



Review 2010, Outlook 2011

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Jan 2011

Agenda



- Performance since market low
- 2010
- Outlook 2011



What we said...what happened

Market bottomed March 2009- Article published April 2009 in Irish Broker

The Recovery Potential of Equities



When equities reach their bear market lows, history suggests the market is often subject to a quick and sharp recovery. Karen Deenihan, Investment Marketing Manager at Hibernian Aviva Life & Pensions tells us about this trend.

Stock market offers the best route to wealth creation. However, the equity market has offered investors the best route to inflation between downturns. For example, despite the massive sell off witnessed in the first half of the year, the ISEQ index has still climbed 545% since 1983. Additionally, \$100 invested in the S&P 500 on 30 Dec 1927 would be worth almost \$5,000 today.



But there is no doubt we're in deep bear market territory. A bear market is defined as a fall of at least 20% from the market peak. There is no doubt that most global equity indices are now in bear market territory and the global economy is in recession. Predicting the length and timing the bottom of this down market is difficult, even for experienced investors. However, history has demonstrated that when the market does turn bullish again, the recovery has been swift with strong gains in the years following the market bottom.

Start date	End date	Months	Total % decline from start to end	% decline at bottom of market
Sept 02	Aug 04	23	-17.7	-36.4
May 07	Jan 08	13	-13.4	-36.8
Jan 10	Jan 12	24	-19	-26.4
Jan 13	Dec 14	23	-37.8	-39.5
Aug 18	Mar 19	7	-12.1	-12.7
Jan 20	Jul 21	18	-36.2	-36.5
May 23	Jul 24	14	4.9	-11.8
Oct 26	Nov 27	13	21.1	-8.8
Aug 29	Mar 33	43	-84.2	-88.2
May 37	Jun 38	13	-23.2	-43.2
Feb 45	Oct 45	8	21.3	-1
Nov 48	Oct 49	11	-0.1	-14.8
Jul 53	May 54	10	21.2	-5.2
Aug 57	Apr 58	8	-9.9	-17.1
Aug 60	Feb 61	10	7.5	-8.1
Dec 69	Nov 70	11	-1.4	-21.6
Nov 73	Mar 75	16	-19	-39.1
Jan 80	Jul 80	6	11.5	-9.5
Jul 81	Nov 82	16	7.4	-19.7
Jul 90	Mar 91	8	1.2	-17.9
Mar 01	Nov 01	8	-8.7	-21.2
Average:	14.4	-7.6	-24.2	-28.4

* Source: Bespoke Investment Group Market Performance During Recession 1920 - 2008

Timing the bottom is difficult - the US example. In the past hundred years there have been numerous recessionary periods witnessed in the US. As demonstrated in the table below:

The longest recession lasted 43 months and occurred during the Great Depression, the shortest occurred for just six months from January 1980 to February 1982.

The US equity market has typically reached its low point well before recessionary periods ended. For example, the market bottomed about a third into the 1958 recession.

The length of these recessionary periods varies anomalously, with the length of post World War II recessionary periods declining significantly from the pre WW II levels. The reasons for this shortening of recessionary periods may include:

- Markets and companies have access to more information and are quicker to receive it, therefore they can respond faster and more appropriately to external shocks.
- More co-ordinated global response from governments and central banks to stimulate growth in the economy.

Dow Jones Declines During Recessions: 1900 - 2008

What is very clear from this analysis is that the Dow Jones has typically reached its low point well before the recession ended and the headlines turned positive, so trying to time the bottom of the market is difficult.

History shows rapid recovery after a bear market in the US. As demonstrated in the table below, following the bottom of the market, the market quickly recovered posting particularly strong returns in the years following the low point.

Year	Market Period	1 Year	3 Year	5 Year	10 Year
Great Depression	October 1929 to June 1932	-85%	121%	30%	65%
World War II	October 1929 to April 1942	-43%	54%	25%	14%
First Oil Crisis	January 1973 to December 1974	-46%	24%	13%	11%
Dot Com Crash	March 2000 to March 2003	-49%	30%	17%	16%
Average		-59%	62%	21%	9%

* Source: Aviva Investors, Bloomberg Performance of S&P 500 Capital Index.

Positives for the market. While market sentiment is currently poor and predicting the end of a recession and bear market is difficult, we believe the tone of the market will improve in the course of the next year for a number of reasons.

While the market is currently poor, a lot of negatives (impact of credit crunch, earnings and economic recession) have been more than factored into equity markets. They also believe equities won't wait till all news is overwhelmingly positive to begin recovery rally.

Recent lowering of global interest rates and the fall in prices in commodities will provide support for an economic recovery. Equity valuations are back to levels not seen since the early 1980s.

Overall, our key fund partners believe they are well positioned to take advantage of the attractive opportunities offered by the global equity markets over the next few years.

Bottom line. History has demonstrated that trying to time the bottom of the market is impossible and the stockmarket has historically offered the best long-term wealth creation potential. Therefore investing for the long-term is a smart strategy. While past performance is not a guide to future returns, historically, short-term losses experienced on the back of market volatility were recovered and often very quickly when the markets bounced back and continued their upward trajectory. Also, by being out of the market now means investors will miss the potential the stockmarket offers when it bounces back.

* Source: Aviva Investors and Bloomberg as at 04 Dec 08

* Source: Bespoke Investment Group Market Performance During Recession 1900 - 2008

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What happened

9th March 2009
S&P 500 Closes at **676**

31st December 2010
S&P 500 Closes at **1258**

Market bottomed - what's happened since then...
exactly what we said... equity funds recovered

Performance of equity funds since market lows March 2009 to 20 Jan 2011



Source: Financial Express 20 Jan 2011

- A: Latin American Equity Fund + 103%**
- B: Asia Pacific High Yield Equity Fund +102%**
- C: High Yield Equity Fund +69%**
- D: Merrion Managed Fund + 54%**
- E: IDP Cash +1.8%**

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BlackRock Natural Resources also performed strongly

Performance of commodity funds since launch June 2009 to 20 Jan 2011



Source: Financial Express 20 Jan 2011

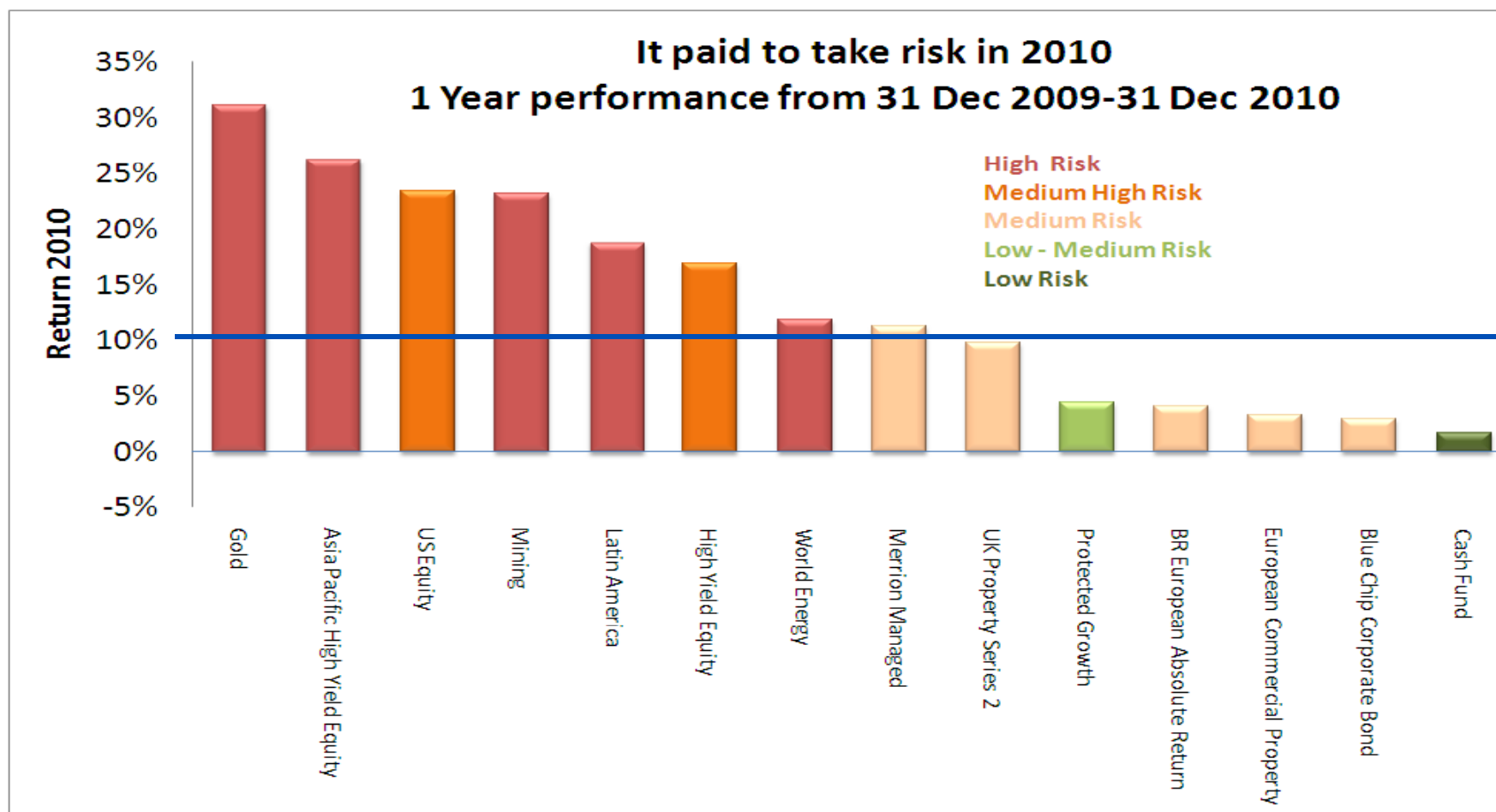
A Mining Fund +61%

B: Gold Fund +34%

Energy: +27%

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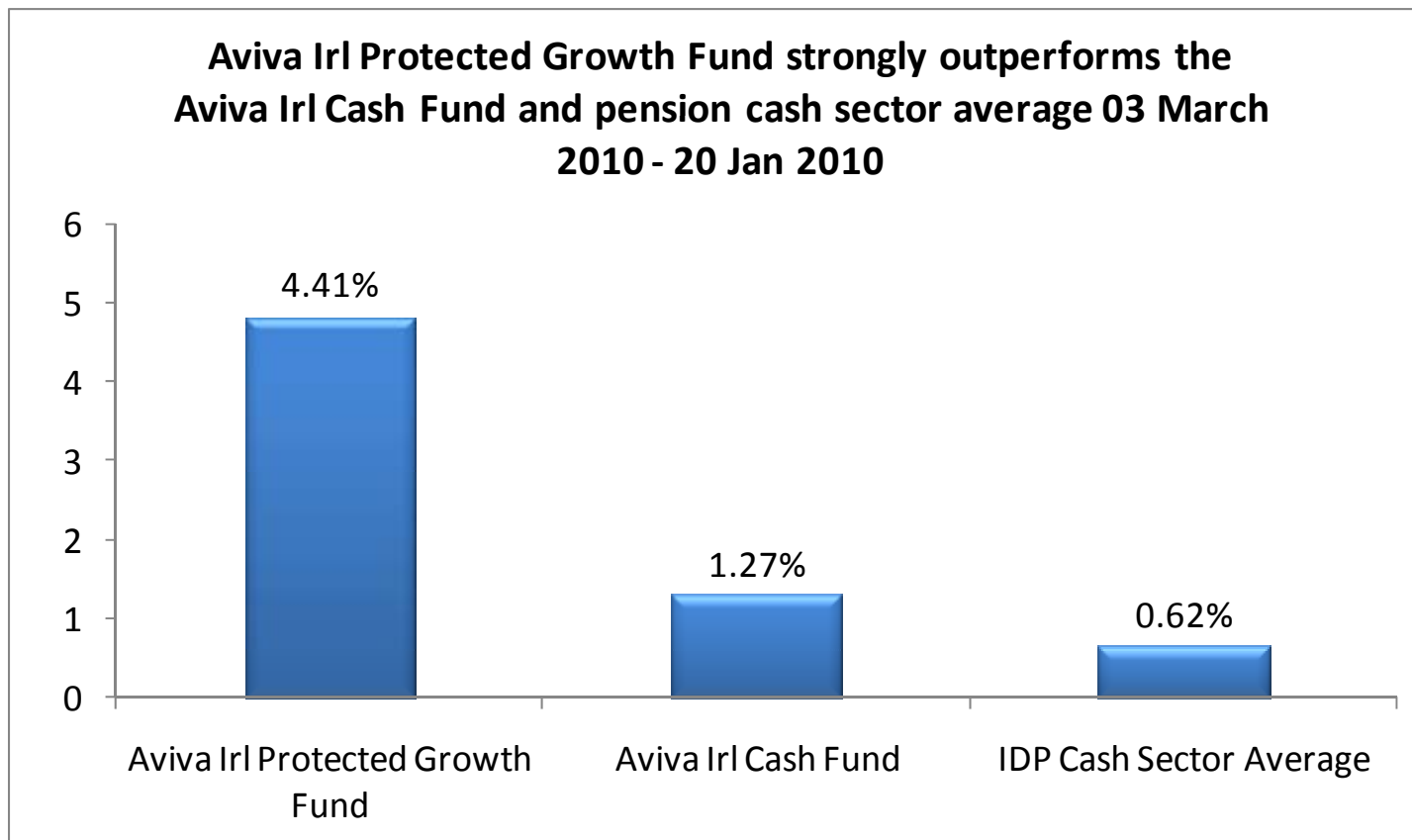
2010 a rewarding year for risk



Source: Financial Express 04 Jan 2011

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For peace of mind – Aviva Irl Protected Growth Fund



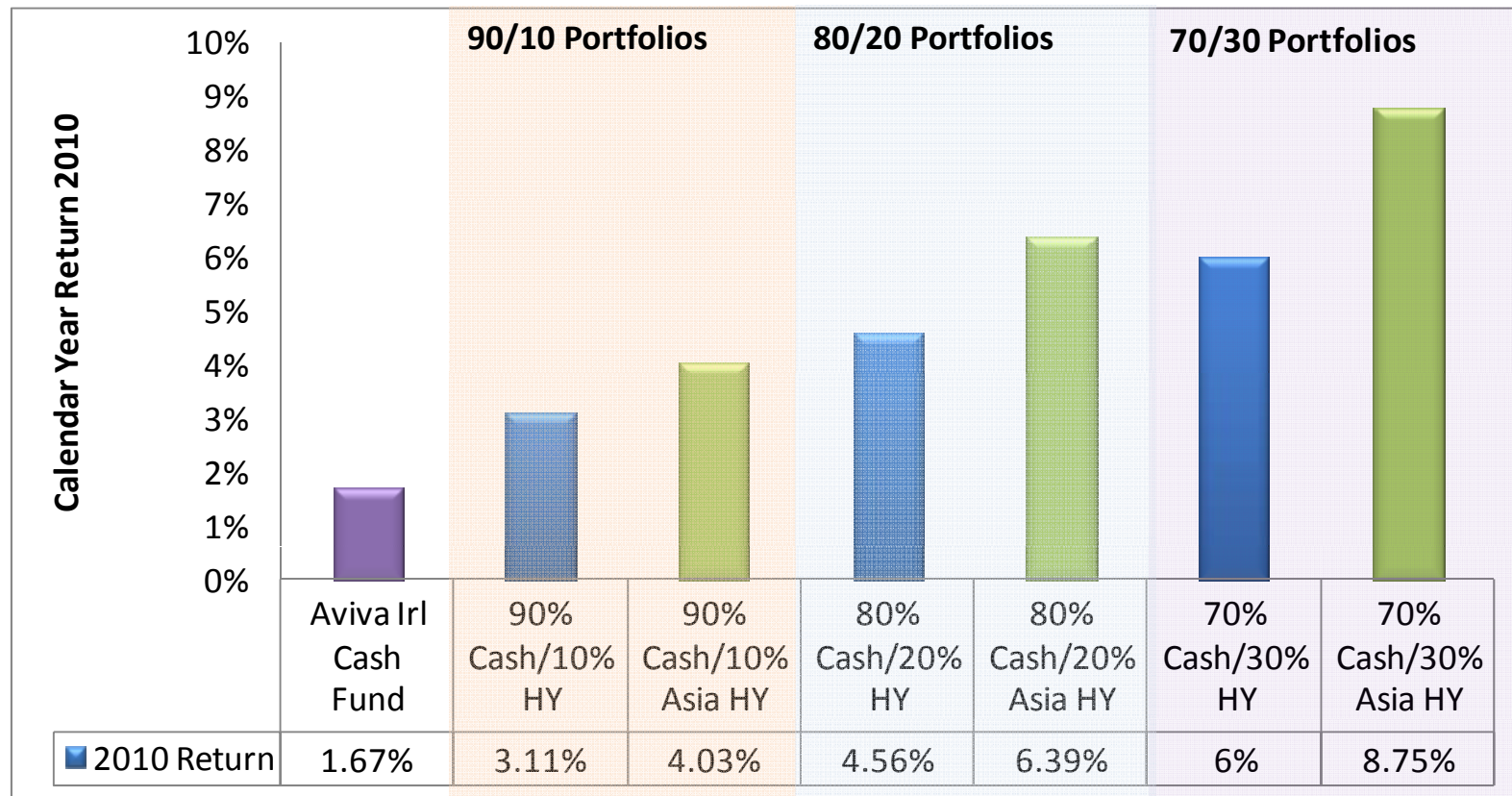
Source: Financial Express 21 Jan 2011

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Adding a pinch of high yield spice to cash



Cash Fund performance 2010 vs. Portfolios combining Cash Fund and High Yield Equity Fund or Asia Pacific High Yield Equity Fund



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Source: Financial Express 04 January 2011. Funds mentioned above have the prefix Aviva Irl.

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2011 predictions & forecasts



- Equities and corporate bonds will generate the best returns for investors in 2011 although volatility could be elevated
- A business friendly US administration, low interest rates and the fact that the majority of investors are underexposed to equities makes them attractive
- Europe is their least preferred market – positive on Germany
- Positive on Asia but recognise that policy tightening poses a growing risk in the area
- UK equities benefit from undervalued currency and reasonable valuations
- Institutional flows to Japanese equities remain robust and momentum seems to have gained traction
- Corporate bonds look attractive given the health of company balance sheets
- Sovereign debt market outlook unfavourable

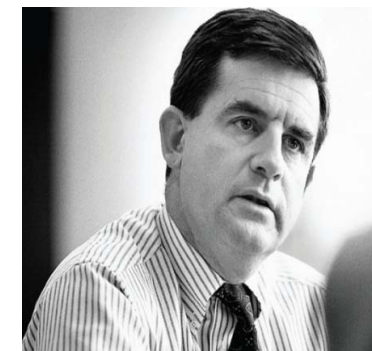
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2011 predictions & forecasts



BLACKROCK

1. **US growth accelerates as US Real GDP reaches a new all time high.**
2. **The US economy creates two to three million jobs in 2011 as unemployment falls to 9%**
3. **US stocks experience a third year of double-digit percentage returns for the first time in over a decade as earnings reach a new all time high**
4. **Stocks outperform bonds and cash**
5. **The US stock market outperforms the MSCI World Index**
6. **The US, Germany and Brazil outperform Japan, Spain and China**
7. **Commodities and emerging market currencies outperform a basket of the dollar, euro and yen**
8. **Strong balance sheets and free cash flow lead to significant increases in dividends, share buybacks, mergers & acquisitions and business reinvestment**
9. **Investor flows move from bond funds to equity funds**
10. **The 2012 Presidential campaign sees a plethora of Republican candidates while President Obama continues to move to the centre**



Bob Doll is Chief Equity Strategist for Fundamental Equities at BlackRock®, a premier provider of global investment management, risk management and advisory services.

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2011 predictions and forecasts



- Economic recovery continues internationally
- Re-emergence of inflation as a potential concern
- Sovereign debt issue still a worrisome backdrop
- US equities to outperform Emerging Markets
- Soft rather than hard commodities

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2011 predictions and forecasts



STATE STREET GLOBAL ADVISORS.

- Equities appear reasonably valued
- Balance sheets of the non-financial corporate sector are in good shape, and recovering risk appetite, low interest rates and a more buoyant global economic environment could stoke merger and acquisition activity, potentially unlocking worth in undervalued stocks
- Within bond portfolios, State Street believe the probability of some restructuring in the next five years has increased and we continue to run underweight positions in peripheral bonds relative to benchmarks
- Overall, State Street continue to believe bonds remain expensive relative to equities which they believe offer superior return prospects over the same time-frame

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