

Unit Linked & With-Profits Pension Funds Investment Report 2008

Introduction

This report reviews the fund performance and investment allocation of the suite of exempt approved pension funds offered by Scottish Provident Ireland to the Trustees of occupational pension schemes for the twelve month period ending the 31st day of December 2008. A general market commentary on the particular regions is also included in this report. Updated fund performance is available in the 'Funds and Investment' section of our website, www.phoenixireland.ie

Market Commentary

The financial crisis that began with the sub-prime mortgage collapse in 2007, evolved and escalated throughout 2008, culminating in the worst stock market performance seen since the 1930's. The failure of Lehman Brothers in the autumn had severe ramifications across the global financial sector and the spread of the financial crisis into the global economy brought about a collapse in risk appetite and major declines in equity markets. As the crisis reached depths never witnessed before, it proved to be the tipping point from where 2008 turned from being a poor year to a disastrous one, for both financial market returns and rapid deterioration of global economies. US and European governments were forced to bail-out their financial institutions with a series of measures to try and reignite the sector and restore confidence.

UK - The FTSE All Share fall 46.8% in euro terms:

The year started off poorly as the implications of the credit crunch began to take effect. The market, however, rallied in April and May on the back of surging commodity prices, in particular oil. This together with rising food prices caused the Bank of England a dilemma of balancing higher inflation with rapidly slowing growth. Retailing bore the brunt of this as consumer spending slumped and the housing market went into freefall. The credit crisis claimed its first large scalp when US bank Lehman Bros was allowed to collapse in September. This resulted in the complete seizure in inter-bank lending and provoked a spate of bank rescues. In turn, the banking crisis spilled over into the 'real economy' and the UK along with the rest of the world was faced with a major recession.

The Bank of England slashed interest rates to 2% in the final quarter of the year as the focus switched from inflation to deflation. In an effort to lessen the effects of the recession, the government announced a huge fiscal package and further bank rescue plans. To date this unprecedented and coordinated action has not filtered through.

Europe - The FTSE Eurobloc fell 44.0% in euro terms:

The European Central Bank was predictably the slowest to respond to the credit crunch, reducing interest rates by 1.5% during the final quarter of the year. This followed an ill-advised 0.25% hike in July when the hawkish ECB raised rates due to their concern over rising inflation. Economic conditions continued to deteriorate throughout the year and the ECB is expected to be forced to maintain cutting rates through the first quarter of 2009. The region suffers from having the most conservative central bank at a time when others are printing money but conversely it has the most ammunition left if it has to cut interest rates further.

US - US equities fell 37% in dollar terms:

The financial sector continued to suffer losses on its sub-prime related assets as 2008 progressed. The Federal Reserve's (The Fed) organised bail out of US Investment Bank Bear Stearns and a series of unconventional liquidity measures saw some improvement in credit market conditions through the second quarter although money markets remained under considerable stress. The Fed indicated that monetary policy was shifting to neutral as focus changed from credit conditions to inflation, although this didn't last long.

The global economy suffered the economic equivalent of a major heart attack during the fourth quarter on the US Treasury's decision to allow Lehman Brothers to file for bankruptcy. In the resulting collapse in confidence and almost complete freezing of financial markets, the US government was forced to rescue a number of banks and the world's largest insurance company AIG. In response of the US Treasury Secretary Hank Paulson announced the \$700bn Troubled Asset Relief Programme. The Fed cut interest rate to almost zero while paving the way for quantitative easing. This dislocation in the US financial system was accompanied by a broadening weakness in the 'real economy' beyond housing into other important segments of the US and international economies.

Fixed Interest

Bond markets experienced their poorest and most volatile year since the 1930s. A quick resolution to the Bear Stearns collapse and increased liquidity measures introduced by the US Federal Reserve meant that quarter two was much better for credit. Newsflow focused on the monoline sector and the actions of ratings agencies which saw all the major monoline's losing their AAA rating with at least one rating agency. During the first half of the year there was concern for inflation with markets factoring in rate rises but these receded as growth slowed commodity prices fell significantly.

The fourth quarter was dominated by the collapse of Lehman Brothers and the subsequent rescue of banks around the globe. This led investor to a flight of safety into government bonds which saw short term treasuries running at historically low yields. Banks remain reluctant to lend to other banks despite central banks pumping vast amounts of liquidity into the system. The corporate bond market remains moribund with trading subdued on both the buy and sell side: despite attractive yields. The various bank rescue plans and general slashing of interest rates across the globe should eventually ease the liquidity issue but for the time being sovereign bonds remain expensive due to their safe haven status amidst the extent of the economic uncertainty.

Japan - The FTSE Japan index fell 24.9% in euro terms:

Japan, perceived as an economy driven by cyclicals and net exporting, was not immune from the global equity market decline and the rapidly deteriorating sentiment towards the global economy at the start of 2008.

After bouncing strongly in early summer, markets entered the second half of 2008 in a more upbeat mood. However, economic data across the globe began to weaken as the effects of the financial crisis started to weigh on consumer and business confidence. Japan was significantly impacted: a deceleration in industrial production was witnessed followed by a complete collapse due to the unwillingness of consumers globally to purchase expensive consumer goods. Japan is in a relatively strong position however with its consumers and corporates cash rich and their government financing its spending at extremely low interest rates.

Japan has not suffered from the collapse as badly as some other nations which are struggling with an over-reliance on commodities or financial services. The Japanese yen has been the strongest of the major currencies as foreign investors have not rushed to sell. While the Japanese index has fallen sharply in the last six months, returns to sterling based investors have been only slightly negative, making Japan by far the best performing market for such investors.

Far East - The FTSE Asia Pacific (ex Japan) fell 39.3% in euro terms:

Asian markets had a roller coaster ride in 2008, hit hard as several of the large western financial institutions collapsed in the fallout, severely impacting consumer confidence. Economic data in the first quarter did not show many signs of spill over from the global crisis with exports remaining robust and strong retail sales. With consumer spending weakening, however, and Asian exports slowing, momentum began to trend down. Shipping and construction sectors were hit by the slowdown in China, and Korea underperformed due to its heavy exposure to cyclical areas.

As the financial crisis intensified, economic forecasts for the region were cut with the more open economies including Taiwan, Hong Kong and Singapore expected to go in to recession. The best performing markets were China/Hong Kong due to the Chinese Government announcement of a US\$586 billion stimulus package and interest rate cuts in response to the slowing economic indicators. China is widely seen as having the most flexibility and financial muscle in Asia with regard to policy response. The only other market to provide positive sterling returns in quarter four 2008 was Malaysia which is generally under owned. The worst performing markets in local terms were India, Indonesia and Singapore.

Ireland - The ISEQ returned -66.3%:

As the global financial crisis began to bite hard in 2008, much of the Irish economic miracle unravelled with the economy thought to have contracted by 1.7% in the year. The Irish market started the year with a substantial financial weighting and with Anglo Irish nationalised, the management of Irish Life and Permanent forced to resign for supporting Anglo Irish and the big two lenders supported by the state, equities were never going to fair well. Of the larger companies, CRH did best with a small fall as investors bet on a recovery in the US economy bolstered by stimulus packages of the incoming US administration.

Unit Linked Funds' Returns for 2008.

A. Ignis Asset Management.

<u>Fund / Asset Class</u>	<u>Performance</u>
Guaranteed Deposit	3.21%
Fixed Interest	5.52%
Cautious Managed	-17.73%
Balanced Managed	-29.22%
Adventurous Managed	-40.60%
European Stock market	-44.91%
North American Stock market	-36.88%
World Stock market	-42.32%
UK Stock market	-48.20%
Far Eastern Stock market *	-37.95%
Japan Stock market	-32.29%

* Please note that the Far Eastern Stock market had exposure to the Japan Stock market.

www.ignisasset.com

B. KBC Asset Management.

<u>Fund / Asset Class</u>	<u>Performance</u>
Irish Equity	-62.3%
Balanced Managed	-37.1%
Managed	-37.1%
Euroland Equity	-45.8%
Top Picks Equity	-42.4%
Fallen Angels	-54.2%

www.kbcam.com

C. BlackRock Investment Managers.

<u>Fund / Asset Class</u>	<u>Performance</u>
Euro Global Balanced Managed	-27.65%
Global Equity	-42.32%
Euro Global Bond	2.48%

www.blackrock.co.uk/uksite/index.htm

D. Aberdeen Asset Management.

<u>Fund / Asset Class</u>	<u>Performance</u>
Global Champions	-38.70%
Technology	-40.89%

www.aberdeen-asset.com

Source: [Moneymate Interactive / Financial Express Analytics & KBC Asset Management](#)

Phoenix Life Limited SPL With-Profits Fund (formerly Scottish Provident Limited)

Information Sheet

Irish unitised with-profits pension policies

Former Scottish Provident Limited Irish unitised with-profits pension policies are invested in the Phoenix Life Limited SPI With-Profits Fund ('the with-profits fund').

Some policies may be split between unit-linked funds and the with-profits fund. This information sheet refers only to the with-profits element. Your policy has with-profits units that have been purchased with the premiums you have paid.

We may add annual bonuses if the investment return and experience of the with-profits fund has been enough (and is expected to continue to be enough) to support the payment of these bonuses and the benefits already guaranteed. For all units purchased prior to 1 October 1999 (Irish pension series I) there is a guaranteed minimum annual bonus rate of 4% each year. If added, annual bonus increases the value of the with-profits units.

The investment return and experience of the with-profits fund over the last few years has meant that we have not been able to add non-guaranteed annual bonuses since March 2003. The value of the benefits already guaranteed means that annual bonus is not currently supported. The addition of any future annual bonus will depend on the future investment performance and experience of the with-profits fund, after allowing for the historic performance and the value of the guaranteed benefits.

Annual bonus rates declared in 2008 is shown in the table below.

Phoenix Life Limited – SPI With-Profits Fund Former Scottish Provident Limited Irish Unitised with-profits pension policies	
Bonuses declared in 2008	from
Annual bonus % applied as increase in unit price	1 April 2008
Irish Pension series I (Pre Oct 99 - 4% guaranteed)	4.00%
Irish Pension series II (Oct 99 – March 2000)	0.00%
Irish Pension series III (After March 2000)	0.00%

We have reviewed our policy of concentrating on final bonuses before reintroducing or increasing annual bonuses and continue to believe that this is the fairest way for all policyholders to benefit from the returns of the with-profits fund.

We may add a final bonus on death or at retirement at the selected retirement date. We do not guarantee final bonuses. We normally review final bonus rates twice a year from 1 January and 1 July. However we may change final bonus rates at any time. On surrender, transfer or retirement at any other date, we may pay reduced final bonuses and we may apply a market value reduction. We review the final bonus reductions and market value reductions regularly.

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The investment mix backing Irish traditional with-profits pension policies has changed over time. The recent history of the asset mix together with the investment return on the with-profits fund over the last number of years is shown in the tables below.

Phoenix Life Limited – SPI With-Profits Fund Former Scottish Provident Limited Irish unitised with-profits pension policies				
Asset mix at end of year				
Year	Company Shares (equities)	Fixed Interest	Property	Other
2008	43%	45%	0%	12%
2007	49%	39%	0%	12%
2006	41%	48%	0%	11%
2005	37%	49%	0%	14%
2004	33%	44%	8%	15%
2003	25%	37%	10%	28%

Phoenix Life Limited – SPI With-Profits Fund Former Scottish Provident Limited Irish unitised with-profits pension policies	
Investment return (before charges)	
Year	Investment return
2008	-19%
2007	4%
2006	6%
2005	13%
2004	11%
2003	7%

The life assurance, pension and investment business of Scottish Provident Limited transferred to Phoenix Life Limited on 6 February 2009. The Scottish Provident Limited with-profits policies were transferred to the newly created Phoenix Life Limited SPI With-Profits Fund. The transfer should not lead to any change in the way in which we manage the fund in which your policy is invested.

Phoenix Life Limited SPL With-Profits Fund (formerly Scottish Provident Limited)

Information Sheet

Irish traditional with-profits pension policies

Former Scottish Provident Limited Irish traditional with-profits pension policies are invested in the Phoenix Life Limited SPI With-Profits Fund ('the with-profits fund').

Policies have guaranteed annuities / pensions or cash sums at the selected retirement age that have been purchased with the premiums that have been and will be paid, and from previous bonuses we have added.

We may add annual bonuses if the investment return and experience of the with-profits fund has been sufficient (and is expected to continue to be sufficient) to support the payment of these bonuses and the benefits already guaranteed.

The investment return and experience of the with-profits fund over the last few years means that we have been unable to add annual bonuses since 2001. We have reviewed our policy of concentrating on final bonuses before reintroducing or increasing annual bonuses and continue to believe that this is the fairest way for all policyholders to benefit from the returns of the with-profits fund.

We may add a final bonus on retirement at the selected retirement date. We do not guarantee final bonuses. We normally review final bonus rates twice a year from 1 January and 1 July. However we may change final bonus rates at any time.

The investment mix backing Irish traditional with-profits pension policies has changed over time. The recent history of the asset mix together with the investment return on the with-profits fund over the last number of years is shown in the tables below.

Phoenix Life Limited – SPI With-Profits Fund Former Scottish Provident Limited Irish Traditional with-profits pension policies				
Asset mix at end of year				
Year	Company Shares (equities)	Fixed Interest	Property	Other
2008	43%	45%	0%	12%
2007	49%	39%	0%	12%
2006	41%	48%	0%	11%
2005	37%	49%	0%	14%
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Scottish Mutual International Limited With-Profits Fund

Information Sheet

Irish unitised with-profits - SMI Pension With-Profits

Irish unitised with-profits pension policies (taken out after 01/08/2001) are invested in the Scottish Mutual International Limited with-profits fund ('the with-profits fund').

Some policies may be split between unit-linked funds and the with-profits fund. This information sheet refers only to the with-profits element. Policies have guaranteed cash sums at the selected retirement date in the form of with-profits units which have been purchased with premiums.

We may add annual bonuses if the investment return and experience of the with-profits fund has been sufficient (and is expected to continue to be sufficient) to support the payment of these bonuses and the benefits already guaranteed. If added, annual bonus increases the value of the with-profits units.

The investment return and experience of the with-profits fund over the last few years mean that we have been adding low levels of annual bonus. The annual bonus rate that has applied in recent years is shown below.

Scottish Mutual International Limited With-profits fund Irish unitised with-profits Pension With-Profits Series 3	
Annual bonus rates	
Period	Annual Bonus rate
2004-2008	2.25%
2003-2004	3.25%

We may add a final bonus on death or on retirement at the selected retirement date. We do not guarantee final bonuses. We normally review final bonus rates twice a year from 1 January and 1 July. However we may change final bonus rates at any time. On surrender, transfer or retirement at any other date, we may pay reduced final bonuses and we may apply a market value reduction. We review the final bonus reductions and market value reductions regularly.

The investment mix backing these with-profits units has changed over time. The recent history of the asset mix together with the investment return on the with-profits fund over the last number of years is shown in the tables below.

Scottish Mutual International Limited With-profits fund Irish unitised with-profits Pension With-Profits Series 3				
Asset mix at end of year				
Year	Company Shares (equities)	Property	Fixed Interest	Other
2008	44%	0%	45%	11%
2007	50%	0%	38%	12%
2006	47%	0%	39%	14%
2005	44%	0%	43%	13%
2004	31%	0%	39%	30%
2003	35%	0%	37%	28%

Scottish Mutual International Limited With-profits fund Irish unitised with-profits Pension With-Profits Series 3	
Investment return (before charges)	
Year	Investment return
2008	-17%
2007	4%
2006	7%
2005	13%
2004	6%
2003	5%