# Group Pension Managed Funds Update to 30th April 2008

## Summary

Having declined 11.4% over the first three months of the year, Irish pension funds rallied during April, rising 4.2% on average. Standard Life Investments were the best performing manager over the month with a return of 5.1%. Oppenheim Investment Managers delivered the weakest performance over the month, returning just 2.9%. So far this year, pension funds are still in the red, by 7.7% on average. Although it is too early to be confident, last month's returns may signal the beginning of a recovery in the fortunes of pension funds. Irish pension funds have now lost 12.6% of their value over the past twelve months.

The average managed fund has shown a respectable gain of 6.8% per annum over the past three years. The five year returns to the end of April remain strong, with the average managed fund delivering a return of 8.9% per annum over this period. Due to the recent downturn in equity markets, Irish group pension managed fund returns over the past ten years have been a disappointing 3.7% per annum on average, compared with an Irish inflation rate of 3.8% per annum over the same 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

For the first month since October 2007, all major equity markets posted positive returns during April. Global equity markets continued to remain sensitive to the state of the US economy, with recessionary fears and the state of credit markets remaining at the fore. The Federal Reserve cut interest rates again, by 0.25%, bringing the base rate to 2.0%, while the Bank of England cut rates by 0.25%, to 5.0%. The European Central Bank, once again, held interest rates at 4.0%. Reduced supply, political tensions and greater demand from China pushed the price of oil to a record high of over $119 per barrel. Meanwhile, the euro reached new highs against the dollar and sterling during April.

Irish equities delivered the worst return over the month, with a rise of just 3.0%. Financial stocks, once again, experienced a volatile month amidst continued concerns in global credit markets. Meanwhile, Elan announced an increase in first quarter revenue due to strong sales of its multiple sclerosis drug Tysabri.

UK equities posted a 6.9% increase over the month in sterling terms. In response to the slowing housing market and concerns over tightening credit conditions, the Bank of England cut interest rates by 0.25%, to 5.0%. Indeed, according to Halifax, Britain's largest mortgage lender, house prices fell 2.5% in March, representing the largest monthly decline since 1992, when the UK economy was in recession. On the economic front, industrial output rose by 0.3% in February, 1.3% higher than a year earlier, while consumer prices rose by 2.5% in the year to March, which was lower than had been expected. The Bank of England introduced measures allowing British banks, over the next six month, to swap high-quality securities against Treasury bills for up to three years in order to improve the quality of their credit portfolios.

US equities rose 5.0% in dollar terms during April. The Federal Reserve cut interest rates again, by 0.25%, bringing the base rate to 2.0%. Commentary by the Fed hinted that this may be the low point for rates in the current cycle. US economic data was mixed. So too were US corporate earnings results, although these were broadly positive. This boosted investor confidence that the US economy could withstand the effects of the consumer slowdown and credit crisis. Indeed, some investors began to entertain the view that the worst may be over.

In Europe, the Eurozone region returned 6.3% over the month, while the rest of Europe lagged marginally behind with a 6.1% return. Once again, the European Central Bank held interest rates at 4.0%, as rising Eurozone inflation continues to concern the ECB. Indeed, inflation in the Eurozone rose to its highest level in 16 years, to 3.6% in the year to March, thus, reducing the likelihood that the ECB will cut interest rates in the near future. German investor confidence unexpectedly fell in April, while several reports showed that business confidence in the Eurozone was weaker than expected, particularly in Germany. Meanwhile, Swiss bankers UBS and Credit Suisse announced further writedowns totaling $24 billion. However, these writedowns were lower than had been anticipated.

Japanese equities were the star performer over the month of April, rising 12.7% in yen terms. Masaaki Shirakawa succeeded Toshihiko Fukui as Governor of the Bank of Japan. The Bank's latest Tankan survey showed greater pessimism amongst manufacturers regarding business conditions over the first quarter of 2008. Annual inflation hit 1.2% in March, which was much higher than expected, with increases in food and energy prices having a significant impact. Banking and technology sectors were given a lift as better-than-expected earnings results were reported by some of their US counterparts. Japanese export stocks were given a boost by the weakening of the yen against the US dollar.

Pacific Basin equities rose 6.5% during the month. In addition to gaining on the back of positive US corporate earnings results, markets in the region were buoyed by strong commodity and oil prices. In China, consumer price inflation was 8.3% in March, down from 8.7% in February. Chinese equity markets were dented over concerns that efforts to dampen inflation, through tighter monetary policy, would impact on earnings. However, in an effort to help markets, the Chinese government cut tax on trading from 0.3% to 0.1%. The Shanghai index rallied strongly in response. Meanwhile, the Chinese yuan appreciated against to the US dollar, in what is believed to be a further effort to control Chinese price inflation.

## Tables

1. Group Pension Managed Fund Returns to 30th April 2008

| | 1 Month % | 4 Months % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | 10 Years % p.a. |
|---|---|---|---|---|---|---|
| AIB Investment Managers | 4.5 | -7.9 | -10.4 | 8.9 | 9.9 | 3.3 |
| Bank of Ireland Asset Management | 4.2 | -7.0 | -15.4 | 3.3 | 6.6 | 4.1 |
| Canada Life/Setanta | 3.0 | -6.8 | -10.5 | 5.5 | 8.4 | 3.1 |
| Eagle Star | 4.4 | -7.3 | -10.0 | 8.8 | 10.4 | 4.2 |
| Friends First/F&C | 4.8 | -9.8 | -14.6 | 6.1 | 8.5 | 3.1 |
| Hibernian Investment Managers | 4.5 | -7.7 | -12.1 | 7.0 | 9.1 | 3.8 |
| Irish Life Investment Managers | 3.9 | -7.6 | -12.6 | 7.1 | 9.8 | 4.0 |
| KBC Asset Management | 4.7 | -8.1 | -15.0 | 6.1 | 7.8 | 2.5 |
| Oppenheim Investment Managers | 2.9 | -7.5 | -10.9 | 7.3 | 9.0 | 5.3 |
| Standard Life Investments | 5.1 | -7.2 | -14.5 | 7.6 | 9.3 | 3.1 |
| *Average* | *4.2* | *-7.7* | *-12.6* | *6.8* | *8.9* | *3.7* |

2. Equity Market Index Returns to 30th April 2008

| Region | 1 Month % | | 4 Months % | |
|---|---|---|---|---|
| | *Local Ccy* | *Euro* | *Local Ccy* | *Euro* |
| Ireland | 3.0 | 3.0 | -7.3 | -7.3 |
| UK | 6.9 | 8.5 | -4.0 | -10.3 |
| North America | 5.0 | 7.0 | -4.5 | -10.5 |
| Eurozone | 6.3 | 6.3 | -10.7 | -10.7 |
| Rest of Europe | 6.1 | 4.1 | -8.0 | -6.5 |
| Japan | 12.7 | 9.2 | -7.0 | -6.6 |
| Pacific Basin | 6.5 | 9.3 | -6.2 | -9.7 |

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