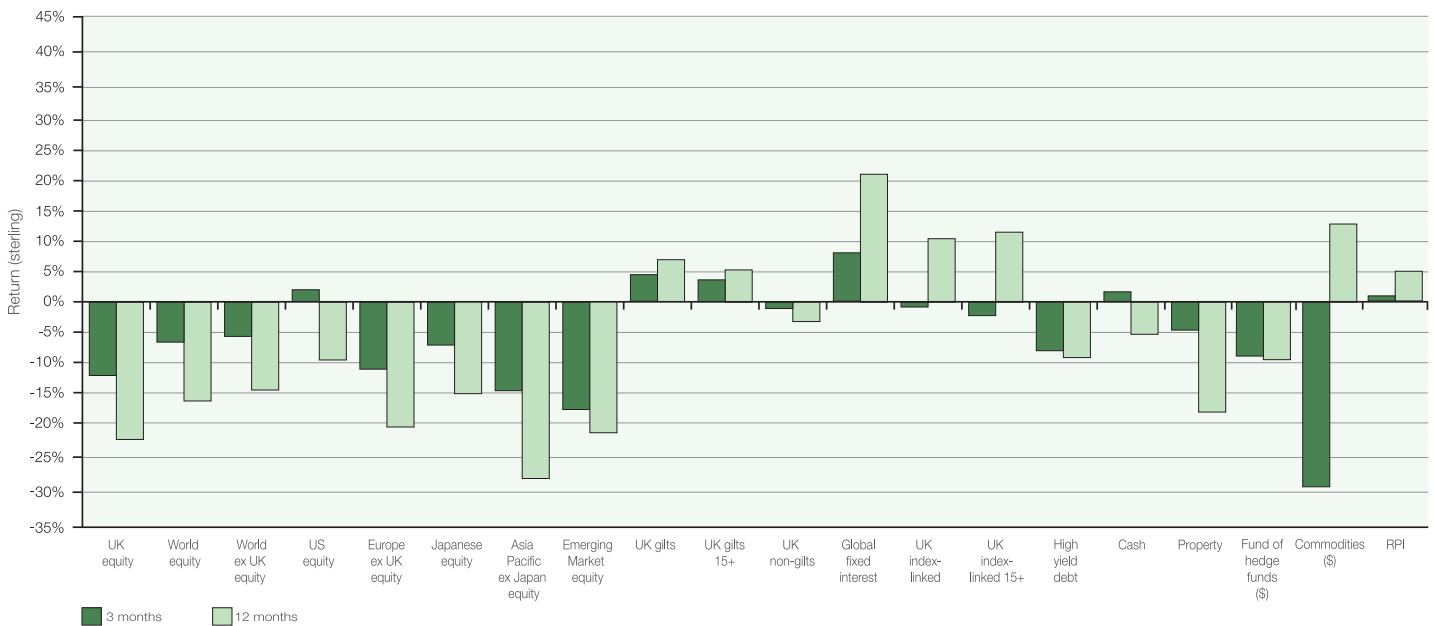


Review of investment markets for 1 July 2008 to 30 September 2008

Total returns to 30 September 2008



The credit crisis entered a new and more serious phase over the recent months. Equity markets have fallen sharply and loss of confidence has weakened several financial firms. The US Government's response seemed inconsistent which further undermined confidence. The severe difficulties that financial firms faced prompted some governments to rescue several large financial institutions.

The crisis has also led to Lehman Brothers going bankrupt and has forced consolidations of Merrill Lynch with Bank of America, HBOS with Lloyds TSB and Washington Mutual with JPMorgan Chase. Central banks around the world have responded to the deepening financial crises by flooding the markets with liquid assets (assets that can be converted to

cash quickly and at a low transaction cost) and the US Government moved to create a state-sponsored programme to buy troubled assets from banks.

Results for most asset classes have been poor over the past 12 months. Returns from equity markets have suffered the most, with all major equity markets showing losses for UK investors. All global equity markets fell as a global recession appeared more likely. While the bad news was largely reflected in the developed western markets, Asian and emerging markets have fallen more recently as the effects of the credit crunch continued to spread.

The FTSE All-Share Index fell by 12.2% over the third quarter of 2008, and 22.3% over the year. UK Government bonds returned 6.8% over the year, while global government bonds returned 21.3% over the same period. Direct (commercial) property continued its run of negative

quarterly returns, with a result of -5.6% during the last quarter. Property has performed badly over the last 12 months, returning -18.1%. Cash performed better than a number of sectors with returns of 1.2% over the past quarter and 5.3% over the past year.

UK interest rates have fallen steadily over the year to 30 September 2008, with the base rate dropping from 5.75% to 5.0%. The US has experienced significant interest rate cuts with the Federal Reserve cutting interest rates several times, ending the period at 2.0% (down from 5.25%). Interest rates in the Eurozone moved upwards to counter inflationary pressures, but only marginally (a 0.25% increase over the 12 month period). In the UK, inflation as measured by the Consumer Price Index has risen substantially in the last year, due in large part to high energy prices and the rapid growth in consumer credit. However, pressures caused by inflation did ease during the third quarter of the year.