Market Commentary June 2015

Investment Markets in June 2015

Highlights

- Equities were volatile in June with the developing crisis in Greece the main concern across all asset classes.
- Industrial metals and oil were weak due to stronger than expected supply data. Agricultural commodities performed strongly.
- Eurozone sovereign bonds were weaker with core markets outperforming. Concerns about Greece led to a flight into German bonds. Irish and German 5 year bond yields increased by 20 and 8 basis points respectively. Italian and Spanish 5 year bond yields increased by 35 basis points. 10 year Irish bond yields increased in line with Spain and Italy.
- US Treasury yields also rose in June due to expectations of rate increases in the US. Attention remains focused on the September meeting of the Federal Reserve.

Investment Market Performance

Index	Year to Date In local Currency (%)	In € %	June - 2015 In local Currency (%)	In € %
ISEQ Index	18.0%	18.0%	-1.7%	-1.7%
FTSE 100	-0.7%	8.7%	-6.6%	-5.4%
Eurostoxx 50 Index	8.8%	8.8%	-4.1%	-4.1%
S&P 500	0.2%	8.7%	-2.1%	-3.7%
Nikkei 225	16.0%	23.6%	-1.6%	-1.6%
FTSE All-World	1.7%	10.3%	-2.5%	-4.1%
Oil	11.6%	21.1%	-1.4%	-3.0%
Eurozone Government Bonds		-1.3%		-2.7%
USD / Euro		8.6%		-1.3%
GBP / Euro		9.5%		1.3%

Greece

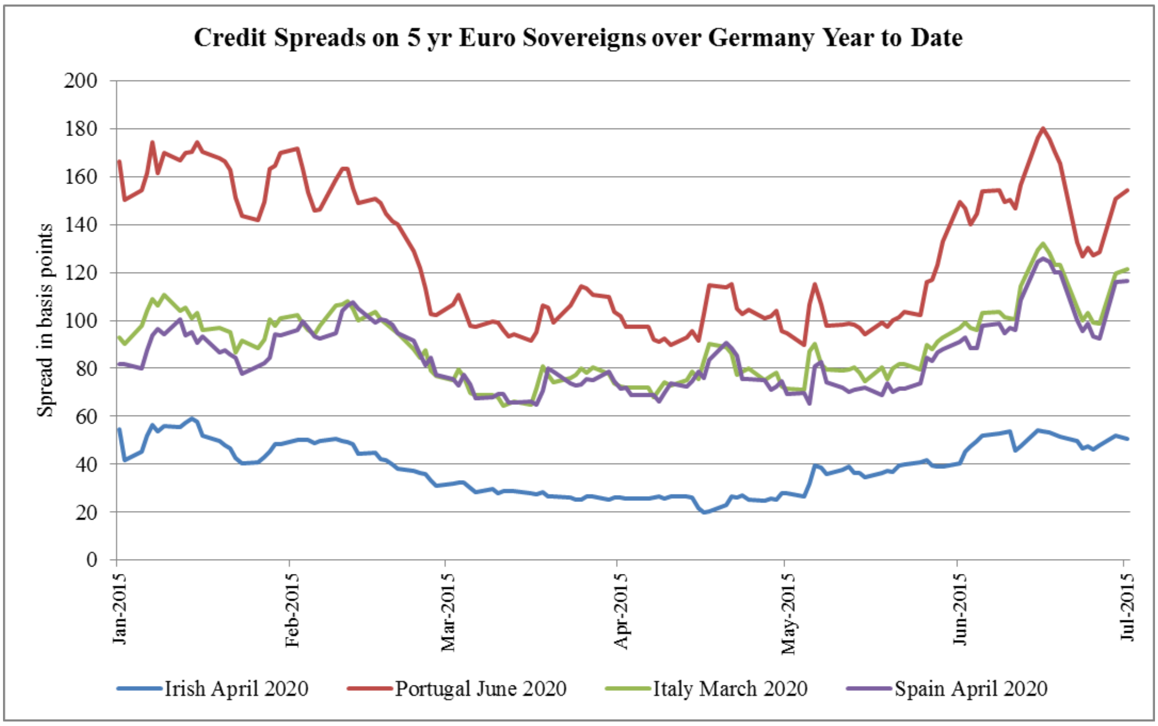
After weeks of turmoil and uncertainty including a three-week shutdown of the country's banks and the Greek public voting 'No' to austerity measures on 5 July, the Greek prime minister finally agreed to an outline plan for an €86m bailout on 13 July. The ECB also agreed to inject further liquidity into Greek banks which reopened to the public on 20 July. Capital controls will remain in place however until the banks have again been recapitalised. (The recapitalisation exercise is due to commence in September.) So while an element of stablility has returned, there is still considerable uncertainty as to how the Greek situation will play out. Further parliamentary votes are required on the terms of the bailout. With ongoing political unrest, particularly in the Syriza party, an early general election is a possiblity. This could impact on the timing and likelihood of Greece obtaining debt relief as well as the willingness of the Government to stick to its austerity committments.

Market Commentary June 2015

Impact on Bond Markets

Concerns of contagion to other peripheral member states is evident in the markets with yields on Spanish, Italian and Portuguese bonds increasing while a flight to quality has seen German yields fall. Irish bond yields have been stable, in line with countries such as Belgium and the Netherlands.

Recent increases in Eurozone sovereign bond yields due to improving economic data have masked increases in credit spreads on non-core sovereign bonds including Ireland's as the situation in Greece became more uncertain. Again Portugal, Italy and Spain have been the most impacted over recent weeks, with Ireland seeing a modest increase in risk premium.



Source: Wellesley Investments & Pensions Ltd.& Bloomberg

Impact on Equity and Commodity Markets

European equities fell in the last week of June with German and French exchanges down over 2.5% while Spanish and Italian markets were down closer to 4%.

Financial stocks were particularly hard hit with the Eurostoxx banking sector index down almost 4%. Bank of Ireland tracked the overall sector performance falling 5% despite the Irish bank's lack of direct exposure to Greece.

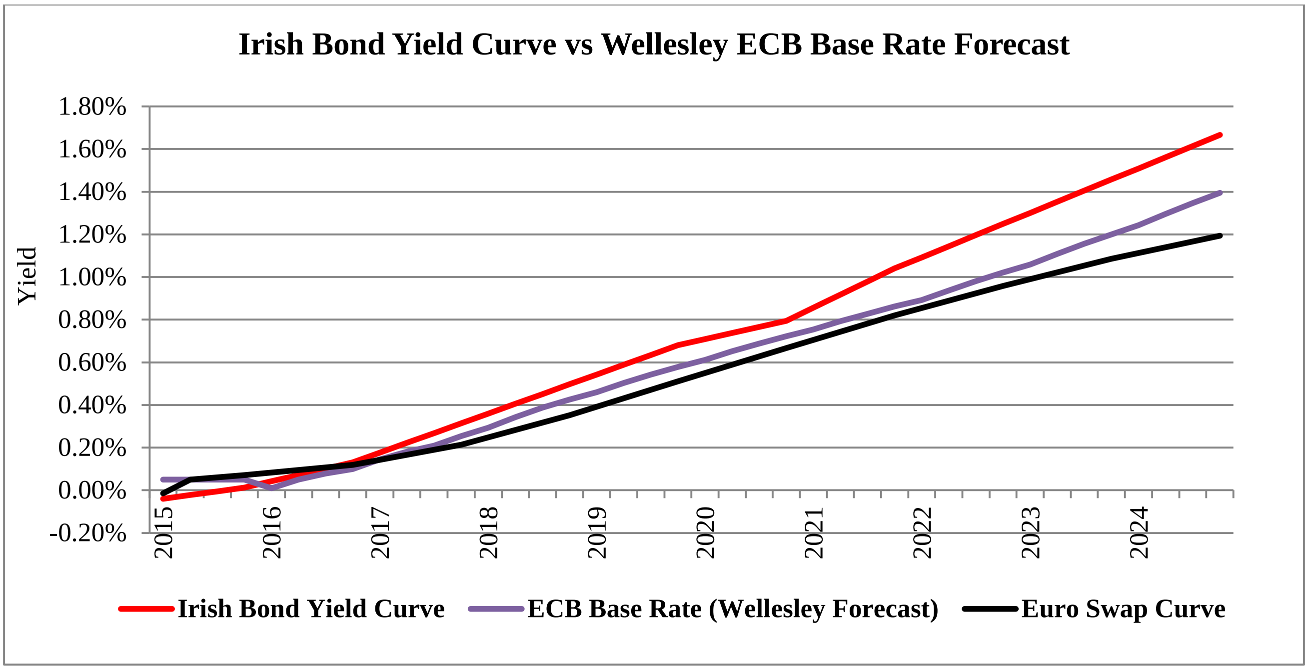
West Texas Intermediate (WTI) Oil fell 3.1% over the week on concerns that Greek difficulties will impact global growth and oil demand.

Market Commentary June 2015

Following the recent increase in yields, are Irish bonds an attractive substitute for cash deposits?

Irish and other European bond yields have increased significantly since mid-April driven by two factors: an increase in medium term interest rate expectations due to better European economic data and an increase in the credit risk premium due to fears of a Greek default.

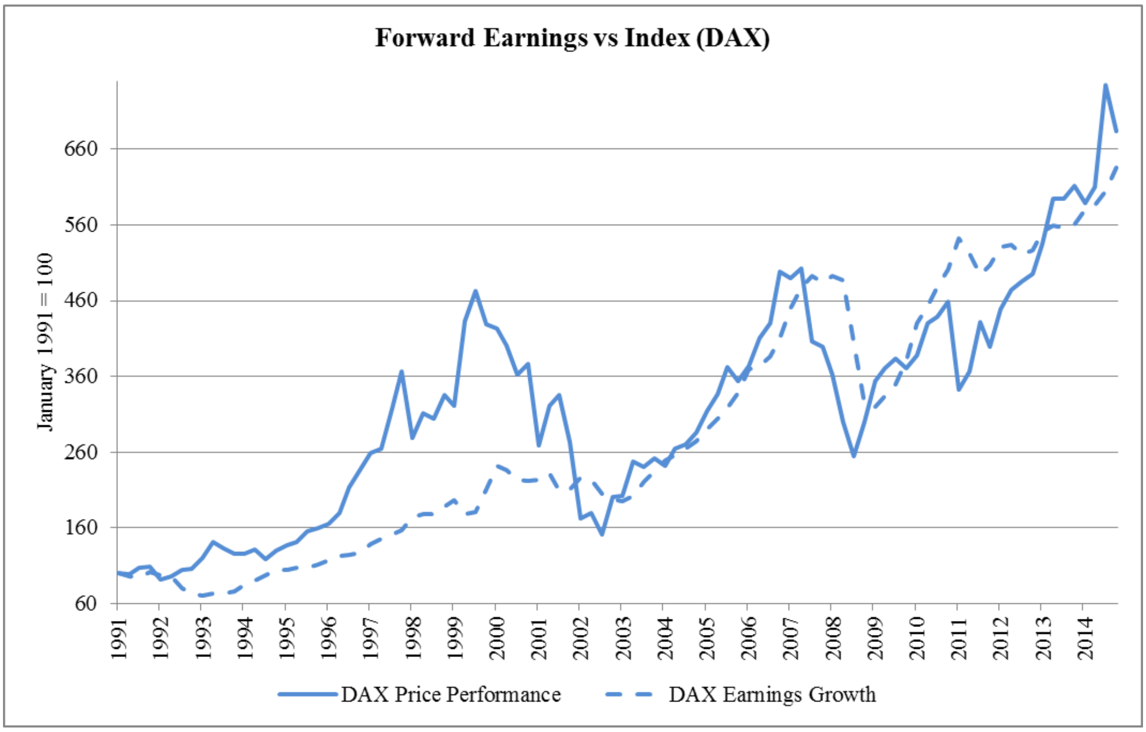
Expectations for interest rate increases in the short term remain subdued. Market expectations are for marginal rate increases over the next 12 months (8 basis points) and we see a slow trajectory for interest rate rises over the next 5 years with rates "normalising" at around 3% thereafter. The following graph illustrates our expectations for eurozone interest rates compared to yields currently offered by Irish bonds over the next 10 years and the euro swap curve. To facilitate the comparison, we have calculated a yield curve based on our forecasts for eurozone interest rates over the next 10 years.



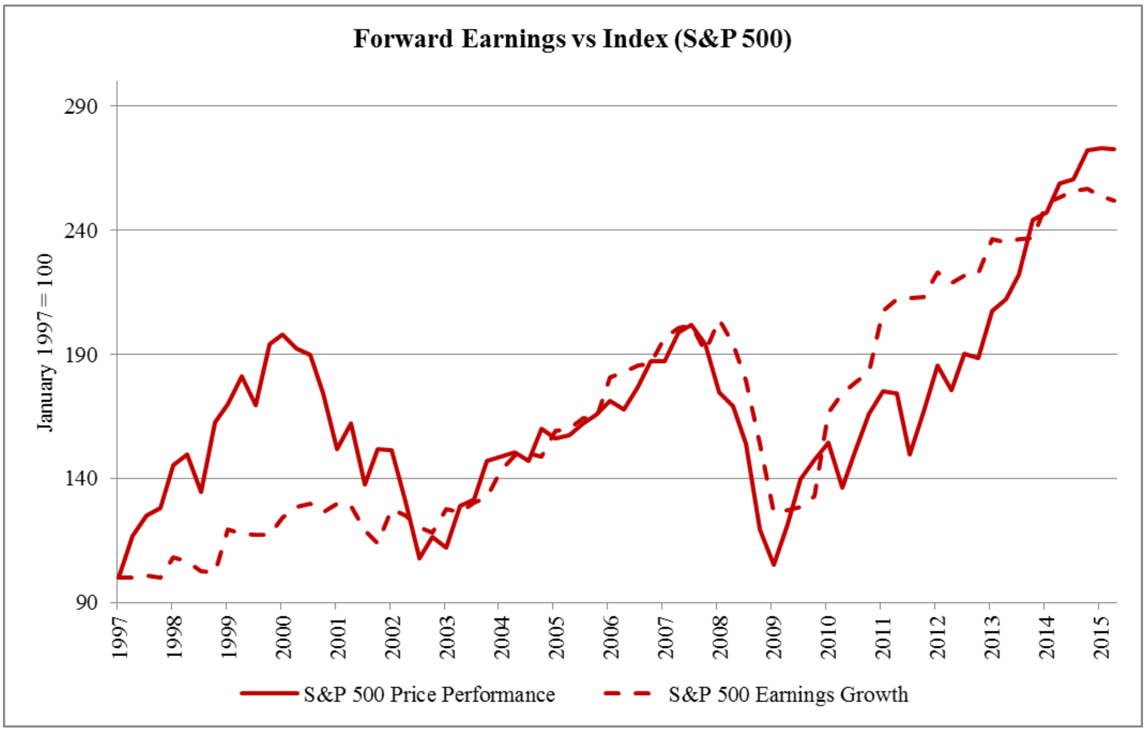
Source: Wellesley Investments & Pensions Ltd. & Bloomberg

Do German equities now offer an opportunity following recent weakness?

The German market has fallen 10% since its high in mid-April as concerns about Eurozone stability increased with Greek debt negotiations faltering. The German stockmarket performance in Q1 2015 saw prices move ahead of earnings causing equity market multiples to rise to highs relative to history. Recent weakness has seen this premium reduce however. This trend of a premium reduction has not been as evident in other developed markets.

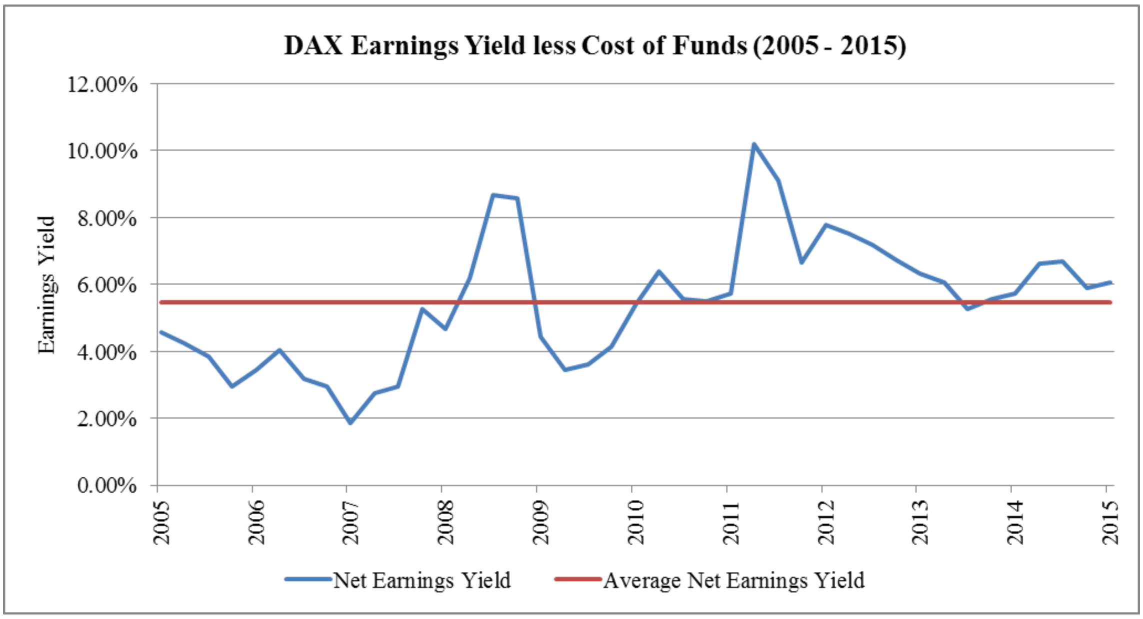


Source: Wellesley Investments & Pensions Ltd. & Bloomberg



Source: Wellesley Investments & Pensions Ltd. & Bloomberg

Allowing for the prevailing corporate cost of funds (10 Year AA Euro Corporate Bonds), German equities are at average valuation levels relative to the last 10 years**.**

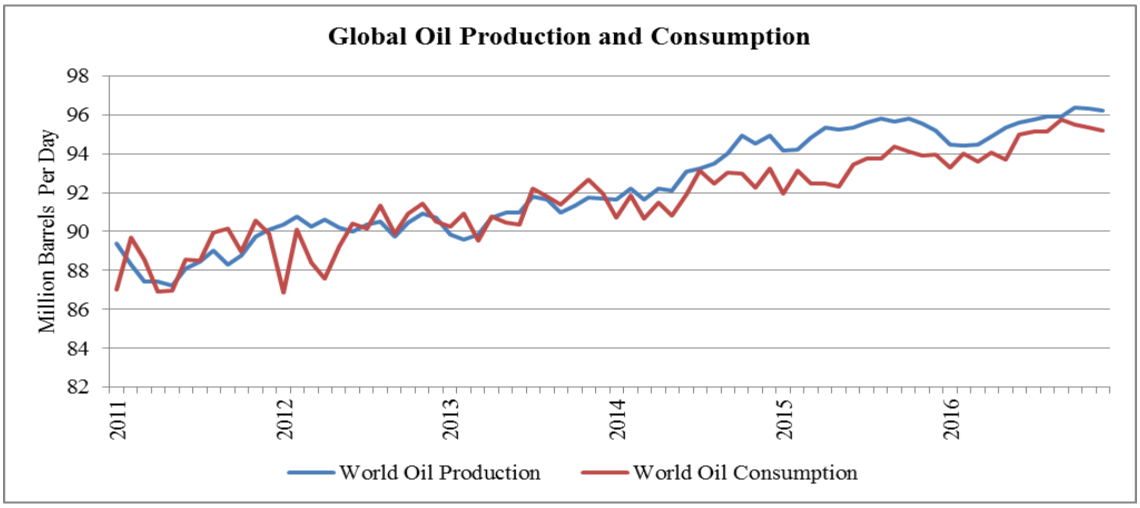


Source: Wellesley Investments & Pensions Ltd. & Bloomberg

Overall, based on our fundamental valuation analysis, we believe that German equities do not offer obvious value at present levels despite their recent correction.

Recent Developments in Oil Supply and Demand

The most recent data from the US Energy Information Administration (EIA) suggests a projected slight increase in global oil supply relative to consumption to the end of 2016 compared to their May numbers. EIA forecasts continue to see WTI Oil reaching $69 a barrel in mid-2016 as stock prices reduce from current levels.

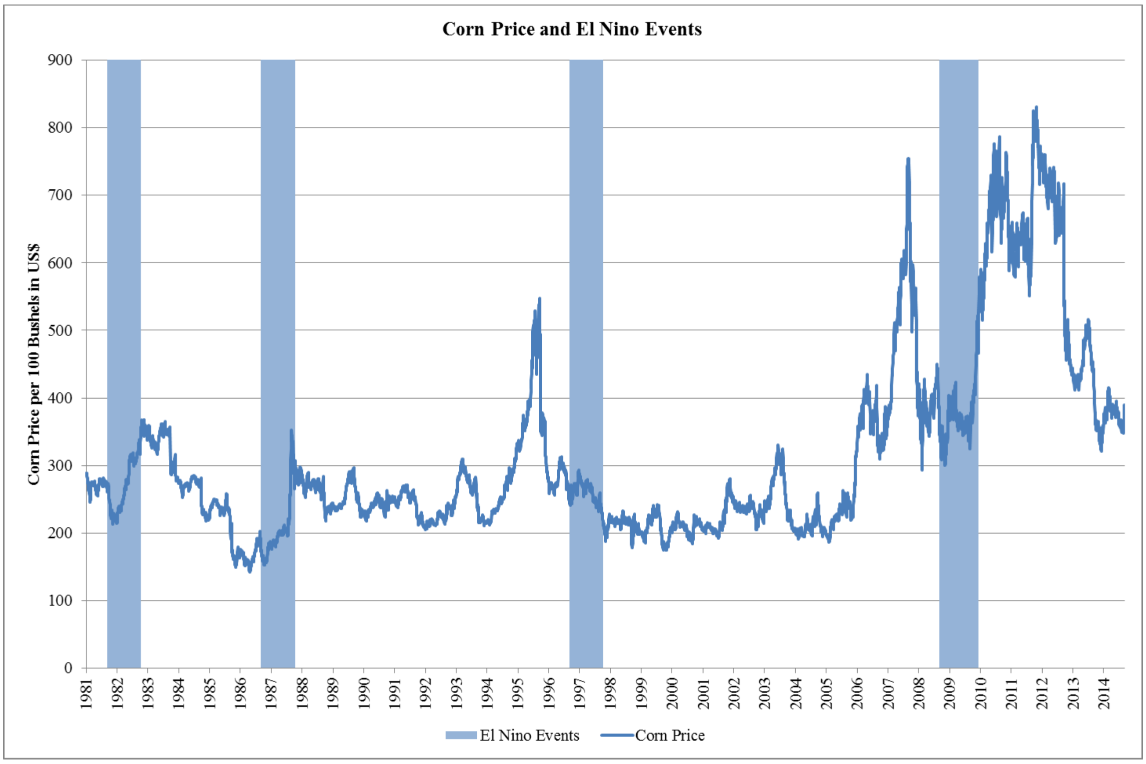


Source: US Energy Information Administration

We remain positive on the sector into year-end as US economic growth helps demand and US rig count reductions reduce supply and stocks. The EIA forecast a fall of 3% in US supplies from June to December 2015, while they project a steady reduction in inventories of, on average, 1.1% per month over the next 18 months.

Agricultural Commodities

We have continued to track developments with regard to the "El Nino" event in the Eastern Pacific Ocean with recent data continuing to suggest a so-called "Super-Event" occurring this year. El Nino events typically result in significant changes to short term weather conditions in much of the world's most important food producing regions. Our analysis supports a link between volatility in the prices of a number of major food commodities and the strength of the El Nino event. Food commodity prices remain well below their recent highs with corn trading at less than half its 2012 price. We therefore believe it makes sense to add to food commodity exposure at these levels, with the prospect of weather disruptions to crop production offering an attractive upside risk.



Source: Wellesley Investments & Pensions Ltd. & Bloomberg