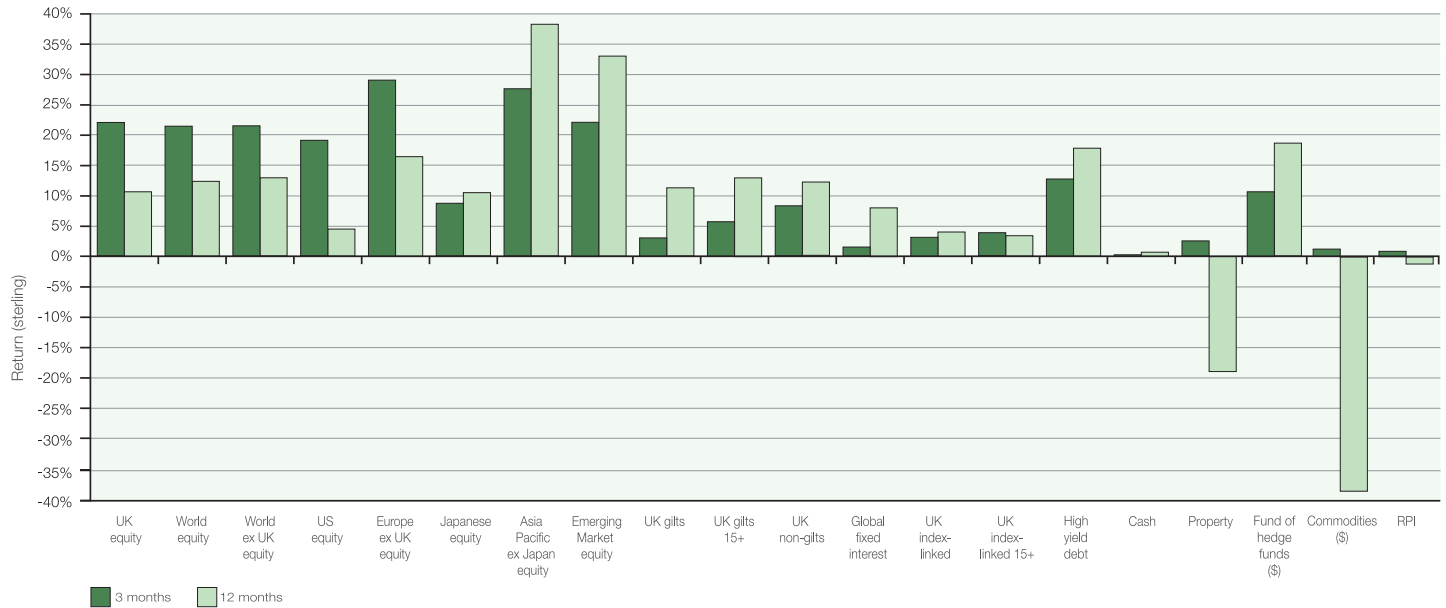




Review of investment markets for the 12 months to 30 September 2009

Total returns to 30 September 2009



In the third quarter of 2009 (July to September) stock markets in the UK and overseas produced a strong return due to a combination of a better economic outlook and low interest rates. Bond markets also had positive returns as did index-linked gilts, property and, to a lesser extent, cash.

A recovery in manufacturing around the world has brought most major economies out of recession. However, the UK economy was still in recession in the third quarter of the year. Some other developed economies also began to grow again. Despite the more positive economic outlook worldwide, investment markets are still fragile.

Shares around the world gained around 21.7% in sterling terms over the period, while those in the UK gained 22.4% over the quarter. On an annual basis, UK shares returned 10.8%. As with previous quarters, emerging markets and Asia Pacific performed best. The financial sector in these regions seems to be less affected by the credit crunch.

Bond prices around the world increased modestly. UK government bonds returned 3.1% over the last three months, and 11.2% over the past 12 months. The UK property

market started to show signs of becoming more stable in the third quarter. And UK commercial property, such as shops and businesses, gained 3.3% over the quarter. However, in terms of the year, returns on commercial property have still fallen by 19.2%. Property markets around the world mirrored the UK as prices began to become more stable.

The US, UK and European central banks kept their policy rates the same in the third quarter. The main financial policy focused on expanding the economy using a process of 'quantitative easing' (where the central banks reduce interest rates to virtually nothing and then go on to buy financial products using new money they have printed, with the aim of stimulating the economy). We expect that policy rates in the US, the UK and Europe will not change over the next six months.

