

Pensions, Investments  
& Advisory Services



# Investment Update October 2009

A fresh approach to retirement planning



Thinking, **Years Ahead**

## Investment Update to 31<sup>st</sup> October 2009

### Group Pension Managed Funds Update to 31<sup>st</sup> October 2009

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

For the first time in eight months, Irish pension funds delivered a negative performance during October, returning -2.5% on average. The best performing managed fund in October was that of Canada Life/Setanta, which returned -1.1%. AIB Investment Managers propped up the league table with a -3.4% return for the month.

Returns are still positive for the year to date, with the average fund having gained 14.9% over this period. In the ten months to the end of October, returns ranged from 22.2% (Merrion Investment Managers) to 7.8% (AIB Investment Managers), representing a difference of 14.4% between the best and worst performing managers so far this year. Over the past twelve months the average fund delivered 6.3%, with returns ranging from 12.1% (Merrion Investment Managers) to -0.9% (AIB Investment Managers).

The average managed fund return has been a very disappointing -9.1% per annum over the past three years. However, the five year returns to the end of October are once again positive on average, delivering a mean return of 0.7% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 1.0% per annum on average, well below the Irish inflation rate of 3.0% per annum over the same time horizon. Indeed, only Merrion Investment Managers outperformed inflation over this period with a return of 3.4% per annum, while all of the other fund managers, except AIB Investment Managers and KBC Asset Management, delivered positive returns over 10 years.



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### Active Managed Fund Returns to 31<sup>st</sup> October 2009

|                           | 1 Month %   | Rank | 10 Months % | Rank | 1 Year %   | Rank | 3 Years % p.a. | Rank | 5 Years % p.a. | Rank | 10 Years % p.a. | Rank |
|---------------------------|-------------|------|-------------|------|------------|------|----------------|------|----------------|------|-----------------|------|
| AIB Investment Managers   | -3.4        | 11   | 7.8         | 11   | -0.9       | 11   | -10.0          | 6    | 0.6            | 6    | -0.6            | 10   |
| Aviva Investors           | -2.0        | 3    | 13.1        | 9    | 0.9        | 10   | -11.1          | 10   | -0.8           | 8=   | 0.2             | 8    |
| Bank of Ireland Asset     | -2.9        | 8    | 13.9        | 8    | 4.8        | 8    | -10.2          | 7=   | -0.9           | 10=  | 1.3             | 5=   |
| Canada Life/Setanta       | -1.1        | 1    | 16.1        | 4    | 8.9        | 4    | -6.5           | 2=   | 1.9            | 3=   | 1.7             | 3    |
| Eagle Star                | -2.6        | 4    | 15.0        | 5    | 8.5        | 5    | -5.9           | 1    | 3.5            | 1    | 2.1             | 2    |
| Friends First/F&C         | -2.7        | 5=   | 14.2        | 7    | 6.2        | 7    | -10.4          | 9    | 0.1            | 7    | 0.1             | 9    |
| Irish Life Investment     | -3.2        | 10   | 18.8        | 2    | 10.1       | 2=   | -9.1           | 5    | 1.0            | 5    | 1.6             | 4    |
| KBC Asset Management      | -2.7        | 5=   | 10.8        | 10   | 1.5        | 9    | -11.9          | 11   | -0.9           | 10=  | -1.3            | 11   |
| Merrion Investment        | -3.1        | 9    | 22.2        | 1    | 12.1       | 1    | -6.5           | 2=   | 2.2            | 2    | 3.4             | 1    |
| New Ireland               | -2.8        | 7    | 14.7        | 6    | 6.8        | 6    | -10.2          | 7=   | -0.8           | 8=   | 1.3             | 5=   |
| Standard Life Investments | -1.4        | 2    | 17.7        | 3    | 10.1       | 2=   | -8.2           | 4    | 1.9            | 3=   | 1.1             | 7    |
| <b>Average</b>            | <b>-2.5</b> |      | <b>14.9</b> |      | <b>6.3</b> |      | <b>-9.1</b>    |      | <b>0.7</b>     |      | <b>1.0</b>      |      |

### Consensus Fund Returns to 31<sup>st</sup> October 2009

|                           | 1 Month %   | Rank | 10 Months % | Rank | 1 Year %   | Rank | 3 Years % p.a. | Rank | 5 Years % p.a. | Rank | 10 Years % p.a. | Rank |
|---------------------------|-------------|------|-------------|------|------------|------|----------------|------|----------------|------|-----------------|------|
| AIB Investment Managers   | -2.8        | 5=   | 13.9        | 5    | 5.3        | 5    | -9.7           | 5    | 0.5            | 4    |                 |      |
| Aviva Investors           | -2.6        | 3    | 13.1        | 6    | 4.7        | 6    | -9.9           | 6    | -0.2           | 5    | 0.4             | 4    |
| Bank of Ireland Asset     | -2.7        | 4    | 15.2        | 3    | 6.7        | 3    | -9.1           | 1=   | 0.9            | 2    | 0.9             | 2    |
| Friends First/F&C         | -1.8        | 1    | 15.8        | 1=   | 7.9        | 2    | -9.1           | 1=   | 0.6            | 3    | 0.8             | 3    |
| Irish Life Investment     | -2.8        | 5=   | 14.7        | 4    | 5.9        | 4    | -9.3           | 3=   | 1.0            | 1    | 1.1             | 1    |
| Standard Life Investments | -2.3        | 2    | 15.8        | 1=   | 9.3        | 1    | -9.3           | 3=   |                |      |                 |      |
| <b>Average</b>            | <b>-2.5</b> |      | <b>14.8</b> |      | <b>6.6</b> |      | <b>-9.4</b>    |      | <b>0.6</b>     |      | <b>0.8</b>      |      |

### Multi-Manager Fund Returns to 31<sup>st</sup> October 2009

|                           | 1 Month %   | Rank | 10 Months % | Rank | 1 Year %   | Rank | 3 Years % p.a. | Rank | 5 Years % p.a. | Rank |
|---------------------------|-------------|------|-------------|------|------------|------|----------------|------|----------------|------|
| AIB Investment Managers   | -2.3        | 3    | 16.6        | 1    | 8.7        | 2    | -9.5           | 2    | 0.7            | 2    |
| Irish Life Investment     | -1.9        | 1    | 15.2        | 3    | 8.1        | 3    | -9.4           | 1    | 1.0            | 1    |
| Standard Life Investments | -2.1        | 2    | 16.2        | 2    | 9.3        | 1    | -10.9          | 3    | -0.1           | 3    |
| <b>Average</b>            | <b>-2.1</b> |      | <b>16.0</b> |      | <b>8.7</b> |      | <b>-9.9</b>    |      | <b>0.5</b>     |      |



## Investment Update to 31<sup>st</sup> October 2009

### **Market Review**

October got off to a strong start, as the third-quarter earnings season surprised on the upside and economic news appeared to be broadly positive. However, investors became concerned that the recent market recovery was unsustainable towards month-end. This, a bout of profit-taking and a move towards risk reduction resulted in most markets ending the month in the red. Eurozone bonds returned 0.1% over the month, with the flight to safety offsetting fears over the outlook for interest rates.

The Irish stock market was the worst performing bourse during October, with a decline of 14.3%. Reversing the trend of recent months, financial stocks underperformed the rest of the market significantly, falling back 38.8% over the month, as Minister for Finance, Brian Lenihan, admitted that plans to start transferring the biggest loans from the banks into the National Asset Management Agency (NAMA) by the end of the year could face a delay. NAMA will buy approximately €77 billion of “appropriate loans” from the banks at a discount of around 30%, paying for these with bonds issued by either the Government or NAMA. This will allow the banks to replace non-performing loans with cash-like assets on their balance sheets.

UK equities posted a 1.7% loss over the month in sterling terms (a 0.4% gain in euro terms). The Bank of England kept interest rates at the historically low level of 0.5%, having cut interest rates by 4.5% between October 2008 and March 2009. Although the Bank maintained the asset purchase programme at £175 billion, future increases to the programme were not ruled out. Despite reaching a 13-month high earlier in the month, the market fell back towards month-end as investors became concerned that recent gains may have outpaced earnings potential. The rallying US dollar sent commodity prices downwards, which also impacted negatively on the resource-heavy UK market.

US equities declined 2.2% in dollar terms (-3.1% for Irish investors) during October. Figures released during the month showed that the US economy had expanded during the third quarter, at an annual rate of 3.5%, indicating that the recession there may be over. However, despite sales of existing homes jumping by almost 10% in September as buyers took advantage of a first-time buyers' tax credit before it expired, sales on new homes disappointed, while consumer confidence fell for the second month in a row, leading to concerns that the economic recovery might not be sustainable. As the third quarter earnings results season got underway, over 80% of companies released figures which surprised on the upside, with only 13% disappointing.

The Eurozone region returned -4.6% over the month, while the rest of Europe recorded a 0.7% rise. The European Central Bank kept interest rates at the record low of 1.0%. Although industrial output in France and Italy surged in August and Europe's manufacturing activity expanded for the first time in 17 months, Eurozone exports experienced their biggest decline since January, as the Euro strengthened to a 14-month high against the dollar. Meanwhile, Norway became the first European country to raise interest rates (by 0.25% to 1.5%) in the current cycle.



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The Japanese stock market declined 1.6% over the month in yen terms (-3.6% in euro terms), while markets in the rest of the Pacific Basin delivered a return of -2.1% in local currency terms (-2.3% for Irish investors). The Japanese market struggled on the back of a strengthening yen, which negatively affects exporters, and concerns over the outlook for the US economy. The Chinese market was boosted by the release of third quarter GDP figures, which showed that the economy had expanded by 8.9%, and by speculation that the government would maintain their stimulus spending. Meanwhile, Australia became the first G20 nation to raise interest rates in over a year, as signs of growth re-emerged in the economy, which was one of the few to avoid recession.

### **Index Returns to 31<sup>st</sup> October 2009**

| Asset Class          | 1 Month<br>%     |             | 8 Months<br>%    |             |
|----------------------|------------------|-------------|------------------|-------------|
|                      | <i>Local Ccy</i> | <i>Euro</i> | <i>Local Ccy</i> | <i>Euro</i> |
| Equities             |                  |             |                  |             |
| - Ireland            | -14.3            | -14.3       | 25.0             | 25.0        |
| - UK                 | -1.7             | 0.4         | 18.5             | 28.0        |
| - North America      | -2.2             | -3.1        | 17.9             | 12.3        |
| - Eurozone           | -4.6             | -4.6        | 19.9             | 19.9        |
| - Rest of Europe     | 0.7              | 0.6         | 27.9             | 28.8        |
| - Japan              | -1.6             | -3.6        | 6.1              | 0.2         |
| - Pacific Basin      | -2.1             | -2.3        | 45.1             | 51.9        |
|                      |                  |             |                  |             |
| Euro Bonds (> 5 Yrs) | 0.1              | 0.1         | 4.5              | 4.5         |