

Group Pension Managed Funds Update to 31st August 2007

Summary

Among the ten main managed fund providers, returns during August ranged from -1.3% (Bank of Ireland Asset Management) to 0.1% (achieved by Setanta Asset Management), with the average fund falling 0.6% over the month. As a result, over the first eight months of the year funds have made disappointing progress, with the average fund rising just 1.3%. Over this period, AIB Investment Managers were the best performing managers with a return of 3.2%, while Bank of Ireland Asset Management propped up the table with a very disappointing -1.5%. Returns for the past twelve months were 9.4% on average, with individual returns ranging from 5.7% (Bank of Ireland Asset Management) to 12.3% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 13.8% per annum. The five year returns to the end of August remain strong, with the average managed fund delivering a return of 10.2% per annum over this period. Returns over the past ten years have been 7.7% 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 sub-prime mortgage lenders in the US continued into August. Several large European banks experienced high levels of fund redemptions. BNP Paribas froze three investment funds, prompting fears of a liquidity crunch. Subsequently, liquidity injections by the European Central Bank, the US Federal Reserve, the Bank of Japan and other major central banks eased these concerns. Weak economic data and rising oil prices further increased investor nervousness in the early part of the month. However, these improved towards month end, and the risk appetite appeared to return to equity markets.

The volatility in equity markets led investors to continue seeking out "safe-haven" assets – predominantly government bonds. This led to long-dated bond prices rising by approximately 0.5%. Government bond prices can be seen as a proxy for the cost of purchasing a pension on retirement. Therefore, when asset values decline and pension prices rise, the ultimate retirement income that people can expect from their savings is doubly eroded.

The Irish stock market continued to struggle, with a decline of 1.6% over the month. This was mainly due to the fact that it is heavily exposed to the financial and construction sectors, the very sectors that have borne the brunt of the recent global credit crisis. Irish equities typically represent about 17% of Irish pension managed funds. This is a serious source of concern due to the high level of stock specific risk inherent in the Irish market.

UK equities declined by 0.2% over the month. The Bank of England kept interest rates on hold, as inflation fell to 1.9% in the year to July. This was the first time that inflation had fallen below the Bank's target rate of 2% since March 2006. During the second quarter, unemployment fell back slightly to 5.4%, although average earnings grew at their slowest pace in almost four years. As elsewhere, financial stocks struggled but the market was supported by the mining and oil sectors.

US equities outperformed their global peers, rising 1.5% in dollar terms over the month. As the sub-prime mortgage crisis continued, the Federal Reserve stepped in. By injecting liquidity into the market, and cutting its discount rate (the rate at which it lends to banks directly) by 0.5%, the Fed eased fears of a liquidity crunch. President Bush also intervened in the crisis, announcing that the Federal Housing Administration would be allowed guarantee loans for delinquent borrowers, enabling them to avoid foreclosure on their homes. Economic news was positive, with second quarter GDP rising to 4%, while during July consumer spending increased by 0.4%, manufacturing orders climbed by 3.7% and wages were up 0.5%.

Eurozone equities fell 0.6% over the month, while the Rest of Europe performed slightly worse with a decline of 1.3%. The impact of the US sub-prime mortgage crisis weighed heavily on credit markets, which increased concerns over the ability of companies to issue debt to finance their corporate activity. Mergers and acquisitions have supported European markets over the past 18 months, and a fall-off in such activity would not bode well. Several of Europe's larger banks admitted to having exposure to the sub-prime US market, while a number of funds were frozen as large redemptions led to a lack of liquidity. The ECB intervened mid-month, with liquidity injections totaling more than €350 billion.

The Japanese stock-market was the worst performing major bourse during August, with a fall of 5.5%. Many smaller companies suffered as investors moved out of riskier assets. Furthermore, an unwinding of the carry-trade pushed the yen to a 14-month high against the dollar, which led to a move away from Japanese exporters.

The Pacific Basin region was the only major market, apart from the US, to deliver a positive return over the month. Australia was the best performing market with a return of 3.2%, supported by strong commodity prices and retail sales. The index for Hong Kong/China also fared well, rising 1.9%, on the back of good earnings expectations and the news that Chinese investors would be allowed to invest directly in the Hong Kong market. All other markets in the region declined over the month, as the global liquidity crisis led investors away from riskier assets.

Tables

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

	1 Month %	8 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-0.1	3.2	12.3	15.5	10.5	7.1
Bank of Ireland Asset Management	-1.3	-1.5	5.7	10.6	8.2	7.9
Canada Life/Setanta	0.1	1.4	6.5	12.2	9.2	6.8
Eagle Star	-0.4	3.0	11.8	15.8	11.2	8.1
Friends First/F&C	-0.4	1.0	9.8	14.0	10.6	7.6
Hibernian Investment Managers	-0.3	1.7	9.7	13.5	10.3	8.0
Irish Life Investment Managers	-0.9	1.9	10.5	14.6	11.3	8.2
KBC Asset Management	-0.9	0.4	8.7	13.9	9.3	6.8
Oppenheim Investment Managers	-0.9	0.8	8.9	13.2	9.9	9.6
Standard Life Investments	-1.0	1.2	9.9	14.9	11.2	7.0
Average	-0.6	1.3	9.4	13.8	10.2	7.7

2. Equity Market Index Returns to 31st August 2007

Region	1 Month %		8 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Ireland	-1.6	-1.6	-9.3	-9.3
UK	-0.2	-0.5	4.1	3.8
North America	1.5	1.9	5.6	2.7
Eurozone	-0.6	-0.6	7.9	7.9
Rest of Europe	-1.3	-1.7	6.2	4.1
Japan	-5.5	-2.6	-3.7	-4.3
Pacific Basin	0.4	-1.6	19.2	16.4

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