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Group Pension Managed Funds Update to 31st December 2008

Summary

Irish pension funds experienced a turbulent year during 2008. As the global economy moved towards recession, equity markets across the world went into freefall. Irish pension funds lost an estimated €27 billion over the past twelve months, as the average managed fund declined by 34.8%. Setanta Asset Management was the best performing manager, with a return of -29.6%. Meanwhile, Hibernian Investment Managers propped up the league table with losses of 38.8%.

One of the main contributors to these losses was the fact that Irish pension managed funds were substantially over-exposed to an underperforming domestic equity market, as Irish equities declined 65% over the year. At the beginning of 2008, the average managed fund had just under 14% of their total assets (equivalent to 18.1% of their equity content) invested in Irish equities, which made up only 0.3% of the world equity market. Indeed, approximately €4.6 billion was wiped off the value of Irish pension funds due to their exposure to Irish equities alone.

Moreover, exacerbating this difficult situation is the fact that defined benefit pension schemes will have seen their liabilities increase by between 5% and 10% over the year, due to falling bond yields. The cost of buying a pension at retirement for members of defined contribution schemes has risen by a similar amount. Although the government has recently relaxed some of the rules under which pension schemes operate, in order to ease the pressure on pension schemes and members, we believe that these measures do not go far enough and are in any case only temporary.

Irish pension managed funds fell by 3.1% on average during December. Setanta Asset Management was the best performing manager over the month with a return of -1.5%. Hibernian Investment Managers delivered the worst performance over the month, with a return of -5.7%. During the final quarter of 2008, the average fund returned -16.2%, with returns ranging from -13.6% (Eagle Star) to -18.7% (Hibernian Investment Managers). The average managed fund return has been an extremely disappointing -10.5% per annum over the past three years. The five year returns to the end of December are also negative, with the average managed fund delivering a return of -0.8% per annum over this period. Irish group pension managed fund returns over the past ten years have been a very disappointing 0.2% per annum on average, well below the Irish inflation rate of 3.7% per annum over the same time horizon. Indeed, none of the managers surveyed outperformed inflation over this period, with half of the managers failing to deliver positive returns.

Tables

1. Group Pension Managed Fund Returns to 31st December 2008

	1 Month %	Quarter 4 %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
AIB Investment Managers	-3.3	-17.3	-35.7	-9.3	0.1	-0.6
Bank of Ireland Asset Management	-3.0	-15.9	-33.4	-12.1	-2.5	0.6
Canada Life/Setanta	-1.5	-14.6	-29.6	-9.0	0.2	0.8
Eagle Star	-2.3	-13.6	-30.5	-7.2	1.9	0.9
Friends First/F&C	-3.3	-15.7	-37.3	-11.7	-1.5	-0.5
Hibernian Investment Managers	-5.7	-18.7	-38.8	-11.8	-1.8	-0.5
Irish Life Investment Managers	-1.7	-17.0	-37.3	-11.8	-1.0	0.4
KBC Asset Management	-3.6	-16.7	-37.1	-12.2	-2.4	-1.5
Merrion Investment Managers	-3.5	-17.3	-34.4	-9.9	-0.6	2.3
Standard Life Investments	-2.6	-14.9	-33.8	-10.1	0.0	-0.3
Average	*-3.1*	*-16.2*	*-34.8*	*-10.5*	*-0.8*	*0.2*

2. Equity Market Index Returns to 31st December 2008

Region	1 Month %		Quarter 4 %		2008 %	
	Local Ccy	*Euro*	*Local Ccy*	*Euro*	*Local Ccy*	*Euro*
Ireland	-7.6	-7.6	-33.7	-33.7	-65.0	-65.0
UK	3.8	-11.3	-8.7	-25.6	-28.3	-45.5
North America	1.0	-7.8	-22.1	-22.1	-36.4	-34.2
Eurozone	0.4	0.4	-20.9	-20.9	-44.0	-44.0
Rest of Europe	-2.9	-2.0	-19.9	-19.4	-38.0	-36.3
Japan	2.8	-1.4	-22.3	-8.0	-42.0	-24.9
Pacific Basin	2.9	-0.5	-19.1	-22.8	-42.4	-47.6

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