

Group Pension Managed Funds Update to 31st March 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 3.2% per annum on average, compared with an Irish inflation rate of 3.8% per annum over the same period. Indeed, the only managed fund to have outperformed inflation over the past 10 years was that operated by Oppenheim Investment Managers, which returned 5% per annum.

Having declined 7.9% over the first two months of the year, Irish pension funds continued to struggle during March, with the average fund declining a further 3.8% over the month. Hibernian Investment Managers and Irish Life Investment Managers were jointly the best performing managers over the month with returns of -3.4%. Friends First/F&C delivered the weakest performance over the month, declining 4.3%. Over the first quarter of 2008, the average managed fund declined 11.4%, with individual returns ranging from -9.5% (Setanta Asset Management) to -13.9% (Friends First/F&C). Irish pension funds have now lost 14.8% 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 4.9% per annum over the past three years. The five year returns to the end of March, however, remain strong, with the average managed fund delivering a return of 9.1% 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

March was yet another volatile month for global equities, with escalating credit market concerns and fears over the state of the US economy dominating investor sentiment. As widely expected, the Federal Reserve cut interest rates again, by 0.75%, bringing the base rate to 2.25%. The US dollar continued to weaken, hitting a record low against the euro and a 12-year low against the yen. The Bank of England and the ECB both held interest rates, at 5.25% and 4.0% respectively. Commodities gained as investors continued to use them to hedge against the weakening dollar, with gold hitting the \$1,000 per troy ounce mark for the first time and oil hitting the \$111 mark per barrel.

The Irish stock market ended the month with a return of -3.2%. During the month, corporate results and trading statements were mixed, with the outlook for the declining US economy and its wider global implications continuing to be of major concern to Irish companies. Sentiment towards the financial sector rallied somewhat on the back of the US Federal Reserve's interest rate cut and its plans to inject liquidity into the market place.

UK equities declined 2.1% in sterling terms over the month. The Bank of England kept interest rates on hold at 5.25% in March, voicing concerns over upside inflation risks. Indeed, figures released showed that annual inflation rose to 2.5% in February, up from 2.2% in January. Furthermore, UK consumer confidence hit a 15-year low. Uncertainty, credit market conditions and escalating recessionary fears regarding the US economy continued to dampen UK markets. In particular, a \$2 billion hedge fund run by London-based Peloton Partners collapsed during the month with severe losses.

US equities outperformed their global peers over the month of March, with a fall of just 0.6% in dollar terms. Following record US mortgage delinquencies, poor employment figures and ongoing credit concerns, credit spreads rose to alarming levels. In an attempt to ease credit conditions, the Federal Reserve announced measures to inject liquidity into the market. Additionally, the Fed also announced a 0.25% cut in its discount interest rate with the terms of borrowing extended from 30 days to 90 days, while extending borrowing facilities to securities firms. As widely expected, and despite concerns over high inflation, the Federal Reserve cut interest rates again, by 0.75%, bringing the base rate to 2.25%. Markets fell sharply in response to news that Bear Stearns, the World's fifth largest investment bank, was subject to a rescue bid by JP Morgan with the Federal Reserve approving a \$30 billion credit facility to support the takeover. Indeed, asset writedowns since the start of 2007 have almost hit the \$200 billion mark. On the positive side, sales of existing homes rose unexpectedly by 2.9% in February. This helped allay some investor fears regarding the US housing market. However, weak consumer confidence and personal spending figures highlighted the recessionary risks facing the US economy.

Eurozone equities returned -2.5% over the month, while the rest of Europe performed slightly worse with a 3.1% fall. Once again, the ECB held interest rates at 4.0%. The tone of ECB president, Jean-Claude Trichet, became hawkish once again, as Eurozone inflation levels continued to be of concern. As the US dollar continued to weaken, hitting a record low against the euro, European export stocks declined. Negative comments from the Peugeot chief executive regarding the growth prospects of car manufacturers caused that sector to suffer. Following the all-time highs reached by commodities early in the month, fears of weakening demand due to an economic slowdown caused commodity prices to fall back later in the month, with many investors moving to bonds and cash. In Germany, data was released that showed a rise in German business confidence to a seven-month high, indicating that Europe's largest economy is coping with the current environment of high oil prices and the rising euro.

The Japanese stock market was the worst performing bourse over the month with a return of -8.0% in yen terms. During the month, the US dollar continued to weaken, hitting a 12-year low against the yen. As a consequence of this, Japanese export stocks declined, with Japanese markets falling to a 2½ year low.

Pacific Basin markets declined 2.2% during the month of March. Early on in the month, Hong Kong suffered its worst weekly decline since March 2001. Meanwhile, Wen Jiabao, the Chinese prime minister, stated that the government would take steps to dampen inflation, which is running well ahead of target.

Tables

1. Group Pension Managed Fund Returns to 31st March 2008

| | 1 Month % | 3 Months % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | 10 Years % p.a. |
|----------------------------------|--------------|---------------|--------------|-------------------|-------------------|--------------------|
| AIB Investment Managers | -3.9 | -11.9 | -12.8 | 6.8 | 10.0 | 2.8 |
| Bank of Ireland Asset Management | -3.7 | -10.7 | -17.5 | 1.4 | 6.9 | 3.6 |
| Canada Life/Setanta | -3.9 | -9.5 | -12.0 | 4.2 | 8.8 | 2.7 |
| Eagle Star | -3.6 | -11.2 | -12.3 | 6.9 | 10.4 | 3.7 |
| Friends First/F&C | -4.3 | -13.9 | -17.5 | 4.1 | 8.6 | 2.7 |
| Hibernian Investment Managers | -3.4 | -11.7 | -14.4 | 5.0 | 9.2 | 3.4 |
| Irish Life Investment Managers | -3.4 | -11.1 | -14.7 | 5.3 | 10.3 | 3.6 |
| KBC Asset Management | -4.0 | -12.2 | -17.5 | 4.0 | 8.0 | 2.0 |
| Oppenheim Investment Managers | -3.9 | -10.1 | -12.4 | 5.8 | 9.6 | 5.0 |
| Standard Life Investments | -4.2 | -11.7 | -17.0 | 5.4 | 9.3 | 2.6 |
| Average | -3.8 | -11.4 | -14.8 | 4.9 | 9.1 | 3.2 |

2. Equity Market Index Returns to 31st March 2008

| Region | 1 Month % | | 3 Months % | |
|----------------|--------------|------|---------------|-------|
| | Local Ccy | Euro | Local Ccy | Euro |
| Ireland | -3.2 | -3.2 | -10.0 | -10.0 |
| UK | -2.1 | -6.3 | -10.3 | -17.3 |
| North America | -0.6 | -5.1 | -9.0 | -16.3 |
| Eurozone | -2.5 | -2.5 | -16.0 | -16.0 |
| Rest of Europe | -3.1 | -2.6 | -13.2 | -10.2 |
| Japan | -8.0 | -7.8 | -17.4 | -14.5 |
| Pacific Basin | -2.2 | -7.7 | -11.9 | -17.4 |

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