Pension Funds post further positive returns

Anne Coghlan of Mercer Investment Consulting summarises the performance of Irish pension managed funds over the first six months of 2004.

With the first half of 2004 now behind us, we can reflect on a six month period that has seen further positive returns posted by pension funds, continuing the upward trend that began in April 2003 and which has brought some much needed relief for investors, trustees and sponsors alike.

According to figures released by Mercer Investment Consulting, the average Irish pension managed fund gained 1.4% over the second quarter of the year, bringing the 6-month return to 30th June to a respectable 5.3%, which translates into a very healthy 12-month average of 14.2%. This is the fifth consecutive quarter of positive growth for pension funds – the first time this has occurred since a period of extraordinary growth back in the mid to late nineties.

PERFORMANCE IN 2004

As at 30th June, AIBIM's Multimanager Managed Fund topped the Mercer survey for the first six months with a return of 7.2%, followed by ILIM's Global Access Fund on 6.4%. The underperformers for this period were KBCAM (+3.0%) and AIBIM's Managed Fund (+3.9). Over the twelve-month period, ILIM's Managed Fund (+15.6%) and Hibernian Life (+15.6%) were the best performing funds.

It is interesting to note the strong year-to-date performance achieved by the two "Manager of Manager" funds (AIBIM Multimanager & ILIM Global Access) in the survey. The emergence of such products has emanated from a growing demand from smaller/medium sized pension funds to appoint specialist manager arrangements with the broad objective of reducing volatility through offsetting both single manager and investment style risk.

Looking at the wider year-to-date figures, we can observe a range of 4.2% between the top and bottom performing managers. Although reasonably significant, it is somewhat less than the wide ranges experienced during the periods of negative returns in recent years.

A further notable feature was the different asset allocations adopted by the various managers in the year to date, with the total equity holding ranging between 65% - 78%. However, although equities have outperformed bonds to the end of June (by c. 5%), the allocation between equities and bonds has not been a significant driver of relative performance, as some of the managers that have maintained the highest equity allocations have failed to beat the average return. Interestingly, the current average equity allocation of 74%, has been the highest witnessed since 2000, and is an indication of the extent to which managers favour equities over bonds in the current environment.

Within equities, both regional and sector positions had a significant impact on managers' relative performance over the first half of the year, which is highlighted by the regional and sectoral performance differentials.

The Pacific Basin (+4.7%) and Eurozone regions (+5.9%) were the underperformers against the Japanese (+15%) and Irish (+12.8%) equity markets, while there is a similar differential in returns across market sectors, with General Industrials (+11.3%) and Cyclical Consumer Goods (+11.0) the leading performers, and non-Cyclical Services (4.4%) and IT (+3.5%) the laggards.

However, these differentials have narrowed when compared against the best and worst sectors in 2003, where the difference was almost 30% for the full year.

LONGER TERM PERFORMANCE

The strong recovery in equity markets since April of last year has helped bring medium-term returns into positive territory.

Over the five-year period to 30th June, Montgomery Oppenheim (+5.4%p.a) top the survey, with BIAM (+3.4%p.a) following behind in second place. This compares to an average return of +0.9%p.a. AIBIM (-1.9%p.a) and KBCAM (-1.5%p.a) were the underperformers over this period.

In assessing the longer-term returns, a more positive picture emerges.

Over the 10-year period, the losses suffered over 2000-2002 are overshadowed by the strong double-digit growth of the mid to late 1990s and the recent recovery. The average return over this period is +9.6%p.a. This should give some comfort to pension fund investors, who typically maintain a very long investment horizon, as it comfortably exceeds the inflation rate of c. 3%p.a. over this period.

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For further information visit www.merceric.ie

Group Pension Managed Fund Update at 30th June 2004

	1 Mth		3 Mths		YTD		12 Mths		3 Yrs		5 Yrs		10 Yrs	
Manager	%	Rank	%	Rank	%	Rank	%	Rank	% p.a.	Rank	% p.a.	Rank	%p.a.	Rank
Acorn Life	2.3	2=	1.5	9=	5.1	9=	14.7	3=	-3.9	12	0.7	8	9.7	7
AIBIM Managed	2.3	2=	1.1	12	3.9	15	12.3	15	-6.2	14	-1.9	14	7.9	13
AIBIM Multimanager	2.5	1	1.6	6=	7.2	1								
BIAM Pensions Managed	2.3	2=	1.6	6=	5.1	9=	13.8	10=	-0.5	1	3.4	2	10.7	2
Canada Life/Setanta (Series D)	2.2	7=	2.1	1=	5.7	6=	14.1	9	-4.0	13	1.0	6=	8.3	11=
Davy Exempt Pension Managed*	1.3	16	0.4	14	4.7	13=	13.0	13	-3.3	10	-0.3	12	10.0	5
Eagle Star (Balanced)	1.8	15	0.1	16	4.7	13=	13.2	12	-2.3	5	0.5	9	10.3	4
Friends First / F&C	2.2	7=	1.6	6=	5.4	8	14.6	6=	-3.0	9	0.1	10	9.9	6
Hibernian Life	2.1	10=	2.1	1=	6.2	3	15.6	1=	-2.6	7	1.0	6=	9.5	8
Hibernian (NU) Managed	2.3	2=	2.0	3	5.6	6=	14.7	3=	-2.2	3=	1.6	4=	10.4	3
Irish Life	1.9	13=	1.4	11	6.0	4	15.6	1=	-2.7	8	1.6	4=	9.3	9
Irish Life Global Access	2.1	10=	1.5	9=	6.4	2	14.7	3=	-2.5	6				
KBCAM	1.9	13=	0.3	15	3.0	16	12.4	14	-6.9	15	-1.5	13	8.3	11=
Montgomery Oppenheim	2.3	2=	1.8	4=	5.0	11	14.6	6=	-2.2	3=	5.4	1		
New Ireland	2.2	7=	1.8	4=	4.9	12	13.8	10=	-0.7	2	3.2	3	11.2	1
Standard Life Investments	2.0	12	0.8	13	5.9	5	14.5	8	-3.7	11	-0.1	11	8.6	10
Average	2.1		1.4		5.3		14.2		-3.4		0.9		9.6	
Median	2.2		1.5		5.3		14.5		-2.7		0.8		9.7	