

## Group Pension Managed Funds Update to 31<sup>st</sup> March 2007

### Summary

During March, group pension managed funds recovered ground lost during February. Among the ten main managed fund providers, returns during March ranged from 0.6% (from Irish Life Investment Managers) to 1.8% (achieved by AIB Investment Managers). The average fund returned 1.0% over the month. As a result, during the first quarter of the year the average fund has made a gain of 1.2%. Over the first quarter, AIBIM were the best performing managers with a return of 2.3%, while BIAM propped up the table with a disappointing -0.1%. Returns for the past twelve months were a respectable 8.5% on average, with individual returns ranging from 5.5% (Setanta Asset Management) to 11.1% (AIBIM). Over the past three years, the average managed fund has shown a gain of 14.0% per annum. For the five year period to the end of March, the average performance is a more modest 6.8% 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 9.2% 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

The equity market turbulence experienced at the end of February continued into March. However, despite a volatile month, equity markets recovered most of the ground lost during the shock correction in February. As expected, the European Central Bank raised interest rates by 0.25% to 3.75%, while the US Federal Reserve and the Bank of England kept rates on hold. Oil prices rallied in the wake of OPEC's decision not to increase production, and in response to political tensions between the UK and Iran. Commodity prices were also strong, on the back of continuing demand from China, where industrial output rose by over 18% year on year.

Irish equities were virtually flat during March, rising just 0.2%. Financial stocks fell back 2% overall, due to a slowdown in the domestic housing market and concerns over the sub-prime mortgage lending market in the US. C&C (+8.3%) had a good month on the back of bid speculation, a favourable budget in the UK and the launch of a new 750ml version of their popular Magners cider. Irish airline stocks experienced differing fortunes over the month. Aer Lingus returned 9.3% having received a boost from the open skies agreement and the announcement of three new US routes. Ryanair struggled in the wake of rising oil prices, but still outperformed the market as a whole with an increase of 1.2%.

UK equities rose 3.2% in sterling terms over the month. Rising oil and commodity prices supported the resource-heavy UK market. Merger and acquisition activity also provided a boost. Takeover rumours surrounded Alliance Boots, Resolution, Cadbury Schweppes, Imperial Tobacco, Whitbread, Prudential, Pearson and Barclays Bank. As expected, the Bank of England kept interest rates on hold at their March meeting.

US equities returned 1.1% in dollar terms over the month as a whole. Economic news was generally positive, with stronger than expected labour market and industrial production data, a rebound in housing starts and a larger than expected rise in income growth and consumer spending. The Federal Reserve kept interest rates on hold as expected. However, inflation remained at 2.7% causing Fed Chairman Ben Bernanke to comment that this was "uncomfortably high", which dampened expectations of an interest rate cut in the near term.

Merger and acquisition activity continued to support markets in Europe. The ongoing battle for Scania continued, with Volkswagen increasing its stake further. Speculation also surrounded retailers Carrefour, Ahold and Delhaize, tobacco group Altadis, Dutch bank ABN AMRO, utility company Endesa, and several construction companies. The European Central Bank increased interest rates by 0.25% to 3.75%, a move which had been widely anticipated. ECB president Jean-Claude Trichet indicated that further tightening can be expected this year in order to control inflation. Economic news was generally positive, with unemployment falling to a record low of 7.3% and the economic sentiment indicator for the region reaching a six-year high.

Japanese exporters were supported by a weaker yen. However, concerns over earnings in the banking sector, and an announcement of job cuts at Nissan, led to a decline in the Japanese market of 1.9% over the month as a whole. Economic news was mixed, with a rise in household spending on the one hand and a fall in production and consumer prices on the other.

With the exception of Taiwan, all bourses in the Pacific Basin region ended the month in the black. Singapore was the star performer, rising 4.8%. The resource-heavy Australian market rose 3.1% on the back of strong commodity and oil prices. The China/Hong Kong market rose 2.1%, despite an increase in interest rates.

Bond prices declined over the month in response to concerns over inflation and rising interest rates.

## Tables

### 1. Group Pension Managed Fund Returns to 31<sup>st</sup> March 2007

	1 Month %	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	1.8	2.3	11.1	15.4	6.2	8.4
Bank of Ireland Asset Management	0.7	-0.1	5.6	11.5	6.2	9.3
Canada Life/Setanta	0.8	1.0	5.5	12.4	5.6	7.9
Eagle Star	1.5	1.8	9.6	15.2	8.1	9.7
Friends First/F&C	1.0	0.9	8.6	14.1	7.2	9.2
Hibernian Investment Managers	1.3	1.4	9.3	14.0	6.9	9.6
Irish Life Investment Managers	0.6	1.2	8.7	14.7	7.6	9.5
KBC Asset Management	0.7	0.7	8.3	13.4	5.1	8.4
Oppenheim Investment Managers	0.8	1.0	7.5	13.7	7.1	11.8
Standard Life Investments	1.1	2.1	10.7	15.2	7.7	8.5
<b>Average</b>	<b>1.0</b>	<b>1.2</b>	<b>8.5</b>	<b>14.0</b>	<b>6.8</b>	<b>9.2</b>

### 2. Equity Market Index Returns to 31<sup>st</sup> March 2007

Region	1 Month %		3 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	0.2	0.2	0.3	0.3
UK	3.2	2.5	2.6	1.9
North America	1.1	0.4	1.0	0.1
Eurozone	3.0	3.0	3.6	3.6
Rest of Europe	3.6	3.0	4.1	2.8
Japan	-1.9	-2.3	2.0	2.0
Pacific Basin	2.1	2.3	4.2	3.6

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