RUBICON INVESTMENT CONSULTING

# Group Pension Managed Funds Update to 31st March 2006

## Summary

During the first quarter of 2006, group pension managed funds returned 5.5% on average. Over this period, returns ranged from 4.4% to 6.4%, with Oppenheim Investment Managers topping the league table for the quarter. In the twelve months to the end of March 2006, pension funds have grown by an average of 24.9%. These good returns further consolidate the performance of pension funds over the past three years, with the average return over this period being an impressive 18.7% per annum. Pension fund performance over the past five years is less impressive, with an average return of just 5.0% per annum, as this period includes the tail end of the bear market experienced in the early part of the twenty-first century. Over the longer term, the ten year period to the end of March saw an average return of 10.0% 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

Irish equities reached lifetime highs during March, returning 2.3% for the month. This brought the overall return for the quarter to 10.2%. Economic data continues to show the strength of the economy, as GNP expanded by 5.4% during 2005, and retails sales rising 9.0% in the year to the end of January. Employment data continue to be strong, with unemployment remaining at around 4.5%. During February, inflation rose to 3.3%, its highest level since June 2003. The pharmaceutical company Elan had a volatile month. Early in March, the FDA advisory committee recommended that the controversial multiple sclerosis drug Tsyabri be returned to the market. However, the FDA eventually decided to delay this for up to 90 days. Construction stocks fared well during March, with CRH up 4.9%, Grafton rising 5.2% and Kingspan returning 4.0%.

UK equities also had a good month, rising 3.8% in sterling terms, although the strength of the euro reduced this to 1.3% for Irish investors. The FTSE 100 reached its highest level in five years, finally breaking through the 6,000 barrier. Merger and acquisition activity continued to drive the market upwards during March. Notable corporate activity included confirmation of L'Oreal's takeover of The Body Shop, Vodafone's sale of its Japanese operation to Softbank, competition for control of the London Stock Exchange between NASDAQ and the New York Stock Exchange, Prudential's rejection of a bid from Aviva, and a rumoured private equity bid for ITV. Property stocks received a boost as Chancellor Gordon Brown confirmed the introduction of REITs, under more favourable than expected legislation. Mining stocks benefited from rising commodity prices.

In the US, equity markets lagged their international counterparts, rising just 1.5%, while the strength of the euro eroded even these modest gains for Irish investors. On the positive side, ongoing M&A activity supported markets. Google performed strongly over the month, due to institutional investors adding the stock to their portfolio as it entered the S&P500 index. A number of investment banks announced strong earnings results, including Goldman Sachs and Lehman Brothers. However, investors became increasingly concerned about the impact of higher borrowing costs as the new Federal Reserve Chairman raised interest rates again in March, and indicated that further increases are likely. Figures released in February showed a drop in new home sales, which weighed on construction stock but did little to reduce inflationary concerns.

European equities had another good month, and were the best performing markets over the first quarter of 2006. Strong earnings, corporate restructuring and continuing corporate activity have outweighed concerns over rising interest in the region. German engineering company Linde agreed to buy BOC Group for $14 bn, Alcatel restarted merger talks with Lucent, while Schering rejected a hostile bid from Merck and received a higher offer from Bayer. Finnish paper group, UPM-Kymmene, and German car manufacturer, BMW, announced measures to improve profitability.

In local currency terms, Japanese equities were the best performers over the month, rising 4.6%. Although the Bank of Japan announced its intention to begin raising interest rates, it is expected that the pace of these will be measured. Consumer confidence reached 15-year highs, commercial properties in the three main metropolitan areas rose for the first time in 15 years, while signs of wage inflation emerged for the first time in five years. Inflation data was positive for the fourth month in a row, and unemployment fell sharply. Strong export activity with China helped the country's current account move back into surplus.

Pacific Basin equities fared well over the month, with a gain of 2.1% in local currency terms. Australia and India benefited from record high commodity prices. However, Taiwan underperformed due to souring relations with China. South Korea, last year's star performer, fell during March and has only returned 1.0% so far in 2006.

Bond markets have, in contrast, underperformed. This is due to the strong economic environment and rising interest rate expectations. Rising bond yields will be welcome news for pension schemes, whose liabilities fall as bond yields rise. If bond yields continue to rise and equities to perform strongly, this should improve the funding situation for many Irish pension schemes.

## Tables

### 1. Group Pension Managed Fund Returns to 31st March 2006

| | Investment Returns to 31 March 2006 | | | | | |
|---|---|---|---|---|---|---|
| | 1 Month % | 3 Months % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | 10 Years % p.a. |
| AIB Investment Managers | 1.7% | 5.6% | 25.7% | 18.4% | 3.5% | 8.9% |
| Bank of Ireland Asset Management | 0.5% | 4.6% | 19.8% | 17.0% | 6.1% | 10.5% |
| Canada Life/Setanta | 1.2% | 4.4% | 21.8% | 18.0% | 4.1% | 8.9% |
| Eagle Star | 1.4% | 6.0% | 26.9% | 19.4% | 6.4% | 10.6% |
| Friends First/F&C | 1.4% | 5.5% | 26.1% | 19.1% | 5.2% | 10.3% |
| Hibernian Investment Managers | 1.4% | 5.8% | 23.8% | 18.5% | 5.3% | 10.3% |
| Irish Life Investment Managers | 1.0% | 5.0% | 26.1% | 20.8% | 6.0% | 10.2% |
| KBC Asset Management | 1.5% | 5.8% | 25.8% | 18.0% | 2.8% | 9.0% |
| Oppenheim Investment Managers | 1.8% | 6.4% | 26.0% | 18.9% | 5.4% | 12.7% |
| Standard Life Investments | 1.2% | 5.3% | 27.4% | 19.3% | 5.2% | 9.1% |
| ***Average*** | ***1.3%*** | ***5.5%*** | ***24.9%*** | ***18.7%*** | ***5.0%*** | ***10.0%*** |

### 2. Equity Market Index Returns to 31st March 2006

| **Region** | **1 Month** | | **3 Months** | |
|---|---|---|---|---|
| | ***Local Ccy*** | ***Euro*** | ***Local Ccy*** | ***Euro*** |
| Ireland | 2.3% | 2.3% | 10.2% | 10.2% |
| UK | 3.8% | 1.3% | 7.6% | 6.0% |
| North America | 1.5% | -0.1% | 4.5% | 1.9% |
| Eurozone | 3.0% | 3.0% | 10.4% | 10.4% |
| Rest of Europe | 3.9% | 3.3% | 8.5% | 7.2% |
| Japan | 4.6% | 1.1% | 6.8% | 4.1% |
| Pacific Basin | 2.1% | -1.0% | 5.7% | 3.1% |