

Group Pension Managed Funds Update to 30th June 2008

Summary

Fears of a global recession sent equity markets into freefall during June. As a result, Irish pension managed funds declined 7.8% on average, wiping out their recent gains. In fact, all of these funds are now valued at less than they were at the end of 2005. So far this year, over €15 billion has been wiped off the value of the Irish pension market.

Oppenheim Investment Managers were the best performing manager over the month with a return of -6.5%. Hibernian Investment Managers delivered a very disappointing -9.1% over the month, the worst performance among the funds surveyed. Despite positive returns earlier in the quarter, the average fund fell 3.7% in the three months to the end of June. So far this year, pension funds have declined by 14.7% on average. Irish pension funds have now lost 20.8% of their value over the past twelve months. The average managed fund has shown a very disappointing gain of just 1.4% per annum over the past three years. The five year returns to the end of June are somewhat stronger, with the average managed fund delivering a return of 6.4% per annum over this period.

As a result of two severe equity bear markets over the past ten years, Irish group pension managed fund returns over this period are just 2.8% per annum on average, compared with an Irish inflation rate of 3.8% per annum over the same period. Indeed, only one investment manager, Oppenheim Investment Managers, has beaten inflation over the past ten years, having achieved 4.8% 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.

It is worth noting that members of defined benefit schemes and younger members of defined contribution schemes should not get overly worried about short or medium term declines in equity markets. However, older members of defined contribution schemes need to ensure that they adopt a lower risk investment strategy as they approach retirement age.

Market Comment

Inflation continued to rise across the globe, sending consumer confidence crashing and creating fears that interest rates may be increased. One of the main drivers of this was the oil price. Oil reached a record high of just under \$144 per barrel, due to the weakening dollar, geopolitical tensions and negative comments from OPEC. Concerns that banks may have to write off further credit-related losses caused considerable declines in financial stocks. The Irish financial sector declined by 29.2% over the month. As a result of its overweighting in this sector, the Irish stock market was the worst performing bourse, with a decline of 14.7% over the month. At the start of the second quarter, Irish equities represented just under 14% of the funds included in this survey. Given the small number of companies and sectors dominating the market, this remains a source of concern, particularly as the Irish market makes up just 0.25% of the world stock market.

Tables

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

	1 Month %	Quarter 2 %	6 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-7.9	-3.5	-14.9	-18.8	3.4	7.5	2.3
Bank of Ireland Asset Management	-7.9	-4.1	-14.4	-23.2	-1.8	4.2	3.1
Canada Life/Setanta	-8.0	-4.1	-13.3	-17.7	0.5	6.0	2.4
Eagle Star	-6.9	-2.8	-13.7	-17.9	3.5	8.1	3.4
Friends First/F&C	-8.4	-4.0	-17.4	-23.4	0.5	5.8	2.2
Hibernian Investment Managers	-9.1	-5.0	-16.1	-21.5	1.3	6.4	2.7
Irish Life Investment Managers	-8.4	-4.8	-15.4	-22.5	1.2	6.9	3.2
KBC Asset Management	-8.4	-4.1	-15.8	-23.5	0.3	5.3	1.5
Oppenheim Investment Managers	-6.5	-2.9	-12.7	-18.3	2.6	7.1	4.8
Standard Life Investments	-6.9	-2.2	-13.6	-21.3	2.3	7.2	2.3
Average	-7.8	-3.7	-14.7	-20.8	1.4	6.4	2.8

2. Equity Market Index Returns to 30th June 2008

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	-14.7	-14.7	-14.8	-14.8	-23.3	-23.3
UK	-7.1	-7.7	-0.9	-0.2	-11.1	-17.5
North America	-7.9	-9.3	-1.5	-0.9	-10.4	-17.0
Eurozone	-11.7	-11.7	-4.8	-4.8	-20.1	-20.1
Rest of Europe	-9.5	-9.2	-2.0	-3.5	-14.9	-13.4
Japan	-6.4	-8.1	9.1	3.0	-9.9	-11.9
Pacific Basin	-9.3	-10.5	-3.5	-2.2	-14.9	-19.2

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