Irish Life

Life \ Pensions \ **Investments**

July 2023 in review
Performance Pulse

Helping people build better futures

OVERVIEW

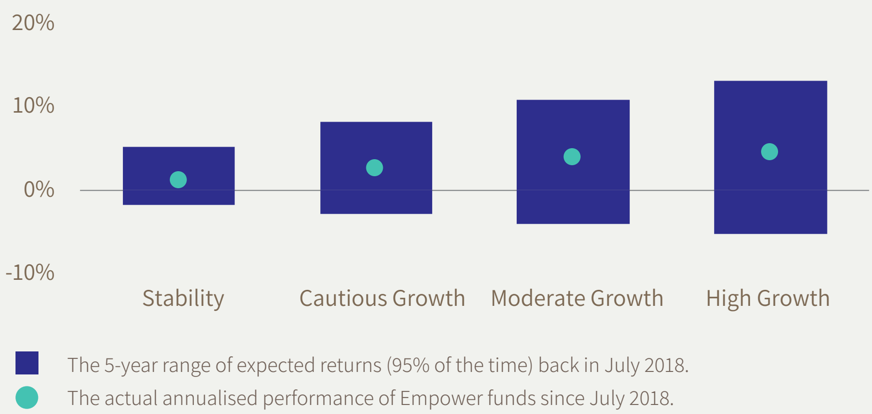
Global stock markets made further gains in July, with US stocks benefiting from a favourable economic backdrop. Bond markets were mixed, as a change of policy by the Bank of Japan (BoJ) contributed to higher government bond yields (and lower prices), whereas corporate bonds rose on an improving growth outlook. Inflation surprised to the downside for the first time since the beginning of the year; this, together with robust economic activity data releases, increased the probability of a 'soft landing' for the global economy – an economic slowdown without a recession. A divergence remained between regions, however, with the US economy showing relative strength compared to Europe and China.

IRISH LIFE EMPOWER FUNDS: STRATEGIC ASSET ALLOCATION

Fund Name	Stability	Cautious Growth	Moderate Growth	High Growth
Global Shares (DSC)**	11.0%	18.0%	13.0%	13.0%
Global Shares*	2.5%	9.0%	29.0%	50.5%
Low Volatility Shares*	6.5%	11.5%	16.5%	11.5%
Sustainable Thematic Equities*	0.0%	0.0%	0.0%	3.0%
Small Cap Equities	0.5%	1.0%	2.0%	3.0%
Global Infrastructure Equities	1.5%	2.5%	3.5%	2.5%
Equity Option Strategy	6.0%	6.0%	4.0%	3.0%
SHARES/EQUITIES	28.0%	48.0%	68.0%	86.5%
Government Bonds	12.5%	0.0%	0.0%	0.0%
Corporate Bonds*	35.1%	29.3%	14.3%	2.8%
Global Aggregate Bonds*	4.0%	3.0%	3.0%	0.0%
Emerging Market Debt*	3.0%	6.0%	8.0%	4.0%
BONDS	54.6%	38.3%	25.3%	6.8%
PROPERTY*	6.4%	6.7%	6.7%	6.7%
CASH	11.0%	7.0%	0.0%	0.0%

Source: ILIM, Data is accurate as at 31 July 2023. *Features Sustainable characteristics **DSC Global Shares contains Dynamic Share to Cash model (DSC) and Sustainable characteristics. The table above shows the strategic asset mix before any DSC or tactical movements (where applicable). ILIM rebalances the fund back to this mix on a quarterly basis. For the latest actual Irish Life Empower fund mixes, which allow for any tactical or DSC changes, for example, see the relevant Empower fund factsheet at **https://www.irishlifecorporatebusiness.ie/investment-documents**. ILIM will continue to monitor and review these assets and may change them over time.

IRISH LIFE EMPOWER FUNDS: PERFORMANCE



Source: ILIM – Data is accurate as at 31 July 2023. The expected range of returns and the actual performance are both gross.

EQUITIES

- Inflation numbers moderating.
- An economic ‘soft landing’, whereby inflation may come down while avoiding recession, would be supportive of markets.
- The US Federal Reserve (Fed) has reduced its pace of interest rate hikes. An end to rate rises in 2023, moving to possible cuts in 2024, is expected.

- Risk of recession / further bank sector issues.
- Core inflation and wage growth suggest inflation may be more persistent in some regions.
- Inflation and slowing growth remain a threat to corporate earnings.

Global stock markets rose strongly in July. The MSCI All Country World index rallied by 3.2% (2.6% in euros) over the month as stocks were supported by broadly resilient economic data and expectations of 2024 interest rate cuts amid falling inflation. The MSCI USA rose by 3.4% (2.4% in euros) as hopes for a ‘soft landing’ (an economic slowdown without a recession) were in greater evidence in the US than in other regions. European ex UK equities were more muted, with a less supportive economic outlook; the asset class climbed by 1.3% (1.9% in euros). Small-cap equities rose 4.3% (3.8% in euros), outperforming large caps, supported by the more resilient growth in the US and increasing hopes of a soft landing.

Emerging-market (EM) equities outperformed developed markets in July, rising by 5.4% (5.2% in euros). The asset class was boosted by a recovery in Chinese equities, which rose 10.1% as the authorities announced plans to introduce stimulus measures to support growth.

MSCI ACWI (GLOBAL EQUITIES) Performance per annum	
1 month	3.1%
6 months	9.3%
YTD	16.3%
1 year	10.2%
3 years p.a.	9.7%
5 years p.a.	7.0%

Source: ILIM, Factset. Data is accurate as at 31 July 2023.

MSCI ACWI PERFORMANCE (GLOBAL EQUITIES)

One-year performance chart (in euros)

Source: ILIM, Factset. Data is accurate as at 31 July 2023.

BONDS

Bond markets were mixed in July. Core government bond markets were lower (and so yields were higher) following changes to policy by the Bank of Japan (BoJ). The BoJ announced greater flexibility around the target range for its 10-year bond yields, suggesting a new upper limit of 1.0% versus the previous limit of 0.5%. Following the announcement, expectations that Japanese investors could reduce holdings of overseas bonds and reinvest in domestic Japanese bonds caused a modest sell-off in global government bonds towards month end. The ICE BofA 5+ Year Euro Government bond index fell -0.6%, with the German 10-year yield rising to 2.49%.

European investment-grade (IG) corporate bonds, however, rose by 1.1% in July, supported by expectations that central bank interest rates were close to peaking and growing hopes that a soft economic landing would be achieved and a recession would be avoided. For similar reasons, global high-yield bonds were up by 1.6% (0.6% in euros), with yields down 0.2% to 7.59%.

BOND YIELD

- More persistent inflation – combined with strong economic data – could cause interest rates to rise by more than expected and stay higher for longer than expected.
- Increased government borrowing to fund deficits could exert some upward pressure on yields.

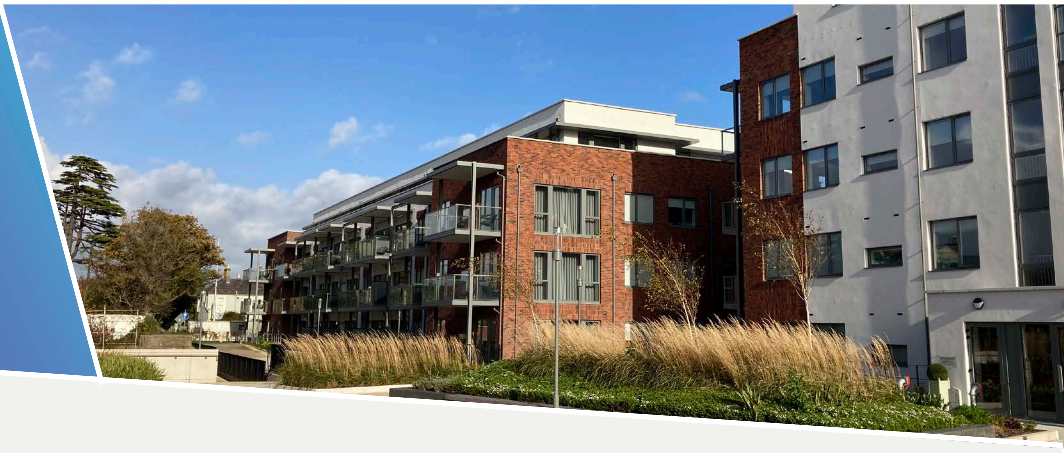
BOND YIELD

- Moderating inflation and/or worsening economic data could result in reduced interest rate expectations and falling bond yields.

10-Year Bond Yields	2023	2022	2021	2020	2019	2018
US	4.0	3.9	1.5	0.9	1.9	2.7
Germany	2.5	2.5	-0.2	-0.6	-0.2	0.2
UK	4.3	3.7	1.0	0.2	0.8	1.3
Japan	0.6	0.4	0.1	0.0	0.0	0.0

Source: ILIM, Factset. Data is accurate as at 31 July 2023.

PROPERTY – Q1 2023



The increase in interest rates and general market volatility caused a reduction in property market activity from Q3 2022. Values were marked down on the back of negative sentiment in the latter months of 2022; this year has started off in the same vein, with relatively low levels of investment due to increased costs of equity and debt capital, limited stock being placed on the market, and reduced vendor confidence of deals completing.

The property investment market recorded a relatively weak turnover of €623m during Q1, across 26 individual deals. Three of the top four acquisitions were of residential schemes accounting for €293m, or 47% of the total. The major transactions in each sector provide the most relevant evidence for current pricing levels. On the buy side, institutional investors are significantly less active in the market at present, with private, predominantly local investors responsible for a higher proportion of deals.

Pontegadea acquired Opus, Hanover Quay for a reported €101m. This property comprises over 120 high-end residential units with a minor retail element at ground floor level reflecting a net initial yield on the residential element in the region of 4.35%. The sale of Units 1 & 2 Greenogue Logistics Park for an undisclosed price in the region of €100m concluded in Q1. Two significant retail schemes sold during Q1. Douglas Village Shopping Centre, Cork was bought by Urban Green for €23m, reflecting an income yield of 9.6%, and a private investor acquired Fairgreen Shopping Centre, Carlow for €20m, for which they will receive a net income return in excess of 10%. The largest office transaction of the year so far was of Waterside, Citywest, a 220,000 sq ft modern suburban office development majority leased to SAP, Fidelity, Glanbia, and Astellas Pharma. Fine Grain, an Irish property investment company, acquired the scheme from IPUT and Davy at a sale price of €65.5m, reflecting a net initial yield of 7%.

The office market recorded a take-up of 285,000 sq ft of space in Q1, which is the second lowest quantum during the corresponding quarter since 2010. However, 46 deals were completed, which is close to the long-term average, suggesting a higher demand for smaller floorplates and perhaps indicative of modern, flexible working patterns.

The positive performance of the occupational retail market in 2022 has continued into Q1 2023. Vacancy declined dramatically in Grafton Street during 2022, with nine new retailers taking occupation.

The Henry / Mary Street district had suffered greater level of distress since the pandemic. Sports Direct group acquired the former Debenhams department store in late 2022 and is expected to open multiple brands from the building following a fit-out period. So far in 2023, retailers such as Footlocker, Dubray, Levi Strauss, Aldo, and Paco have committed to new leases on the streets (four of these are in ILIM-managed properties).

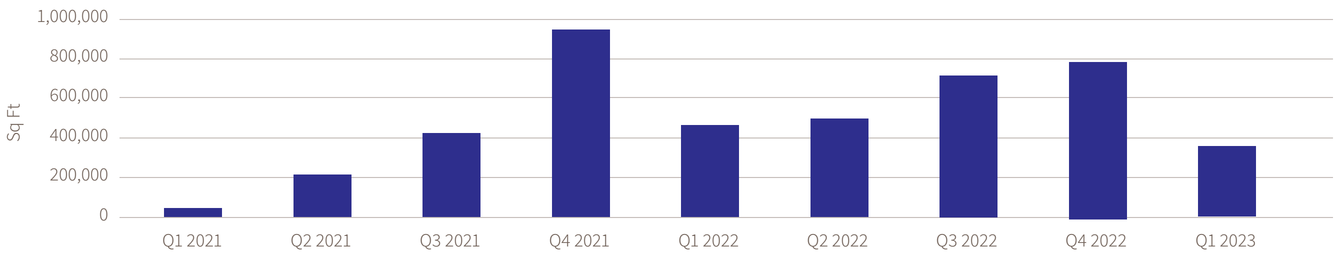
Over 4.2m sq ft of industrial and logistics space was taken up during 2022, which is the second highest annual absorption on record. The shortage of supply of modern, high-specification space, relative to demand, has buoyed the performance of older stock and reduced vacancy to a negligible amount.

Primary transactions of the quarter:

Property	Location	Sector	Price achieved (M)	Purchaser
Opus	6 Hanover Quay, Dublin 2	Residential	~€100	Pontegadea
Building 1 & 2 Greenogue Logistics Park	West Dublin	Industrial	~€100	Ingka Group
Eglington Place	Donnybrook, Dublin 4	Residential	€99.50	M&G
Residential Scheme	South Dublin	Residential	€92	Approved Housing Body
Waterside, Citywest	Dublin 24	Office	€65	Fine Grain

Source: CBRE. Data is accurate as at end of 31 March 2023.

Office Occupational Take-Up



Source: ILIM, CBRE Research.
Data is accurate as at 31 March 2023.

CASH

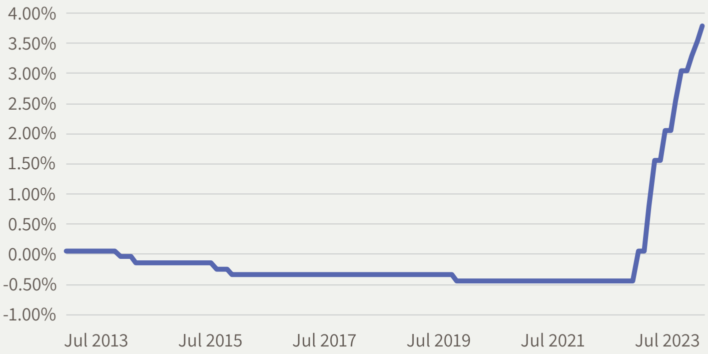
The next ECB meeting is due on 14 September and no rate hike is seen as the most likely outcome.

Central bank rates

	End 2021	End 2022	31 July 2023
ECB deposit rate	-0.50	2.00	3.50
Bank of England*	0.25	3.50	5.00
US Federal Reserve**	0.25	4.50	5.50

* Official Bank Rate **Federal Funds Target Rate
Source: ILIM, Factset and Bloomberg. Data is accurate as at 31 July 2023.

ECB Deposit Rate



Source: ILIM, Factset. Data is accurate as at 31 July 2023.

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