Group Pension Managed Funds Update to 30th September 2007

Summary

Among the ten main managed fund providers, returns during September ranged from -0.9% (Bank of Ireland Asset Management) to 1.1% (achieved by AIB Investment Managers), with the average fund rising just 0.1% over the month. As a result of the recent credit crisis in equity markets, pension fund returns over the third quarter of 2007 were a disappointing -3.3% on average. The best performing fund over the quarter was the AIB Managed Fund, which declined 1.7%. Bank of Ireland Asset Management, who have the highest exposure to Irish equities among the funds surveyed, delivered the worst return during the quarter, falling 5.3%. Over the first nine months of the year funds have made little progress, with the average fund rising just 1.4%. Over this period, AIB Investment Managers were the best performing managers with a return of 4.3%, while Bank of Ireland Asset Management propped up the table with a very disappointing -2.5%. Returns for the past twelve months were 7.6% on average, with individual returns ranging from 3.4% (Bank of Ireland Asset Management) to 11.5% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 13.5% per annum. The five year returns to the end of September remain strong, with the average managed fund delivering a return of 12.1% per annum over this period. Returns over the past ten years have been 7.1% 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 September. Financial stocks were worst affected. Most notably, the UK bank Northern Rock saw a run on deposits after announcing emergency funding had to be obtained from the Bank of England. A guarantee from the British Exchequer subsequently eased fears that the bank would default on deposits. Economic data from the US were weak, with falling employment numbers and declines in the housing market. However, an unexpected 0.5% cut in the base rate by the Federal Reserve led to a rebound in equity markets around the globe. The cut in interest rates led to a sharp decline in the dollar, which fell to a record low of $1.42 against the euro by month end. Oil prices rose to $83.50 per barrel, due to bad weather, declining inventories and tensions in the Middle East. Gold reached a 27-year high, as investors sought safe-haven assets.

In the early part of the month, the volatility in equity markets led investors to continue seeking out less risky assets – predominantly government bonds. However, bond prices declined sharply towards month end, as investors returned to equity markets following the Fed's intervention. Over the month, long bond prices fell 0.5%. Government bond prices can be seen as a proxy for the cost of purchasing a pension on retirement.

The Irish stock market continued to struggle, with a decline of 6.0% 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 rose 2.6% in sterling terms over the month. In response to the uncertainty in credit markets, the Bank of England kept interest rates on hold once again. Lower inflation figures supported this decision. The Bank also intervened in the Northern Rock crisis, giving the mortgage lender access to emergency funding. Furthermore, the Bank loosened its lending criteria for emergency loans. Unemployment fell back slightly to 5.4% in the three months to July, retail sales rose by 0.6% in August, while housing market data indicated that recent interest rate increases and tighter lending conditions are causing a slowdown.

In the US, markets responded well to the Federal Reserve's unexpected decision to cut interest rates by 0.5%, with the FT North America index rising 3.7% over the month. Economic news was disappointing however, with weak employment data, a lower than expected increase in retail sales, rising delinquencies on home loans, and evidence of a slowdown in the housing market. These developments caused the OECD to lower its forecast for US economic growth for 2007 from 2.1% to 1.9%.

Eurozone equities returned 1.4% over the month, while the Rest of Europe lagged slightly with a rise of 0.9%. The European Central Bank kept interest rates on hold at 4%. Concerns over the recent credit market turmoil contributed to the Bank's decision. Inflation remained below the ECB's target at 1.7%, while unemployment was stable at 6.9%. Industrial production rose by 0.6% in July. The trade surplus in the Eurozone rose to €4.6 billion, despite the euro reaching record highs against the dollar.

Despite falls in GDP and consumer prices, the Japanese stock market ended the month in the black, with a return of 1.1% in Yen terms. The shock resignation of Prime Minister Shinzo Abe led to some uncertainty over the political outlook for the country. However, an increase in the trade surplus towards month end led the market strongly upwards.

Pacific Basin markets delivered the strongest returns over the month, with the region as a whole rising 7.5%. Several markets reached record highs, as the unexpectedly large cut in US interest rates was welcomed by investors. Rising oil and commodity prices, and the continued strength of the Chinese economy, also supported markets in the region.

Tables

1. Group Pension Managed Fund Returns to 30th September 2007

	1 Month %	3 Months %	9 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	1.1	-1.7	4.3	11.5	15.4	12.8	6.6
Bank of Ireland Asset Management	-0.9	-5.3	-2.5	3.4	10.1	9.8	7.2
Canada Life/Setanta	0.2	-1.8	1.7	5.2	12.0	11.2	6.3
Eagle Star	0.5	-2.1	3.5	10.2	15.4	13.0	7.5
Friends First/F&C	-0.3	-3.4	0.7	7.3	13.6	12.2	6.9
Hibernian Investment Managers	0.4	-2.8	2.1	8.1	13.3	12.3	7.4
Irish Life Investment Managers	-0.4	-4.2	1.5	8.1	14.0	13.2	7.5
KBC Asset Management	-0.6	-4.2	-0.2	6.0	13.3	11.5	6.1
Oppenheim Investment Managers	0.2	-3.9	1.0	7.8	12.9	11.7	9.0
Standard Life Investments	0.5	-3.6	1.6	8.3	14.7	13.0	6.6
Average	*0.1*	*-3.3*	*1.4*	*7.6*	*13.5*	*12.1*	*7.1*

2. Equity Market Index Returns to 30th September 2007

Region	1 Month %		3 Months %		9 Months %	
	Local Ccy	*Euro*	*Local Ccy*	*Euro*	*Local Ccy*	*Euro*
Ireland	-6.0	-6.0	-14.9	-14.9	-14.7	-14.7
UK	2.6	-0.7	-1.3	-4.8	6.8	3.1
North America	3.7	-0.2	2.2	-2.5	9.5	2.5
Eurozone	1.4	1.4	-2.8	-2.8	9.4	9.4
Rest of Europe	0.9	1.1	-3.0	-2.7	7.1	5.2
Japan	1.1	-2.3	-8.3	-6.5	-2.6	-6.5
Pacific Basin	7.5	7.2	11.4	8.0	28.2	24.8

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