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Group Pension Managed Funds Update to 31st January 2007

Summary

Group pension managed funds made gains during January, consolidating the strong returns experienced during 2006. Among the ten main managed fund providers, returns during January ranged from a low of 0.3% (from Bank of Ireland Asset Management and Friends First/F&C) to a high of 1.1% (achieved by AIB Investment Managers). The average fund achieved a respectable 0.7% over the month. Returns for the past twelve months were strong at 11.3% on average, with individual returns ranging from 8.5% (Setanta) to 13.1% (AIBIM and Standard Life Investments). Over the past three years, the average managed fund has shown a gain of 14.2% per annum. For the five year period to the end of January, the average performance is a more modest 7.0% per annum. Returns over the past ten years, which include all of the impact of the bursting of the technology bubble in 2000 and the subsequent bear market, have been a healthy 9.4% per annum on average. 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

Equity markets made solid gains during January. In Europe, merger & acquisition activity and positive economic data continued to support bourses. In the US, better than expected employment data and consumer confidence numbers, combined with above expectation fourth quarter earnings results, were positive. A significant fall in oil prices also supported markets globally, although the oil price rallied somewhat towards month end. In the UK, an unexpected 0.25% interest rate hike took its toll on investor sentiment.

Irish equities underperformed their global counterparts during January, falling 2.2% over the month. This was as a result of a combination of factors. Having been the best performing market during 2006, the domestic bourse was subject to profit-taking in January. On the economic front, inflation rose to 4.9%, increasing concerns over Ireland's competitiveness. C&C, the star performer during 2006, saw a substantial fall in its share price, as concerns increased over the growth potential for Magners in the UK. CRH also fell back as the US housing market continued its slowdown.

In the UK, the resource-heavy stock market declined marginally in the wake of falling oil and commodity prices. Irish investors, however, saw a gain of 1.2% on their holdings, as sterling strengthened following an unexpected interest rate increase by the Bank of England. This was widely seen as an attempt to slow inflation, which rose to 3% in December, well ahead of the Bank's target of 2%. Consumer spending remains strong, with rising house prices, falling unemployment and a record number of people in the workforce.

US equities returned 1.7% in dollar terms, which rose to 3.1% for Irish investors as the dollar recovered some ground against the euro. The launch of the Apple iPhone, and strong results from a number of companies in the sector supported technology stocks. Airlines also fared well, thanks to continuing consolidation in the sector and lower oil prices. On the other hand, lower oil prices meant that energy and utility stocks lagged the market. Strong corporate earnings were welcomed, as 83% of companies that delivered fourth quarter results by the end of January matched or exceeded expectations.

European markets continued to benefit from merger and acquisition activity. Speculation focused on auto, tobacco and metal stocks. As elsewhere, the drop in oil prices supported airline stocks but had a negative impact on energy companies. The European Central Bank kept rates on hold, while hinting that rates would rise in March. This was in line with consensus expectations. The Euro economy continues to improve, as evidenced by a record low unemployment level for the region of 7.6%. Inflation also appears to be stable, at just under 2%. As a result, the markets of the Euro region returned 2.2% over the month, while the rest of Europe rose 4%.

Japanese equities rose 2.2% during January in yen and euro terms. The Bank of Japan kept interest rates on hold at 0.25%, appearing to cave in to political pressure. Economic growth and inflation in the country slowed towards the end of 2006, which may also have been a factor. Property companies rallied on the interest rate decision.

Despite several markets reaching all-time record levels, the index for the Pacific Basin region as a whole rose just 0.5% in January. South Korea was the worst performing market, with a decline of 3.6% over the month. Singapore was the star performer of the region with a return of 4.5%. Chinese economic growth remained strong, at 10.7% in 2006. An increase in capital requirements for commercial banks was introduced in an attempt to take some of the heat out of the economy. Hong Kong & China returned 2.7% over the month.

Economic data reinforced expectations of a soft landing in the US. As a result, interest rate cuts appear less likely. In Europe, interest rates are expected to rise to at least 4% by the end of 2007. These interest rate outlooks had a dampening effect on bond prices. This was good news for pension funds, as annuity prices move in line with bond prices.

Tables

1. Group Pension Managed Fund Returns to 31st January 2007

	1 Month %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	1.1%	13.1%	15.0%	6.2%	8.5%
Bank of Ireland Asset Management	0.3%	9.0%	11.9%	6.9%	9.5%
Canada Life/Setanta	1.0%	8.5%	13.0%	5.7%	8.2%
Eagle Star	0.7%	12.1%	15.6%	8.2%	9.8%
Friends First/F&C	0.3%	11.4%	14.4%	7.2%	9.3%
Hibernian Investment Managers	0.5%	11.5%	14.1%	7.1%	9.7%
Irish Life Investment Managers	0.8%	11.7%	15.3%	7.9%	9.7%
KBC Asset Management	0.8%	11.8%	13.6%	5.4%	8.5%
Oppenheim Investment Managers	0.6%	10.9%	13.6%	7.3%	12.1%
Standard Life Investments	1.0%	13.1%	15.6%	7.8%	8.5%
Average	*0.7%*	*11.3%*	*14.2%*	*7.0%*	*9.4%*

2. Equity Market Index Returns to 31st January 2007

Region	1 Month		12 Months	
	Local Ccy	*Euro*	*Local Ccy*	*Euro*
Ireland	-2.2%	-2.2%	24.5%	24.5%
UK	-0.3%	1.2%	11.6%	14.9%
North America	1.7%	3.1%	14.4%	6.8%
Eurozone	2.2%	2.2%	21.2%	21.2%
Rest of Europe	4.0%	3.5%	23.1%	20.5%
Japan	2.2%	2.2%	4.7%	-5.3%
Pacific Basin	0.5%	0.8%	18.6%	12.1%

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