

National Federation of Voluntary Service Providers Pension and Life Assurance Scheme

Investment Market and Funds Update – to 31 December 2022



Over the course of 2022 the main assets in which the funds invested your retirement savings declined in value, which is why the funds appeared to have performed negatively over shorter-term periods. The main reason for the decline in fund values was that central banks across the developed world increased interest rates to try to reduce rates of inflation that rose to levels unseen in forty years. In the UK, US and the eurozone, interest rates increased at the fastest pace observed in years. Typically, when interest rates rise at a fast pace, investment assets like equities and bonds perform poorly.

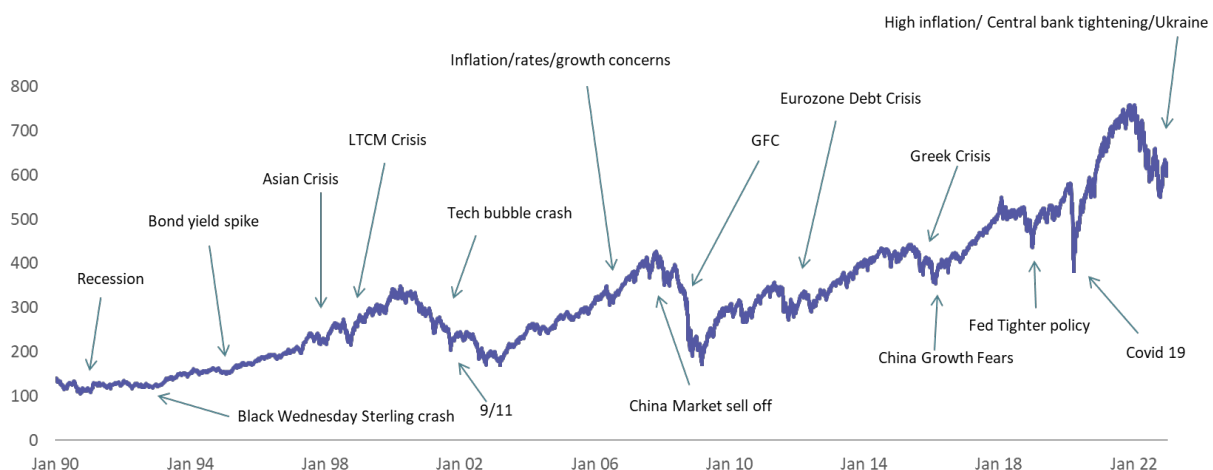
In addition, a series of lockdowns in China occurred due to its 'zero tolerance' Covid policy, resulting in lower levels of economic activity from one of the biggest nations in the world. Also, the escalation of the Russia-Ukraine conflict negatively impacted growth expectations, in particular in Europe, and weakened investor sentiment.

Global equity markets fell c. 13% in 2022. Investor concerns were focused on high inflation and the impact rising interest rates would have on economic growth. The situation is evolving

and, while inflation levels are falling across developed world economies, they remain elevated and far from central bank targets. This means interest rates, which are still rising albeit at a slower pace, could remain high for some time until inflation moves considerably lower. The longer interest rates remain high, the more likely consumer activity, business activity and economic growth could be negatively affected, thereby impacting financial markets. As a result, the increased market volatility observed in 2022 is likely to continue in 2023. While we are in uncertain times, they are not unprecedented.

We can see from the period below that staying invested delivered very strong returns for longer term investors despite the many temptations to sell. Equity markets will experience short term ups and downs but over time there are more ups than downs, so it is important to stay invested to benefit from them. For most members, pensions savings are a long investment and that is important to remember.

Source: Irish Life Investment Managers



Source Bloomberg, January 2023, reflects the MSCI All Country World Index

Warning: Past performance is not a reliable guide to future performance.

We know that when it comes to investing, uncertainty is uncomfortable for most people. Equity market highs and lows can often prompt short-term emotional decision making and actions to buy or sell when perhaps the right thing to do is nothing.

That is why we have specifically designed our investment solutions to make the journey smoother. There are two ways we do this.



Diversification

This means spreading investments, so the performance of your fund is not over exposed to any one company, asset class, sector, geography, currency, manager or strategy. The funds invest in a mix of equities, bonds, property and cash.



Risk Management

Growing retirement savings over time means investing in some higher growth but higher risk assets like equities. Our core competence is managing the risks associated with these assets in a variety of ways to reduce the peaks and troughs you might otherwise experience. These include specialist investment strategies like the Equity Option Strategy or science-based risk management like the Dynamic Share to Cash strategy.

So, whether you are choosing the lifestyle strategy where we do the thinking for you or you are choosing your own funds, we can support you with solutions to help you stay invested and get the pension you deserve.

The below table shows the 2022 calendar year performance for all the EMPOWER funds in the Personal Lifestyle Strategy (PLS) of the National Federation of Voluntary Service Providers Pension & Life Assurance Scheme. As outlined above, it has been a challenging market environment for equities and bonds, that has translated into negative returns over the course of 2022 for the funds.

This includes those with a larger equity component such as the EMPOWER High Growth and EMPOWER Moderate Growth Funds, but also those with a larger bond component such as the EMPOWER Stability and EMPOWER Annuity Objective Funds. Bond prices have fallen considerably given the increase in interest rates that has made the rate or yield that existing bonds were paying look less attractive. While we expect bond prices to remain lower relative to recent history, we think that most of the negative re-pricing has already occurred.

The table shows the performances of the EMPOWER funds against their long-term benchmarks over shorter and longer-term periods to the end of December 2022. They show that despite the negative performances over shorter-term periods the longer-term fund performances remain positive for the majority of funds used in the Personal Lifestyle Strategy.

Fund Name + Benchmark	3 Months	6 Months	1 Year	3 Years per annum	5 Years per annum	7 Years per annum
*EMPOWER High Growth Fund	1.4%	-0.9%	-12.6%	1.4%	2.9%	5.0%
Cash Deposit Rate + 4.5%	1.4%	2.5%	4.5%	4.2%	4.2%	4.1%
*EMPOWER Moderate Growth Fund	1.9%	-0.3%	-11.1%	1.1%	2.6%	4.3%
Cash Deposit Rate + 4%	1.3%	2.3%	4.0%	3.7%	3.7%	3.6%
**EMPOWER ARF Matching Fund	1.5%	-0.7%	-10.7%	-0.1%	1.6%	3.1%
Cash Deposit Rate + 3%	1.1%	1.8%	3.0%	2.7%	2.7%	2.6%
*EMPOWER Stability Fund	1.1%	-1.1%	-9.7%	-1.2%	0.4%	1.7%
Cash Deposit Rate + 2%	0.8%	1.3%	2.0%	1.7%	1.7%	1.6%
**EMPOWER Cash Fund (Lifestyle)	0.2%	0.1%	-0.3%	-0.6%	-0.6%	-0.6%
3-Month EURIBID Rate	0.4%	0.5%	0.2%	-0.3%	-0.4%	-0.4%
**EMPOWER Annuity Objective Fund	-1.8%	-9.6%	-32.6%	-11.4%	-4.1%	-1.9%
Composite Benchmark	-1.7%	-9.5%	-32.5%	-11.3%	-4.0%	-1.7%
EMPOWER Cautious Growth Fund	1.5%	-0.7%	-10.7%	-0.1%	1.6%	3.1%
Cash Deposit Rate + 3%	1.1%	1.8%	3.0%	2.7%	2.7%	2.6%
Sustainable Equity (ESG) Fund***	0.6%	0.0%	-14.5%	◆	◆	◆
ILIM Sustainable Global Market Index	0.6%	0.1%	-14.5%	◆	◆	◆
EMPOWER Cash Fund	0.1%	0.1%	-0.3%	-0.5%	-0.5%	-0.5%
3-Month EURIBID Rate	0.4%	0.5%	0.2%	-0.3%	-0.4%	-0.4%

*Available individually and also used as part of the Personal Lifestyle Strategy.

**Available only as part of the Personal Lifestyle Strategy.

***This is a new fund so only short-term returns are available.

◆ Historic Information not available.

Source of information: Irish life Investment Managers past performance is not a reliable guide to future performance. Fund returns are shown net of all fees and expenses as at 31.12.2022.

Personal Lifestyle Strategy (PLS)

Most members of the National Federation of Voluntary Service Providers Pension & Life Assurance Scheme are invested in the Irish Life EMPOWER Personal Lifestyle Strategy (PLS).

PLS puts you in funds designed to achieve investment growth while at the same time balancing investment risk. From 20 years to retirement your pension fund will switch on a gradual basis into funds with lower risk and return expectations than from the early growth stage. From 6 years from your retirement date, PLS moves your pension fund into investments that best match how you are most likely to draw down your pension benefits on retirement. It does all the work for you. Please go to <http://www.fedvol.ie> (pensions tab) for the flyer on PLS.

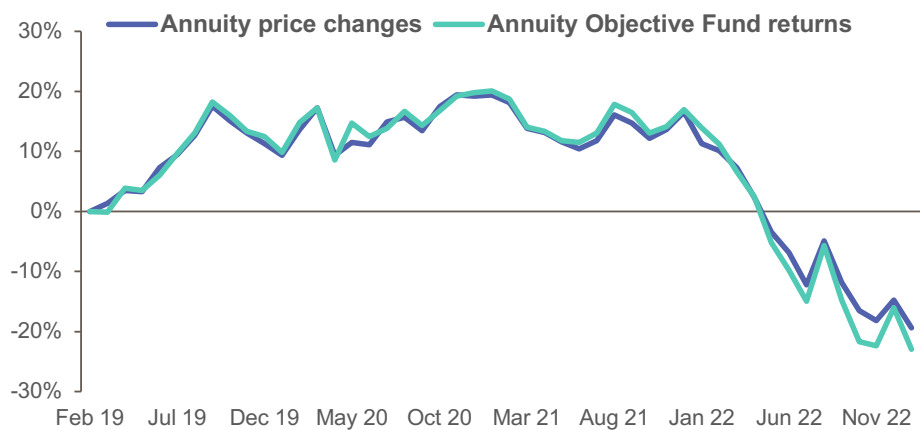
Self-Select funds

However, you don't have to participate in PLS and can instead select a fund or mix of funds that suit you best from the six standalone funds available. We typically see people make selections based on how long they have to retirement or when they will need the money. When that time frame is 10 years or more, it may be more appropriate to consider funds with higher long term expected growth although these funds also carry higher short-term risks. It is prudent to consider moving to lower risk funds as you get closer to needing the money.

When self-selecting funds, it is particularly important to understand and consider your appetite for risk and tolerance for loss i.e., how much negative performance will you or can you endure. It is also crucial to be aware of the impact that volatile stock markets can have on your decision making. Market highs and lows can often prompt investors to act when it is ultimately detrimental to their long-term interests, whether over confidence when markets are strong or no confidence when they are weak.

A close relationship between annuity prices and annuity fund returns

As detailed below, returns of the EMPOWER Annuity Objective Fund fell significantly in 2022, reflecting the increase in bond yields and the falls in bond fund values. However, the prices of annuities which are also linked to bond yields, also fell significantly. This meant the purchasing power for members funds who are most likely to purchase an annuity was broadly maintained. A close relationship between annuity price changes and annuity fund returns has been shown to exist over time as illustrated in the chart below, which shows how changes in annuity prices have closely matched the returns from the EMPOWER Annuity Objective Fund since the start of 2019. This is why the EMPOWER Annuity Objective Fund is used in PLS.



Source: Irish Life Investment Managers. Period is January 2019 to 31 December 2022.

Warning: The value of your investment may go down as well as up.
Warning: If you invest in this fund you may lose some or all of the money you invest.
Warning: These funds may be affected by chnages in currency exchange rates.
Warning: Past performance is not a reliable guide to future performance.



Benefits of Monthly Contributions

Buying when prices are lower makes sense. With monthly contributions you continue to buy units during periods of equity market weakness when unit prices fall which means you get more units for your contribution. The benefit is that your fund value will increase faster as markets recover.

Switching when equity markets are performing negatively

In times of uncertainty or equity market volatility, it can be tempting to switch some or all of your retirement savings to lower risk funds or even cash. While this is provided as a free option, it is worth remembering that even professional investors find it difficult, if not impossible, to consistently time when markets will rise or fall. More often, people are driven by sentiment and may exit funds when they have already fallen only to buy them back later at a higher price when stock markets have recovered. This simply erodes the value of your savings over time. Getting invested and staying invested has been shown to be the most effective strategy over time.

Irish Life Investment Managers March 2023

Information correct as at March 2023.

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