INVESTMENT MARKETS IN SEPTEMBER

September saw further sharp falls in equity and commodity markets with a strong rally on the last day of the month saving many markets from a technical bear market. The third quarter was an exceptionally weak period for markets with emerging market and European equities, industrial metals and oil the main casualties.

Investment Market Performance

Index	Year to Date In local Currency (%)	Year to Date In € %	September - 2015 In local Currency (%)	September - 2015 In € %
ISEQ Index	18.0%	18.0%	-3.7%	-3.7%
FTSE 100	-7.7%	-3.0%	-3.0%	-4.1%
Eurostoxx 50 Index	-1.5%	-1.5%	-5.2%	-5.2%
S&P 500	-6.7%	0.9%	-2.6%	-2.3%
Nikkei 225	-0.4%	7.7%	-8.0%	-6.6%
FTSE All-World	-8.3%	-0.8%	-3.8%	-3.5%
Oil	-15.4%	-8.4%	-8.4%	-8.1%
Eurozone Government Bonds		1.5%		1.4%
USD / Euro		8.2%		0.3%
GBP / Euro		5.1%		-1.1%

FTSE World Global Equity Index - Two Years to end September

Source: Bloomberg

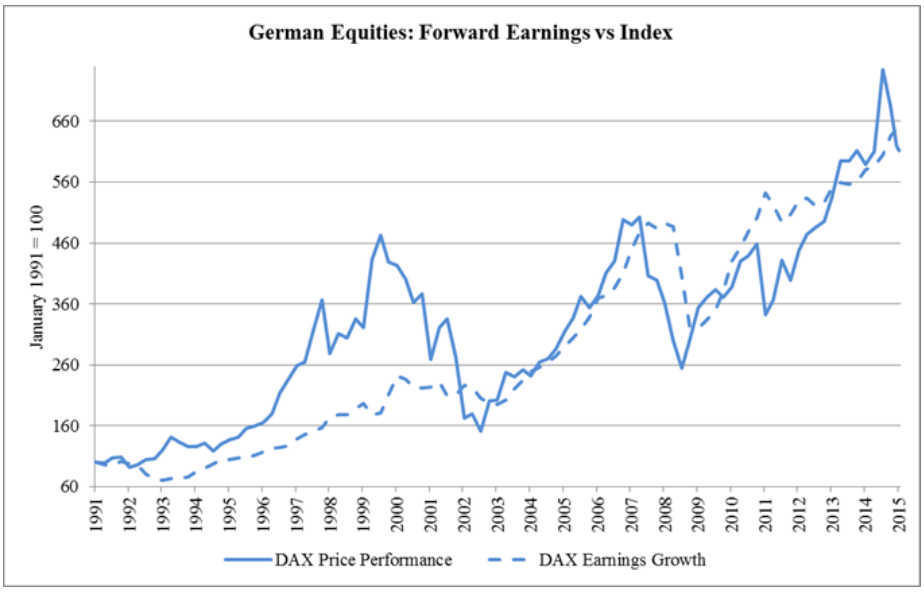
Further Falls Now Leave European Equities Attractively Valued

Equity markets have fallen by approximately 12% since mid-year and are back close to the levels seen this time last year. The aggregate global equity performance masks significantly greater falls in individual markets with European equities down 15% while Asian markets are down between 15% and 20%.

FTSE World (white), DAX (brown) and S&P 500 (yellow) Year to Date in Euro Terms

Source: Bloomberg

German equities have been particularly weak over the last quarter with the DAX index falling 12% since the end of June. We had been concerned with the degree to which German equity prices had outperformed over previous months with gains in the DAX running well ahead of underlying earnings momentum. Since the falls in August and September, however, this overvaluation has corrected while a more benign interest rate outlook has added to the more favourable environment for investing in blue-chip Eurozone companies.



Source: Bloomberg, Wellesley

Volkswagen shares fell 35.9% in September as the company announced it had deliberately cheated emissions testing on their 2 litre diesel engine by embedding software to produce bogus reading when testing was being undertaken. The scandal also affected other DAX constituents, Daimler (-10.5%), BMW (-5.8%) and Continental (-2%) as investors worried that more than one manufacturer was involved and that foreign buying of German cars in general would suffer as a result of the scandal.

DAX Index Performance over the last 2 years

Source: Bloomberg

Theoretically, Volkswagen could face fines of $18bn in the US based on the standard $37,500 penalty for each of the 482,000 cars fitted with this device. Volkswagen have provisioned $6.5bn for such penalties but as the crisis evolved this week, Volkswagen, its commercial arm and its associated brands, Audi and Seat have confirmed that 10.1 million cars are affected by the rogue software. Also, the fact that it is not negligence but a deliberate act of non-compliance with regulation makes the argument for leniency in fines less compelling. Investigations have now been launched by the Environmental Protection Agency (EPA), US Justice Department and 27 separate state Attorneys General while other jurisdictions including Germany, the UK, France, Australia and South Korea are also to look at the issue.

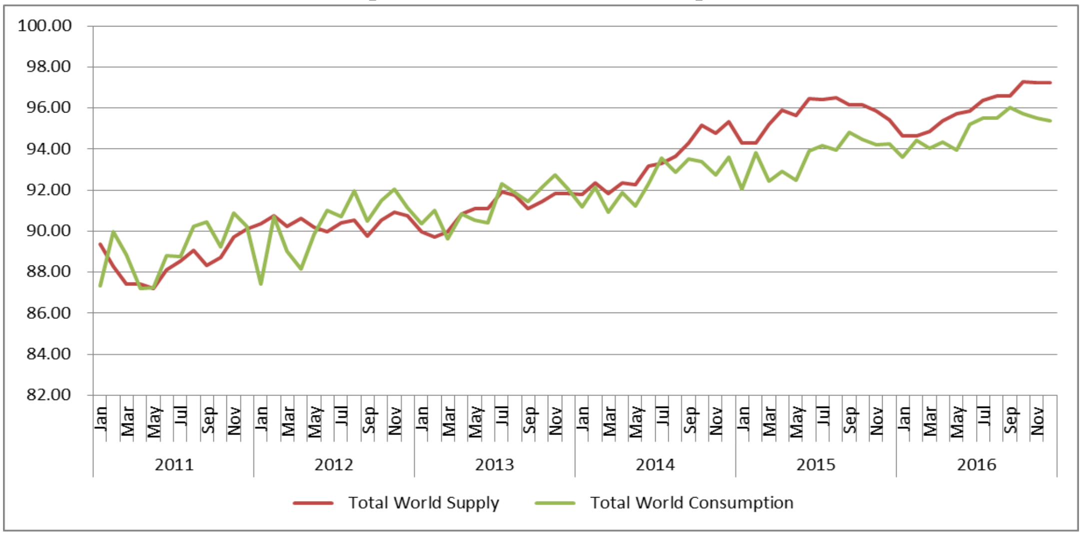
Volkswagen is now trading at 4.5x forward earnings but the lack of clarity as to the breadth of investigations and the size of penalties make forward earnings estimates unreliable and valuation rather difficult. We would, therefore, be cautious about investing in the share on a stand-alone basis for the moment.

On a broader basis, however, we see German equities as representing attractive investment value at current levels. Volkswagen makes up only about 2% of the German DAX Index and at that level of exposure represents a relatively small risk to our argument for investing in the broader German stock market.

Update on Oil

Oil fell 8% in euro terms in September as continued growth in global liquids inventories and expectations of weakening global economic activity combined to depress prices. Global inventory builds in the second quarter of 2015 averaged 2.9 million barrels per day (b/d), compared with 1.9 million b/d in the first quarter. The U.S Energy Information Administration (EIA) expects inventory builds to moderate somewhat over the coming months to an average of 1.1 million b/d, but stocks are still expected to remain high compared with previous years. Global consumption, on the other hand, is expected to hover around the 1.2 million b/d mark in 2015 and around 1.3 million b/d in 2016.

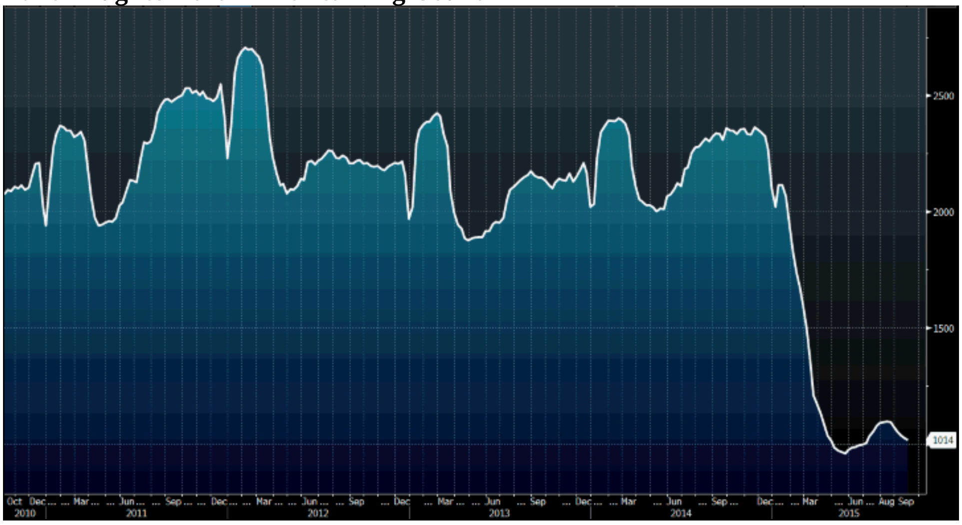
Global Petroleum and Other Liquids Production Vs Consumption



Source: Short-Term Energy Outlook report from U.S Energy Information Administration

The length of time that it takes for non-economic production to wind off is the main factor in determining both the extent of any recovery in the oil price and its timing. At current price levels a significant proportion of global supply is thought to be below cost. Decommissioning and mothballing of higher cost US rigs is clearly evident from the Baker Hughes Rig Count surveys. However, it is the larger volume shale and oil sands projects that are likely to be most under pressure and which we see providing the most significant non-OPEC impact on supplies as a result of the oil price decline.

Baker Hughes North American Rig Count



Source: Bloomberg

Overall, the longer that prices remain at current levels with a significant amount of production capacity uneconomical and gradually coming out of activity, the greater the rebound in the oil price over time. We continue to see oil at current levels as a very attractive investment opportunity.

BANK OF IRELAND

Bank of Ireland fell 2% in September despite the continued improvement in Irish economic data. The operating environment remains very favourable for the bank with its main market growing strongly while most of its key competitors remain heavily encumbered by the legacies of the financial crisis and the Irish property crash. Increased lending, both in the residential mortgage and commercial sectors, remains extremely profitable for the bank with JP Morgan estimating average margins on new residential mortgages of between 2.75% and 3%.

Provisioning remains conservative and we believe there is still scope for loan provisions to be written back in light of the background improvement in the Irish economy and in employment and house prices in particular.

The recent share price decline maps closely the performance of the broader European banking sector. We believe that, while it may take the greater scrutiny from analysts that comes with end of year reporting and possibly the reintroduction of the dividend to see the share decouple from the broader European banking sector, there remains significant upside over the next twelve months.

Bank of Ireland Share Price – Two Years to end September

Source: Bloomberg