

Group Pension Managed Funds Update to 30th June 2006

Summary

Although equity markets recovered slightly in June, the disappointing performance experienced during May dominated the returns achieved by pension funds during the second quarter of 2006. The average managed fund was virtually flat during June, bringing the average return for the second quarter to -4.2%. When the strong performance of pension funds during the first quarter of the year is taken into account, this brings the return for the first half of 2006 to 1.0% on average. Over the past twelve months, the average fund return was a healthy 12.2%. Over the three years to 30 June 2006 the average fund return has been 13.7% per annum. In the five-year period ended 30 June pension managed funds have, on average, returned a less robust 3.1% p.a., reflecting the equity bear market of the early 21st century. In contrast, however, the ten year period to the end of June saw an average return of 9.1% 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

Equity and bond markets were volatile during June. Interest rates were increased in the Eurozone, Sweden, the US and Thailand. Oil prices rallied to finish the month at over \$72 per barrel, a 26% rise since the beginning of the year. Early in the month, investors rotated into defensive sectors and into bonds. However, sentiment improved as the month progressed and cyclical stocks rallied. Economic data from most regions was supportive of continuing strength in the global economy.

Irish equities lost almost 1% during June. Pharmaceutical company Elan received some good news as its controversial multiple sclerosis drug, Tysabri, received marketing approval in the US and Europe, albeit with some restrictions. CRH continued its expansion in the US, announcing its intention to purchase the US materials company APAC. Kingspan announced that it was in talks to acquire Xtratherm. Financial stocks significantly outperformed the market as a whole, rising 1.9% over the month. A smaller than feared interest rate hike by the ECB, dovish comments from the US Federal Reserve, strong economic and corporate fundamentals, broker upgrades and share buy-backs combined to boost the sector.

The best performing major market during June was in the UK. The FT UK index gained 2.2% in sterling terms over the month, although a strong euro eroded this somewhat for Irish investors. Merger and acquisition activity supported the market: Ferrovial and a Goldman Sachs consortium engaged in a bidding war for airport operator BAA, Gazprom was rumoured to be looking for a stake in Centrica, while Australian bank Macquarie bought Stagecoach's bus division. The resource-heavy UK market struggled early in the month, as oil and commodity prices initially fell. However, oil prices rallied on the back of increased demand from the US ahead of the summer driving season, and concerns over Iran's nuclear ambitions and the Atlantic hurricane season. Meanwhile, commodity prices recovered towards the end of the month and this, combined with Citigroup's suggestion that further consolidation in the mining sector is likely, boosted mining stocks.

US equities were broadly flat over the month, with the FT North America index rising just 0.2% in dollar terms. A minor rally in the dollar boosted this return to 0.6% for euro-denominated investors. The US Federal Reserve increased rates by 0.25%. This had been fully priced into the market. However, throughout most of June, investors focussed on the possibility of an August hike. The dovish statement accompanying the June increase allayed these fears considerably, boosting the market towards month end. A lack of macroeconomic data led investors to focus on stock specific news. Events of interest included Anadarko Petroleum's takeover of both Kerr McGee and Western Gas Resources, a management shake-up at Novell, anti-trust subpoenas received by Biomet and Zimmer Holdings, a pacemaker recall by Boston Scientific, bid speculation surrounding General Motors, a mooted merger between Warner and EMI, and the creation of the world's largest nickel miner following Phelps Dodge's purchase of two Canadian nickel companies.

Eurozone equities rose 0.8% over the month, while the Rest of Europe returned 0.2% (in local currency terms). The European Central Bank increased interest rates by 0.25%. A 0.5% increase had been feared. Merger and acquisition activity also continued to support the market, with the long running battle between Arcelor and Mittal Steel concluding with an acceptance of Mittal's increased offer for their competitor. Siemens and Nokia announced a joint venture to create the world's third largest network equipment supplier, while Phillips announced plans to divest its semiconductor unit. Axa announced a bid for Winterthur, the insurance division of Credit Suisse. Economic and corporate data were strong.

The FT Japan index rose 1.0% in yen terms during June, although a stronger euro eroded this gain driving the return down to -0.5% in euro terms. News that the Chairman of the Bank of Japan had invested in a fund run by Murakami, who is being investigated for insider trading, created unrest in the market. However, an upward revision of GDP, a widening trade surplus and supportive economic data reassured investors.

The markets of the Pacific Basin rose 0.7%, boosted by the positive statement that accompanied the interest rate hike in the US. China increased its bank reserve requirement by 0.5% in order to reduce liquidity in the market after the release of funds which had been tied up following the recent floatation of the Bank of China. Taiwan struggled with allegations of government corruption, which resulted in President Chen Shuibian surviving a vote of no-confidence.

Bond yields rose approximately 0.1% over the month, which is good news for pension funds. The method used to calculate pension fund liabilities means that higher bond yields result in a lower valuation being placed on these liabilities.

Tables

1. Group Pension Managed Fund Returns to 30th June 2006

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
	%	%	%	%	% p.a.	% p.a.	% p.a.
AIB Investment Managers	0.7%	-4.0%	1.4%	13.5%	13.8%	1.6%	8.0%
Bank of Ireland Asset Management	0.1%	-5.3%	-0.9%	7.3%	11.7%	3.8%	9.6%
Canada Life/Setanta	0.1%	-3.7%	0.5%	9.9%	13.2%	2.4%	7.9%
Eagle Star	-0.4%	-4.3%	1.5%	13.4%	14.7%	4.5%	9.5%
Friends First/F&C	0.2%	-4.3%	0.9%	12.9%	13.9%	3.3%	9.3%
Hibernian Investment Managers	1.0%	-3.1%	2.6%	13.5%	14.1%	3.5%	9.6%
Irish Life Investment Managers	-0.1%	-4.3%	0.5%	12.4%	14.8%	3.8%	9.3%
KBC Asset Management	0.2%	-4.3%	1.3%	12.7%	13.1%	0.7%	8.2%
Oppenheim Investment Managers	-0.2%	-4.7%	1.4%	12.6%	13.6%	3.7%	11.8%
Standard Life Investments	-0.5%	-4.5%	0.6%	13.6%	14.5%	3.2%	8.1%
Average	0.1%	-4.2%	1.0%	12.2%	13.7%	3.1%	9.1%

2. Equity Market Index Returns to 30th June 2006

Region	1 Month		3 Months		6 Months	
	Local Ccy	Euro	Local Ccy	Euro	Local Ccy	Euro
Ireland	-0.8%	-0.8%	-6.1%	-6.1%	3.5%	3.5%
UK	2.2%	1.4%	-1.5%	-0.6%	5.9%	5.3%
North America	0.2%	0.6%	-1.6%	-6.6%	2.8%	-4.9%
Eurozone	0.8%	0.8%	-3.5%	-3.5%	6.5%	6.5%
Rest of Europe	0.2%	-0.1%	-4.9%	-3.8%	3.2%	3.2%
Japan	1.0%	-0.5%	-7.4%	-9.6%	-1.2%	-5.9%
Pacific Basin	0.7%	0.3%	-0.6%	-3.9%	5.1%	-0.9%