

Unit Linked & With-Profits Pension Funds Investment Report 2009

Market Commentary – 2009 review

The first quarter forced a rocky ride on investors in most markets, although investor sentiment improved noticeably from early March, producing a sharp rally. There were many signs that the economy was stabilising as credit spreads began to normalise, sentiment based leading indicators and consumer confidence toughened and started to recover, while analysts began to make an increasing number of earnings upgrades. Moving into the second half of the year, risk appetite accelerated across a range of assets fuelled by improving growth and expectations. Economic momentum remained fragile, however, restrained by the legacy of debt from the household bubble and the consequences for bank balance sheets from the subsequent bust. In response, central banks and governments maintained the massive flood of liquidity, accommodative interest rates and expansionary fiscal policy. This liquidity provided a rising tide that lifted all asset markets. The last few months of 2009 saw many references to the 'green shoots' of the economic recovery and several of these began to sprout during the last three months which helped increase the risk appetite of investors. Global markets, however, continued to rise but at a much slower pace. The Dubai debt crisis in November highlighted that there are still debt issues which need to be addressed.

UK - 2009 saw the FTSE All Share returned 41.6% in euro terms

The aftershocks from the bankruptcy of Lehman Brothers were still being felt at the start of 2009 as central banks fought aggressively to unfreeze the global financial system. UK interest rates were slashed and the UK government was forced to draw up the Asset Protection Scheme with the intention of insuring toxic assets of UK banks. Quantitative easing was also introduced, injecting cash into the banking system to stimulate the economy. These measures appeared successful with the second quarter rally driven by improving risk appetite and signs that the economy was stabilising.

The UK equity market recorded a strong end to the year, with a healthy return for the whole of 2009. Less robust stocks, particularly within cyclical companies, dominated performance from March until October. In the run up to the year-end, the market rally broadened out and more consumer orientated stocks led the way. This was, however, at the expense of solid defensives as active money shunned security for risk. Financials were among the laggards with a second consultation paper from the Bank of International Settlements increasing concerns on the need for further banking capital raisings.

Europe - In 2009, the FTSE Europe ex UK index returned 30.7% in euro terms.

Autumnal declines resulting from the failure of Lehman Brothers reversed from March onwards. Equity markets responded to fiscal stimuli and confidence returned to banks following capital injections and the implementation of guarantee schemes. The market returned 16.5% in sterling terms, as GBP weakness versus the euro provided a substantial boost. There was growing evidence that many parts of the Eurozone economy started to emerge from recession, with France and Germany returning to growth during the second quarter.

The European Central Bank steadily cut rates from 4% to 1% and earnings estimates stabilised, including areas that were somewhat of a surprise, such as industrials. Merger and acquisition activity remained virtually zero, however, and the consumer remained under pressure as unemployment continued to rise. European markets surged in the second half of 2009 with the FTSE World Europe ex UK index gaining 20.0% in local currency terms. The fourth quarter saw the recovery in share prices continue, albeit at a slower pace, with most of the positive returns being delivered in December with the traditional cyclical rally. 2009 as a whole was a great year for equity investors with the January/February panic providing an excellent base from which markets could recover based on exceptionally cheap valuations. Looking to 2010, potential remains as Europe continues to be a good recovery market.

US - In the year under review, US equities returned 27.2% in dollar terms.

The collapse in confidence in financial markets reached a climax in the spring of 2009 as the sustainability of the global financial system was called into question. The fall in economic activity culminated in panic selling of global equities through to mid-March of this year, with the dramatic slowdown having a devastating impact on business and consumer confidence, industrial output and unemployment. The changeover in political administration further increased ambiguity and arguments in the United States Congress over stimulus and housing market support led to huge falls in US stock markets.

The Federal Reserve and US Treasuries attempt to revive the financial system which involved a huge expansion to the Fed's balance sheets, ultimately worked to shore up confidence and stabilise the system. Earnings outlook and investor risk appetite improved, and US economic growth estimates improved over the early summer months, with the best sectors including technology and consumer discretionary. During the fourth quarter US equities built on the significant gains recorded in the third quarter, rising a further 6% in local currency terms and 5% in sterling terms. Although there was a moderate degree of selling the 'good earnings news' in late October as company results were reported. This pressure quickly subsided as domestic macroeconomic data continued to reflect broad improvement in the outlook, particularly with respect to employment, leading to out performance by the consumer discretionary sector. Relative weakness in the financial sector remained, however, as several major US banks performed poorly.

Japan - The FTSE Japan index returned 2.5% in euro terms in 2009.

The Japanese market fell in the first quarter of 2009 as continuing worries about the outlook for the economy and corporate profits hurt sentiment, while many listed companies, particularly financials and real estate, experienced financial difficulties that resulted in bankruptcy. Defensive stocks were abandoned as poor economic data caused investors to sell the shares they owned for cash. This pattern continued into late March, but the Japanese stock market then bottomed decisively and had a rapid recovery thereafter. The combined effects of global government easing monetary and fiscal policy began to show as Japanese industrial production and business confidence indicators showed signs of stabilisation.

Japanese indices recovered sharply going into the second quarter with economic data improving and measures, which had been in freefall in the previous two to three quarters, showed signs of bottoming. This coupled with an improvement in global risk appetite meant global cyclical stocks, such as steel, outperformed. Towards the end of year the market had a noticeable turn in direction with rising investor appetite, combined with the significant improvement in local currency driving returns, particularly for the export-orientated sectors.

Far East - 2009 saw the FTSE Asia Pacific (ex Japan) return 67.4% in euro terms.

While Asian markets ended the first quarter of 2009 almost flat, it was another roller coaster ride with poor economic data, both globally and regionally, leading to a significant pull back and markets falling almost 17% by the end of February. 'Less bad' economic news and the expectation of further stimulus packages globally, however, led the market to rally through from March onwards. Asian markets rebounded from oversold levels, driven by quantitative easing and bank recapitalisations in the G7, government stimulus packages throughout Asia and in particular China, which helped cushion the region from the effects of the export slowdown.

Moving into the final months of 2009, Asian equities were helped by positive comments from the G20 expressing commitment to ongoing policy stimulus. Broader economic data within the region remained constructive with better than expected PMI numbers from China and industrial production regionally heading up. Further US\$ weakness and a rise in commodity prices also aided reflation beneficiaries and resource stocks. Within the region, Indian and Indonesian currencies did particularly well against the weak US\$ each gaining around 3% at the end of the fourth quarter.

Ireland - As equity markets recovered, the ISEQ returned 29.8% in 2009.

The previous year's collapse of the Irish financial system was a positive for the market in 2009 as the sector barely recovered during the year on ongoing concerns regarding recapitalisation and the level at which assets would be transferred into NAMA. All of the strong performers were in the global resource and global cyclical industries such as packaging where domestic Irish demand was less important. This differentiation between domestic and international has never been more important with Irish GDP shrinking by 7.5% over the year, and expected to recover more modestly than international peers.

Fixed Interest

While performance suffered at the start of the period, by the end of February the situation began to change. While the macro outlook did not improve dramatically, credit markets began to react to bond tenders and quantitative easing. The level of forced selling decreased and with new money flowing into the asset class, spreads began to tighten. As the banking sector struggled to recover from the unprecedented troubles, investors had to contend with the realisation that banks may choose not to repay their bonds on the stated pay dates. The banks sensed an opportunity in the market, however, to strengthen their balance sheets by repaying these bonds at less than face value which proved very successful. As corporate bond markets began to normalise, issuers took advantage of investor appetite for good quality, non-financial names. Underlying conditions have become favourable for corporate bonds as many companies have strived to ensure that they are adequately capitalised for a prolonged depression that no longer looks likely.

Unit Linked Funds Returns for 2009.

A. Ignis Asset Management.

Fund / Asset Class	2009
Guaranteed Deposit	0.61%
Fixed Interest	4.37%
Cautious Managed	6.15%
Balanced Managed	17.98%
Adventurous Managed	27.42%
European Stock market	37.31%
North American Stock market	26.47%
World Stock market	29.79%
UK Stock market	42.45%
Far Eastern Stock market *	33.06%
Japan Stock market	7.91%

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

www.ignisasset.com

B. KBC Asset Management.

Fund / Asset Class	2009
Irish Equity	24.44%
Managed	23.54%
Euroland Equity	61.31%
Dividend Plus Global Equity (Top Picks)	38.25%
Dividend Plus Global Equity (Fallen Angels)	44.94%

www.kbcam.com

C. BlackRock Investment Managers.

Fund / Asset Class	2009
Euro Global Balanced Managed	25.19%
Global Equity	30.89%
Euro Global Bond	-1.85%

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

D. Aberdeen Asset Management.

Fund / Asset Class	2009
Global Champions	35.03%
Technology	56.94%

www.aberdeen-asset.com

Source: Financial Express.

**Important Information for
Phoenix Life Limited
SPI With-Profits Fund Customers**

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 to support the payment of these bonuses and the benefits already guaranteed, and is expected to continue to do so, even if future investment returns or other factors become unfavourable.

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 for these with-profits policies has changed over time. In 2010 we expect to reduce the proportion invested in company shares (equities) from 48% to around 21%, increase the proportion invested in property from nil to around 9% and increase the proportion invested in fixed interest stocks from 43% to around 61%. This will give a combined company shares and property proportion of 30% compared to 48% at the end of 2009. We are reducing the proportion invested in company shares due to the high level of guaranteed benefits on these traditional with-profits pension policies.

The recent history of the asset mix is shown in the table 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 Stocks		Other	Property
		issued by euro governments	other		
2009	48%	17%	26%	0%	9%
2008	43%	19%	26%	0%	12%
2007	49%	39% combined		0%	12%
2006	41%	48% combined		0%	11%
2005	37%	49% combined		0%	14%

The investment return on the with-profits fund over the last number of years is shown in the table 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	Investment Return
2009	16%
2008	-19%
2007	4%
2006	6%
2005	13%

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.

This information is correct at 1 January 2010. If you have any questions or would like more information about your policy, please contact us using the details shown on the front of this information sheet.

**Important Information for
Phoenix Life Limited
SPI With-Profits Fund Customers**

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 sufficient to support the payment of these bonuses and the benefits already guaranteed, and is expected to continue to do so, even if future investment returns or other factors become unfavourable. 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 for 2009 are shown in the table below

Phoenix Life Limited - SPI With-Profits Fund		
Former Scottish Provident Limited		
Irish unitised with-profits pension policies		
Bonuses declared for 2009		
Annual bonus % applied as increase in unit price	From 1 April 2009	To 1 April 2008
Irish pension series I (4% guarantee)	4.00%	4.00%
Irish pension series II	0.00%	0.00%
Irish pension series III	0.00%	0.00%
Series I applies to units purchased before 1 October 1999		
Series II applies to units purchased from 1 October 1999		
Series III applies to units purchased from 1 April 2000		

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 for these with-profits units has changed over time. In 2010, we expect to change the investment mix and have different mixes for Series 1 with-profits units where there is a 4% guaranteed annual bonus compared to Series II and Series III with-profits units.

For the Series I with-profits units, we expect to reduce the proportion invested in company shares (equities) from 48% to around 21%, increase the proportion invested in property from nil to around 9% and increase the proportion invested in fixed interest stocks from 43% to around 61%. This will give a combined company shares and property proportion of 30% compared to 48% at the end of 2009. We are reducing the proportion invested in company shares due to the high level of guaranteed benefits on these Series I with-profits units where there is a 4% guaranteed annual bonus.

For the Series II and Series III with-profits units, we expect to reduce the proportion invested in company shares (equities) from 48% to around 42%, increase the proportion invested in property and alternative assets from nil to around 18% (with alternative assets being no more than 4.5%) and reduce the proportion invested in fixed interest stocks from 43% to around 31%. This will give a combined company shares, property and alternative assets proportion of 60% compared to 48% at the end of 2009.

The recent history of the asset mix is shown in the table 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 Stocks		Other	Property
		issued by euro governments	other		
2009	48%	17%	26%	0%	9%
2008	43%	19%	26%	0%	12%
2007	49%	39% combined		0%	12%
2006	41%	48% combined		0%	11%
2005	37%	49% combined		0%	14%

Phoenix and Phoenix Ireland are trading names used by Scottish Mutual International Limited and Phoenix Life Limited. Scottish Mutual International Limited is registered in Ireland No. 242244. Registered Office: 25-28 North Wall Quay Dublin 1, Ireland. Phoenix Life Limited is registered in England No. 1016269. Registered Office: 1 Wythall Green Way, Wythall, Birmingham B47 6WG United Kingdom. Irish branch registered No. 906073. An up-to-date list of company directors, containing the particulars indicated in paragraphs (a), (b) and (c) of section 196(1) of the Companies Act 1963, is available on application from each company's registered office. Scottish Mutual International Limited is regulated by the Irish Financial Regulator and Phoenix Life Limited is regulated in the United Kingdom by the Financial Services Authority.

The investment return on the with-profits fund over the last number of years is shown in the table 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	Investment Return
2009	16%
2008	-19%
2007	4%
2006	6%
2005	13%

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**Important Information for
Scottish Mutual International Limited
With-Profits Fund Customers**

Irish unitised with-profits SMI Pension With-Profits Series 3 - (taken out after August 2001)

Irish unitised with-profits pension policies (taken out after the 1 August 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 to support the payment of these bonuses and the benefits already guaranteed, and is expected to continue to do so, even if future investment returns or other factors become unfavourable. If added, annual bonus increases the value of the with-profits units.

Despite the extremely poor investment returns over 2008 and early 2009, we added an annual bonus of 0.75% per annum from 1 May 2009. This rate is lower than the previous rate. The investment return and experience of the with-profits fund over last few years mean that we were already adding low levels of annual bonus. The annual bonus rate that will apply from 1 May 2010 will allow for the most recent experience of the with-profits fund and will be announced towards the end of April 2010. The annual bonus rate that has applied in recent years is shown below.

Scottish Mutual International Limited With-Profits fund Irish unitised with-profits SMI Pension With-Profits Series 3 (policies taken out after 1 August 2001)	
Annual bonus rates	
Period	Annual bonus rate
1 May 2009 to 30 April 2010	0.75%
1 March 2004 to 30 April 2009	2.25%

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 for these with-profits units has changed over time. At 31 December 2009, the fixed interest assets were all invested in euro government bonds. In 2010 we expect to introduce corporate bonds into the fixed interest assets. Initially we expect to move 20% of the fixed interest assets into corporate bonds and later this may rise to 40%. At 31 December 2009, about 80% of the equities were European equities. In 2010 we expect to reduce this proportion to about 67% and invest more in other equity markets.

The recent history of the asset mix is shown in the table below.

Scottish Mutual International Limited With-Profits fund Irish unitised with-profits SMI Pension With-Profits Series 3 (policies taken out after 1 August 2001)					
Asset mix at end of year					
Year	Company Shares (equities)	Fixed Interest Stocks		Other	Property
		issued by euro governments	other		
2009	51%	27%	0%	0%	22%
2008	44%	45%	0%	0%	11%
2007	50%	38%	0%	0%	12%
2006	47%	39%	0%	0%	14%
2005	44%	43%	0%	0%	13%

The investment return on the with-profits fund over the last number of years is shown in the table below.

Scottish Mutual International Limited With-Profits fund Irish unitised with-profits SMI Pension With-Profits Series 3 (policies taken out after 1 August 2001)	
Asset mix at end of year	
Year	Investment Return
2009	15%
2008	-17%
2007	4%
2006	7%
2005	13%

This information is correct at 1 January 2010.

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