

Group Pension Managed Funds Update to 30th June 2007

Summary

Equity and bond markets declined during June, translating into a 1.0% fall in the value of Irish pension funds. Among the ten main managed fund providers, returns during June ranged from -1.8% (from Bank of Ireland Asset Management) to -0.1% (achieved by Oppenheim Investment Managers). Despite this, the second quarter of the year delivered strong returns overall, with an average gain of 3.5%. Setanta Asset Management propped up the table over this period, with a disappointing 2.5%, while Irish Life's managed fund delivered the best second quarter return at 4.7%. As a result, over the first half of the year the average fund has made a respectable gain of 4.8%. Over this period, AIB Investment Managers were the best performing managers with a return of 6.1%, while Bank of Ireland Asset Management propped up the table with a somewhat disappointing 3.0%. Returns for the past twelve months were 17.3% on average, with individual returns ranging from 12.3% (Setanta Asset Management) to 20.0% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 14.8% per annum.

The five year returns to the end of June show a dramatic improvement over the same period to the end of May, as these returns now exclude most of the impact of the bear market experienced at the beginning of the twenty-first century. The average managed fund has delivered a return of 9.8% per annum over this period. Returns over the past ten years have been a fairly healthy 8.3% 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

Concerns over inflation, interest rates and the sub-prime mortgage market in the US weighed heavily on both equity and bond markets across the globe during June. The European Central Bank increased interest rates by 0.25%, to 4%. The US Federal Reserve, meanwhile, kept rates on hold and hopes of an interest rate cut in the near future appear to have receded further. Oil prices rose during the month, to over \$70 per barrel, supporting companies in the energy sector.

The Irish equity market was the worst performing bourse during June, with a decline of 5.2%, as it is heavily weighted towards the financial and construction sectors. These sectors struggled in the wake of rising interest rates and falling demand for property. Retail sales for April grew by 7.2%, while credit card debt declined dramatically, as the impact of maturing SSIA's fed through to the economy.

UK equities were flat in sterling terms over the month, although the strength of sterling increased this to 1.0% for Irish investors. Retailers struggled as recent interest rate increases began to feed through to a reduction in consumer spending. The housing market experienced a, possibly temporary, rally as homeowners rushed to put their properties on the market before the introduction of "home information packs". Resource stocks fared better than most as oil prices rose over the month.

US equities declined by 1.6% in dollar terms during June. Strong economic data and benign inflation figures lowered expectations of interest rate cuts in the short-term. Sub-prime mortgage lenders continued to struggle, with these problems impacting on the wider financial sector. Rising bond yields had a negative impact on interest rate sensitive sectors, such as utilities and real estate.

Eurozone equities fell 0.6% over the month, as the European Central Bank raised interest rates yet again. Concerns regarding exposure to the sub-prime mortgage market in the US weighed heavily on European financial stocks, while the utility sector struggled as rising interest rates impacted on the value of their future dividends. However, as has been the case for well over a year, the market was somewhat supported by merger and acquisition activity. Bourses in the rest of Europe declined 1.8% in June.

Japanese equities rose 1.0% over the month (falling 0.7% in euro terms). A decision by the Bank of Japan to keep interest rates on hold resulted in further weakening of the yen, which provided support for export-focused stocks. Lower than expected retail sales, price inflation and industrial production, reduced expectations of an interest rate hike in the immediate future. Indications that corporate profitability will improve again in 2007 attracted foreign investors.

Several Asian markets, including Singapore, Hong Kong, Jakarta, Seoul and Manila, reached new highs during June, although most fell back towards month end in response to concerns over the US lending market. Overall the region returned 3.0% over the month.

Eurozone bonds declined during June 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 30th June 2007

	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-0.8	3.7	6.1	20.0	16.3	9.7	7.6
Bank of Ireland Asset Management	-1.8	3.1	3.0	14.9	12.0	8.4	8.5
Canada Life/Setanta	-1.0	2.5	3.5	12.3	12.6	8.6	7.1
Eagle Star	-0.8	3.9	5.7	18.9	16.6	10.9	8.7
Friends First/F&C	-1.6	3.3	4.3	17.2	14.8	10.2	8.2
Hibernian Investment Managers	-1.2	3.6	5.0	16.8	14.5	9.9	8.6
Irish Life Investment Managers	-0.5	4.7	5.9	18.9	15.9	10.9	8.8
KBC Asset Management	-1.0	3.4	4.2	17.0	14.6	8.7	7.5
Oppenheim Investment Managers	-0.1	4.1	5.1	17.3	14.5	9.7	10.7
Standard Life Investments	-1.5	3.2	5.4	19.6	16.1	11.0	7.6
Average	-1.0	3.5	4.8	17.3	14.8	9.8	8.3

2. Equity Market Index Returns to 30th June 2007

Region	1 Month %		3 Months %		6 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	-5.2	-5.2	0.0	0.0	0.3	0.3
UK	0.0	1.0	5.5	6.4	8.3	8.4
North America	-1.6	-1.9	6.1	5.1	7.2	5.2
Eurozone	-0.6	-0.6	8.6	8.6	12.5	12.5
Rest of Europe	-1.8	-1.8	6.0	5.2	10.4	8.2
Japan	1.0	-0.7	4.1	-1.9	6.2	0.1
Pacific Basin	3.0	3.8	10.5	11.4	15.1	15.5

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