shares. Based on the market value of €0.077 per share, the Fund received 3,623,969,972 Allied Irish Banks ordinary shares. The Fund will value these shares at fair value as at 31 December 2011.

At 30 June 2012 the Directed Portfolio was held at €8.1 billion. The Fund has received a total of €2.0 billion in cash from its Bank of Ireland investment – comprising preference share dividends, the repurchase of warrants by the Bank and the sale of ordinary shares to a consortium of private investors. The net proceeds from the sale Bank of Ireland ordinary shares were remitted to the Exchequer as directed by the Minister.

## **4. Annual Report 2011**

The NPRF Commission also published its Annual Report 2011 today. The Discretionary Portfolio delivered a return of +2.1% in 2011, which exceeded both its benchmark (-0.7%) and the return on the average Irish managed pension fund (-3.5%).

The Fund's strong performance in 2011 against its benchmark was largely due to the reduction of the Fund's exposure to equity markets. This action was driven by a greater need for capital preservation as the Fund's mandate evolved and also incorporated a tactical decision to underweight equity markets.

From the Fund's inception in April 2001 to 31 December 2011, the Discretionary Portfolio generated an annualised return of +3.3% per annum compared with +2.1% per annum for the Fund's benchmark and +1.1% per annum for the average Irish managed pension fund.

In 2011 the Directed Portfolio returned -58.1% due to reductions in the valuations of the ordinary and preference shares of Allied Irish Banks and Bank of Ireland held by the Fund.

As the preference share investments in both banks are unlisted and given the Fund's ordinary share holding in Allied Irish Banks is 99.8% and the free float is only 0.2%, for the purposes of valuing these investments in line with generally accepted accounting principles the Commission engaged Goodbody Corporate Finance to provide an independent fair value as at 31 December 2011.

As set out in the Annual Report, the Valuation Advisor proposed that the Allied Irish Banks ordinary shares be valued at €0.0076 (0.76 cent) per share and that the preference shares be valued at 63.5% of cost in respect of Allied Irish Banks and 80.2% of cost in respect of Bank of Ireland. These valuations were adopted by the Commission.

The Total Fund return including the Discretionary and Directed Portfolios was -36.7% for 2011.