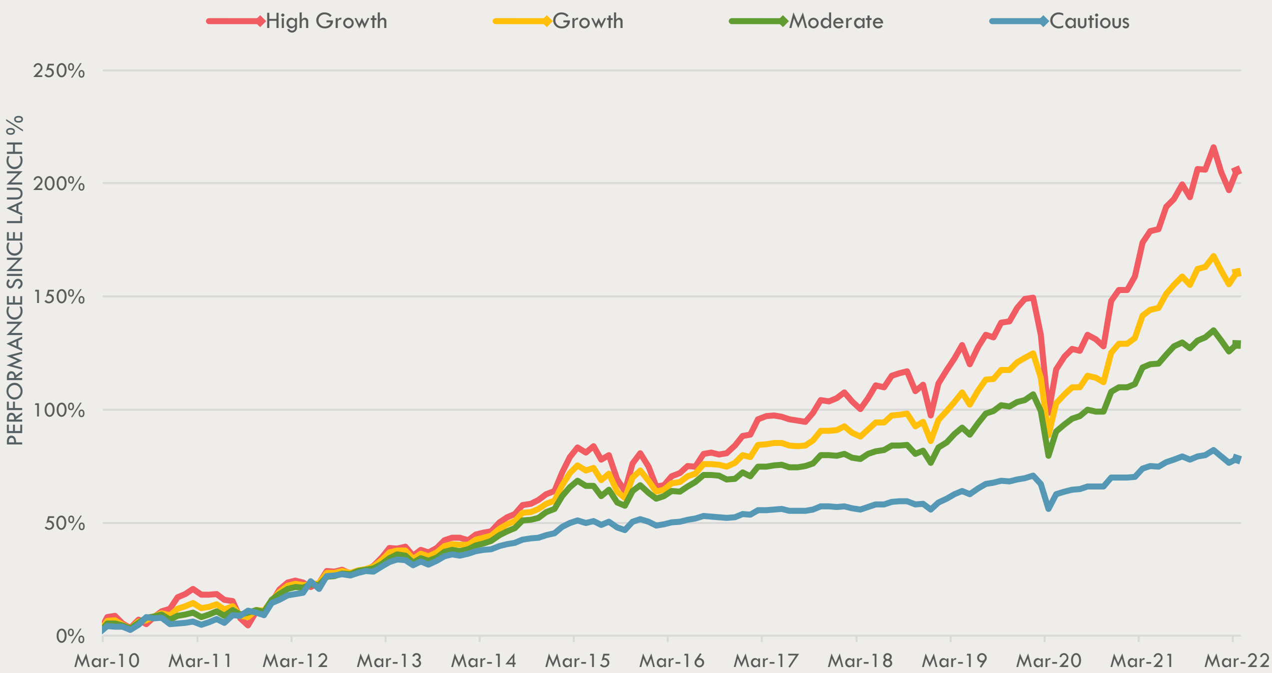
# DIVERSIFIED FUND RANGE

Quarter 1: 2022

# Welcome

WELCOME TO THE DIVERSIFIED FUND RANGE QUARTERLY UPDATE FOR Q1 2022. THE DIVERSIFIED FUND RANGE IS 4 RISK-RATED FUNDS DESIGNED TO BE APPROPRIATE FOR "BE MY GUIDE" INVESTORS TO BUILD THEIR PENSION PORTFOLIO. IN THIS NOTE WE COVER:

# Fund Performance




The table shows the returns to 31 March 2022 before any fund management charges. The Diversified Fund range is a long-term investment strategy, and we would advise caution when looking at fund performances over time periods of less than five years.

| | Cautious | Moderate | Growth | High Growth |
|---|---|---|---|---|
| 10 years p.a. | 4.1% | 6.5% | 7.8% | 9.4% |
| 5 years p.a. | 2.7% | 5.5% | 7.1% | 9.2% |
| 3 years p.a. | 3.0% | 6.5% | 8.6% | 11.1% |
| 1 year p.a. | 2.3% | 4.7% | 7.8% | 11.6% |
| Q4 | -2.1% | -2.8% | -3.0% | -3.2% |

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

**Warning: The value of your investment may go down as well as up.**

# Quarterly Market Commentary Q1: 2022

## Geopolitics take centre stage

Geopolitical tensions dominated asset prices in the first quarter of 2022. The economic consequences from the war in Ukraine and the ensuing sanctions are still evolving and the outlook is extremely unclear. As a result, markets sought the refuge of commodity safe havens such as gold while selling riskier assets.

## Inflation continues to rise

Added to this is the spectre of prolonged inflation particularly in the US but the Eurozone has not escaped rising prices either. Most central banks are behind the curve on battling inflation having been delayed from taking action by aforementioned geopolitical events and Covid outbreaks with the result that current headline inflation is running well ahead of the general 2% average target. The primary tool to counteract inflation is higher interest rates. In March, the US Federal Reserve initiated the first interest rate rise since 2018 and indicated that it is prepared to raise interest rates by 50 basis points at its next meeting in May if needed. All told there are likely to be a stream of rate rises in the US which could see the base rate touching 2% by year end. In the Euro area, the ECB has made clear that future adjustments to rates, when they come, will be gradual.

Higher interest rates are a more difficult environment for growth stocks to operate in and there has been a significant pivot to value stocks which would ordinarily be a better place to hide against rising prices. Developed market value stocks as captured by the MSCI World Value Index fell 0.5% versus a fall in the MSCI World Growth Index of 9.6%.

The rising rate environment saw the key German 10-year bund yield move into positive territory in January for the first time in almost three years and finished Q1 at 0.55% p.a. Gold benefitted from increased geopolitical risk. Volatility is likely to continue.

It may bring some comfort to read that history shows that global shares have actually rallied during previous tightening cycles. The S&P 500 Index rallied towards the end of March even as policy makers raised rates and promised more to come, while the Russian war on Ukraine continues to rage.

# Asset Split

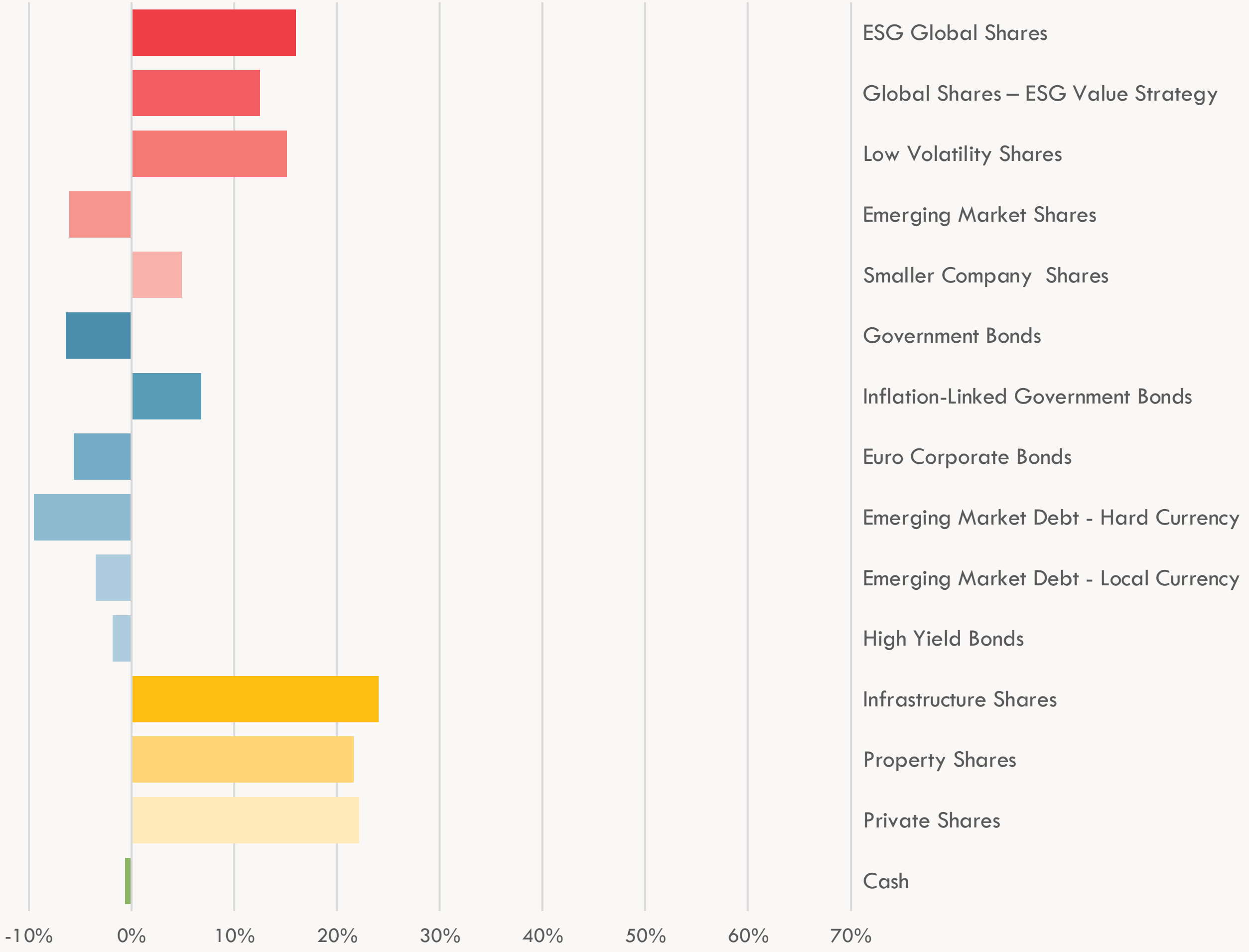
| Asset Class | | Cautious | Moderate | Growth | High Growth |
|---|---|---|---|---|---|
| 1. Shares | ESG Global Shares | 7.0% | 16.0% | 27.0% | 38.0% |
| | Global Shares – ESG Value Strategy | 6.0% | 6.5% | 6.0% | 8.0% |
| | Low Volatility Shares | 7.0% | 6.5% | 7.0% | 8.0% |
| | Emerging Market Shares | - | 2.5% | 5.0% | 8.0% |
| | Smaller Company Shares | - | 2.5% | 5.0% | 8.0% |
| | **Total Shares** | **20.0%** | **34.0%** | **50.0%** | **70.0%** |
| 2. Bonds | Government Bonds | - | 17.5% | 8.0% | - |
| | Inflation-Linked Government Bonds | 7.0% | 20.5% | 15.0% | 5.0% |
| | European Corporate Bonds | 30.0% | 17.5% | 10.0% | - |
| | High Yield Bonds | 2.0% | 2.5% | 3.5% | 5.0% |
| | Emerging Market Debt (Local) | 1.0% | 1.5% | 2.0% | 2.5% |
| | Emerging Market Debt (Hard) | 1.0% | 1.5% | 2.0% | 2.5% |
| | **Total Bonds** | **41.0%** | **61.0%** | **40.5%** | **15.0%** |
| 3. Alternatives | Infrastructure Shares | 2.0% | 2.5% | 3.0% | 5.0% |
| | Property Shares | 2.0% | 2.5% | 3.5% | 5.0% |
| | Private Shares | - | - | 3.0% | 5.0% |
| | **Total Alternatives** | **4.0%** | **5.0%** | **9.5%** | **15.0%** |
| 4. Cash | **Total Cash** | **35.0%** | **-** | **-** | **-** |

The asset splits shown above are the target allocations. The Diversified Funds use tolerance bands to rebalance back to the target asset allocation if the strategies drift too far from the intended allocations. The actual asset split could differ from the target allocations due to performance of the individual fund components however the tolerance bands ensure this will be within acceptable levels.

# Performance Breakdown

The below chart illustrates the performance for each asset class included in the Diversified Fund Range for the previous 12 months. The 12- month performance of the growth components remains strong as economic activity rebounded from the Covid lows. The equity components (in red) were the greatest beneficiary of these conditions with alternatives in yellow also performing well.
Performance from the more defensive bond components in blue lagged with Inflation Linked Bonds being best positioned to benefit from the current inflationary environment.

## BREAKDOWN OF PERFORMANCE OVER PREVIOUS 12 MONTHS

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# Market Outlook

Briefly outlined below are some key considerations with respect to the outlook for the economy for the second quarter of 2022 with a specific reference to energy supply and markets during conflicts.

The direct impact of Russian sanctions is likely to be economically manageable for most companies in the MSCI World Index given the very small size of the Russian economy in global terms. But with sanctions likely to continue for some time, secondary and tertiary effects such as the elevated prices of oil, gas, wheat, and fertilizer are likely to continue.

One reason is that stocks are often seen as a good hedge against rising prices is because many companies can pass a percentage of those costs onto consumers. Notwithstanding the high level of equity volatility, it is interesting to note that these investors fared better than those bond investors over the quarter through staying the course and not panic selling. The outlook for bonds is quite uncertain as governments have to balance raising interest rates to grapple with inflation against retaining some level of stimulus if the conflict and fallout persists.  The best approach might be to remain diversified and to avoid reactive, emotional decisions led by fear.

**Security of energy supply**

In February this year, as oil, gas and coal prices increased to multiple times their value versus just twelve months ago, 53% of Irish generated electricity was produced by wind (aided by three storms in succession). Politically, Europe is coming under increasing pressure to join the US and the UK to ban imports of Russian gas and oil. Europe imports 37% of its gas supply and 27% of its oil from Russia. 22% of total European Energy supply is imported from Russia. Cutting this level of power supply off the grid would have a severe impact on prices, transport and manufacturing especially. These price pressures could potentially create persistent inflation and de-stabilise economic growth. As an aside, investing in real assets such as real estate and infrastructure can help investors hedge off some inflation risks given the relatively high inflation pass through ability in these areas.

Over the long-term, sustainable resources such as wind and solar energy are expected to fill the gap, but the complete transition could be a number of years away yet. The cost of solar power generation has reduced as solar panels have fallen in price. Fortunately for those in Ireland, solar panels don’t need actual full sun to generate power. Transmission grids are being connected to new solar and wind farms and power is likely to be generated and stored locally rather than centrally as currently. The challenge domestically is that the energy source has usually disappeared below the horizon at the peak evening demand period when the kettle, oven and TV are all switched on. So, the next step of growth in wind and solar development is likely to be advances in battery storage to enable renewables to be a reliable source of energy, in a localised situation.

# How We Work

## OUR INVESTMENT PHILOSOPHY

While balancing risk and potential returns for a portfolio depends on several factors, we believe that asset allocation is the single most important factor influencing risk and return. Asset allocation is the cornerstone of our investment philosophy.

## THE POWER OF DIVERSIFICATION

One of the most important principles of investing is ensuring that you have a diversified portfolio. This means spreading your capital across different investments so that you're not reliant upon any single one for all of your returns. The key benefit of diversification is that it helps to minimise the risk of capital loss to your investment portfolio.

By diversifying across a broad spectrum of asset classes, you can spread risk and potentially enhance returns, as strong performance in one market may offset weaker performance in others. Creating this balance in your portfolio, where the returns of one investment are independent of another, is paramount.

An effective diversified portfolio should include a mix of growth and defensive assets:

- Growth assets include investments such as equities (shares in a company) or property and generally provide longer term capital gains. However, they typically carry a higher level of risk than defensive assets.
- Defensive assets include investments such as cash or fixed-interest (bonds) and generally provide a lower return over the long term. They usually offer a lower level of volatility and risk than growth assets.

Within each asset class, we also seek to achieve diversification. For example, we use 5 strategies within the equity asset class. By implementing our strategy in this manner, we believe our funds can achieve smoother, more consistent investment returns over the medium to longer-term.

## INVESTING, NOT SPECULATING

While risk plays an important role in investing, we never take unnecessary risks in the pursuit of a quick return. Our long-term view of investing allows us to ride out short-term market fluctuations so the benefits of long-term growth can be achieved.

## CAPTURING VALUE

We believe that markets are broadly efficient, with share prices reflecting all available information. However, other factors such as human bias and some element of market inefficiency mean that quality investments can trade below their fair value.

We believe that we can best capture this value by investing passively. Passive investing involves purchasing investments in line with a reference benchmark (for example an index of low volatility shares). We have appointed Irish Life Investment Managers (ILIM) as the investment manager, given their expertise and experience in implementing passive strategies in a cost-effective manner.

## REBALANCING USING TOLERANCE BANDS

Over time the relative movement of each of the assets in the Diversified Fund Range causes them to drift away from their target asset allocation. The funds are monitored each month and rebalanced if they move outside set parameters, bringing them back to their target asset allocation and ensuring that they remain within their defined risk profile to achieve your long-term objectives.

# Risk Management

Each Diversified Fund matches a defined risk profile

- cautious
- moderate
- growth
- high growth

| INVESTMENT STRATEGY TEAM | ASSET ALLOCATION |
|---|---|
| Our strategy team is responsible for conducting in depth fund and investment manager research as well as developing Invesco's strategic and tactical view on each asset class. | Each Model Portfolio operates within a robust risk structure, with a defined range for each asset class. This disciplined approach allows Invesco's investment strategy team the flexibility to make reallocations. |
| SELECTION CRITERIA | QUANTITATIVE ANALYSIS |
| Most of the individual funds held within the Diversified Fund Range are independently rated by Morningstar (or equivalent ratings agency).<br><br>A careful review is conducted before inclusion of funds without this rating. | Quantitative analysis is undertaken to ascertain the asset allocation decisions made by the Invesco Investment Strategy Team are within defined risk parameters. |

The Funds are diversified across a range of sectors, asset classes and geographic areas and we employ rigorous fund selection and monitoring processes as well as a rebalancing framework and regular meetings with investment managers. Our investment strategy team oversees this, applying its collective insight and experience to identify reallocations as appropriate.

We assess the likely range of returns, volatility and potential risks for our portfolios. We then use this to inform asset allocation, model funds and scenarios to evaluate alternative asset allocations and investment strategies. Both historical and forward-looking analysis is produced to demonstrate how the assets have performed in the past and are likely to do so in the future.

## OVERSIGHT & MANAGEMENT

The Invesco investment strategy team meets formally every month. These meetings are core to our investment strategy and allow our investment team to exchange their insight and opinions about the economic environment, asset allocation, fund selection and portfolio construction. The outcomes of these discussions are used to potentially adjust asset allocations within the agreed ranges and add or remove funds as appropriate. Our investment strategy team is an open forum, encouraging debate and interaction as well as drawing on external expertise.

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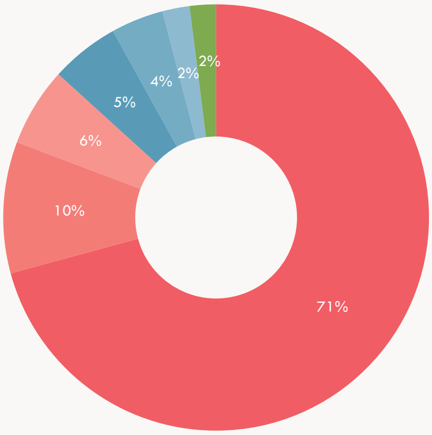
# Asset Classes Explained

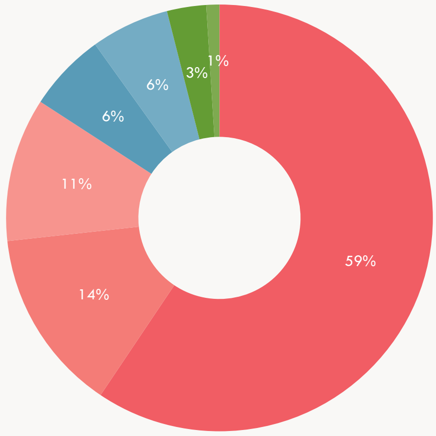
## SHARES




### ESG GLOBAL SHARES

Achieves diversification by investing across over 1,500 companies in predominately developed countries.

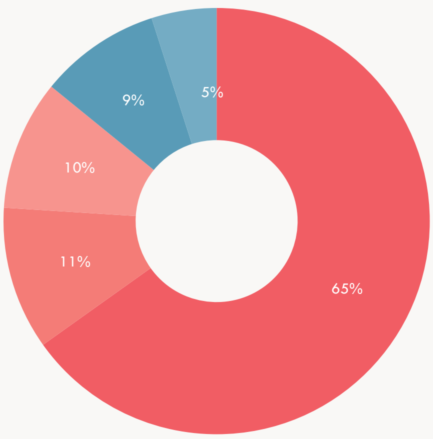
Tracks the performance of a large global share index.




### GLOBAL SHARES – ESG VALUE STRATEGY

Invests in companies based on economic fundamentals such as sales and profitability.

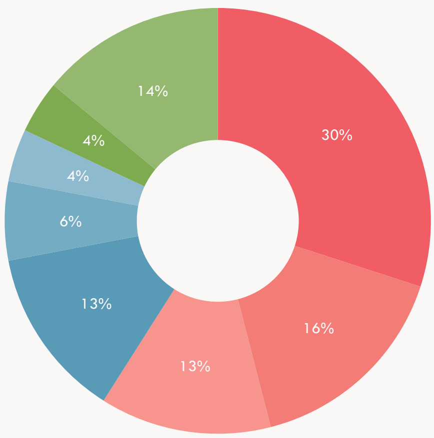
Tracks the performance of a large global fundamental share index which screens out ESG unfriendly stocks. The index consists of over 400 companies.




### LOW VOLATILITY SHARES

Invests in companies that have gone up and down less than most of their peers over long periods of time.

Tracks the performance of a global lower volatility share index with around 340 companies.



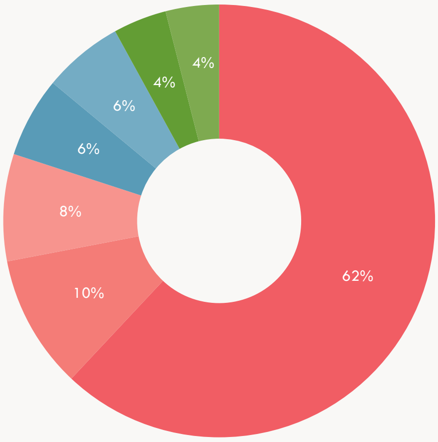

### EMERGING MARKET SHARES

Invests in company shares in countries that have been deemed as "emerging" such as China and Brazil.

Tracks the performance of a large emerging market index which comprises of around 1,200 stocks in 26 countries.

# Asset Classes Explained

## SHARES CONTINUED




- US - 62%
- Japan - 10%
- Eurozone - 8%
- UK - 6%
- Europe ex Eurozone ex UK - 6%
- Asia Pacific ex Japan - 4%
- Other - 4%

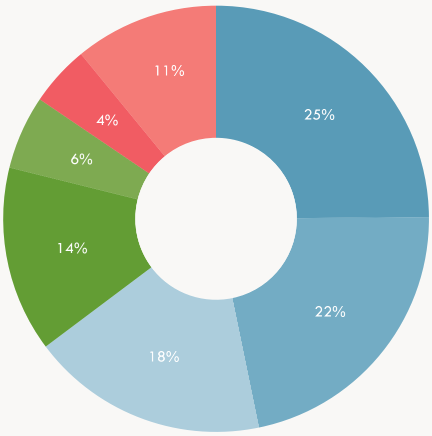
### SMALLER COMPANY SHARES

Invests in "smaller" companies that would frequently be less well-known to the public.

By smaller companies, we mean companies whose total equity value is typically between €50m to €9bn.

Tracks the performance of an index of global smaller companies with around 4,000 companies.

## BONDS




- France - 25%
- Italy - 22%
- Germany - 18%
- Spain - 14%
- Belgium - 6%
- Netherlands - 5%
- Other - 11%

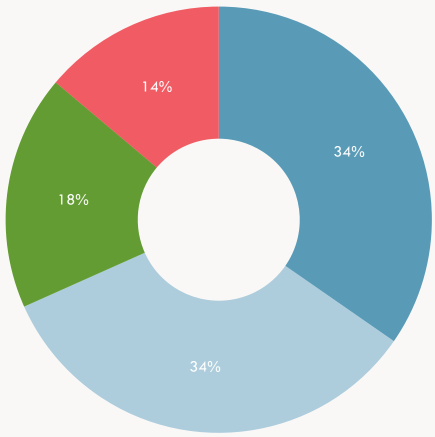
### GOVERNMENT BONDS

Yield: **0.8% p.a.**
Duration: **8 years**

Invests in Eurozone government bonds.

A government bond is a loan to a government.

Invests in bonds with fixed repayments.




- France - 35%
- Italy - 34%
- Germany - 18%
- Spain - 14%

### INFLATION-LINKED GOVERNMENT BONDS

Estimated Yield*: **+0.9% p.a.**
Duration: **9 years**

Invests in Eurozone government bonds.

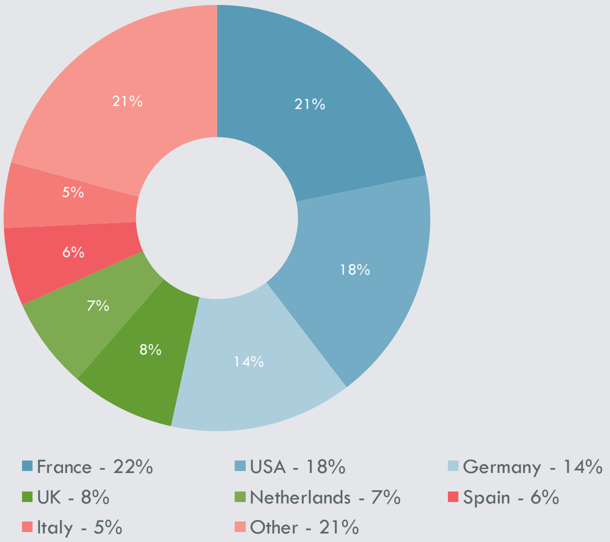
A government bond is a loan to a government.

Invests in bonds with repayments that are linked with the cost of living (inflation) in Europe.

*Estimated based on market inflation expectations.

# Asset Classes Explained

## BONDS CONTINUED

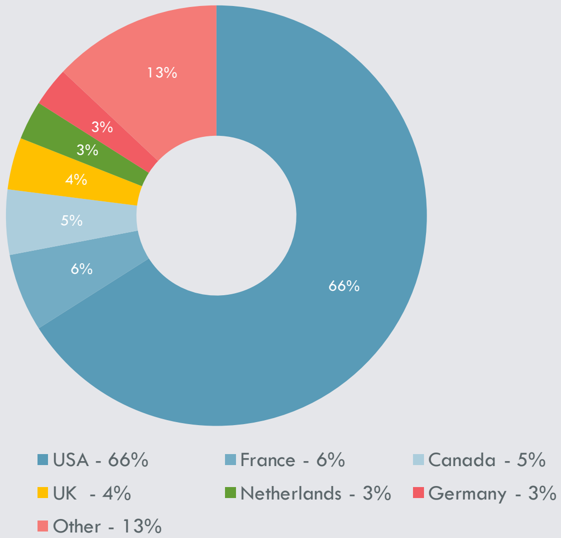



### EUROPEAN CORPORATE BONDS

Yield: **+1.5% p.a.**
Duration: **5 years**

A Corporate bond is a loan to a company.
Invests in euro bonds issued by companies.

Tracks the performance of a recognised and leading corporate bond index.

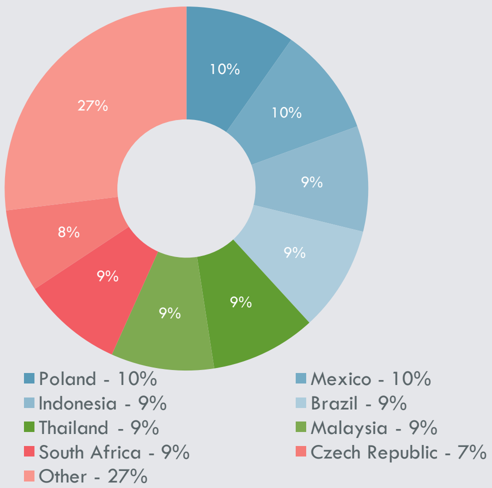



### HIGH YIELD BONDS

Yield: **+4.0% p.a.**
Duration: **4 years**

Invests in bonds issued by companies globally that have higher interest rates together with a lower level of credit rating.

Tracks the performance of a recognised and leading high yield bond index.



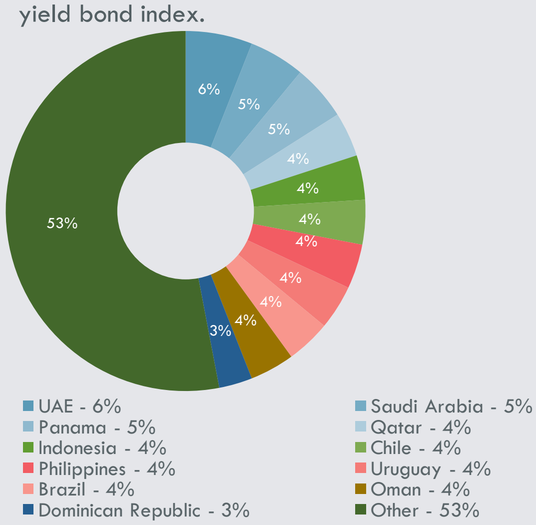

### EMERGING MARKET DEBT

### LOCAL CURRENCY

Yield: **+6.4% p.a.**
Duration: **5 years**

Within the Diversified Fund Range, we include a small allocation to the government bonds issued in their local currency by countries deemed as emerging such as Brazil and Mexico.

Tracks the performance of a recognised and leading emerging market bond index.




### EMERGING MARKET DEBT

### HARD CURRENCY

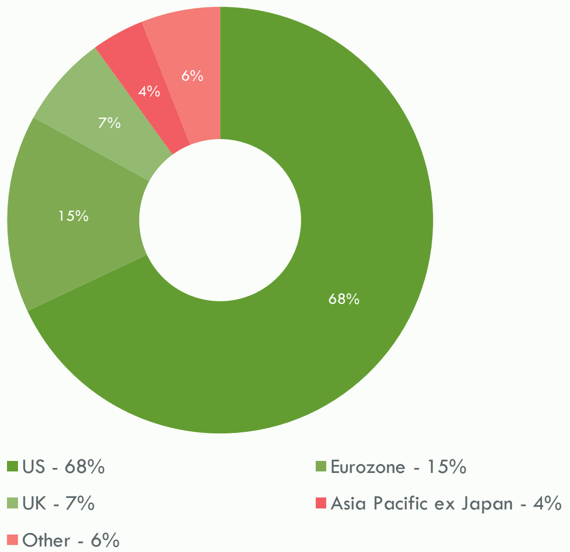
Yield: **+4.5% p.a.**
Duration: **8 years**

The government bonds are issued by countries deemed as emerging such as Russia and Chile. The bond repayments are in US dollars. Dollar currency risk is managed by hedging back to euro.

Tracks the performance of a recognised and leading emerging market bond index.

# Asset Classes Explained

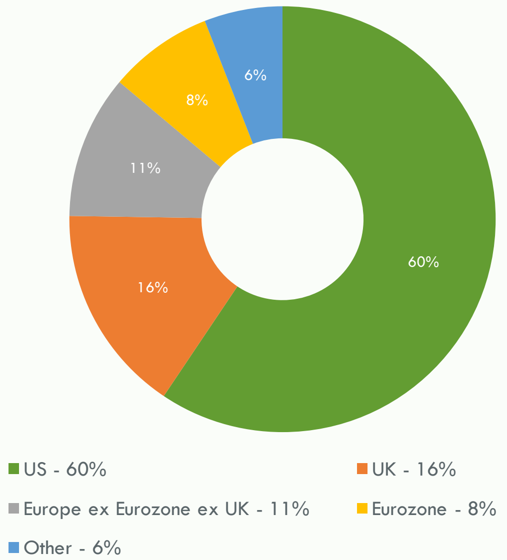
## ALTERNATIVES




### INFRASTRUCTURE SHARES

Invests in Infrastructure globally through purchasing companies that construct and manage infrastructure projects.

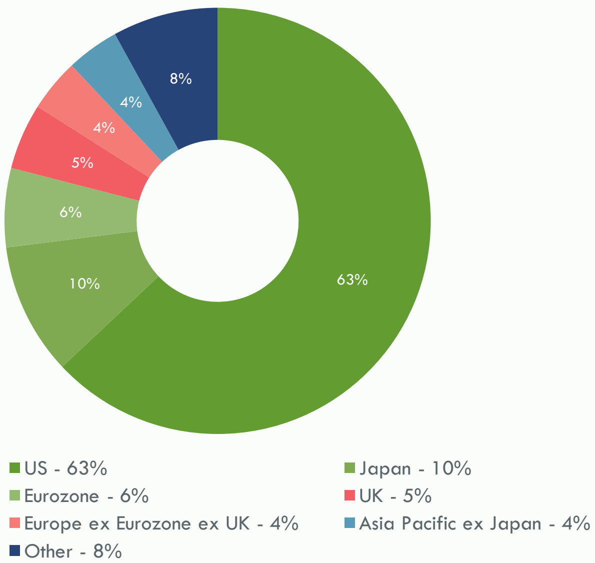
Tracks the performance of a recognised and leading infrastructure shares index.




### PRIVATE SHARES

Invests in private companies that are active in the private space and are also publically listed.

Tracks the performance of a recognised and leading liquid private shares index.




### PROPERTY SHARES

Invests in property globally through purchasing property companies.

Tracks the performance of a recognised and leading property shares index.

## CASH

### CASH

Invests in short term deposits and other cash instruments.

The component is managed actively with the objective of limiting investment risk.

This is the only component that is managed actively within the Diversified Fund Range. Unlike most active managers that take risk in the pursuit of higher returns, this fund looks to protect member's savings.

Note: We have Illustrated the split of each component by geography on 31st March 2022

Please note that this quarterly document provides information on the Diversified Fund Range which only represents part of the investment options available within your Scheme. Please refer to your investment guide for details on other investment options available to you.

If you have any questions about the information in this document, please contact your HR representative.

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