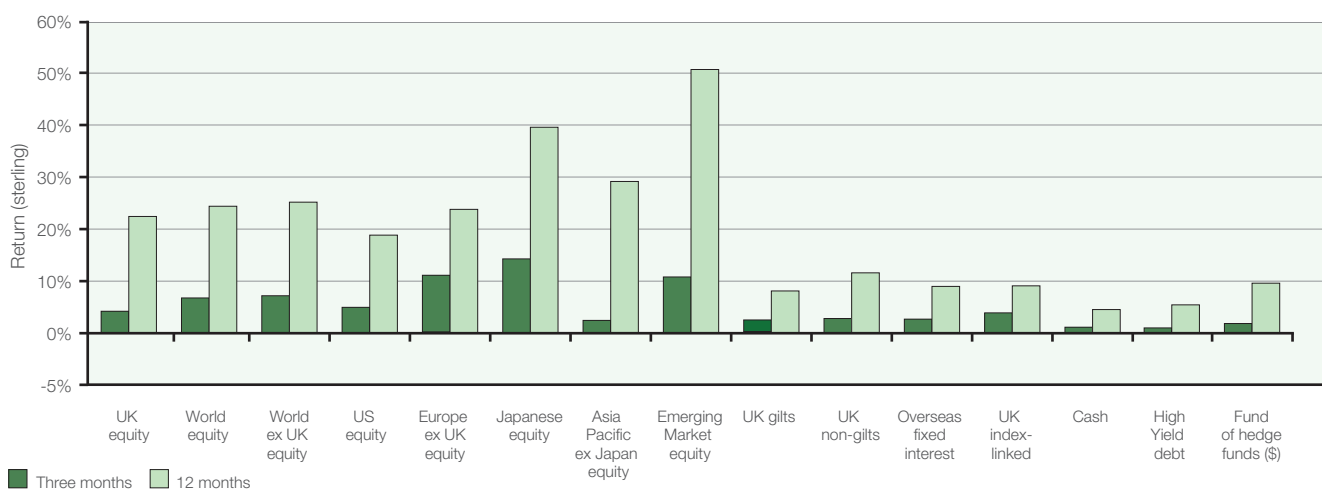


Review of investment markets for the 12 months to 31 December 2005

Total returns to 31 December 2005



During October, November and December 2005, equity markets continued to perform strongly, especially in Japan and the 'emerging markets' (countries with low to middle incomes, compared to the rest of the world). This means that equity (company shares) markets have done well and produced a strong return over the last 12 months.

Economic information and investment returns gave contrasting pictures over the 12-month period ending 31 December 2005. UK inflation indicators (for example, the Retail Price Index) rose to an eight-year high. However, economic growth in the UK was on course to be at its lowest in 13 years. Economic growth in Europe was even lower, while economic information was more positive in the US.

In August 2005, the slower economic growth in the UK prompted a cut in the Bank of England base rates from 4.75% to 4.5%, to try to encourage demand. The threat of inflation has made further cuts in the short-term unlikely.

Equity markets

Global equity markets were significantly different from the economic picture, with high investor confidence. Momentum picked up over the 12 months to 31 December 2005, after a lag during the first six months of the calendar year.

All equity regions performed well over the last three months, with Japan being the strongest.

The US equity market has fallen behind other regions over the last year. Over half of the return to UK investors was provided by the rise in the US dollar, compared to the pound.

Bond markets

Mainstream UK bond performance has been strong over the 12 months to 31 December 2005, particularly long-dated bonds and index-linked gilts.

UK bond returns did better towards the end of 2004 and through the first half of 2005 as expectations of a rate decrease improved bond performance. Expectations of future interest rates then fell in the second half of 2005, which affected performance.

There has been a lot of demand for long-dated bonds, which has helped push prices up and keep returns down. US interest rates have continued their steady rise. Although UK interest rates stayed constant, euro rates saw their first change in over two years.

Other

Property in the UK has performed well from October to December, giving it a good 12-month return.

