

Group Pension Managed Funds Update to 28th February 2007

Summary

Group pension managed funds lost ground during February, as stock markets around the world declined dramatically on the last two days of the month. Among the ten main managed fund providers, returns during February ranged from -1.2% (from Bank of Ireland Asset Management) to 0.0% (achieved by Standard Life Investments). The average fund declined 0.5% over the month. Even so, over the first two months of the year the average fund has made a gain of 0.2%. Returns for the past twelve months were a respectable 8.7% on average, with individual returns ranging from 5.3% (BIAM) to 11.0% (AIBIM). Over the past three years, the average managed fund has shown a gain of 13.5% per annum. For the five year period to the end of February, the average performance is a more modest 7.1% 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 9.0% 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

During most of February, stock markets continued to rise, following on from strong performances in January and 2006. Interest rates were kept on hold in Europe, the US and the UK. Economic data was relatively positive. In the US, the outlook for inflation appears to be moderating, while economic growth seems to be recovering. This data implies a soft landing for the world's most influential economy. However, equity markets were shocked on February 27th when the Shanghai stock market plummeted by over 9%. This appears to have been in response to government plans to introduce capital gains tax, to clamp down on illegal share offerings and to ban borrowing to invest in shares. In addition to the fall in China, stock markets were affected by negative news from the US.

In Ireland, domestic consumption grew at its fastest pace in six years during 2006, while in February the ISEQ breached the 10,000 level for the first time. The stock market rose 2.2% over the month, despite a sharp decline in the final two days. In terms of share news, last year's star performer C&C fell back sharply after they announced an increased marketing spend which is expected to impact on profits.

UK equities declined 0.3% over the month. The somewhat defensive nature of the UK stock market, which is heavily exposed to utilities and resource companies, protected investors to some extent. Another significant support was merger and acquisition activity, which appears to be picking up pace.

US equities fell by 1.8% in dollar terms over the month, despite the S&P 500 reaching a 6-year high during February. Negative comments from former Federal Reserve Chairman Alan Greenspan on the likelihood of the US economy falling into recession, combined with weak durable goods orders and a crisis in the sub-prime mortgage lending market all contributed to investor nervousness.

Merger and acquisition activity continued to support markets in Europe. During February, this activity helped European markets reach 6-year highs. However, the markets were swept along in the global decline at the end of the month. Companies that announced below-forecast earnings for 2006 were particularly out of favour. The Eurozone region declined 1.5% on the month, while the rest of Europe fell back 3.4%.

Japan enjoyed strong economic growth during the fourth quarter of 2006. The Bank of Japan raised interest rates by a further 0.25% to 0.50% during February. The Bank explained that this was in response to the improving economy and higher consumer spending. The Topix reached a 15-year high on February 26th before falling back in line with other markets. The FT Japan index returned 1.7% for the month as a whole.

Having hit record highs at the start of the month, and having doubled in value since June 2006, the Shanghai stock market experienced a 9% correction on February 27th. This, combined with negative economic news from the US, was the catalyst for the global stock market decline. Despite this, the Pacific Basin region ended the month in the black, with a return of 1.6%. Returns across the region ranged from a high of 5.2% in South Korea to a low of -3.5% in New Zealand.

The decline in equity markets sparked a flight to safety, resulting in a rise in bond prices. Bond yields in Europe are now back down to the level they were at the beginning of the year.

Tables

1. Group Pension Managed Fund Returns to 28th February 2007

	1 Month %	2 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-0.6	0.5	11.0	14.4	6.5	8.1
Bank of Ireland Asset Management	-1.2	-0.8	5.3	11.1	6.6	9.1
Canada Life/Setanta	-0.9	0.1	5.8	12.0	5.9	7.8
Eagle Star	-0.4	0.3	9.6	14.8	8.3	9.4
Friends First/F&C	-0.4	-0.1	9.0	13.8	7.4	8.9
Hibernian Investment Managers	-0.4	0.1	9.3	13.3	7.2	9.4
Irish Life Investment Managers	-0.3	0.6	9.1	14.6	8.0	9.3
KBC Asset Management	-0.8	0.0	9.2	12.9	5.7	8.2
Oppenheim Investment Managers	-0.4	0.2	8.4	13.2	7.4	11.6
Standard Life Investments	0.0	1.0	10.7	15.0	8.0	8.2
Average	-0.5	0.2	8.7	13.5	7.1	9.0

2. Equity Market Index Returns to 28th February 2007

Region	1 Month %		2 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	2.2	2.2	0.0	0.0
UK	-0.3	-1.8	-0.5	-0.6
North America	-1.8	-3.3	-0.1	-0.3
Eurozone	-1.5	-1.5	0.6	0.6
Rest of Europe	-3.4	-3.6	0.5	-0.2
Japan	1.7	2.2	4.0	4.4
Pacific Basin	1.6	0.6	2.0	1.3

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