

Group Pension Managed Funds Update to 30th November 2006

Summary

Group pension managed funds were, on average, flat during November. Among the ten main managed fund providers, returns ranged from a high of 0.6% (achieved by Setanta Asset Management) to a low of -0.4% (from KBC Asset Management). Returns for the year so far remain strong at 9.2% on average, while the past twelve months have seen pension funds return a healthy 13.2% on average. Over the past three years, the average managed fund has shown a gain of 14.4% per annum. For the five year period to the end of November, the average performance is a more modest 6.3% per annum. Returns over the past ten years, which include all of the impact of the bursting of the technology bubble in 2000 and the subsequent bear market, have been a healthy 9.5% 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

Equity markets experienced a volatile month during November. Strong corporate earnings, merger and acquisition activity, lower oil prices, benign inflation and expectations of a soft landing for the US economy all supported equities. However, the results of the US mid-term elections caused some restructuring of portfolios, as the Democratic victory was seen as negative for pharmaceutical and defence stocks. The weakening of the dollar against most major currencies had a two-fold impact on Irish pension funds. In the first instance, export stocks around the world were down as a result of lower prices. Secondly, the gains made by US and Asian stock markets in local currency terms were eroded for euro-denominated investors.

Irish equities returned 1.1% during November. Ryanair was the star performer over the month, on the back of strong earnings from both the company itself and its competitor Easyjet. Domestic stocks with exposure to the US, such as Kerry Group and CRH, were hurt by the strength of the euro against the dollar. C&C fell back due to profit taking and a reducing market share for Magners in the UK. Elan lost further ground following last month's disappointing results, and strong results from its competitor Schering.

UK equities fell 0.8%, in sterling terms, over the month. The Bank of England increased the base rate by 0.25% to 5.0%, its highest level in 5 years. British Airways fell back on the news that operating profits had fallen 27% in the wake of rising oil prices and terrorist activities. Pharmaceutical stocks, such as AstraZeneca and GlaxoSmithKline, lost ground in the wake of the Democrat's victory in the US mid-term elections. Stocks with US earnings struggled as the dollar reached 14-year lows against sterling. Meanwhile, merger and acquisition activity continued apace. Struggling broadcaster ITV was seen as a takeover target for NTL, RTL and BSKyB, Spanish energy group Iberdrola made a bid for Scottish Power, Brazil's CSN trumped Tata Steel's offer for steelmaker Corus, housebuilder Wilson Bowden confirmed it was in discussions with several potential buyers, and EMI received an approach from unnamed investors.

US equities fared better than most of their global counterparts, rising 2.2%, as the weakening of the dollar boosted exports. On the economic front, unemployment fell to its lowest level in five years, while new housing starts fell to their lowest level in six years. US consumers appear to be weathering the housing market storm quite well, as retail sales continue to surprise on the upside. Corporate earnings continued to beat expectations. Mastercard reported an 82% jump in third-quarter earnings, while Clear Channel, Cisco and Dell all beat expectations. The retail sector struggled following disappointing results from Wal-Mart. Three new listings in New York were well received – energy exchange NYMEX, car hire firm Hertz, and Haliburton subsidiary, KBR. On the corporate activity front, Four Seasons received a \$3.7 bn private bid and US Airways launched an unsolicited \$8 bn bid for Delta Airlines. Phelps Dodge, Swift Transportation and OSI Restaurant Partners also received bids.

Eurozone equities produced marginally positive returns, while the rest of Europe fell 0.6% over the month. The European Central Bank kept interest rates on hold in November, but hinted strongly that rates would rise in December and again in the first quarter of 2007. Lower than expected inflation and strong GDP growth from a number of the larger Eurozone economies was welcome news. Corporate activity included bids, or rumours of bids, for Vivendi, Capitalia, Respol and Volkswagen. The strength of the euro had a negative impact on export-focussed stocks, notably autos and pharmaceuticals.

Japan had another difficult month, falling 0.7% in yen terms. Export stocks were particularly sensitive to the weakness in the dollar and the outlook for the US economy. Although GDP was strong, other economic indicators fuelled concerns of a slowdown in the domestic economy. The outlook for capital spending worsened as machinery orders fell, while earnings in the banking sector showed the impact of lower lending margins.

Pacific Basin equities delivered the best returns during November, with the region rising 4.2%. Markets in Hong-Kong, Australia, India, Indonesia, New Zealand and Singapore all reached record highs. The resource-heavy Australian market was the weakest of these markets, with a return of 2.0% in local currency terms. Taiwan delivered an impressive 7.2% rise to outperform its peers.

Bond markets rallied strongly over the month, partly due to the safe-haven status of bonds during equity market volatility. Furthermore, interest rates in the US and Europe were kept on hold, as inflation fears eased. Bond returns can be seen as a proxy for pension fund liabilities.

Tables

1. Group Pension Managed Fund Returns to 30th November 2006

	1 Month %	11 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-0.3%	10.2%	14.5%	14.7%	5.1%	8.5%
Bank of Ireland Asset Management	-0.2%	6.8%	10.3%	12.2%	6.5%	9.6%
Canada Life/Setanta	0.6%	7.6%	10.4%	13.8%	5.4%	8.4%
Eagle Star	0.0%	10.3%	14.3%	15.8%	7.5%	9.9%
Friends First/F&C	0.0%	9.4%	13.7%	14.5%	6.7%	9.4%
Hibernian Investment Managers	-0.2%	10.2%	14.1%	14.4%	6.4%	9.8%
Irish Life Investment Managers	0.1%	8.8%	13.1%	15.5%	7.2%	9.7%
KBC Asset Management	-0.4%	9.5%	14.1%	13.5%	4.3%	8.6%
Oppenheim Investment Managers	0.2%	9.6%	13.5%	14.0%	6.6%	12.3%
Standard Life Investments	-0.3%	10.0%	14.3%	15.6%	6.9%	8.6%
Average	0.0%	9.2%	13.2%	14.4%	6.3%	9.5%

2. Equity Market Index Returns to 30th November 2006

Region	1 Month		11 Months	
	Local Ccy	Euro	Local Ccy	Euro
Ireland	1.1%	1.1%	20.7%	20.7%
UK	-0.8%	-1.5%	11.6%	13.8%
North America	2.2%	-1.7%	14.4%	2.0%
Eurozone	0.3%	0.3%	18.7%	18.7%
Rest of Europe	-0.6%	-0.1%	15.4%	14.7%
Japan	-0.7%	-3.2%	1.4%	-8.0%
Pacific Basin	4.2%	1.9%	18.3%	10.8%

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