



National Pensions Reserve Fund

Developing the National Pensions Reserve Fund

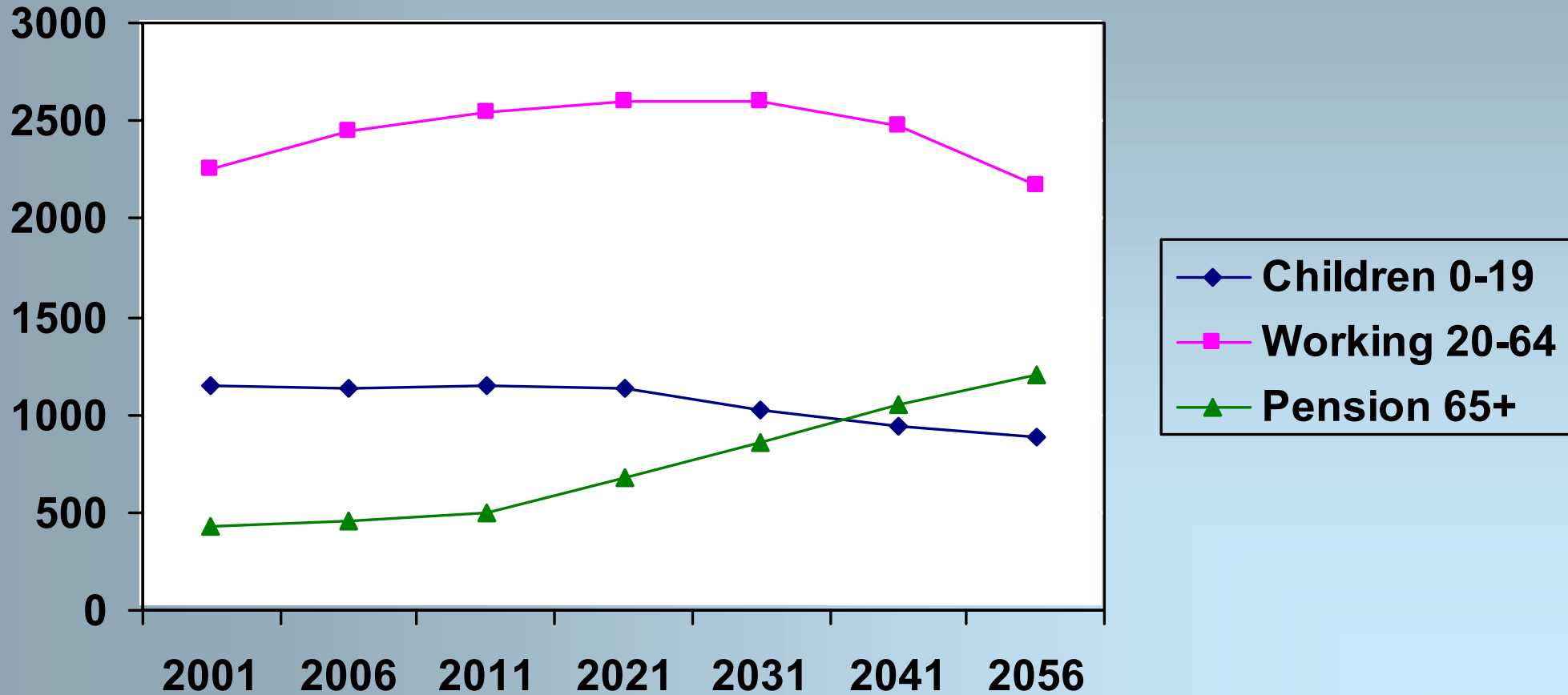
Donal J Geaney
Chairman

28 April, 2003

Agenda

- **Background to the Fund**
- **Key Legislative Provisions**
- **Investment Strategy / Portfolio Construction**
- **Managers & Service Provider Selection**
- **Market Entry Strategy**
- **Performance**
- **Where we go from here...**

Ireland's Population



Impact of NPRF

- Prefunding arrangement should allow for a cap of around 6.25% of GNP to be placed on the net Exchequer outlays from 2025 to 2055
- Otherwise projected to rise to 12.5% of GNP

NPRF Act, 2000

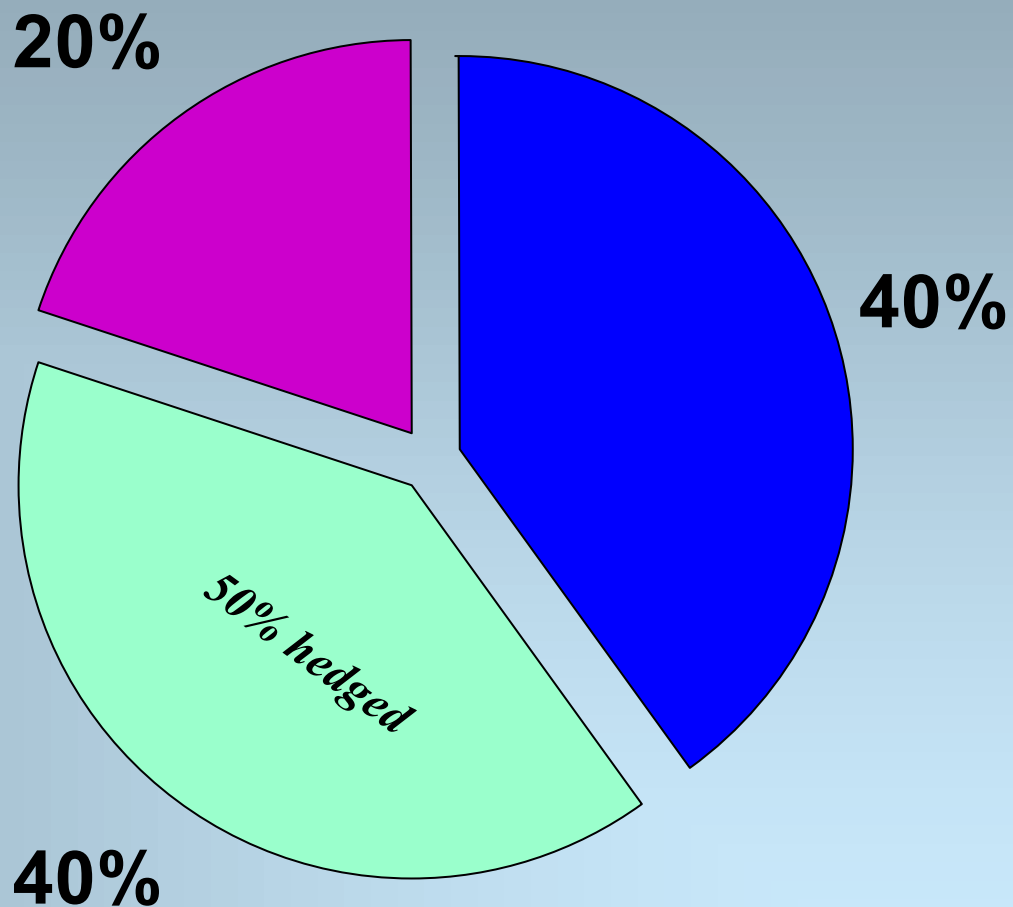
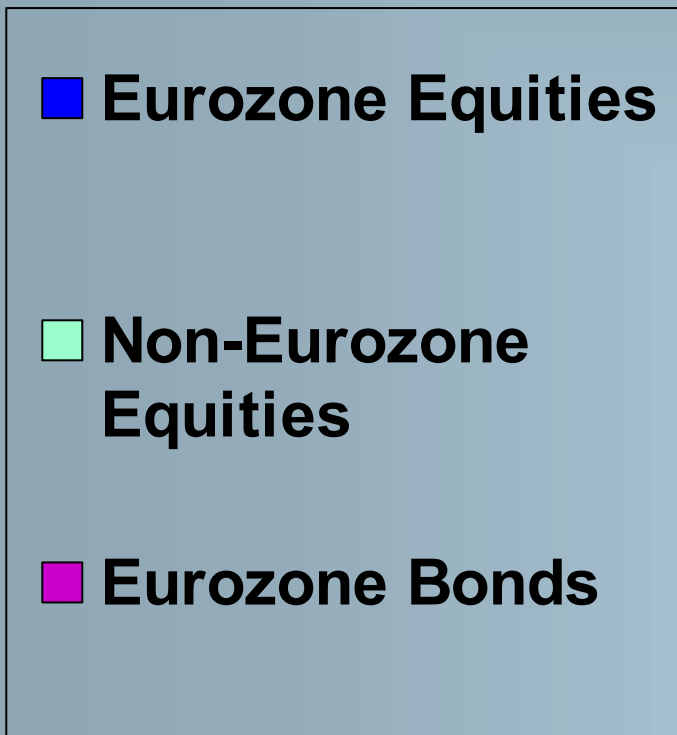
- **Commercial mandate**
- **Fund to be controlled, managed and invested by National Pensions Reserve Fund Commission**
- **Independent of Government**
- **Annual Exchequer contribution of 1% GNP**
- **Precluded from investing in Irish government bonds**
- **NTMA Manager for 10 years**
- **Transparent & accountable: annual report & Dáil Public Accounts Committee**

Investment Strategy

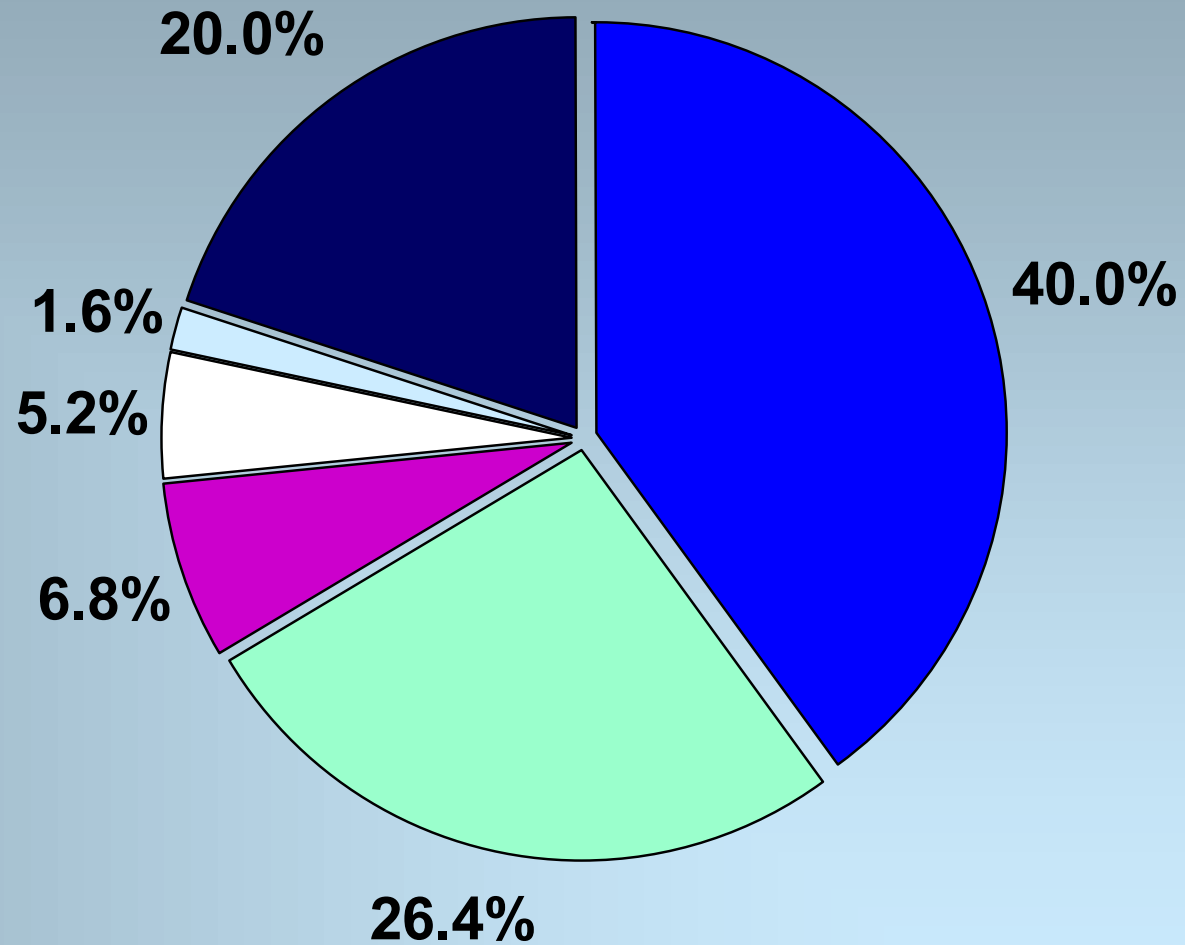
- “Moneys standing to the credit of the Fund shall, from time to time, be held or invested for the benefit of the Fund by the Commission, in or outside the State, so as to secure the optimal total financial return, as to both capital and income, having regard -
- (a) the purpose of the Fund as set out in section 18(1), and
 - (b) the payment requirements of the Fund as provided for under section 20, provided the level of risk to the moneys held or invested is acceptable to the Commission.”



Strategy



Strategy



50% of Non-euro exposure hedged

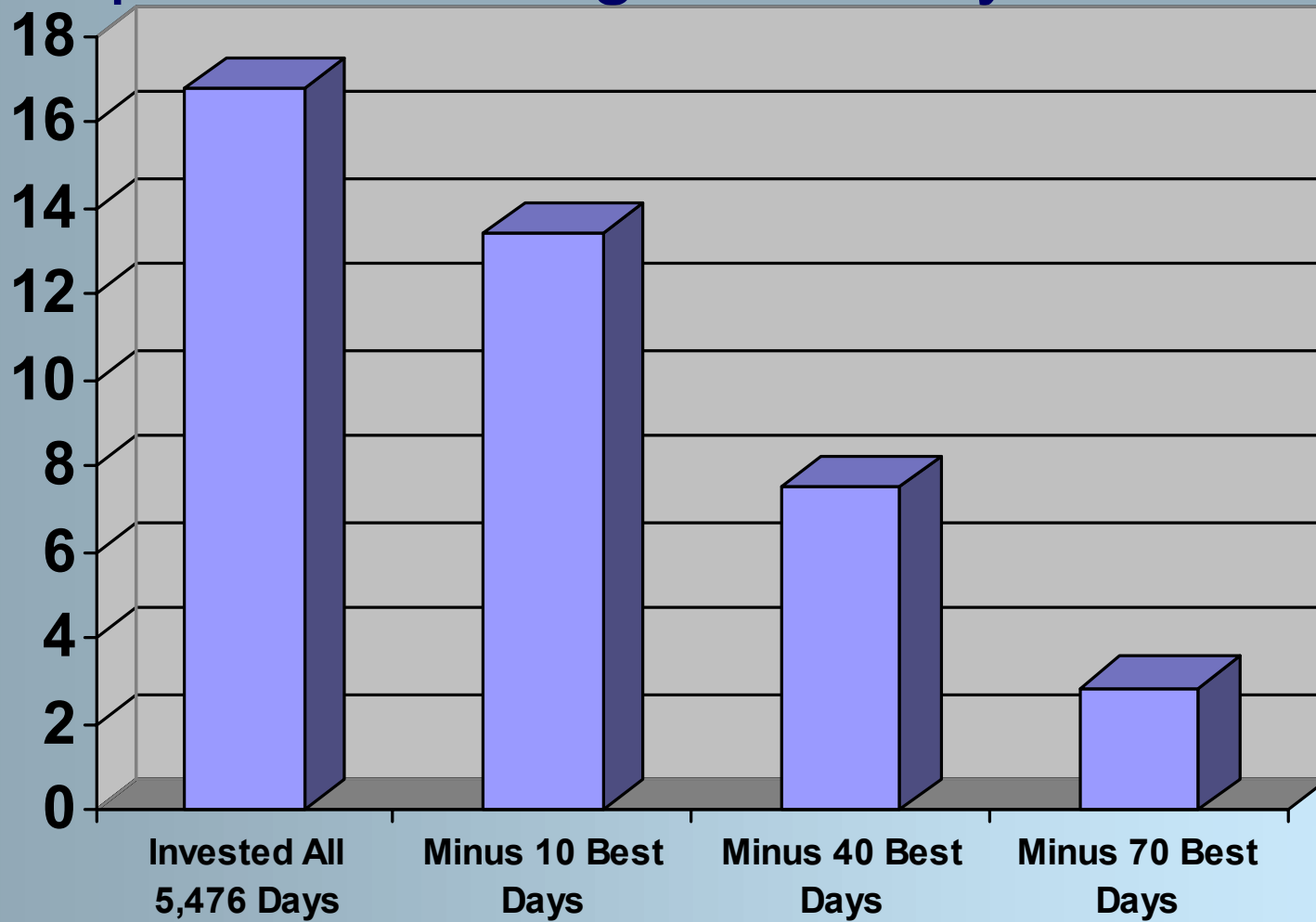
Portfolio Construction

Asset Class	Investment Style	Alpha	Tracking Error
Eurozone Equity X2	Passive	0.00%	0.10%
Pan-European Equity X3	Active - Core	0.75%	5.00%
US Equity	Passive	0.00%	0.10%
US Equity	Enhanced	0.25%	1.50%
US Equity X2 (Value and Growth)	Active	0.90%	6.00%
Japanese Equity X2	Active	1.00%	6.00%
Pacific Basin Equity	Active	1.00%	6.00%
Global Equity X2	Active - Core	0.90%	6.00%
Long Euro Bonds	Passive	0.00%	0.25%
Long Euro Bonds	Active	0.30%	2.00%

Manager Mandates

	Stage 1	Stage 2
Active		
Pacific Basin (ex Japan)	50	20
Japan	59	20
US Core	28	0
US Value	62	20
US Growth	79	20
Pan European	90	20
Global Equity	85	20
Passive		
US	15	13
US Enhanced	37	20
Eurozone	12	5
Bonds	57	20
<i>Total</i>	574	178

Impact of Missing 'Best' Days 1982-96



Irish Banking Review 01 - NTMA

“Fully investing the Fund on its establishment would intuitively expose it to unacceptable market risk. An averaging-in approach clearly reduces the Fund’s market risk by spreading risk over time.”

Irish Banking Review 01 - IAPF

“An immediate question facing the Commission concerns the entry strategy for the Fund into the market.... Should the Commission invest immediately in the markets, average the money in over a period of a year or so, or use some other method to keep the rewards but mitigate the risk? The problem is capable of mathematical formulation and resolution. There is only one correct answer: close your eyes and take the plunge.”



Performance

	NPRF	Average Irish Managed Pension Fund	NPRF's long term strategic benchmark
April – December 2001	3.27%	-0.6%	-3.52%
Year to 31 December 2002 <i>(estimated)</i>	-15.95%	-18.9%	-21.6%
Inception to 31 December 2002 <i>(estimates)</i>	-13.2%	-19.3%	-24.4%

Where next?

