

Group Pension Managed Funds Update to 30th November 2007

Summary

Among the ten main managed fund providers, returns during November ranged from -6.4% (Standard Life Investments) to -3.3% (achieved by Setanta Asset Management), with the average fund declining 4.6% over the month. Due to the turmoil in equity markets since the summer, pension funds have lost what little gains had been made during the early part of the year. The average fund has lost 1.6% over the first 11 months of the year. AIB Investment Managers are the best performing manager so far this year with a return of 2.1%, with Eagle Star the only other manager in the black year to date, with a return of 1.5%. Bank of Ireland Asset Management prop up the table with a very disappointing -6.2%. Returns for the past twelve months were just 1.8% on average, with individual returns ranging from -2.9% (Bank of Ireland Asset Management) to 6.3% (achieved by AIB Investment Managers). Over the past three years, the average managed fund has shown a gain of 11.3% per annum. The five year returns to the end of November remain strong, with the average managed fund delivering a return of 9.6% 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

Renewed fears concerning credit markets and sub-prime mortgage lenders in the US dominated equity markets during November. In particular, there was growing uncertainty regarding the extent to which many banks are exposed. Moreover, the crisis in credit markets is beginning to have an impact on the broader global economy, which in turn deflated investor confidence. As a result, forecasts for growth were downgraded in most developed economies. During November, oil prices soared to an all-time record high of just over \$99 per barrel before falling back to \$88 per barrel by month end. The dollar remained at record lows against the euro and fell to a level against sterling not seen since 1981. Towards month end, equity markets rallied somewhat on the back of expectations of further interest rate cuts by the Federal Reserve. Once again, volatility in equity markets led investors to continue seeking out "safe haven" assets – predominantly short-dated government bonds.

The Irish market was the worst hit, with the Irish banks bearing the brunt of the losses. The financial sector, which makes up over 40% of the ISEQ index, declined 9.0% in November, while the broader index of Irish shares fell 8.6%. Consequently, Irish pension funds continued to feel the impact of their overweight position in the Irish equity market. Irish equities represent approximately 15% of assets in the managed funds included in this survey. This is equivalent to over 20% of the funds' equity portfolios, whereas the Irish stock-market represents just 0.3% of the world market. In recent years, many pension fund investors have not questioned these overweight positions, as Irish equities had been significantly outperforming their global peers. During 2007, however, the Irish stock-market has been one of the worst performing bourses, falling 21.7% so far this year. This has led to an increased awareness of the risk to which Irish pension funds are exposing themselves by maintaining such heavy weightings in the domestic stock market.

UK equities declined 4.1% in sterling terms over the month. The Bank of England's decision to keep interest rates on hold had little impact on the market due to uncertainty regarding the extent to which the current credit market turmoil will affect the UK economy. Poor economic data has raised expectations that the Bank may lower interest rates over the coming months. Consequently, sterling fell to its lowest level against the euro in four years. UK industrial output fell in September by 0.5%, while the growth in the services sector eased to its slowest pace in 4 years during October. UK annual inflation increased to 2.1% in October, from 1.8% in September. The banks in particular had a miserable month. Barclays Bank wrote off £1.3 billion due to the credit markets turmoil, although this was less than anticipated. Meanwhile, troubled banker Northern Rock announced it has received several takeover offers.

Despite a 0.25% reduction in interest rates by the Federal Reserve on the last day of October, US equities fell 4.2% in dollar terms during November, with the credit crisis taking its toll on the stock market. Technology stocks, which had previously remained largely unaffected by the credit crisis, suffered due to fears of a decline in corporate spending on technology. Furthermore, fears that the fallout from the mortgage crisis would hit US consumer spending affected stocks. The Federal Reserve reduced its economic growth forecast for 2008. This increased expectations of further interest rate reductions over the coming months, resulting in the continued weakness in the dollar. The automotive sector also suffered with General Motors reporting a \$39 billion net loss for the third quarter, the second largest quarterly loss in US corporate history.

Eurozone equities outperformed their global peers falling 3.2% during the month, while the Rest of Europe performed slightly worse with a fall of 4.0%. The European Central Bank kept interest rates on hold with Jean Claude Trichet, ECB president, commenting that the Bank is still worried about inflation, whilst highlighting market volatility and rising oil prices as risks to growth. Despite the credit market woes, announcements and rumours of mergers and acquisitions helped support the market during the month. Eurozone inflation data jumped to 3.0%, while consumer confidence hit a 20-month low. GDP in the Eurozone increased by 0.7% in the third quarter of 2007 from the second quarter and was 2.6% higher compared with the same period last year.

The Japanese stock market ended the month with a return of -5.2% in yen terms. Early in the month, an unwinding of the carry-trade pushed the yen to an 18-month high against the US dollar, which led to a move away from Japanese exporters. Concerns regarding the fallout from the US sub-prime mortgage crisis pulled down financial stocks, with the Deputy Governor of the Bank of Japan, Toshiro Muto, stating that Japanese growth could be threatened if the US housing slump spreads.

Pacific Basin markets fell 5.8% during November. Markets were affected by the credit crisis and concerns over the extent of the US economic slowdown. Towards month end, strong performances by US stocks and expectations of further interest rate cuts in the US helped buoy Asian markets. In China, a possible interest rate rise by China's central bank affected shares negatively, while a cap on cash withdrawals, to curb flows of funds to Hong Kong, also dampened sentiment.

Tables

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

	1 Month %	11 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-4.1	2.1	6.3	13.4	10.5	6.6
Bank of Ireland Asset Management	-4.6	-6.2	-2.9	7.8	7.4	7.0
Canada Life/Setanta	-3.3	-0.8	0.5	10.2	9.1	6.4
Eagle Star	-4.2	1.5	5.1	13.4	11.1	7.7
Friends First/F&C	-4.5	-1.9	1.7	11.6	9.9	6.9
Hibernian Investment Managers	-4.5	-0.9	2.6	11.2	9.7	7.4
Irish Life Investment Managers	-5.1	-2.0	1.6	11.6	10.5	7.4
KBC Asset Management	-5.0	-4.0	-0.2	10.9	8.5	5.9
Oppenheim Investment Managers	-4.3	-1.3	1.9	11.1	9.5	9.3
Standard Life Investments	-6.4	-2.7	1.0	11.8	9.9	6.4
Average	-4.6	-1.6	1.8	11.3	9.6	7.1

2. Equity Market Index Returns to 30th November 2007

Region	1 Month %		11 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Ireland	-8.6	-8.6	-21.7	-21.7
UK	-4.1	-6.5	6.7	0.7
North America	-4.2	-5.9	6.9	-3.1
Eurozone	-3.2	-3.2	9.3	9.3
Rest of Europe	-4.0	-4.0	3.1	0.4
Japan	-5.2	-2.9	-7.5	-10.7
Pacific Basin	-5.8	-9.2	27.5	20.4

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