

Group Pension Managed Funds Update to 31st May 2007

Summary

During May, group pension managed funds made strong gains on the back of rising equity markets. Among the ten main managed fund providers, returns during May ranged from 2.2% (from Setanta Asset Management) to 3.8% (achieved by Irish Life Investment Managers). The average fund returned 3.0% over the month. As a result, over the first five months of the year the average fund has made a gain of 5.9%. Over this period, Standard Life Investments were the best performing managers with a return of 7.0%, while Setanta propped up the table with a somewhat disappointing 4.6%. Returns for the past twelve months were 18.6% on average, with individual returns ranging from 13.5% (Setanta Asset Management) to 21.7% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 16.0% per annum. For the five year period to the end of May, the average performance is a more modest, but still respectable, 8.6% 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 8.8% 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

Equity markets posted excellent returns over the month. Markets were driven higher on the back of strong earnings and robust merger and acquisition activity. Economic data was somewhat mixed, but more positive than negative. The Bank of England increased interest rates by 0.25%, while the European Central Bank and the US Federal Reserve both kept rates on hold during May.

Irish equities returned 4.2% during May. Financials underperformed the rest of the market, returning just 2.5% over the month, as rising inflation and interest rates began to impact on the earnings outlook for this sector. Airlines also struggled in the wake of rising oil prices, with Aer Lingus down 8% and Ryanair down 12% during May. Star performers over the month included Elan (+43%) and CRH (+12%).

UK equities returned 3.0% in sterling terms over the month, with the strength of sterling increasing this to 3.3% for Irish investors. The Bank of England increased interest rates by 0.25% in May, in a bid to control inflation. CPI fell back to 2.8% in April (from 3.1% in March), while house prices rose by 10% during April. Pharmaceutical company GlaxoSmithKline saw its share price fall as a result of side effects associated with its diabetes drug Avandia. Mining and resource stocks rose on the back of higher commodity prices.

Upbeat earnings and ongoing merger & acquisition activity supported US equities during May. Strong earnings results were delivered by MasterCard, Hewlett-Packard and Dell, among others. On the corporate activity front, aluminium maker Alcoa launched a hostile bid for Canadian peer Alcan, mortgage lender Countrywide Financial rose amid speculation that it was a take-over target, Microsoft purchased digital marketing group Aquantive, Bausch & Lomb was bought out by a private equity group and Coca-Cola acquired water maker Glaceau. On the economic front, the Federal Reserve kept interest rates on hold at 5.25%. Inflation fell back slightly in April (from 2.5% to 2.3%), the unemployment rate fell to 4.5% and the housing market showed evidence of slowing down. The equity market returned 3.6% over the month, while a recovery in the dollar-euro exchange rate improved this to 5.3% for Irish investors.

The Eurozone equity market was the best performing major market during May, with a return of 4.3% for the region. The Rest of Europe returned a slightly disappointing 1.4%. The European Central Bank kept interest rates on hold in May, but indicated strongly that rates would increase in June. Inflation in the region remained below the ECB's target level of 2%. Economic data from Germany continued to improve, while France and Italy weakened slightly. Unemployment fell to just 7.1%. Strong company earnings and merger and acquisitions also contributed to growth with the value of takeovers in Europe for 2007 reaching \$1.21 trillion by mid-May.

Japanese equities rose 3.8% over the month (3.3% in euro terms). Despite weak domestic economic data and falling exports, investor sentiment lifted on the back of improvements in the US economy.

Several Pacific Basin markets reached new all-time highs during May, including Hong Kong, Australia, Singapore and South Korea. The Chinese market also reached record levels, but fell back as interest rates and reserve requirements were increased, a hike in trading tax and negative comments from former Federal Reserve Chairman, Alan Greenspan.

Bond prices declined over the month in response to concerns over the outlook for inflation and interest rates, which is good news for pension schemes as the cost of annuities moves in line with bond prices.

Tables

1. Group Pension Managed Fund Returns to 31st May 2007

| | 1 Month % | 5 Months % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | 10 Years % p.a. |
|----------------------------------|--------------|---------------|-------------|-------------------|-------------------|--------------------|
| AIB Investment Managers | 2.7 | 6.9 | 21.7 | 17.5 | 8.2 | 8.0 |
| Bank of Ireland Asset Management | 3.2 | 4.9 | 17.1 | 13.6 | 7.6 | 9.0 |
| Canada Life/Setanta | 2.2 | 4.6 | 13.5 | 13.8 | 7.4 | 7.5 |
| Eagle Star | 2.9 | 6.6 | 19.4 | 17.7 | 9.8 | 9.1 |
| Friends First/F&C | 3.7 | 5.9 | 19.3 | 16.2 | 9.1 | 8.7 |
| Hibernian Investment Managers | 2.9 | 6.3 | 19.3 | 15.7 | 8.7 | 9.1 |
| Irish Life Investment Managers | 3.8 | 6.5 | 19.4 | 16.9 | 9.4 | 9.2 |
| KBC Asset Management | 2.8 | 5.2 | 18.4 | 15.7 | 7.3 | 7.9 |
| Oppenheim Investment Managers | 3.0 | 5.2 | 17.1 | 15.4 | 8.4 | 10.9 |
| Standard Life Investments | 2.6 | 7.0 | 20.8 | 17.5 | 9.8 | 8.1 |
| Average | 3.0 | 5.9 | 18.6 | 16.0 | 8.6 | 8.8 |

2. Equity Market Index Returns to 31st May 2007

| Region | 1 Month % | | 5 Months % | |
|----------------|------------------|-------------|------------------|-------------|
| | <i>Local Ccy</i> | <i>Euro</i> | <i>Local Ccy</i> | <i>Euro</i> |
| Ireland | 4.2 | 4.2 | 5.7 | 5.7 |
| UK | 3.0 | 3.3 | 8.3 | 7.3 |
| North America | 3.6 | 5.3 | 8.9 | 7.2 |
| Eurozone | 4.3 | 4.3 | 13.2 | 13.2 |
| Rest of Europe | 1.4 | 0.9 | 12.4 | 10.1 |
| Japan | 3.8 | 3.3 | 5.2 | 0.8 |
| Pacific Basin | 4.2 | 5.7 | 11.7 | 11.3 |

Contact Details

For more information, please contact Fiona Daly.

Phone: +353-1-6249706

Email: Fiona.Daly@RubiconIC.ie

Website: www.RubiconIC.ie