

Group Pension Managed Funds Update to 28th February 2006

Summary

Group Pension Managed Funds had another good month in February, as funds returned 1.8% on average. This brings the return for the first two months of 2006 to 4.1% on average. Over the past twelve months, the average fund return was an excellent 22.7%. Over the three years to 28 February 2006 the average fund return has been a healthy 18.1% per annum. In the five-year period ended 28 February pension managed funds have, on average, returned a somewhat disappointing 4.0% p.a., reflecting the equity bear market of the early 21st century. In contrast, however, the ten year period to the end of February saw an average return of 10.1% 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

Equity markets experienced another strong month, although bourses were volatile during February. Economic data was generally positive, earnings results were mixed, commodity prices rose to record levels before falling back, and merger and acquisition activity was rife. The oil price fell back over the month, due to unexpectedly large increases in US petroleum inventories. An Al-Queda attack on an oil refinery in Saudi Arabia drove oil prices up slightly at the end of the month.

The ISEQ index of Irish equities rose by 4.9% over the month. Financial shares outperformed the market as a whole, rising 6.4% on strong mortgage lending data and on the back of merger and acquisition activity in the European banking sector. Eircom (+19.5%) rose strongly amid bid speculation. Elan experienced a good news month, with strong results announced at the end of January followed by the sale of its rights to the pain-relieving drug Prialt and a lifting of the ban on clinical trials of Tysabri. However, the share price did not reflect this good news. Economic data also supported the market. Consumer spending reached a five year high of 6.5% per annum, property prices rose by 9.3% in 2005 and employment grew at its fastest pace since 2000. The maturing of SSIA's, due to start in April 2006, is expected to support consumer confidence over the next 18 months.

In the UK, equity markets rose during February. Again, corporate activity made headlines. Speculation surrounded Llyods TSB linking up with Banco Bilbao Vizcaya, Citibank's interest in Royal Bank of Scotland, rumoured bids for House of Fraser, HMV, BAA, Reg Vardy, Lonmin and Cairn Energy, and L'Oreal's interest in The Body Shop. Kingfisher struggled, as sales fell for the fifth quarter in a row. Banks delivered strong profits, boosting the sector. The last day of the month saw the largest one day fall of the year, on the back of negative economic news from the US.

US equities were somewhat weaker than their European counterparts. Several of the largest companies announced disappointing fourth quarter results, leading to concerns over the health of US corporates. These included Google, Amazon, Gateway, Citigroup, Altria, Toll Brothers and Gap. However, some firms had a more positive season, including Boeing, ExxonMobil, Oracle, Cisco Systems, Dell and Hewlett-Packard. Pfizer performed strongly over the month, as investors responded positively to the news that they were considering selling their consumer products division to concentrate more on pharmaceutical development. Merrill Lynch and Blackrock announced a merger of their asset management divisions, resulting in a firm with over \$1,000 billion assets under management. Oil stocks had a difficult month as a result of the falling oil price.

European equities experienced an excellent month. The ECB kept interest rates on hold in February, although a widely anticipated 25bps increase was delivered on 2 March. As elsewhere, the market was supported by corporate activity. Some of the companies making headlines included: L'Oreal, who are considering a bid for the UK's Body Shop; Arcelor, who rejected a hostile bid from Mittal Steel; Portugal Telecom, who were approached by Sonae; Telefonica, on rumours that it is expected to bid for full control of Brazilian telecoms firm Vivo; BNP, flowing a bid for Italian bank Banca Nazionale del Lavoro; EON, who made a €29 bn bid for Spain's Endesa. Royal Dutch Shell disappointed the market with the announcement of a downward revision of the value of their reserves. Volkswagen's announcement of a restructuring plan was well received, as was the news that Nokia would combine its underperforming CDMA handset business with Sanyo's.

Japanese equities had a volatile month, as speculation increased that the Bank of Japan would increase interest rates from the current zero percent level. Economic data was strong, with industrial production rising by 2.7% in quarter 4 and rents in central Tokyo increasing for the first time in five years. Overseas investors briefly became net sellers of Japanese equities for the first time since September, but were moving back into the market by month end.

Equity markets in the Pacific Basin had a mixed month. Australian equities underperformed due to weakness in commodity markets. Taiwan fell back over concerns that plans to scrap a policy-making body on unification with China would spark tensions in the Taiwan Strait.

Eurozone bond yields rose to over 3.5% at one point during February, but ended the month virtually unchanged.

Tables

1. Group Pension Managed Fund Returns to 28th February 2006

	Investment Returns to 28 February 2006					
	1 Month %	2 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	1.4%	3.9%	23.3%	17.7%	2.5%	8.8%
Bank of Ireland Asset Management	2.3%	4.1%	18.8%	16.6%	5.4%	10.5%
Canada Life/Setanta	1.5%	3.2%	20.4%	17.4%	2.9%	8.9%
Eagle Star	1.9%	4.6%	24.2%	18.8%	5.4%	10.6%
Friends First/F&C	1.8%	4.0%	23.6%	18.5%	4.2%	10.4%
Hibernian Investment Managers	1.6%	4.4%	21.3%	17.9%	4.3%	10.3%
Irish Life Investment Managers	2.1%	4.0%	23.9%	20.1%	5.2%	10.2%
KBC Asset Management	1.6%	4.2%	23.2%	17.0%	1.7%	9.0%
Oppenheim Investment Managers	1.8%	4.5%	23.1%	18.1%	4.4%	13.0%
Standard Life Investments	2.1%	4.1%	24.8%	19.0%	4.2%	9.1%
Average	1.8%	4.1%	22.7%	18.1%	4.0%	10.1%

2. Equity Market Index Returns to 28th February 2006

Region	1 Month		2 Months	
	Local Ccy	Euro	Local Ccy	Euro
Ireland	4.9%	4.9%	7.7%	7.7%
UK	1.0%	1.3%	3.6%	4.6%
North America	-0.1%	1.8%	2.9%	2.0%
Eurozone	3.0%	3.0%	7.2%	7.2%
Rest of Europe	1.8%	1.0%	4.4%	3.8%
Japan	-2.0%	0.9%	2.1%	2.9%
Pacific Basin	0.1%	0.8%	3.5%	4.1%