



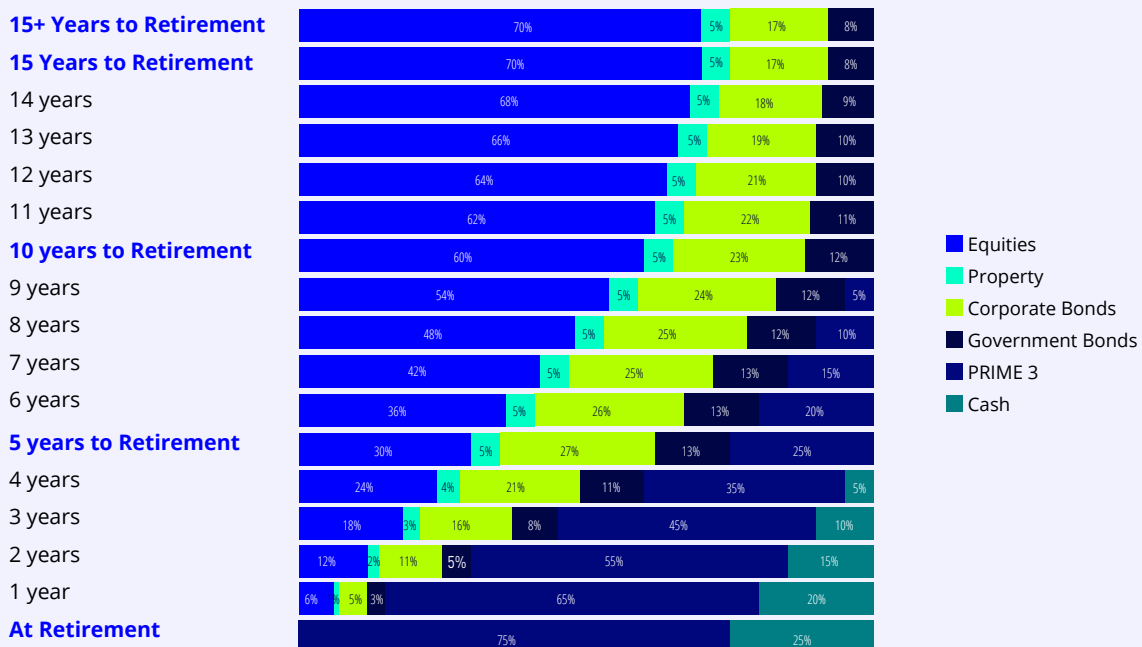
## Passive IRIS, your target date fund (TDF) and what is it designed to do?

**Passive IRIS** is a target date fund (TDF). Target date funds can be actively managed or passively designed; in Bank of Ireland Life we have both an active range, **Active IRIS**, and a passive range, **Passive IRIS**. The goal of the two ranges, to help you invest successfully for retirement, is the same, but the route to get there is different depending on different investors' needs or preferences.

Passive IRIS is designed to help investors save for retirement in a straightforward manner. You pick the year you plan to retire (target date), let us do the rest.

- ▶ IRIS is a fund range which is **diversified** (spreads the risk) across equities, property, bonds, cash and other alternative investments.
- ▶ It is **rebalanced** over time, gradually reducing the risk taken as you approach retirement. This is called a fund's glide path and is a unique characteristic of a target date fund. Below shows the Passive IRIS glidepath and how it rebalances year by year.
- ▶ The underlying investments are **managed by investment professionals on your behalf** taking more risk when you are younger and gradually becoming more conservative over time shifting the focus from growing your pension fund to protecting what you have.

Chart 1: Active IRIS asset allocation glidepath



## What kind of market uncertainty might I have to ride out?

2020 so far has, for example, been a very volatile investment environment with individuals and governments grappling with the impact that COVID-19 may have on the economy and by extension investment markets. Markets began selling off in late February and we have seen sharp falls across all global markets (US, Europe and Asia) and most assets classes (equities, bonds and alternatives). To put things in context equity markets (as represented by the MSCI World Index in Euro terms) have sold off almost 30% since their peak on the 19th of February 2020 to the day of writing (Thursday the 26th March 2020). This is one of the fastest and hardest equity market selloffs in history and there is little sign of public or government concerns abating quite yet. We are seeing some rays of positivity coming from Asia with some areas returning to normality there after a number of weeks of total lockdown and decisive action being taken by Central Banks globally over the last number of days to keep markets and economies functioning through extraordinary conditions.

## Should I do something with my Passive IRIS investments if markets are so uncertain?

If your longterm retirement savings goals have not changed over the last number of weeks, then your investments probably shouldn't either including your Passive IRIS investments. Avoiding knee jerk reactions to such market sell offs is one of the hardest and one of the most important things investors can do. It's also vital at times like this to have a long term investment plan to help you focus, on your goals. Over the long term, remaining invested in risk assets like equities, particularly after a big sell off is one of the most important things you can do as they have historically delivered better returns than most other asset classes. Below shows the performance of our longest dated Passive IRIS fund over the last 10 years.

Graph 1: Passive IRIS 2034 Onwards 26/03/2010 – 26/03/2020

Source: Longboat Analytics



Over the last decade there have been a number of difficult periods for equity markets such as the 2011 European sovereign debt crisis, concerns about Chinese growth in 2015 & 2016 and trade war fears in 2018. Despite these setbacks Passive IRIS has continued to perform for investors recovering well over time and although we do expect volatile periods along the way, for retirement savers that remain patient, we do continue to expect risk assets to deliver growth for investors over time.

## How has my Passive IRIS investment been performing during the sell off?

Target date funds like active IRIS and passive IRIS are designed specifically for retirement investors. However every retirement saver is unique and at a different stage of their personal retirement journey. Some investors in our Passive IRIS range are very young with many years to retirement; others are retiring in a number of years or months. All however will benefit from exposure to a diversified investment portfolio as demonstrated by the Passive IRIS glidepath above. With that in mind we have included below a number of examples of how the Passive IRIS fund range continues to perform for investors at different stages of their retirement saving journey.

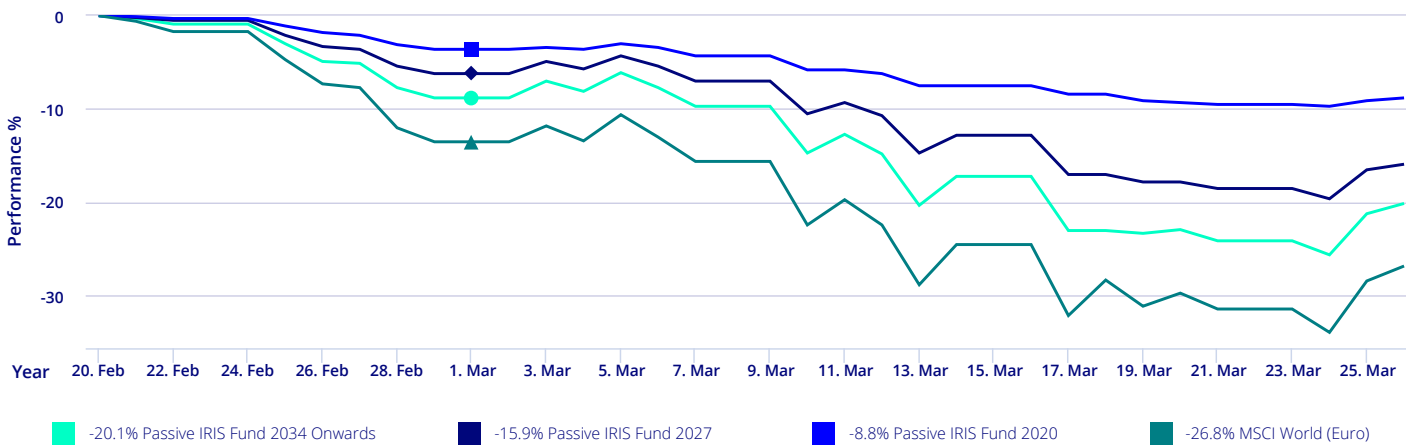
**WARNING: Past performance is not a reliable guide to future performance.**  
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**WARNING: The funds may be affected by changes in currency exchange rates.**  
**WARNING: If you invest in this fund you may lose some or all of the money you invest.**

**Long-term investor:** "I'm in my 30s/40s and I'm invested in the long dated Active IRIS fund (2034) as I have 20 plus years to retirement. Should I swap into another Passive IRIS fund such as Passive IRIS 2020 that's performed better during the recent sell-off?"

Passive IRIS 2034+ outperformed the market (as represented by the MSCI World Index in Euro terms) during the recent market sell off because it is diversified across not only equities but also bonds, property and cash, giving some additional stability to performance. However, it did fall in value much more than our more conservative funds in the range like the Passive IRIS 2020 fund. The reason for this is that the longer dated fund holds far more in risk assets (70% equities) than the shorter dated funds which hold only 35% in risk assets with the balancing 65% in 'safe haven' assets like bonds and cash. Risk assets have been harder hit in the short term market sell off but they have also been quicker to recover some of their losses as we have seen in the last number of days, at time the of writing, 26th of March 2020, equity markets have rallied by 10% over the last two days.

**Graph 2: Passive IRIS 2034 vs 2027 vs 2020 vs Equites**

Source: Longboat Analytics



The question on whether you should change your IRIS investments comes down to your long term plan. Unless your plans have changed your original long term investment strategy is still relevant to you. If you have more than 15 years to retirement, then the 2034+ fund is much more likely to deliver on your long term goals of generating a return sufficient to retire on rather than the more conservative 2020 fund which is aimed at someone who is retiring in the next year or so. If you aren't retiring soon you have the advantage of being able to stay invested for longer and weather the recent sell off. If you continue to hold these assets they will give you the opportunity to generate higher returns over the long term as per graph 1 above.

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**Midterm Investor:** “I’m not retiring for another 7 years and I’m invested in Passive IRIS 2027, I think I’ll sell out of my target date fund now and buy back in when markets begin to recover.”

Trying to time markets is incredibly difficult and even the most talented investment professionals find it near on impossible. If Warren Buffet thinks it’s a bad idea to try and time the market it probably is. Historically, equity markets have been incredibly resilient, recovering time and time again from crises. If you sell out after a period of bad performance you are likely to miss the recovery which is often sharp and may happen when you least expect it. Our advice to retirement investors who are thinking along this vein would be similar to those in the longest date Passive IRIS fund. Unless your circumstances have changed remain invested and although it may be tempting to try and time the market, we have rarely seen this work out well for investors.

If you are seven years from retirement you are likely invested in Passive IRIS 2027. This fund, similar to the long dated fund is weighted toward risk asset. However as you can see from the glide path earlier the fund is tapering down risk as you move closer to retirement. From year 9 onwards Passive IRIS’s risk assets change from equities to **PRIME 3** instead over time. **PRIME 3** is a diversified, passive, risk managed multi asset class fund. This is the second risk management mechanism within Passive IRIS. Since the end of February the equity exposure in **PRIME 3** has been reducing and along side the diversified nature of the fund, has meant that the fund is less exposed to market shocks than a pure equity fund. As one would expect, the 2027 funds were harder hit in the recent sell off than more conservative funds like Passive IRIS 2020 (see graph 2 above). However, we would expect the 2027 range to recover faster and generate stronger returns over the long term compared to the short dated fund range.

**Close to retirement:** “I’m retiring soon and invested in IRIS 2020 should I move out of that fund completely and into cash?”

If you are just about to retire or have just retired it is hard to ignore the recent market volatility, but bear two things in mind:

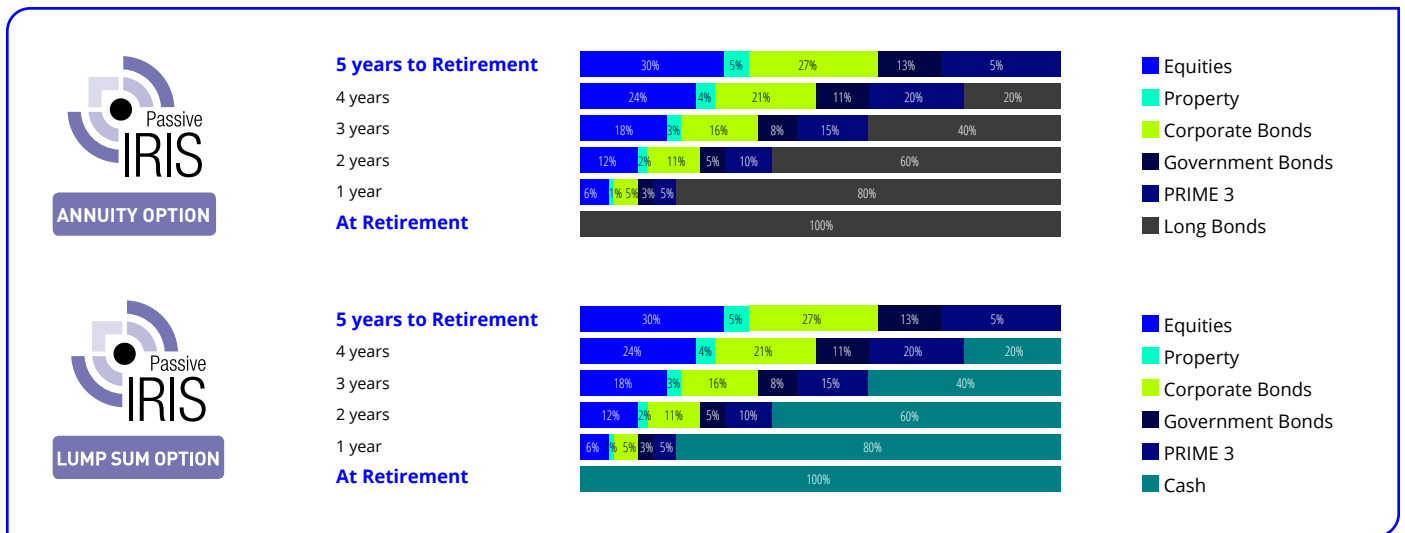
- ▶ Your fund has been significantly “de-risked” over the last number of years and
- ▶ The average life expectancy in Ireland is 84 years for a woman and 80.4 for a man. A person in Ireland today in their mid-60s could easily live two plus decades in retirement, so some risk assets in your portfolio remains as prudent now as it was before the market sell-off began.

As we showed earlier equity markets, as represented by the MSCI World (Euro) are down almost 30% in the four and half week period since their high in mid-February, but many funds tailored for retirees are down less than half of that. Passive IRIS 2020 for example which, if you are retiring this year you most like hold, experienced roughly one third of the market loss over the same period. Passive IRIS 2020 has, over the last number of years, become more conservative as you approached retirement, gradually moving away from riskier assets like equities, property and alternatives, towards more conservative investment assets like cash, government bonds and corporate bond. We have been doing that on your behalf and today your portfolio is pretty conservatively positioned with 75% of the fund invested in PRIME 3 and 25% in a cash fund.

<sup>2</sup>This example does not purport to be financial advice and does not take into account the investment objectives, knowledge and experience or financial situation of any particular person. You should seek advice in the context of your own personal circumstances prior to making any financial or investment decision from your own financial advisor.

<sup>3</sup>This example does not purport to be financial advice and does not take into account the investment objectives, knowledge and experience or financial situation of any particular person. The example is focused on an illustrative investor planning to take a retirement lump sum and invest in an Approved Retirement Fund (ARF) at retirement. You should seek advice in the context of your own personal circumstances prior to making any financial or investment decision from your own financial advisor.

## Additional Passive IRIS Options



Flexibility at this stage of the investment journey is key as although for most investors their preferred approach will be to take a retirement lump sum and invest in an Approved Retirement Fund (ARF) at retirement (and the IRIS range is built with that in mind) additional options aimed at individuals who want to purchase an annuity or take a cash lump sum at retirement are also available.

Keeping your eyes on your long term goals right now is as important as ever and if you are feeling unsettled or nervous about your investments please talk to your financial advisor or broker consultant. They know you, your company and your employees' best and they can help you work through the best course of action for you and your circumstances.

### Where would I find more information on Active IRIS?

- ▶ Latest performance information is found on our **Fund Centre**
- ▶ Email us: [info@bankofirelandlife.ie](mailto:info@bankofirelandlife.ie)

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Please note that IRIS may use Exchange Traded Funds (ETFs) and other exchange traded products. The use of these investments may incur additional costs. Terms and conditions apply.

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