

Group Pension Managed Funds Update to 31st January 2008

Summary

Having declined 2.6% during 2007, Irish pension funds continued to struggle during January, with the average fund declining a further 6.7% over the month. This represents the largest fall in a single month since September 2002. Setanta Asset Management were the best performing manager over the month with a return of -5.2%. Friends First/F&C delivered the weakest performance over the month, declining 7.7%. Irish pension funds have now lost almost 10% of their value over the past twelve months. As a result of these recent losses, the average managed fund has shown a gain of just 6.9% per annum over the past three years. The five year returns to the end of January, however, remain strong, with the average managed fund delivering a return of 9.8% per annum over this period. Returns over the past ten years have been a disappointing 5.0% 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

January was an exceptionally volatile month across global equity markets. Once again, concerns over uncertainty in the US sub-prime mortgage market, tight credit conditions and worries over the US economy and its global implications continued to spook investors worldwide. The Federal Reserve cut interest rates on two occasions during January, bringing US interest rates down from 4.25% to 3.0%. Meanwhile, both the ECB and the Bank of England held interest rates, at 4.0% and 5.5% respectively. Short-dated government bond prices rose by 2.9% over the month as investors continued to seek "safe-haven" assets due to the current level of uncertainty in equity markets. Meanwhile, January saw gold and platinum prices reaching record highs.

Irish equities delivered the best returns over the month, with a fall of 3.9%. In the early part of the month, the declining state of the US economy and growing fears of a US recession weighed heavily on banking stocks. However, following the interest rate cuts in the US, the market rallied somewhat towards month end. Elan received good news in January, with the US Food and Drug Administration announcing the approval of its Tysabri product for the treatment of Crohn's Disease.

UK equities fell 8.8% in sterling terms over the month. As in most other regions, recessionary fears regarding the US economy dampened UK markets during the month. Evidence of a slowdown in consumer spending emerged as Marks & Spencer announced it had experienced its worst quarterly sales in almost two years. Indeed, the British Retail Consortium commented that retailers had experienced their worst Christmas in 3 years. Despite this, the Bank of England held interest rates at 5.5% with their concerns over rising inflation outweighing their worries over falling economic growth. Unsettled by stocks with exposure to consumer spending, investors sought sectors with defensive characteristics, such as pharmaceuticals and tobacco.

Despite a 1.25% reduction in interest rates by the Federal Reserve and a variety of measures announced by President Bush, US equities fell 5.9% in dollar terms during January. Growing concerns emerged that the economy is slipping into a recession, with 2007 being the weakest year for consumer spending since 2002, while the unemployment rate rose to a two-year high of 5.0%. Consequently, many retailers lowered their earnings forecasts. The Federal Reserve cut interest rates on two occasions during January. An emergency cut of 0.75% a week before its scheduled meeting was designed to calm markets following heavy losses. This was the largest single cut in interest rates since 1982 and the first emergency cut since the September 11th terrorist attacks. A further 0.5% cut followed at their scheduled meeting a week later. US interest rates now stand at 3.0%, compared with 4.25% at the start of the year. Markets were given a further boost with President Bush announcing a \$150 billion fiscal stimulus package to help soften the US economic slowdown and boost consumer spending.

Eurozone equities were the worst performing bourse over the month with a fall of 12.9%, while the Rest of Europe performed slightly better falling 11.5%. The ECB held interest rates at 4.0%. Despite the continued hawkish commentary from the ECB and their continued concern over inflation, it is believed that Eurozone interest rates are at their peak, and may be cut later in the year. In France, Société Générale announced that it had uncovered €50 billion of unauthorized trading activity by a single rogue trader, which resulted in losses of €4.9 billion. The closing out of this position exacerbated market volatility, with European equities posting their largest single day loss since September 2001 on Monday 21st January, followed on Thursday 24th by the largest one-day gain since March 2003.

The Japanese stock market ended the month with a return of -8.8% in yen terms. During the month Japanese equities experienced their lowest close in over two years due to worries regarding the domestic economy and continued uncertainty over the extent of sub-prime losses. Markets in the region remain sensitive to the state of the US economy and, in particular, the possibility of a recession there. During the month, the Bank of Japan held interest rates at 0.5%.

Having been the best performing major market in 2007, Pacific Basin equities were one of the weakest over the month of January, declining 11.9% in local currency terms. Recession fears in the US sparked substantial sell-offs mid-month over concerns of lower demand from the region. Despite suffering one of their largest ever one-day falls later in the month, most of these losses were recovered as expectations grew that the US economy may avoid a recession. In China, an announcement regarding tighter price controls to halt rising food and energy costs dampened share prices.

Tables

1. Group Pension Managed Fund Returns to 31st January 2008

	1 Month %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-7.1	-7.0	8.9	10.8	4.6
Bank of Ireland Asset Management	-5.8	-13.3	3.6	7.5	5.2
Canada Life/Setanta	-5.2	-7.9	6.3	9.5	4.5
Eagle Star	-6.5	-6.6	8.8	11.2	5.6
Friends First/F&C	-7.7	-11.0	6.7	9.8	4.6
Hibernian Investment Managers	-7.2	-9.3	6.8	9.9	5.3
Irish Life Investment Managers	-6.7	-10.2	7.2	10.8	5.4
KBC Asset Management	-7.6	-13.2	6.0	8.5	3.7
Oppenheim Investment Managers	-5.3	-7.3	7.7	10.2	7.2
Standard Life Investments	-7.6	-12.1	6.9	10.2	4.2
Average	-6.7	-9.8	6.9	9.8	5.0

2. Equity Market Index Returns to 31st January 2008

Region	1 Month %		12 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	-3.9	-3.9	-25.9	-25.9
UK	-8.8	-10.1	-2.0	-12.7
North America	-5.9	-7.2	-1.6	-12.8
Eurozone	-12.9	-12.9	-7.3	-7.3
Rest of Europe	-11.5	-10.0	-14.7	-14.9
Japan	-8.8	-5.4	-20.4	-20.5
Pacific Basin	-11.9	-12.5	10.5	3.1

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