

Elements

Managing risk and return



It is widely acknowledged that the best way for you to increase the value of your money, over the medium to long term (typically 5-7 years or more), comes from investing in assets such as company shares and property.

History has shown that over time these types of assets (though not a prediction for the future), beat both inflation and deposits, even though, their values don't rise in a straight line. Sometimes, particularly over short time frames, these types of assets can experience "bumpy" rides through rising and falling values.

It is very important to understand this as for many of us, it's not just the final return that is important, but also our experience along the way – the investment journey. Something that should be kept in mind when making decisions about investing money, is what are you comfortable with? What if you are someone looking for long term returns but don't want to experience the, at times, extreme fluctuations that investments can experience? Does this mean you don't get to share in positive returns? What are your options? One possible solution: Bank of Ireland Life's new investment fund **Elements**.

Elements is an investment fund that aims to deliver **solid long term returns, with a smoother investment journey** (from taking less risks) than traditional managed funds.

The Fund aims to earn long term returns while it also gives specific attention to short term market risk. Elements invests in a wide range of assets which have the potential to deliver returns, so that:

- in a falling market, it is intended that Elements will not fall as much as the market and
- in a rising market, Elements will rise though at a slower rate than a higher risk fund, but that's ok – as it aims to deliver solid long term returns, but with a smoother investment journey.

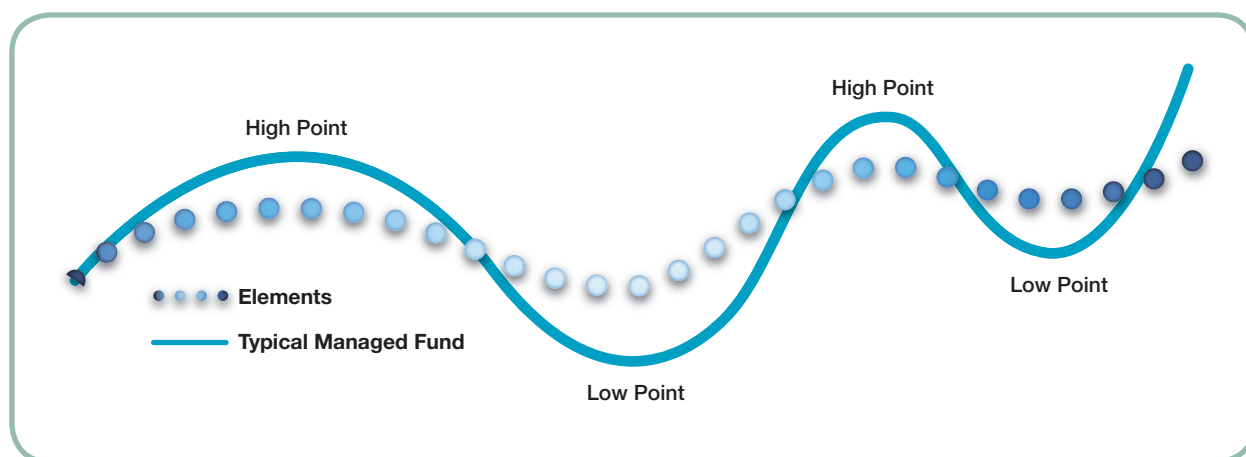
At a glance

	Aim	To earn long term capital growth for investors with lower risk than that experienced by traditional managed funds
	Style	Actively Managed Strong focus on the management of investment risk
	Asset Mix	Highly Diversified Fund can invest across company shares (equities), government & corporate bonds, property, a wide range of alternative assets & cash
	Managed by	State Street Global Advisors Ireland
	Risk	Medium Risk

Elements – a new approach to investment

Elements is an investment fund that aims to maximise **medium to long term returns** (typically 5-7 years or more) while **actively managing risk**. It aims to smooth out the “bumps” that can arise from investment markets and to deliver a more stable investment journey than traditional managed funds (a fund that invests in a range of assets).

For illustration purposes only: the graphic below gives an indication of the long term investment journey that we expect Elements to experience versus a typical managed fund



Warning: The above graph is for illustration purposes only. It is not a reliable guide to the future performance of this fund

Returns

To generate returns Elements invests in asset classes that traditionally have delivered over the longer term the greatest return (beating inflation and deposits). However, unlike traditional managed funds, Elements is not limited to only traditional assets of company shares, property and bonds. Instead, it goes further along the investment journey. It combines these asset classes with a wide range of global alternative investment options with the aim of maximising the full potential for the Fund to deliver long term returns.

Managing market risk

In a new approach to investing, Elements is designed to deliver its return while actively managing the risk that comes from investing in company shares, property and other asset types.

There are two key principles:

1. Diversification – Traditionally, funds known as managed funds have been a popular way for individuals to access returns from investment markets.

Managed funds give individuals the chance to pool their monies to access:

- global stock markets (rather than relying on a single stock)
- a diversified range of commercial properties (rather than one single property in one location) and
- government and corporate bonds with relative ease and at minimal cost.

A key benefit of managed funds is *diversification*. By spreading an investment across a wide range of assets, sectors and geographic regions, the overall risk can be reduced. The negative impact of any one asset on a portfolio can therefore also be reduced.

Elements builds on this principle of diversification by investing across a range of assets.

Diversification can work well when a fund holds a number of asset classes that deliver different returns in a given situation – not just the traditional asset classes e.g. company shares and bonds but also alternative investments. Alternative investments can offer better diversification as their returns do not typically move in the same direction or magnitude as traditional assets over the same period of time. For example, emerging market bonds (which are essentially loans) delivered quite different returns to company shares and European government bonds over the last few years – there wasn't a strong relationship between the returns and so a fund holding all of these would have benefited from the combination.

Elements is designed to benefit from these advantages of diversification.

2. Active risk management – there are a number of specific strategies employed by the fund manager:

- **Monitoring** - On an ongoing basis, the fund manager monitors the level of risk, both what has already occurred and expectations for future fluctuations in values, and specifically identifies what is driving risk. This information plays an integral part in the investment decision process, helping the fund manager to identify which assets to invest in and what amount should be invested in each asset class.
- **Flexibility** - This monitoring would not be as effective or as important to the Fund's aim, if the fund manager did not also have the flexibility to make **large and quick** moves across and within asset classes, if they believe this is right for the Fund.

This flexibility also allows the fund manager to take positions in asset classes which may be quite different to those of managers of traditional managed funds.

It is the combination of this monitoring AND flexibility that provides Elements with the potential to deliver a smoother journey than that offered by traditional managed funds:

- **Over the short term**, Elements aims to be a more stable fund than typical managed funds, particularly during times of high market volatility. During these times, the Fund aims to have a greater percentage invested in more defensive assets such as cash and government bonds. Over time, while the Fund may fall in value, any fall is expected to be less than other more traditional funds.
- **Over the long term**, Elements aims to deliver a smoother investment journey than traditional managed funds. While it aims to deliver long term returns, these may be lower than a higher risk investment fund.

Governance

As highlighted, managing risk is an integral part of Elements. To reflect the importance of this, a Bank of Ireland Life Risk Governance committee exists to regularly review and assess the volatility experienced by the Fund - ensuring that it meets its goals. Part of the assessment will include comparing actual volatility experienced to appropriate targets and ensuring all is in line. The Risk Governance committee also interacts with the fund manager on a regular basis in relation to the risk management of the Fund.

The building blocks of Elements

Below is an outline of the different assets that Elements can invest in over time. The mix held in assets can and will vary over time and from time to time the difference could be significant, but this will always be in line with the overall aim of the Fund. For example, during times of high market volatility the Fund could hold more defensive assets such as cash and this could happen quite quickly. We outlined already the influence that risk management strategies can play in these decisions but the value of assets and in particular, expectations of *the performance of these assets*, will also be a key influence in what assets are held by the Fund.

Asset class	Range*	Current holding (as at 30th April 2011)
Company Shares	0-40%	15%
Government Bonds	0-95%	14%
Corporate Bonds	0-40%	29%
Property	0-20%	5%
Alternative Assets	0-30%	13%
Cash	0-100%	24%

*Ranges for each asset class are as at time of launch (March 2010), these can and will change over time in line with the Fund aim

Property – a note

As explained the ability to move in and out of assets classes quickly is an integral part of Elements. Including property may seem a contradiction to this. Property is an asset class that can play a key role in delivering potential returns over the longer term but at times it can suffer from being an illiquid asset i.e. not able to find a buyer when we want to sell. Elements will invest in property to benefit from the return potential. However, in order to maintain flexibility, initially, a significant portion of property investments will be through Real Estate Investment Trusts (REITs).

REITs are investment vehicles that are listed on stock markets and are traded similar to company shares. REITs can be bought or sold very quickly (unlike buying or selling an individual property), allowing the fund manager to act very quickly when taking a view on the property market.

Direct property holdings may be held at some future date.

Alternative Assets – some more information

Alternative assets offer significant return potential for Elements, covering a wide range of worldwide investment opportunities. By including these in the Fund, the fund manager is given greater opportunity to take advantage of global investment trends and themes than traditional managed funds. At times, these assets can offer access to an opportunity that would not be available through traditional assets.

Alternative assets also offer greater choice to the fund manager when moving across asset classes. Instead of being limited to switches from company shares to bonds (or vice versa) the availability of alternatives provides a greater choice in terms of overall fund exposure.

Alternative assets may include:

- Infrastructure
- Emerging Markets (bonds)
- Forestry
- Commodities e.g. oil, gold, copper
- Hedge Fund strategies
- Private Equity

Investing in any one of these assets on a standalone basis could be looked upon as a high risk investment strategy. However, combining these within a portfolio such as Elements can bring many possible benefits to you and in fact has the potential to reduce the overall risk profile of the Fund.

Other alternative assets might be added to the fund in the future. Initially, up to 30% of the Fund can be held in alternative assets, this may change over time in line with aim of the Fund.



Elements: recap

Aim	What Elements offers
Long term return	Accesses a wide range of assets for their return potential <ul style="list-style-type: none"> • In a falling market, any falls are expected to be lower than falls of traditional managed funds • In a rising market, returns should rise but this may be lower than those of a higher risk fund (in line with the aim of the Fund)
Lower risk than traditional managed funds	Medium risk fund How: <ul style="list-style-type: none"> • Diversifies investment across a wide range of assets and asset classes • Active & proactive management of risk by the fund manager • Regular review by Risk Governance committee

Elements' fund manager: State Street Global Advisors Ireland

State Street Global Advisors (SSgA), established its 10th investment centre, State Street Global Advisors Ireland Limited, with the acquisition of Bank of Ireland Asset Management in January 2011. State Street Global Advisors is a global leader in asset management relied on by investors worldwide for their disciplined investment process, powerful global investment platform and access to every major asset class, capitalization range and style. SSgA is the asset management business of State Street, one of the world's leading providers of financial services to institutional investors.

Decisions on what asset classes to invest in are guided by SSgA Ireland's Asset Allocation Committee. The Asset Allocation Committee formally assesses global economic trends and the outlook for key factors such as economic growth, valuations, interest rates, inflation, currencies and political developments. The Committee is chaired by the Chief Investment Officer.

Product availability

Elements is available to investors through the following Bank of Ireland Life products:

- SmartFunds
- SmartChoice
- Special Bonus Investment Plan
- Personal Pensions
- Executive Pensions
- Approved Retirement Fund (ARF)
- Approved Minimum Retirement Fund (AMRF)
- Personal Retirement Bond

Charges

Normal product charges and allocation rates for these products apply, with the exception that the fund management charge for **Elements** is 0.25% per annum higher than on standard funds (excluding SmartFunds, SmartChoice & Special Bonus Investment Plan).

Risk Rating – a Medium Risk fund

At Bank of Ireland Life we classify our wide range of funds into 5 different risk categories to help you better understand the risks to your original investment. We rate **Elements** as a Medium risk investment fund and this type of fund is explained in more detail below:

- Medium risk investments offer the potential for returns in excess of deposits but do not promise a minimum return at any time
- Medium risk investments tend to invest in a range of assets, which would normally include lower risk assets such as government bonds and investment grade corporate bonds
- However, they can also invest in other assets such as stocks, property and alternatives (e.g. commodities). At times these investments may be a significant portion of the fund.
- Investors' capital is less exposed to market fluctuations than most other investments but investors may get back less than they originally invested

Next Steps

To find out more about **Elements** please call into your local Bank of Ireland branch and talk to an Insurance & Investments Manager.

Alternatively, phone

1890 309 309

www.bankofirelandlife.ie

Warning: The value of your investment may go down as well as up.
Warning: This fund may be affected by changes in currency exchange rates.
Warning: Past Performance is not a reliable guide to future performance.

Lines are open from 8.00am to 6.00pm, Monday to Friday. To ensure that the quality of the service that we provide is of a consistently high standard, all calls may be recorded and monitored. Call charges may vary depending on your service provider.

Terms and conditions apply. Where relevant life assurance tax applies.

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May 2011

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