



Scottish Provident Ireland Pension Fund Report

DECEMBER 2006

Introduction:

This report reviews the performance and investment allocation of the suite of exempt pension funds offered by Scottish Provident Ireland for the 12-month period ending **31st December 2006**

A general commentary of the particular regions is also included.

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Market Commentary

2006 saw the major global stock markets make strong gains and outperform fixed income. In particular, liquidity remained strong which in turn drove high levels of mergers and acquisition activity. Equity markets were also boosted by the positive nature of both economic news flow – company earnings were strong; and market sentiment – in particular with regard to inflation and interest rates.

Fixed Interest

The first half of 2006 saw global bond markets in a sombre frame of mind with central banks raising interest rates. However, the mood improved from July onwards as belief grew that the US Federal Reserve (Fed) would move to end its two year rate rising cycle. In the Eurozone, yields started to fall despite the European Central Bank (ECB) continuing to raise rates – it seemed investors were confident that the ECB would have to follow the same path as the Fed.

Ireland

The ISEQ returned a very healthy 30.7% in 2006.

Despite a marked improvement in the fortunes of the European economy in 2006, Ireland continued to stand out as the growth beacon. Fears abounded regarding the health of the indebted Irish consumer during 2006 as interest rates were pushed up aggressively by the ECB. These fears have proved to be unjustified though, as consumer spending remained resilient. In response to higher interest rates and uncertainty about possible institutional changes in the December Budget, the Irish housing market began its long-awaited moderation in the Spring of 2006. While prices continued to rise on a monthly basis, the rate of acceleration softened.

US

US equities made steady progress in 2006, returning 15.7% in dollar terms. However, returns for overseas investors were far more restrained given the weakness of the dollar over the period. The domestic US economy was dominated by fears over its strength and the direction interest rates would need to take – this culminated in an equity market sell off in May and June. Stocks recovered only after the Fed implied that rates might be on hold going forward.

UK

In euro terms, The FTSE All Share rose over 19% for the year ended 31 December 2006.

The only real setback to the market's progress came in May and June as nerves were jangled by interest rate and US economic fears. Otherwise, the UK was well supported over the year by high levels of corporate activity, strong corporate profits and a robust housing market. A surprise rise in interest rates prompted by inflation fears did little to dent the market.

Europe

The FTSE Eurobloc rose by over 23% in 2006 in euro terms.

In line with the UK market, European stock markets made good progress in the first half of 2006, a momentum halted only briefly by the market sell off in May and June. Positive momentum soon returned, boosted by continued high profile corporate activity and strong profits news. In addition, data revealed economic strength and a positive business environment.

Japan

The FTSE Japan index returned -5.5% in euro terms in 2006. The only major equity market to register a fall over the period.

During the global sell off in May and June, Japanese equities were impacted more than most, but whereas other markets rallied Japanese equities continued to be impacted by volatility. In large part this was driven by domestic economic concerns which were not subdued by the Bank of Japan's decision to end its zero interest rate policy which had been in place for the previous 6 years.

Asia

2006 saw the FTSE Asia Pacific (ex Japan) index rise by over 19% in euro terms.

Despite a strong overall return, the Pacific region saw mixed returns from individual markets - in particular, those markets with a higher exposure to movements in the US economy. On one side, India and China were strong performers but this was balanced by the relatively weak returns experience in South Korea and Taiwan.

Other

Property still continues to provide strong relative performance compared with other asset classes, e.g. equity funds or bonds.

With Profit Funds

With Profit Fund (Scottish Provident Limited – SPL)

From 1 January 2006 to 31 December 2006, the Fund delivered returns of 6.3% (before tax and charges)

Investment performance in the Fund is already reflected in the current scale of final bonus. SPL has therefore declared a 0% annual bonus on most With Profits policies.

Pension Series 1 units purchased before October 1999 have a guarantee that the bonus rate will not be less than 4% a year

The Fund returns are taken into account when determining Final Bonus. The Final Bonus Rates were last reviewed in December 2006 and are currently reviewed twice a year, each July and January.

Current Final Bonus rates for the SPL Unitised With Profits Fund are available on our website www.scotprov.ie, under the heading 'Terminal Bonus Rates with effect from 'date of last review'

The Fund is invested in the major equity and fixed interest markets around the world. The split of the Assets in the Fund at 31 December 2006 was :-

With Profits Fund	
Fixed Interest (bonds)	48%
Equities (company shares)	41%
Property	0%
Cash and other	11%

With Profit Fund (Scottish Mutual International – SMI)

From 1 January 2006 to 31 December 2006, the Scottish Mutual International (SMI) Dublin With Profits Fund delivered returns of 6.6% (before tax and charges)

The Investment performance in the Fund is reflected by way of Annual Bonus and in the current scale of final bonus.

SMI has declared an annual bonus of 2.25% for Scottish Provident policyholders invested in the SMI Dublin With Profits Fund

The Fund returns are also taken into account when determining Final Bonus. The Final Bonus Rates were last reviewed in December 2006 and are currently reviewed twice a year, each July and January.

Current Final Bonus rates for the SMI Unitised With Profits Fund are available on our website www.scotprov.ie, under the heading 'Terminal Bonus Rates with effect from 'date of last review'

The Fund is invested in the major equity and fixed interest markets around the world. The split of the Assets in the Fund at 31 December 2006 was:-

With Profits Fund	
Fixed Interest (bonds)	40%
Equities (company shares)	46%
Property	0%
Cash and other	14%

ABBEEY NATIONAL ASSET MANAGERS

	Performance
Fund / Asset Class	
Guaranteed Deposit	1.58%
Fixed Interest	0.02%
Cautious Managed	10.15%
Balanced Managed	9.31%
Adventurous Managed	13.05%
European Stockmarket	21.03%
North American Stockmarket	3.81%
World Stockmarket	10.36%
UK Stockmarket	16.16%
Far Eastern Stockmarket *	5.21
Japan Stockmarket	-8.05%
With Profit (SPL)	0% Declared
With Profit (SMI)	2.25% Declared

* Please note the Far Eastern Stockmarket had exposure to the Japanese Stockmarket

KBC ASSET MANAGERS

	Performance
Fund / Asset Class	
Euro Balanced	9.67%
Irish Equity	30.73%
Balanced Managed	12.70%
Managed	12.46%
Euroland Equity	18.69%
Top Picks Equity	20.59%
Fallen Angels	6.12%

MERRILL LYNCH ASSET MANAGERS

	Performance
Fund / Asset Class	
Euro Global Balanced	1.28%
Global Equity	2.55%
Euro Global Bond	-1.30%

ABERDEEN ASSET MANAGERS

	Performance
Fund / Asset Class	
Global Champions	11.73%
Technology	3.86%

