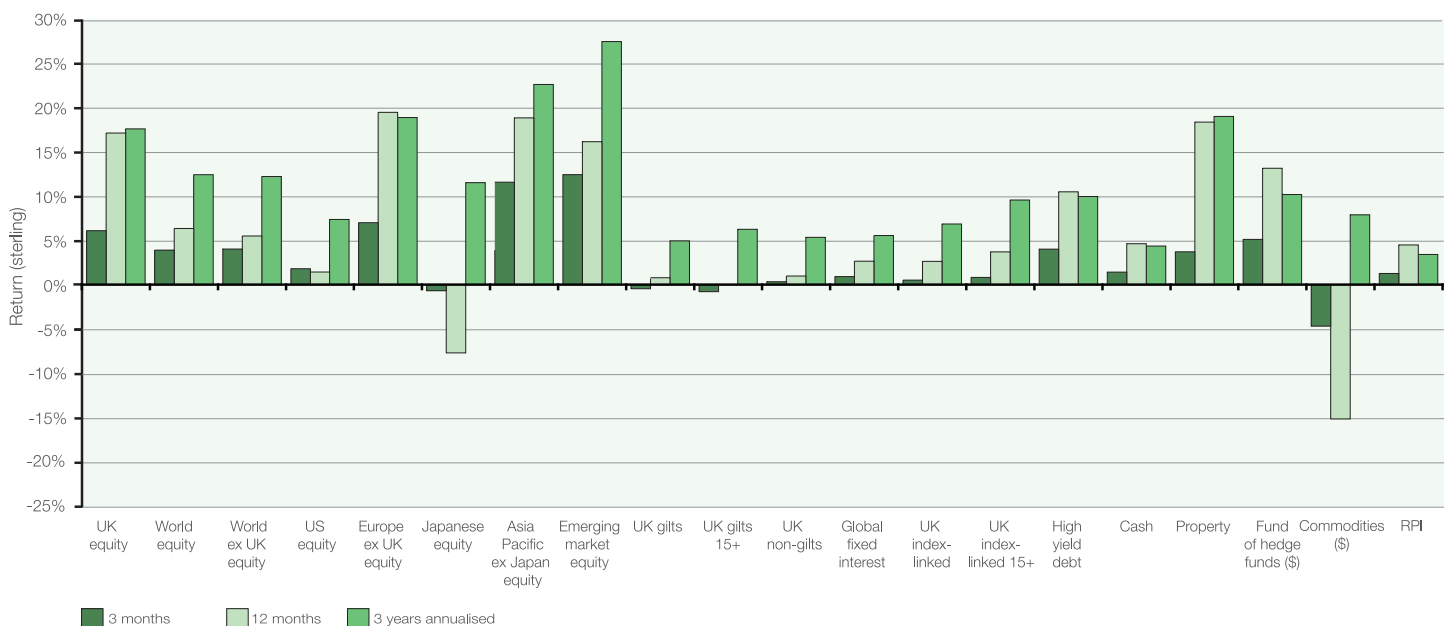




## Review of investment markets for the 12 months to 31 December 2006

Total returns to 31 December 2006



World equity markets performed well in 2006 (despite a large dip in May) reaching new highs in several regions. FTSE 100 company performance was even stronger, and smaller UK companies are continuing to outperform their larger counterparts. In the bond markets, although returns in British Government bonds fell over the last quarter of 2006, they had a positive return over 12 months.

The Bank of England raised interest rates by 0.25% to 5% in November, based on the projection that growth will continue steadily and that inflation will move higher in the near term. The last quarter of 2006 saw rates held in the US and Japan.

### Equity markets

World equity markets gave very high returns in their local currencies. This was dampened somewhat by the steady decrease in the value of the US dollar versus the British pound. However, the Dow Jones index (representing overall performance of US shares) topped 12,000 and for the third year running the index representing Emerging Markets set a record high. High equity returns were in part due to high corporate profits as a proportion of Gross Domestic Product (GDP) in the US and Europe. On the other hand, Japan was the worst performing region returning -7.4% over the 12 month period.

### Bond markets

UK bonds also performed well over the 12 months, with government bonds and index-linked gilts returning 2.5% and 4.3% respectively. Bonds issued by Emerging Market governments, and riskier bonds issued by companies, returned in excess of 10% over the year.

There were significant differences in the returns from individual commodity markets in 2006. Energy commodities fell whereas industrial metals rose. Hedge fund returns generally beat 10% in 2006, the highest returns since 2003.

