

Fund objective

The Mixed Fund invests in a range of international and domestic equities, bonds, property and cash. The equity content is high reflecting the potential for these assets to outperform over the longer term but this can lead to periods of volatility and negative returns for the Fund in the short to medium term. The Fund's investments in bonds, property and cash will help to smooth, to some extent, the volatility resulting from the high equity content. Tactical positions are taken in the various asset classes from time to time depending on our views of relative outperformance in the near term. The benchmark asset allocation and performance outcome is measured against the managed fund peer group.

Net Performance (%) period to 31 December 2011

	3 months	1 year	3 years	5 years	10 years
Mixed Fund	7.9	-4.6	9.0	-4.7	1.0
Irish Managed Average	7.5	-3.5	9.2	-3.9	1.2
Fund size as at 31 December 2011	€638.8m				

Market commentary

Market review

Global equity markets staged a recovery in the fourth quarter after suffering a torrid August and September. An increasing conviction that a solution would eventually be found, helped equities recover their poise as risk assets returned to favour. Investor sentiment was also boosted by encouraging signs from the US economy, particularly in respect of the improving jobs market. The major bond markets also posted gains as 'safe-haven' investments remained in demand given the uncertain economic backdrop. That said, markets were choppy as the sovereign debt crisis took its toll on the government bonds of peripheral eurozone countries. Even Germany experienced a challenging auction. Overall, however, bonds were supported by expectations of moderating inflation in the developed economies together with continued central bank support through asset repurchasing.

Activity

We took a cautious asset allocation stance given the considerable risks that still hung over the global economy. We maintained a neutral position in equities as we continued to question the policy-makers' ability to deliver a credible solution to the eurozone crisis. The nagging possibility of the US slipping back into recession and the eurozone crisis deepening yet further prevented us from taking a more bullish position.

Despite the likelihood that bonds will continue to be in demand as a safe haven, we maintained our underweighting of fixed income. We felt that government bonds offered little value with yields at historic lows and are concerned that prices will reverse when investors look towards inflation and real interest rates rising again later in the coming year. We were also wary of deteriorating credit quality, even among top-rated nations such as Germany and the Netherlands.

Performance

The Mixed Fund outperformed its benchmark over the quarter. The main contributors to this outperformance were positive stock selection within the Irish Equity, Fixed Interest and Property Funds, all of which outperformed their

respective benchmarks in Q4. The key drivers were the underweight in support services, where Grafton fell back on concerns about builders' merchants' prospects in the UK and Ireland, and the lack of exposure to the out-of-favour food retail sector, which lagged the market average as investors favoured less defensive sectors. Valuations within the Property Fund were positive during Q4. The outperformance of the Fixed Interest Fund was due to holding an underweight position in France over the quarter. The UK equity holding also added to Fund performance where the lack of exposure to two struggling stocks, Lloyds Banking Group and Reckitt Benckiser helped the Fund.

Asset allocation

	As at 30/09/2011	As at 31/12/2011
Allocation	%	%
Irish Equity	4.5	4.9
International Equities	69.0	69.9
Eurozone	11.5	10.7
Europe	4.6	4.7
U.K.	11.8	11.7
U.S.	25.2	26.9
Japan	4.6	4.4
Far East	11.3	11.4
Fixed Interest	16.5	15.3
Eurozone	16.3	15.1
Non Eurozone	0.2	0.2
Property	4.7	4.6
Index Linked	0.3	0.2
Cash	5.1	5.1
Total Fund	100.0	100

Figures may not tally due to rounding

Fund data

Currency:	Euro
Launch date:	January 1981
Management fee:	0.50%
Bid offer spread:	1.50%
Fund benchmark:	Industry Manager Average Return
F&C web address:	www.fandc.com
Friends First web address:	www.friendsfirst.ie
Useful links:	www.friendsfirst.ie/funds.shtml For monthly updates on fund prices and performance
Contact us:	Graham Brooks Client Services Director 00353 (0) 1 4364009 graham.brooks@fandc.com

Source: F&C Management Limited to 31 December 2011. Calculations basis offer to offer, income re-invested at offer, net of fees.

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