

Group Pension Managed Funds Update to 29th February 2008

Summary

Due to the recent downturn in equity markets, Irish group pension managed fund returns over the past ten years have been a disappointing 4.1% per annum on average, just 0.4% ahead of Irish inflation over the same period. Indeed, half of the funds surveyed lagged the inflation rate of 3.7% per annum.

Having declined 6.7% during January, Irish pension funds continued to struggle during February, with the average fund declining a further 1.3% over the month. Standard Life Investments were the best performing manager over the month with a return of -0.3%. Friends First/F&C delivered the weakest performance over the month, declining 2.6%. Irish pension funds have now lost 10.5% 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 6.1% per annum over the past three years. The five year returns to the end of February, however, remain strong, with the average managed fund delivering a return of 9.9% per annum over this period. 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

Once again, global equity markets continued to remain sensitive to the state of the US economy, with ongoing concerns over credit market issues, recessionary fears, mixed earnings results and poor economic data dominating investor sentiment during February. The Bank of England cut interest rates by 0.25% to 5.25% in February, while the ECB once again held interest rates at 4.0%. Meanwhile, oil prices rose to an all-time high of over \$101 per barrel amid fresh supply disruptions and fears that OPEC may not increase supply at its next meeting. Other commodities also hit new levels. Concerns over rising inflation subdued bond investors, causing long bond prices to decline 0.1% over the month.

Irish equities delivered the worst returns over the month, with a fall of 3.2%. Financial stocks, once again, remained under pressure amidst continued credit concerns, while airline stocks took a hit as oil prices reached record highs. According to figures released by the Central Statistics Office, Irish inflation has fallen to its lowest level in 15 months at 4.3% and is now lower than the Eurozone average.

UK equities posted a 0.5% increase over the month in sterling terms. The Bank of England cut interest rates by 0.25% to 5.25% in February. Despite this, investors' fears concerning the state of the US economy and falling corporate profits held markets back somewhat. On the economic front, consumer price inflation rose to 2.2%, unemployment fell to 5.2%, while retail sales grew by 0.8% in January, which was well ahead of expectations. In its inflation report, the Bank of England predicted that current credit market conditions could result in a "deeper and more persistent" slowdown than it had previously predicted. Meanwhile, the beleaguered banker Northern Rock was nationalized after several failed takeover bids.

US equities fell 2.8% in dollar terms during February. Despite a surprise rise in retail sales and a proposed aid plan for US bond insurers, markets continued to struggle in the wake of poor economic data. Figures released showed the worst consumer confidence figures in 16 years, higher jobless claims, soaring oil prices, rising inflation and falling home sales and house prices. Furthermore, the regional index of manufacturing activity fell further towards recession levels. Downbeat comments on the outlook for the US economy from Federal Reserve chairman Ben Bernanke signaled further interest rate cuts over the coming months. Regarding the financial sector, government-sponsored mortgage giants Freddie Mac and Fannie Mae were both downgraded by stockbrokers Merrill Lynch and both reported record losses. This added to concerns about the health of the housing market as together they guarantee 40% of outstanding US mortgage debt.

In Europe, returns were mixed. The Eurozone region returned -1.1% over the month, while the rest of Europe performed better with a 1.2% increase. Markets were characterized by further writedowns in the financial sector, mixed earnings results and recession fears. Once again, the ECB held interest rates at 4.0%. However, less hawkish comments by the ECB president, Jean-Claude Trichet, cemented the view amongst investors (despite rising Eurozone inflation) that Eurozone interest rates are at their peak and that a rate cut during 2008 is likely. After hitting a 4½ year low in January, the Eurozone Manufacturing Purchasing Managers Index rose more than expected in February, supporting equity markets mid-month.

The Japanese stock market ended the month with a return of -1.6% in yen terms. Concerns over the health of the US economy continued to weigh on Japanese markets during the month. Markets responded well to better than expected Japanese GDP data, positive US retail sales figures, news of a proposed aid plan for US bond insurers and reports that China's sovereign wealth fund is planning to invest \$10 billion into Japanese stocks. On the downside, consumer confidence declined and disappointing industrial output data was released. Meanwhile, the yen hit a 3-year high against the US dollar, which hurt export stocks.

Despite rising concerns over a possible recession in the US, Pacific Basin equities were the best performing major bourse over the month of February, with a 2.3% return. The Shanghai Stock Exchange recorded its biggest one-day rise since June 2005 on news that credit policies may be eased, and the approval of two new stock funds. Meanwhile, Chinese consumer prices rose by 7.1% in the year to January, compared with 6.5% in December.

Tables

1. Group Pension Managed Fund Returns to 29th February 2008

	1 Month %	2 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-1.2	-8.3	-7.6	8.1	10.8	3.6
Bank of Ireland Asset Management	-1.6	-7.3	-13.7	2.6	7.6	4.3
Canada Life/Setanta	-0.7	-5.9	-7.7	5.6	9.6	3.6
Eagle Star	-1.5	-7.9	-7.7	7.9	11.2	4.5
Friends First/F&C	-2.6	-10.1	-13.0	5.5	9.6	3.6
Hibernian Investment Managers	-1.4	-8.5	-10.2	6.0	10.0	4.2
Irish Life Investment Managers	-1.4	-7.9	-11.1	6.3	10.9	4.4
KBC Asset Management	-1.1	-8.6	-13.5	5.2	8.7	2.9
Oppenheim Investment Managers	-1.3	-6.5	-8.1	7.0	10.4	6.1
Standard Life Investments	-0.3	-7.8	-12.3	6.6	10.3	3.4
Average	-1.3	-7.9	-10.5	6.1	9.9	4.1

2. Equity Market Index Returns to 29th February 2008

Region	1 Month %		2 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	-3.2	-3.2	-7.0	-7.0
UK	0.5	-1.9	-8.3	-11.8
North America	-2.8	-5.0	-8.5	-11.8
Eurozone	-1.1	-1.1	-13.8	-13.8
Rest of Europe	1.2	2.4	-10.5	-7.8
Japan	-1.6	-2.0	-10.3	-7.3
Pacific Basin	2.3	2.3	-10.0	-10.5

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