

Group Pension Managed Funds Update to 31st August 2006

Summary

Having had a turbulent summer, pension funds recovered well during August. On average, pension managed funds rose by 2.8% over the month, with returns ranging from a low of 2.0% (Setanta) to a high of 3.2% (KBC). Over the first eight months of the year, pension funds have returned a comfortable 4.6%. Over the past twelve months, the average fund return was a healthy 13.6%. Over the three years to 31 August 2006 the average fund return has been strong, at 13.1% per annum. In the five-year period ended 31 August pension managed funds have, on average, returned a less robust 5.2% p.a., reflecting the equity bear market of the early 21st century. In contrast, however, the ten year period to the end of August saw an average return of 9.7% 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 markets got off to a rocky start in August. An unexpected interest rate hike in the UK, fears of a slowdown in the US economy and rising oil prices caused investors to become nervous. However, markets recovered strongly as the month progressed. The US Federal Reserve kept interest rates on hold for the first time in eighteen months. Having spiked early in the month, the price of oil fell back as tensions in the Middle East eased somewhat, OPEC promised not to cut supplies and a feared hurricane in the Gulf of Mexico bypassed the oil-producing region. Strong second quarter earnings results also supported equity markets.

Irish equities outperformed their global counterparts by a significant margin during August, returning 7.5%. Strong results from AIB boosted the financial sector of the market, which rose 9% over the month. Construction stocks also had a good month, with CRH rising 7% and Kingspan up 8%. C&C started the month well as Bulmers/Magners continued to benefit from the good weather during the summer. However, later in the month it was announced that sales in public houses in Scotland have fallen 11% since the introduction of the smoking ban there, which caused C&C shares to fall back somewhat. Overall, C&C finished the month up 6%. Ryanair fell 4% during August in the wake of a terrorism scare in the UK, which caused widespread disruption and created an expectation of lower passenger numbers going forward. Elan gained 11% over the month, as trials of its new Alzheimer's drug made good progress. On the economic front, inflation increased to 4.2% as a result of rising oil prices and higher mortgage costs.

UK equities faltered during August, rising just 0.4% in sterling terms (2.0% in euro terms). The main reason for this was an unexpected rate hike by the Monetary Policy Committee at the start of the month, which unsettled investors. Increased bad debt provisions at a number of banks were negatively received, despite some positive performance numbers. The disruption to air travel and peripheral industries following a foiled terrorist attack also hurt the market. BP, the largest company in the FTSE, closed their Alaskan Prudhoe oil field as a result of leakage and corrosion issues, causing a temporary spike in the price of oil. On the plus side, mining stocks rose as commodity prices continued to soar. Furthermore, merger activity continued with UTV and SMG discussing an alliance, while bid speculation surrounded GCAP Media, Lloyds TSB and Anglo American.

Despite the Federal Reserve keeping interest rates on hold, US equities also put in a lacklustre performance during August, rising 2.4%. Concerns over a slowdown in the world's largest economy dominated investor sentiment over the month. Employment data was weak, as were consumer and producer price figures. There were also indications that housing and industrial output are slowing down. Technology stocks outperformed the wider market, with the notable exception of Dell which announced a 42% fall in profits and an ongoing SEC investigation into accounting issues at the company.

European bourses delivered good performances, with the Eurozone region returning 3.6% and the Rest of Europe rising 3.1%. The 0.25% increase by the ECB had been widely expected and was fully priced into the market. Second quarter earnings results were generally positive, with financial stocks, in particular, delivering better than expected results. Telecoms companies, on the other hand, disappointed the market as increased competition is impacting negatively on profit margins. Exporters struggled, due to the weakness of the dollar, which fell 0.7% against the euro in August and is 8.2% weaker so far in 2006. On the economic front, second quarter GDP for the region increased 0.9%, driven by stronger performances from the German and French economies.

Having struggled so far this year, Japan delivered a strong performance in August, finishing the month 4.0% higher. Exporters underperformed domestic stocks, while large caps lagged small caps. Fears of the impact of a US slowdown were offset by upbeat quarterly earnings reports. Economic news supported domestic-oriented stocks, as data was released indicating increased industrial production and strong lending by the banking sector. Lower oil prices also supported the market. A surprise increase in the birth-rate was welcomed by investors.

Pacific Basin equity markets returned a solid 3.5% over the month. Australian mining stocks struggled initially as fears of a global economic slowdown increased; however the continued rise in commodity prices supported the sector as the month progressed. South Korea suffered continued weakness in the telecoms sector. The Hong Kong market reacted positively to the pause in US interest rate increases. Rumours of consolidation in the Chinese telecoms market were well received. Taiwanese technology stocks received a boost from the strong performance of their US peers, although the market as a whole suffered due to increasing political instability in the country.

Bond yields fell again during August, which is not good news for pension funds. The method used to calculate pension fund liabilities means that lower bond yields result in a higher valuation being placed on these liabilities.

Tables

1. Group Pension Managed Fund Returns to 31st August 2006

	1 Month %	8 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	3.0%	5.4%	15.3%	13.1%	4.0%	8.6%
Bank of Ireland Asset Management	3.1%	2.9%	10.3%	11.3%	5.8%	10.2%
Canada Life/Setanta	2.0%	3.9%	10.4%	13.1%	4.5%	8.5%
Eagle Star	2.6%	5.2%	14.6%	14.3%	6.5%	10.1%
Friends First/F&C	2.8%	4.3%	14.0%	13.0%	5.5%	9.8%
Hibernian Investment Managers	2.6%	5.7%	14.8%	13.3%	5.6%	10.0%
Irish Life Investment Managers	2.9%	4.0%	13.6%	14.2%	6.0%	9.9%
KBC Asset Management	3.2%	5.0%	15.0%	12.1%	3.5%	8.7%
Oppenheim Investment Managers	2.4%	4.8%	12.8%	12.7%	5.4%	12.3%
Standard Life Investments	3.1%	5.0%	15.5%	14.0%	5.7%	8.6%
Average	2.8%	4.6%	13.6%	13.1%	5.2%	9.7%

2. Equity Market Index Returns to 31st August 2006

Region	1 Month		8 Months	
	Local Ccy	Euro	Local Ccy	Euro
Ireland	7.5%	7.5%	11.1%	11.1%
UK	0.4%	2.0%	8.0%	10.3%
North America	2.4%	2.2%	5.8%	-2.2%
Eurozone	3.6%	3.6%	11.6%	11.6%
Rest of Europe	3.1%	2.6%	8.9%	8.2%
Japan	4.0%	1.1%	2.3%	-5.1%
Pacific Basin	3.5%	2.9%	8.2%	2.5%