

Group Pension Managed Funds Update to 31st October 2006

Summary

During October, pension funds consolidated the strong returns delivered during the third quarter, rising 2.6% on average. This brings the average return for the first ten months of the year to 9.3%. Over the past twelve months, the average fund return was 17.1%. Over the three years to 31 October 2006 the average fund return has been strong, at 14.2% per annum. In the five-year period ended 31 October pension managed funds have, on average, returned a healthy 7.0% p.a. In the ten year period to the end of October pension funds delivered an average return of 9.6% 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

Strong corporate earnings supported equity markets during October. Of the companies that reported second quarter figures, 74% of US companies and 72% of European companies beat expectations. The recent flurry of merger and acquisition activity continued. Economic data was strong in Europe, while figures from the US continue to support a soft-landing for the economy there. The ECB increased interest rates by 0.25% for the fifth time in a row. In the US, the Federal Reserve kept rates on hold for a fourth consecutive month. Asian markets wobbled in the wake of nuclear tests conducted in North Korea, but rebounded as the outlook for the global economy improved.

The Irish equity market was the best performing bourse during October, delivering a gain of 5.0%. This brings the return on Irish equities for the first ten months of the year to 19.4%. Given the high level of domestic equity exposure in most Irish pension funds, this has been very beneficial. Economic data was strong, with Exchequer returns up over 12% on 2005, estimates of GDP growth for 2006 coming in at 5.25% and consumer spending up 6.7% year on year. Aer Lingus jumped dramatically on the back of a takeover bid from Ryanair. Ryanair offered €2.80 per share, a 27% premium on the floatation price. C&C continued its dramatic rise, with Magners again being the main driver of performance. C&C was up over 20% in October, and has risen over 140% so far in 2006. IAWS announced the acquisition of US bakery company, Otis Spunkmeyer, and investors responded positively to this news. Independent News and Media started the ball rolling on a leveraged buy-out of Australian media company APN. If this is successful, it could liquidate up to €500m of their current holding in APN.

UK equities rose 2.9%, in sterling terms, over the month. Merger and acquisition activity supported the market. Noteworthy deals included a possible bid for steelmaker Corus from India's Tata Steel, a private equity group's approach to Northern Ireland's main electricity provider Viridian, rumours that Citigroup were interested in Lloyds TSB, speculation that Swiss travel group Kuoni were interested in a merger with the UK's First Choice and a private equity bid for publishing and conferences group Informa. Mining and resource stocks were strong on the back of recovering commodity prices and OPEC's announcement that oil supplies would be cut. The most significant negative news over the month was the decision by the US Senate to make it illegal for banks and credit card companies to process online gambling payments from the US. Consequently, internet gambling companies in the UK, such as PartyGaming, SportingBet and World Gaming, lost over half their value.

October was a good month for US equities, as the Dow Jones Industrial Average reached record highs. The broader index of North American stocks returned 3.4% in dollar terms, falling to 2.6% when converted into euro terms. Strong corporate earnings results for the third quarter boosted the market. Above expectation results were announced by Starbucks, General Electric, McDonalds, Google, Johnson & Johnson, Coca-Cola, Chevron, ExxonMobil and General Motors. The US Federal Reserve kept interest rates on hold for the fourth consecutive month. The accompanying statement was less hawkish on the outlook for inflation. However, economic news was mixed. Stronger than expected job creation and consumer sentiment figures showed the economy to be stronger than had been thought. On the other hand, GDP was weaker than expected and the index of business conditions contracted for the second month in a row. The consensus appears to be a soft landing for the US economy, but any other outcome would be negative for the global economy.

European bourses were once again supported by a wave of mergers and acquisitions. Companies involved in such activities included ThyssenKrupp, BBVA, BNP Paribas, Societe Generale, Scania and MAN. Third quarter earnings generally surprised on the upside. Notable exceptions to this included Nokia and Akzo Nobel. In general, telecoms and auto stocks delivered strong results. Pharmaceutical companies lost ground in the wake of increasing competition from generic drugs. EADS, parent company of Airbus, fell back sharply on the announcement of further delays to the A380 superjumbo.

Japan was the worst performing of the major markets during October, rising just 0.9%. Sony Ericsson delivered results that were double what had been expected. However, Sony had a poor month overall, as legal action was threatened over faulty batteries and the company announced further product delays. The Tankan survey of business confidence reached a two-year high, while exporters were boosted by a weaker yen. Finance companies fell back as interest rate caps were retained.

Equity markets in the Pacific Basin region experienced mixed fortunes during October. The overall performance of the region was 2.6% in local currency terms. Returns ranged from a low of -0.8% in South Korea to a high of 5.9% in Singapore. Nuclear weapons testing in North Korea weighed heavily on the stock market in South Korea. The outlook for US interest rates supported banking and property stocks in Hong Kong. The resource-heavy Australian market was supported by the recovery in commodity prices. Singapore's third-quarter GDP growth was 6%, compared with 3.4% in the second quarter.

Eurozone bonds, which are a proxy for pension fund liabilities, were flat over the month.

Tables

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

	1 Month %	10 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	3.0%	10.5%	18.6%	14.4%	5.8%	8.7%
Bank of Ireland Asset Management	2.6%	6.9%	13.7%	12.2%	7.3%	9.9%
Canada Life/Setanta	1.4%	7.0%	12.7%	13.6%	6.3%	8.3%
Eagle Star	2.9%	10.3%	18.3%	15.6%	8.3%	10.2%
Friends First/F&C	2.7%	9.3%	17.8%	14.2%	7.4%	9.6%
Hibernian Investment Managers	2.5%	10.4%	18.2%	14.4%	7.2%	10.0%
Irish Life Investment Managers	2.7%	8.7%	17.1%	15.2%	7.9%	9.8%
KBC Asset Management	2.6%	9.9%	18.9%	13.5%	5.3%	8.8%
Oppenheim Investment Managers	3.2%	9.4%	16.8%	13.8%	7.0%	12.5%
Standard Life Investments	3.0%	10.3%	19.2%	15.3%	7.7%	8.7%
Average	2.6%	9.3%	17.1%	14.2%	7.0%	9.6%

2. Equity Market Index Returns to 31st October 2006

Region	1 Month		10 Months	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	5.0%	5.0%	19.4%	19.4%
UK	2.9%	4.3%	12.5%	15.5%
North America	3.4%	2.6%	12.0%	3.7%
Eurozone	3.2%	3.2%	18.3%	18.3%
Rest of Europe	3.2%	3.3%	16.1%	14.8%
Japan	0.9%	0.9%	2.1%	-5.0%
Pacific Basin	2.6%	3.4%	13.5%	8.7%

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