

Group Pension Managed Funds Update to 31st October 2007

Summary

Among the ten main managed fund providers, returns during October ranged from 0.8% (Bank of Ireland Asset Management) to 2.3% (achieved by Eagle Star and Standard Life Investments), with the average fund rising 1.7% over the month. Due to the turmoil in equity markets over the summer, pension funds have made little progress in 2007, with the average fund rising just 3.1% over the first 10 months of the year. AIB Investment Managers are the best performing manager so far this year with a return of 6.5%, while Bank of Ireland Asset Management prop up the table with a very disappointing -1.7%. Returns for the past twelve months were 6.6% on average, with individual returns ranging from 1.6% (Bank of Ireland Asset Management) to 10.6% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 13.9% per annum. The five year returns to the end of October remain strong, with the average managed fund delivering a return of 11.4% per annum over this period. Returns over the past ten years have been 7.8% 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

October saw continued uncertainty in global equity markets. During October, oil prices soared to an all-time record high of \$94 per barrel, due to tight supplies before winter, the weakening dollar and geopolitical tensions in the Middle East. Commodity prices rose on the back of strong demand, while gold reached a 28-year high as investors sought safe-haven assets. The US Federal Reserve reduced interest rates by a further 0.25% to 4.5%, a 0.75% reduction since September. Interest rates were left unchanged by the European Central Bank (at 4.0%) and the Bank of England (at 5.75%). Volatility in equity markets led investors to continue seeking out less risky assets – predominantly government bonds. Consequently, over the month, long bond prices rose by 1.4%. Government bond prices can be seen as a proxy for the cost of purchasing a pension on retirement.

Irish equities returned 0.5% during October. Although this is the first time since May that Irish equities have ended the month in positive territory, they remain one of the worst performing bourses. This was mainly due to the fact that the Irish market is heavily exposed to the financial and construction sectors, the very sectors that have borne the brunt of the recent global credit crisis. The financial sector, which makes up 43.5% of the ISEQ index, is down 2.7% for October and 23.6% for the year thus far. Indeed, according to Exchequer return figures released during October, tax revenue is €490 million behind official Department of Finance figures, with the bulk of this shortfall deriving from lower than expected stamp duty revenue, highlighting the slow-down in the Irish housing market. On average, Irish equities currently represent about 15% of the managed funds surveyed. This is a serious source of concern due to the high level of exposure to the financial sector in the Irish market.

UK equities rose 4.1% in sterling terms over the month. Once again, the Bank of England kept interest rates on hold. The oil and mining sectors continued to support the market, as oil and commodity prices surged. Despite concern over credit markets, the output of financial and business services rose by 1.7% during the quarter. On the economic front, second quarter GDP rose by an estimated 0.8%, consumer and retail prices rose by 0.1% during September, house price figures continue to indicate at least a 10.0% increase year-on-year, while retail sales for September grew at 6.3%.

US equities rose 1.9% in dollar terms over the month. Several large US companies delivered disappointing third quarter earnings results, which had a negative impact on both their local and global peers. Expectations of another interest rate cut by the US Federal Reserve buoyed equity markets globally; indeed, on the final day of the month the Fed reduced interest rates by a further 0.25% to 4.5%, a 0.75% reduction since September. Weak US economic data, surging oil prices and lower interest rates led to a continued decline in the dollar, which fell to a record low against the euro during the month.

Eurozone equities returned 3.2% over the month, while the Rest of Europe was one of the worst performing regions with a rise of just 0.2%. The European Central Bank kept interest rates on hold at 4%. Comments made by ECB president Jean-Claude Trichet appeared less hawkish than they had been previously. European equity markets responded well to these remarks. Upbeat earnings data, particularly from the telecoms sector, and the re-emergence of merger and acquisition speculation supported Eurozone markets during the month.

The Japanese stock market ended the month with a return of 0.2% in Yen terms. Export stocks were hit by the strengthening of the yen against the dollar and weak housing data in the US. Furthermore, the stronger yen indicated that investors were bailing out of their carry trade positions.

Pacific Basin markets delivered the strongest returns over the month, with the region as a whole rising 5.6%. Despite some profit-taking during the month, many Asia Pacific markets reached all-time highs. In particular, the Hang Seng index rose past the 30,000 mark for the first time in response to growing expectations that Hong Kong will be the main beneficiary of Chinese funds after the relaxation of investment rules by Beijing. 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 31st October 2007

	1 Month %	10 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	2.2	6.5	10.6	16.0	12.1	7.3
Bank of Ireland Asset Management	0.8	-1.7	1.6	10.2	9.0	7.7
Canada Life/Setanta	0.9	2.5	4.6	12.0	10.7	6.9
Eagle Star	2.3	5.9	9.6	16.0	12.7	8.3
Friends First/F&C	2.0	2.7	6.6	14.2	11.6	7.6
Hibernian Investment Managers	1.6	3.8	7.2	13.7	11.5	8.0
Irish Life Investment Managers	1.8	3.3	7.2	14.5	12.5	8.1
KBC Asset Management	1.4	1.1	4.7	13.6	10.5	6.6
Oppenheim Investment Managers	2.1	3.1	6.6	13.4	11.1	9.9
Standard Life Investments	2.3	4.0	7.6	15.2	12.2	7.3
Average	1.7	3.1	6.6	13.9	11.4	7.8

2. Equity Market Index Returns to 31st October 2007

Region	1 Month %		10 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	0.5	0.5	-14.3	-14.3
UK	4.1	4.4	11.3	7.6
North America	1.9	0.5	11.6	3.0
Eurozone	3.2	3.2	12.9	12.9
Rest of Europe	0.2	-0.5	7.3	4.7
Japan	0.2	-1.7	-2.4	-8.1
Pacific Basin	5.6	6.2	35.3	32.5

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