

Pensions, Investments  
& Advisory Services



# Investment Update February 2010

A fresh approach to retirement planning



Thinking, **Years Ahead**

## Investment Update to 28<sup>th</sup> February 2010

### Group Pension Managed Funds Update to 28<sup>th</sup> February 2010

#### ***Fund Performance***

Having declined in January, for the first time since October 2009, Irish pension funds recovered lost ground during February, with the average managed fund gaining 1.3% over the month. Three managers shared top spot with a return of 1.5% for the month – Aviva Investors, Setanta Asset Management and Merrion Investment Managers – while Irish Life Investment Managers propped up the league table with a 0.9% return for the month. February's gains mean that most funds are back in the black for 2010 so far, with the average return over the first two months of the year coming in at 0.1%.

Over the past twelve months all of the managed funds surveyed delivered double-digit growth, with the average fund returning 31.8%. Returns for the past year ranged from 38.8% (Irish Life Investment Managers & Merrion Investment Managers) to 23.7% (AIB Investment Managers), representing a difference of 15.1% between the best and worst performing managers over the period.

The average managed fund return has been a very disappointing -8.3% per annum over the past three years. However, the five year returns to the end of February are positive on average, delivering a mean return of 0.4% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.3% per annum on average, well below the Irish inflation rate of 2.7% per annum over the same time horizon. Indeed, none of the managed funds surveyed outperformed inflation over this period, while four of the eleven funds failed to deliver positive returns over 10 years.



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### Active Managed Fund Returns to 28<sup>th</sup> February 2010

	1 Month %	Rank	2 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	1.2	8=	-0.1	9	23.7	11	-9.7	8=	0.1	6	-0.9	10
Aviva Investors	1.5	1=	-1.2	11	28.2	9	-10.7	10	-1.1	8=	-0.6	9
Bank of Ireland Asset	1.3	6=	0.1	6=	31.0	7	-9.1	7	-1.2	10=	1.1	3=
Canada Life/Setanta	1.5	1=	1.0	1	34.7	3	-5.0	1	1.8	3	1.0	5
Eagle Star / Zurich Life	1.2	8=	-0.5	10	30.8	8	-5.4	2	2.9	1	1.3	2
Friends First/F&C	1.1	10	0.1	6=	31.8	6	-9.7	8=	-0.2	7	-0.5	8
Irish Life Investment	0.9	11	0.4	3=	38.8	1=	-8.6	5	0.7	5	1.4	1
KBC Asset Management	1.4	4=	0.0	8	27.8	10	-11.2	11	-1.2	10=	-1.8	11
Merrion Investment	1.5	1=	0.4	3=	38.8	1=	-5.7	3	2.3	2	0.6	6
New Ireland	1.3	6=	0.2	5	32.2	5	-9.0	6	-1.1	8=	1.1	3=
Standard Life Investments	1.4	4=	0.7	2	32.4	4	-7.6	4	1.7	4	0.2	7
<b>Average</b>	<b>1.3</b>		<b>0.1</b>		<b>31.8</b>		<b>-8.3</b>		<b>0.4</b>		<b>0.3</b>	

### Consensus Fund Returns to 28<sup>th</sup> February 2010

	1 Month %	Rank	2 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	1.4	2=	0.2	3=	30.5	6	-9.1	4	0.3	4		
Aviva Investors	1.4	2=	0.1	5	30.8	5	-9.2	5	-0.4	5	-0.1	4
Bank of Ireland Asset Mgt	1.5	1	0.3	1=	32.7	2	-8.5	2	0.7	1	0.5	2
Friends First/F&C	1.0	5	0.3	1=	31.8	4	-8.4	1	0.5	3	0.3	3
Irish Life Investment	1.4	2=	0.2	3=	32.0	3	-8.6	3	0.6	2	0.7	1
Standard Life Investments	0.8	6	-1.1	6	33.0	1	-9.4	6				
<b>Average</b>	<b>1.3</b>		<b>0.0</b>		<b>31.8</b>		<b>-8.9</b>		<b>0.3</b>		<b>0.4</b>	

### Multi-Manager Fund Returns to 28<sup>th</sup> February 2010

	1 Month %	Rank	2 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	1.0	2	0.0	1	30.2	2	-9.4	1=	0.1	2
Irish Life Investment	0.8	3	-0.2	2	27.8	3	-9.4	1=	0.2	1
Standard Life Investments	1.1	1	-0.5	3	31.1	1	-10.8	3	-0.7	3
<b>Average</b>	<b>1.0</b>		<b>-0.2</b>		<b>29.7</b>		<b>-9.9</b>		<b>-0.1</b>	



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### **Market Review**

February was a mixed month in equity markets, as concerns over Eurozone debt default and monetary policy tightening in the US and China were offset somewhat as governments and central banks moved to reassure investors. In currency markets, sterling and the euro weakened on the back of fiscal concerns, while commodity markets were strong with oil gaining 8.7% over the month. Eurozone bonds returned 1.4% over the month, with the spread between Greek and German 10-year bond yields narrowing.

The Irish stock market was the worst performing of the major bourses in which Irish pension funds invest, delivering a disappointing return of -3.4% during February. Once again, financial stocks underperformed the rest of the market, with a decline of almost 20% over the month. The sector took a knock on news that the Government was given shares in Bank of Ireland in lieu of a dividend, resulting in the State owning 15% of the bank and diluting the holdings of other shareholders.

UK equities posted a 3.7% gain over the month in sterling terms, although the weakness of sterling reduced this to 0.4% in euro terms. The Bank of England decreased its growth and inflation forecasts in its February Inflation Report; as a result, expectations increased that interest rates would remain low for longer than had been expected and that the Bank might expand its quantitative easing programme in future months. Sterling weakened on the news that the government had recorded a budget deficit in January, with the looming general election adding to the currency's woes.

US equities returned 3.2% in dollar terms (5.2% for Irish investors) during February. The Federal Reserve increased their discount rate (the rate at which they lend directly to banks) by 0.25%; however they made it clear that this was not a move towards tightening monetary policy and reiterated their intention to keep interest rates low for an extended period. GDP data was revised for the fourth quarter of 2009, to show the economy expanded at an annualized rate of 5.9% over the period, up from the original estimate of 5.7%.

The Eurozone region declined 1.9% over the month, while the rest of Europe recorded a 1.6% rise. The European Central Bank kept interest rates at the record low of 1.0%. Investor concerns during February were focused on the outlook for Greece and other peripheral European economies, including Spain and Portugal, as these countries struggled with massive budget deficits. These concerns were eased somewhat when the European Union pledged "determined and co-ordinated action if needed to safeguard stability [of the Eurozone]". Economic growth in the region slowed in the final quarter of 2009, with GDP increasing just 0.1% over the three month period. The region's difficulties led to a decline in the euro against the dollar and the yen.



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The Japanese stock market returned -0.8% over the month in yen terms (+3.1% in euro terms), while markets in the rest of the Pacific Basin delivered a return of 1.0% in local currency terms (3.1% for Irish investors). Economic news in Japan was mixed. In positive news, factory output and retail sales increased; however, inflation was negative for the eleventh month in a row. Elsewhere, China unexpectedly increased its bank reserve requirements (for the second time in a month) in an effort to take some heat out of the economy. Meanwhile, the Reserve Bank of Australia kept interest rates on hold in February; however, it is expected to increase rates over the next few months following a drop in the unemployment rate to just 5.3%.

### Index Returns to 28<sup>th</sup> February 2010

Asset Class	1 Month %		2 Months %	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Equities				
- Ireland	-3.4	-3.4	-3.4	-3.4
- UK	3.7	0.4	-0.4	-1.3
- North America	3.2	5.2	-0.5	4.6
- Eurozone	-1.9	-1.9	-6.6	-6.6
- Rest of Europe	1.6	2.9	0.9	3.1
- Japan	-0.8	3.1	-1.6	8.4
- Pacific Basin	1.0	3.1	-4.9	-0.2
Euro Bonds (> 5 Yrs)	1.4	1.4	2.2	2.2

