

Group Pension Managed Funds Update to 31st January 2006

Summary

Group Pension Managed Funds consolidated the gains of 2005 with a positive month in January. The first month of the new year saw funds return 2.2% on average. Over the past twelve months, the average fund return was an excellent 21.7%. Over the three years to 31 January 2006 the average fund return has been a healthy 16.8% per annum. In the five-year period ended 31 January pension managed funds have, on average, returned a somewhat disappointing 2.9% p.a., reflecting the equity bear market of the early 21st century. In contrast, however, the ten year period to the end of January saw an average return of 9.9% per annum. When considering these returns it is important to remember that the investment horizon of most pension schemes is generally over 25 years, and that equities have historically provided significantly higher returns over the long term than bonds, property or cash, although at the cost of greater volatility.

Market Review

Following on from a great 2005, equity markets continued to move upwards in January. However, it was not all plain sailing, as markets experienced a volatile month. In local currency terms, most equity markets were up between 2% and 3% over the month. Much of the performance of US and Asian equities was eroded for euro denominated investors by the weakening of the dollar against the euro by 2.6%. The Japanese yen fell 2.3% versus the euro, eroding the return on Japanese equities. The euro/sterling exchange rate was virtually unchanged during January.

The ISEQ index of Irish equities rose by 2.7% over the month. Financial shares outperformed the market as a whole, rising 3.1%. Anglo Irish Bank placed €15 million worth of shares, and later predicted that strong trading would continue throughout 2006. Controversial pharmaceutical stock Elan had a volatile month. Expectation rose that the multiple sclerosis drug Tysabri would return to the market in 2006, while progress on the company's Alzheimer's drug also attracted attention from investors. The company's year-end results were also well received, as they showed lower net losses than had been anticipated. Elan's share price rose 10.1% in January. Independent News & Media rose 5.5% over the month, as Denis O'Brien acquired a 3% stake in the company. Ryanair fell 6.9%, amid rising oil prices.

UK equities had a good month. Strong Christmas sales boosted the retail sector, while rising oil prices and record high commodity prices boosted energy and mining stocks. Merger and acquisition activity, a major feature in 2005, continued into the new year. P&O were the object of a bidding war, with interest from Singapore's Temasek and Dubai's DP World. The Looker's deal for Reg Vardy was disrupted by a proposed three-way bid by Pendragon, which aims to bring both companies under Pendragon's control. Corus was viewed as a takeover target, as Mittal Steel launched a hostile takeover bid for Arcelor, a move which would create the world's largest steel company. Rumours emerged that WH Smith were eyeing up competitor Woolworth. The telecoms sector was weak during January. A second profits warning in four months from France Telecom had a detrimental impact on telecoms stock across Europe and the UK. More bad news for the British telecom sector came in the form of an announcement by Tesco of their intention to launch a low-cost, internet-based telephony service.

US equities rose 2.5% (in dollar terms) during January. Technology stocks fared better than the rest of the market, with the tech-based Nasdaq index rising an impressive 4.6% over the month. Fourth quarter earnings results were generally positive. In the auto sector, General Motors announced a \$5 bn loss, their largest since 1992. Despite this, the shares rose 23.9%, reversing some of the 50% fall in 2005. Ford Motors rose 12.5%, announcing plans to shed 25,000 jobs and close 7 plants. Corporate activity continued apace, with Boston Scientific outbidding Johnson & Johnson for Guidant, and Walt Disney's purchase of rival Pixar. On 31 January, Alan Greenspan raised interest rates by 25 basis points in his final act as Chairman of the Federal Reserve. He is replaced by Ben Bernanke. Greenspan's final statement omitted the oft-repeated phrase regarding "further measured increases", leaving the path clear for Bernanke to bring the interest rate rise to a halt in the near future.

European equities had a mixed month. Although the rising oil price boosted energy stocks, the announcement by Respol of a 25% cut in proven reserves rocked the sector. Telecoms were hit by the second profits warning in four months by France Telecom. On a more positive note, technology stocks were strong, while German investor sentiment improved to its highest level in 2 years. Mittal Steel's hostile approach to Arcelor boosted steel stocks. Switzerland's Adecco (the world's largest recruiter of temporary staff) made a cash bid for German rival DIS, while Deutsche Bourse rose amid speculation of a merger with Euronext.

Following a stellar performance in 2005, Japanese equities slowed down somewhat in January. At the beginning of the month, the market continued to surge forward, reaching new five-year highs. However, the news that internet service provider Livedoor was under investigation for violation of securities law hit sentiment in the second half of the month. The market overcame this setback quite quickly, boosted by positive economic releases. Retail sales rose in 2005 for the first time in 9 years, the Tankan survey showed the most upbeat outlook since 1998 and inflation rose for the second consecutive month for the first time since 1998.

Pacific Basin equities were strong over the month. Singapore shares reached a 6 year high as fourth quarter GDP came in at 10%, while the Shanghai market was boosted by the opening of the market to foreign investors. Positive news from Hyundai, Sharp, Hynix Semiconductor and Samsung boosted markets. Hong Kong rose to its highest level in almost 5 years in anticipation of interest rates nearing their peak.

Eurozone bonds fell back slightly over the month, as yields finally started to move upwards. Bond prices have been kept high in recent months by excess demand. The supply side eased somewhat this month, with France, Spain and Germany issuing new debt.

Tables

1. Group Pension Managed Fund Returns to 31st January 2006

	Investment Returns to 31 January 2006				
	1 Month %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	2.5%	22.7%	16.6%	1.3%	8.7%
Bank of Ireland Asset Management	1.8%	17.8%	15.0%	4.3%	10.4%
Canada Life/Setanta	1.6%	20.3%	16.4%	1.6%	8.6%
Eagle Star	2.7%	23.2%	17.5%	4.2%	10.3%
Friends First/F&C	2.2%	22.5%	17.2%	2.9%	10.2%
Hibernian Investment Managers	2.8%	20.5%	16.6%	3.0%	10.1%
Irish Life Investment Managers	1.8%	22.7%	18.4%	4.2%	10.0%
KBC Asset Management	2.5%	22.7%	15.8%	0.5%	8.8%
Oppenheim Investment Managers	2.7%	21.5%	16.6%	3.5%	12.8%
Standard Life Investments	2.0%	23.1%	17.7%	3.1%	8.9%
<i>Average</i>	2.2%	21.7%	16.8%	2.9%	9.9%

2. Equity Market Index Returns to 31st January 2006

Region	1 Month		12 Months	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	2.7%	2.7%	20.8%	20.8%
UK	2.7%	3.2%	23.1%	24.5%
North America	3.0%	0.2%	13.1%	21.9%
Eurozone	4.0%	4.0%	28.5%	28.5%
Rest of Europe	2.6%	2.8%	38.0%	37.4%
Japan	4.1%	2.0%	51.5%	43.7%
Pacific Basin	3.4%	3.3%	28.2%	38.4%