

# Coronavirus Update

2<sup>nd</sup> March 2020

## Covid 19 – Coronavirus Update

- Covid 19 has been around since mid-January and while markets have only been impacted modestly to date, they have weakened significantly in the last few days.
- The initial concerns focused on China as it represents 17% of global economy.
- China appears to have the virus under control with the number of new cases now falling and commercial activity levels appear to be slowly rising.
- However, the virus has now spread to every continent prompting renewed concerns on the potential impact on global growth.
- Most recently, the outbreak in Italy has seen new cases rise from 3 to 655 in short order.
- Global Shares have fallen c.11.5% from their high on Wednesday 19<sup>th</sup> February (see table on page 2). Recent returns were particularly weak for the S&P 500 in the US.
- As a result, an increasing number of companies have issued profit warnings recently in anticipation of the impact the outbreak may have. Notable names include Microsoft.
- The expectation now is for an extended period of slower global growth.

## Irish Life MAPS Performance

Irish Life's MAPS are Multi-Asset Portfolio Funds provided by Irish Life Assurance and are available on Irish Life's life and pension plans. Irish Life Investment Managers is the appointed investment manager on the Irish Life MAPS funds.

The table below shows the defensive qualities of MAPS at work. Although down in absolute terms, they are materially ahead of global shares due to a combination of significant diversification and risk management strategies. Over 75% of investors are invested in MAPS 2, 3 or 4.

	MAPS 2	MAPS 3	MAPS 4	MAPS 5	MAPS 6
<b>MAPS Fund Performance</b>	-2.30%	-4.10%	-5.90%	-7.40%	-8.30%
<b>Global Shares</b>	-11.52%	-11.52%	-11.52%	-11.52%	-11.52%
<b>Difference</b>	9.22%	7.42%	5.62%	4.12%	3.22%

Source: ILIM, performance is gross of fees, charges and tax. Period is 19-27<sup>th</sup> Feb 2020. Global Shares is based on MSCI ACWI.

**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 changes in currency exchange rates.**

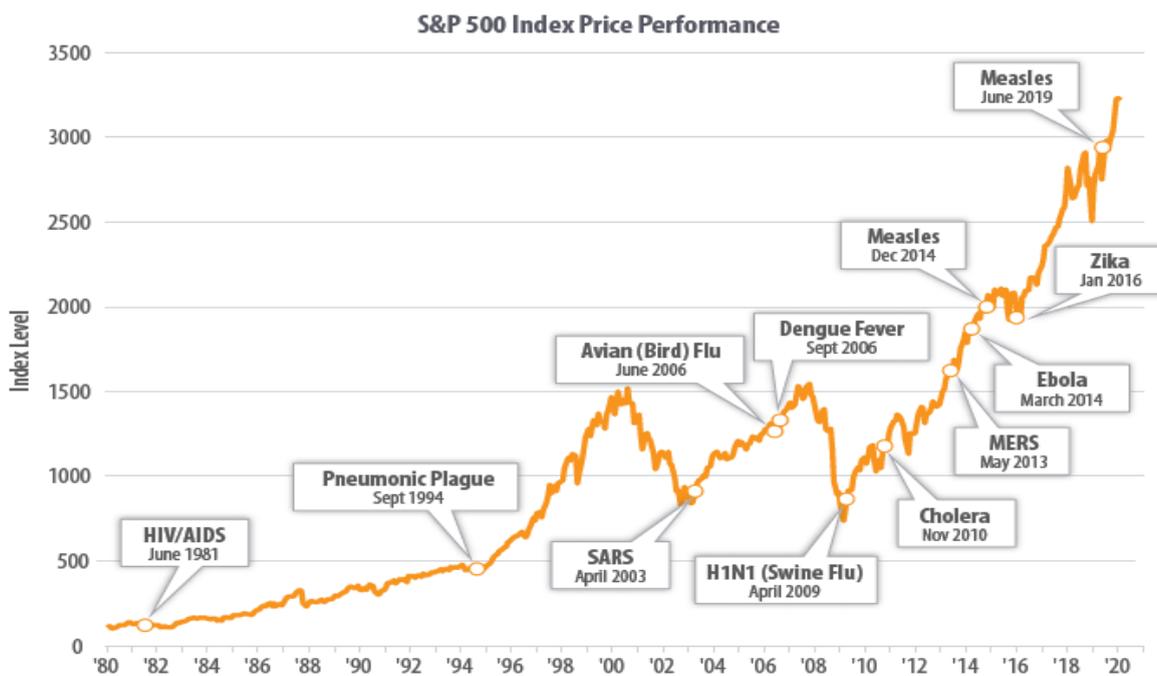
**Warning: Past performance is not a reliable guide to future performance.**

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## Short Term Market Impact

- **Global shares**
  - Down c.11.5% from highs of February 19<sup>th</sup> to the close of markets on Feb 27<sup>th</sup>
- **Bonds**
  - Safe haven assets in demand e.g. bonds.
  - Bond prices rising as yields fall
    - US 10yr bonds yields at all-time low of 1.16%
    - German 10yr bond yields at -0.62%
- **Interest rates**
  - The US is now expected to cut interest rates 2/3 times to avoid a slow-down.
- **Volatility**
  - Market uncertainty is measured by the VIX index. It is currently just over 40, a level only broken seven times since 2000 and peaked at 80 in 2008. This is its highest level since 2015.

There have been many events like Covid 19 since 1980 which caused short term volatility and uncertainty in stock markets but historically, they have always recovered over time. Staying invested has been critical.



Source: Bloomberg as at 24/2/2020

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## Irish Life MAPS

- *Irish Life's MAPS is well diversified across and within asset classes, by sector, by currency, by manager and by strategy. While it is invested in shares for long term growth, **it is also invested in safe haven assets like bonds which can reduce the overall impact when markets fall.***
- *Risk management also helps Irish Life MAPS deliver in the current environment. For example:*
  - 1) *The **Option Strategy** does not incur the first 5% of a fall in stock markets in any given month and **gets paid more for selling options when volatility is high**, as it is now.*
  - 2) *The **Global Low Volatility** strategy invests in lower volatility shares which should be **less impacted by falling markets.***
  - 3) *DSC aims to reduce the exposure to shares and invest in cash when there are signs of market stress.*
- *Extensive diversification and our risk management strategies have helped Irish Life MAPS deliver strong, **consistent performance over time and in line with the expected Range of Returns.***

Irish Life MAPS diversification and risk management continues to provide protection against the full impact of broader stock market falls.

## Dynamic Share to Cash (DSC) Update

A core part of risk management in Irish Life MAPS is DSC. It monitors 9 individual stock market signals to assess where there are potential signs of stress. It is important to note that it is not designed to react to short term jumps or shocks. At the time of writing, the recent weakness in global share markets has caused DSC to trigger and de-risk the equity component within MAPS by c.26%.

In MAPS 3 for example, this means global share exposure is reduced from 22% of the fund to 16.3% with 5.7% now invested in cash. In MAPS 4, this means global share exposure is reduced from 33% of the fund to 24.4% with 8.6% now invested in cash. MAPS allocations to global shares are listed on fund factsheets.

The DSC position will be updated in monthly factsheets.

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*Past performance, forecasts and simulated performance may not be a reliable guide to future performance  
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*Changes in currency exchange rates may have an adverse effect on the value, price or income of the product.*

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