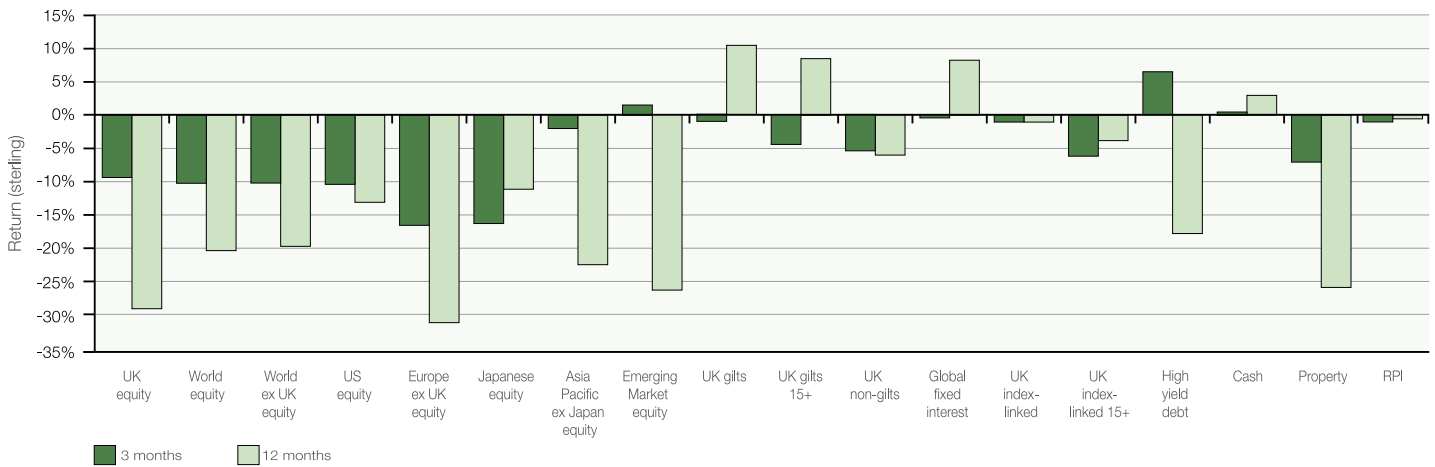




Review of investment markets for 1 January to 31 March 2009

Total returns to 31 March 2009



The decline in the economy continued throughout the first quarter of this year. Consumers responded to this by reducing their spending and increasing their savings. UK unemployment kept on rising, showing that the economic slowdown did not come to an end during the quarter. The troubled financial sector needed more support from the Government. The Bank of England and the US Federal Reserve started to put extra money into the economy through a process named 'quantitative easing'.

Over the quarter, global shares fell by around 10.2% in sterling terms. The share market fell strongly during January and February and recovered slightly during March. The only exception to the overall fall in shares was emerging markets, which rose by 1.3%. The FTSE All-Share Index fell by 9.1% over the quarter, and has now recorded losses for seven consecutive quarters and lost 29.3% over the year to 31 March 2009. In comparison to the last quarter of 2008, the level of short-term rises and falls in share values has reduced, but remains high compared to past levels.

Global bond prices fell slightly during the last three months. Although central banks continued to cut policy rates and to increase the supply of money overall, investment performance did not respond strongly. Corporate bonds produced negative returns of 5.1%, while global high-yield bonds returned 6.4% over the quarter.

In the UK property market, property prices continued to fall, producing negative returns of 7.1% during the first quarter. The property market was feeling the effects of the economic crisis as fewer retail sales and the rising number of companies going to the wall reduced the demand for property.

The strong reduction in interest rates that started in mid-2008 continued during the quarter, as the Bank of England reduced base rates further from 2% to 0.5% at the end of March. The Bank of England and US Federal Reserve have now reduced rates to their natural level. Inflation, as measured by the Consumer Price Index (CPI), rose by 0.3%, compared to a fall recorded for the previous quarter.

