# Group Pension Managed Funds Update to 30th April 2006

## Summary

Group pension managed fund returns stalled during April, following three strong months of growth in the first quarter of 2006. Over the month, the average managed fund return was -0.1%. This brings the return for the first four months of 2006 to 5.3% on average. Over the past twelve months, the average fund return was a very strong 26.3%. Over the three years to 30 April 2006 the average fund return has been a healthy 16.7% per annum. In the five-year period ended 30 April pension managed funds have, on average, returned a less robust 4.1% p.a., reflecting the equity bear market of the early 21st century. In contrast, however, the ten year period to the end of April saw an average return of 9.6% 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

Having performed strongly over the first quarter of the year, equity markets have had a mixed month during April. Strong first quarter earnings results were released by many companies, and positive economic data emerged in Europe, the US and Japan. In addition, interest rate concerns seemed to abate somewhat, with indications from the US Federal Reserve that the next interest rate hike could be the last in the current cycle, and hints from the ECB that interest rates would not be increased in May. However, inflation concerns dampened investor enthusiasm, as oil prices reached new highs of $74 a barrel during the month (although the price fell back to $72 by month end), and record high commodity prices. Elsewhere, the Chinese authorities increased interest rates by 0.27% in an effort to prevent the economy from overheating. This has led to fears that demand from the region may fall off. Furthermore, the continuing decline of the dollar reduced the performance of dollar-denominated assets for Irish investors. Bond prices continued to fall as yields reached multi-year highs on both sides of the Atlantic. 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, the funding situation of Irish pension schemes will improve.

Irish equities fell back 1.5% during April. Early in the month, the government confirmed plans to privatise the national airline, Aer Lingus, although the State will retain a 25% stake in the company. Unions at the airline reacted angrily to the announcement. The country's second biggest airline, Ryanair (-14.6%), had a difficult month, as rising oil prices impacted on costs. Financial stocks lagged the rest of the market, falling 2.4%, as concerns over rising interest rates impacted on the sector.

UK equities fared relatively well over the month, weighted as it is toward mining and utilities stocks. As mentioned earlier, oil prices rose dramatically over the month, due to rising concerns over supplies from Iran as the International Atomic Energy Agency seeks to halt the country's uranium enrichment programme. Attacks on oil targets in Nigeria also had an impact. During the month, gold prices reached their highest level since 1980, while copper and nickel reached record highs. Silver is up almost 50% in 2006.

In the US, first quarter earnings results were released by over 60% of the largest 500 companies. These earnings show that the market is on course for an eleventh consecutive quarter of double-digit earnings growth. Google continued to perform strongly on the back of its inclusion in the S&P 500 and strong earnings results. The jobs market delivered good news, with upbeat employment data and tame wage inflation. Retail sales, consumer confidence and housing numbers were also strong. The market reacted well to the imminent end of the interest rate rise cycle. However, the dollar suffered sharp declines against most of the world's major currencies, as investor attention returned to the US current account deficit.

Eurozone equities were virtually flat over the month, while the Rest of Europe returned 1.1% (in local currency terms). The European Central Bank kept interest rates on hold and indicated that rates would not be increased in May either. However, with inflation and consumer confidence picking up in the region, most notably in the largest market of Germany, it seems likely that further increases will occur before year end. Financial stocks struggled over the month as a result. Concerns over the potential slowdown in demand from China (which is the likely result of the interest rate hike there) impacted negatively on the region.

There was profit-taking in Japan, after the Topix reached a 14-year high in mid-April. Real estate stocks struggled, while exporters were hit by the decline of the dollar against the yen. Sony announced that the development costs for the Playstation 3 console would dent profits. However, economic data was strong, with the Tankan survey of business sentiment continuing to show a positive outlook for the market.

The markets of the Pacific Basin region were the best performing over the month, supported by strong commodity prices. The Hong Kong property market reacted well to the news regarding the end of the interest rate cycle in the US. However, equity prices fell back slightly towards the end of the month over concerns about demand from China.

Higher interest rate concerns and rising inflation had a negative impact on bond prices. Over 5-year euro-government bonds fell 1.6% on the month, as yields reached multi-year highs.

# Tables

## 1. Group Pension Managed Fund Returns to 30th April 2006

| | Investment Returns to 30th April 2006 | | | | | |
|---|---|---|---|---|---|---|
| | **1 Month %** | **4 Months %** | **1 Year %** | **3 Years % p.a.** | **5 Years % p.a.** | **10 Years % p.a.** |
| AIB Investment Managers | -0.2% | 5.4% | 27.4% | 16.4% | 2.5% | 8.4% |
| Bank of Ireland Asset Management | -0.8% | 3.8% | 20.4% | 14.6% | 5.1% | 10.1% |
| Canada Life/Setanta | 0.1% | 4.5% | 23.0% | 16.0% | 3.3% | 8.4% |
| Eagle Star | 0.3% | 6.4% | 28.5% | 17.9% | 5.6% | 10.2% |
| Friends First/F&C | -0.1% | 5.4% | 27.3% | 17.0% | 4.3% | 9.9% |
| Hibernian Investment Managers | 0.1% | 6.0% | 25.4% | 16.6% | 4.4% | 9.9% |
| Irish Life Investment Managers | -0.3% | 4.8% | 27.4% | 18.3% | 5.1% | 9.7% |
| KBC Asset Management | 0.1% | 5.8% | 27.6% | 16.0% | 1.8% | 8.6% |
| Oppenheim Investment Managers | 0.0% | 6.3% | 27.4% | 16.7% | 4.8% | 12.2% |
| Standard Life Investments | -0.2% | 5.1% | 28.7% | 17.3% | 4.3% | 8.5% |
| ***Average*** | ***-0.1%*** | ***5.3%*** | ***26.3%*** | ***16.7%*** | ***4.1%*** | ***9.6%*** |

## 2. Equity Market Index Returns to 30th April 2006

| **Region** | **1 Month** | | **4 Months** | |
|---|---|---|---|---|
| | ***Local Ccy*** | ***Euro*** | ***Local Ccy*** | ***Euro*** |
| Ireland | -1.5% | -1.5% | 8.6% | 8.6% |
| UK | 1.1% | 1.8% | 8.8% | 7.9% |
| North America | 1.2% | -2.6% | 5.7% | -0.7% |
| Eurozone | 0.2% | 0.2% | 10.6% | 10.6% |
| Rest of Europe | 1.1% | 2.2% | 9.6% | 9.5% |
| Japan | -0.4% | -1.1% | 6.3% | 2.9% |
| Pacific Basin | 4.7% | 4.0% | 10.6% | 7.3% |