

Group Pension Managed Funds Update to 31st December 2006

Summary

Group pension managed funds rallied strongly during December, rounding off an excellent year. Among the ten main managed fund providers, returns during December ranged from a low of 1.3% (from Setanta Asset Management) to a high of 4.1% (achieved by AIB Investment Managers). The average fund achieved a solid 3.4% over the month. Returns for the year were strong at 13.0% on average, with individual returns ranging from 9.1% (Setanta) to 14.7% (AIBIM). Over the past three years, the average managed fund has shown a gain of 14.9% per annum. For the five year period to the end of December, the average performance is a more modest 6.6% 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 9.8% 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

Having stalled somewhat in November, equity markets recovered well in December to end the year on a high note. Strong corporate earnings combined with a flurry of merger and acquisition activity supported equity markets over the month, as they have done throughout 2006. Economic data from the US was positive, with strong employment numbers and benign inflation figures. These appear to have eased investors' fears of a hard landing for the US economy.

Irish equities were the best performing asset class over the month of December, with a return of 8.3%. The domestic bourse was also the best performing (of the major markets in which Irish pension funds invest) over the fourth quarter and the full year, with returns of 14.9% and 30.7% over these periods respectively. During December, financial stocks fared well, with strong results and upbeat earnings forecasts. Kingspan was boosted by expectations regarding the strengthening of environmental legislation in the UK, while this year's star performer, C&C, was rumoured to be a takeover target.

UK equities added 2.9% during December, bringing the return for the fourth quarter to 5.1% in sterling terms. The return on the market for 2006 as a whole was 14.8% in sterling terms. The euro weakened by just over 2% against sterling over the year, increasing the full-year return to 17.1% for Irish investors. The Bank of England kept interest rates on hold at 5% when they met in December. During the month, merger and acquisition activity continued apace. Japan Tobacco made a preliminary approach for cigarette manufacturer Gallaher. Meanwhile, Premier Foods agreed an offer for RHM which will create the UK's largest food group.

Despite benign inflation data, strong employment growth and continuing demand from consumers, US equities were the worst performing market during December, rising just 1.3%. Returns for the fourth quarter, and the year as a whole, were good at 7.0% and 15.9% respectively. However, Irish investors saw these returns eroded by the weakness of the dollar, which fell 10.4% against the euro during 2006. Once again, as expected, the Federal Reserve kept interest rates on hold, at 5.25%, in December. Positive earnings news, corporate restructuring and mergers & acquisitions activity supported the market. General Electric, Adobe and several Wall Street firms all announced strong earnings growth. Citigroup announced a managerial shake-up, which was well received by investors. Bank of New York announced plans to buy Mellon Financial, a move which would create the world's largest financial assets service company. The airline sector saw continued consolidation, with United and Continental Airlines entering talks. Midwest Airlines rejected a take-over bid and saw a 28% jump in its share price. On the downside, Ford saw its share price fall following the issue of \$4.5bn worth of bonds, while Pfizer suspended development of a cholesterol drug following problems in testing.

In Europe, markets fared well during December. The Eurozone region returned a solid 4.0% over the month, while the rest of Europe rose 5.2%. The two regions delivered returns of 7.6% and 7.8% respectively for the fourth quarter. Meanwhile the performances for 2006 were also very good, at 23.4% and 21.4% respectively. The European Central Bank raised interest rates yet again in December, by a further 0.25%, to bring the rate at the end of the year to 3.5%. There were calls for the ECB to support economic growth, in addition to controlling inflation, and to become more accountable to the governments of the region. These were rejected by the ECB. On the corporate activity front, tobacco stocks in Europe rose on the back of Japan Tobacco's approach for

Gallaher, ABN AMRO gained ground amid rumours of a takeover bid from ING, Nestle announced plans to buy the medical nutrition business of Novartis, and Belgian drug-maker UCB had a bid for Germany's Schwarz Pharma accepted.

Having been the best performing market in 2005, Japan was the weakest in 2006. The market did recover some ground in December, with a rise of 5.2%. However, the fourth quarter performance of the market was only slightly higher at 5.4%, while for the year as a whole the market returned just 6.6%. In December, the market rallied on the back of a higher current account surplus, rising demand from US consumers and a weakening yen. Corporate activity also supported the market, as Japan Tobacco made an approach to the UK's Gallaher, while Bridgestone Corporation purchased the US tyre firm Bandag Inc.

The equity markets of the Pacific Basin region experienced mixed fortunes in December. The worst performing market was that of South Korea, which was flat over the month. On the other hand, Hong Kong & China delivered an impressive 6.8% return in December. South Korea struggled, as the won rose to a 9-year high leading to concerns over the outlook for exports. Strong retail sales and rising industrial output boosted the Chinese market. Singapore and Australia reached all-time highs during the month.

There was more good news for pension funds as Eurozone bond prices fell by more than 2% in December. Pension fund liabilities behave in a similar manner to bonds, and this fall in the value of bonds should translate into lower liabilities for many Irish pension schemes. Combined with the strong performance of equity markets over the year, many schemes will have seen an improvement in their funding positions as at the end of 2006.

Tables

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

	1 Month %	Quarter 4 %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	4.1%	6.9%	14.7%	15.5%	5.6%	8.9%
Bank of Ireland Asset Management	3.5%	6.0%	10.5%	12.8%	6.9%	10.0%
Canada Life/Setanta	1.3%	3.4%	9.1%	13.4%	5.4%	8.5%
Eagle Star	3.5%	6.5%	14.2%	16.3%	8.0%	10.3%
Friends First/F&C	3.7%	6.5%	13.5%	15.2%	7.0%	9.8%
Hibernian Investment Managers	3.5%	5.8%	14.0%	14.9%	6.8%	10.1%
Irish Life Investment Managers	3.7%	6.5%	12.8%	16.0%	7.7%	10.0%
KBC Asset Management	3.9%	6.2%	13.7%	14.2%	4.8%	8.9%
Oppenheim Investment Managers	3.2%	6.7%	13.2%	14.4%	7.1%	12.5%
Standard Life Investments	3.8%	6.6%	14.1%	16.3%	7.2%	8.9%
Average	3.4%	6.1%	13.0%	14.9%	6.6%	9.8%

2. Equity Market Index Returns to 31st December 2006

Region	1 Month		Quarter 4		2006	
	Local Ccy	Euro	Local Ccy	Euro	Local Ccy	Euro
Ireland	8.3%	8.3%	14.9%	14.9%	30.7%	30.7%
UK	2.9%	2.9%	5.1%	5.8%	14.8%	17.1%
North America	1.3%	1.7%	7.0%	2.6%	15.9%	3.7%
Eurozone	4.0%	4.0%	7.6%	7.6%	23.4%	23.4%
Rest of Europe	5.2%	4.4%	7.8%	7.7%	21.4%	19.7%
Japan	5.2%	2.6%	5.4%	0.3%	6.6%	-5.5%
Pacific Basin	3.3%	3.7%	10.4%	9.2%	22.1%	14.9%

Contact Details

For more information, please contact Fiona Daly.

Phone: +353-1-6249706

Email: Fiona.Daly@RubiconIC.ie

Website: www.RubiconIC.ie