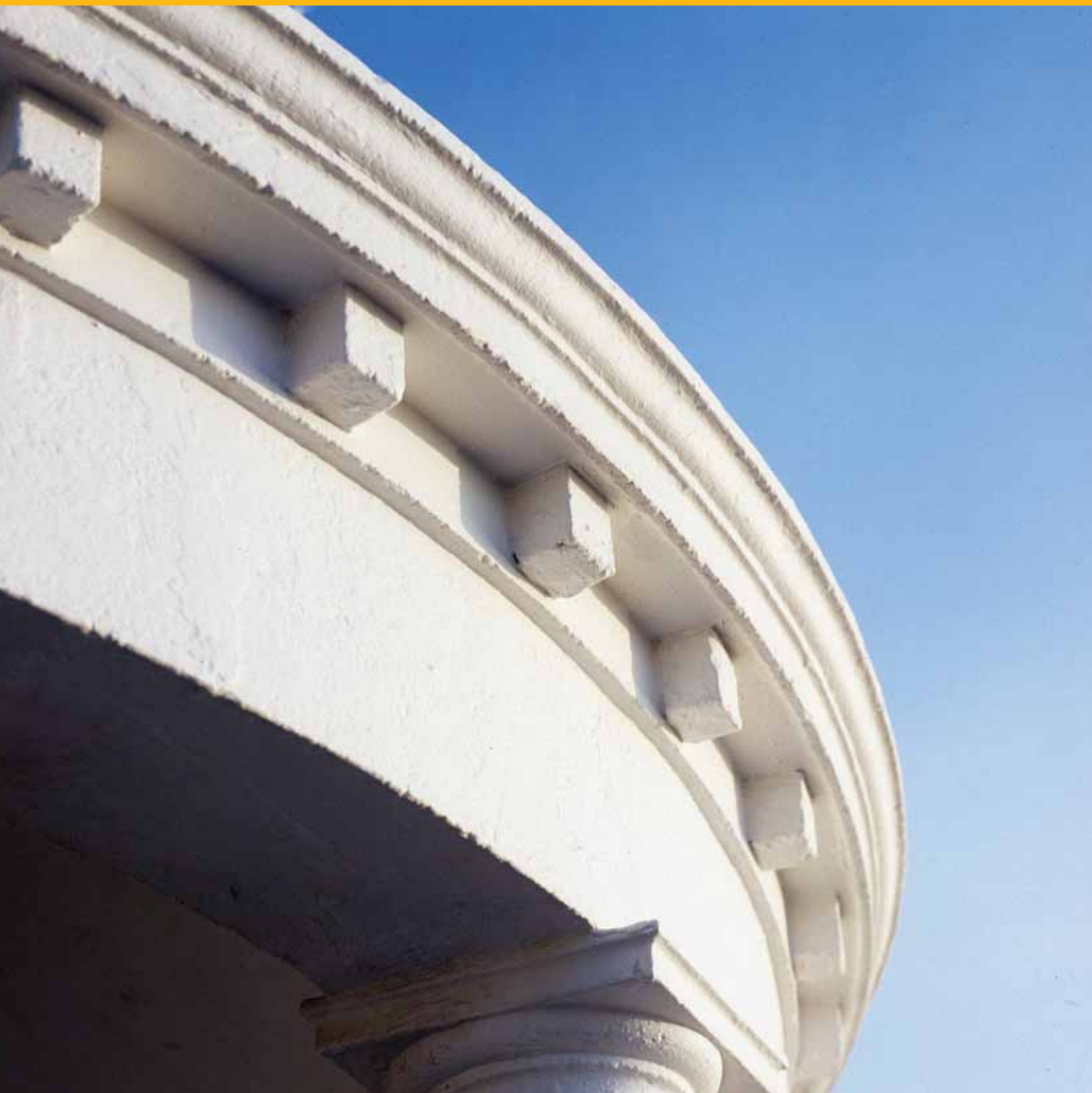


# London Life

## Unit-Linked and Unitised With-Profits Life Assurance Funds and Unit-Linked and With-Profits Pension Investment Funds

FUND REPORT AT 31 DECEMBER 2009





## Introduction

This is the latest London Life Investment Report for unit-linked and unitised with-profits policies in both life assurance and pension investment funds. It also covers conventional with-profits pensions policies.

It also covers ex-AMP unit-linked life assurance and ex-AMP unit-linked pension (but not ex-AMP with-profits) policies.

If you have internet access, please visit our website [www.london-life.com](http://www.london-life.com). As well as the latest fund prices, our website includes other reports, news items, and a Frequently Asked Questions section you may find of interest.

We have recently added a new document to our website – ‘How we look after your unit-linked policy’. It aims to give you a better understanding of unit-linked policies and how they work.

## Global Market Review for the six months to 31 December 2009 (this commentary is based on the views of our Investment Managers)

*All returns are total returns in sterling terms unless otherwise stated*

Global equity markets rallied strongly over the six months, as investors took the view that the economic downturn was moderating. Early in the period, market participants focused on the broad improvement in economic data and the popularly-termed ‘green shoots of recovery’. Better-than-expected data and some upgrades to global GDP forecasts were generally positive for equities and other risk assets, and negative for government bonds.

As the period progressed, what started as a bottoming-out process in early 2009 became a more sustainable growth recovery, characterised by stronger-than-expected final household demand and a reduction in corporate inventories, which had fallen to very low levels. However, unemployment levels remained uncomfortably high.

There was a short reversal in October, but then better-than-expected economic data, an improvement in top-line US corporate earnings growth – along with investor realisation that global monetary policy is likely to remain as loose as economic conditions will warrant – drove markets higher into November.

There was a temporary wobble at the end of November when state-owned conglomerate Dubai World’s request to delay a \$3.5bn debt repayment led to the biggest intra-day slump in European equities in seven months. However, this was quickly overcome as markets focused instead on the much better-than-expected US employment data, which sent shares sharply higher in early December. As the period drew to a close global equity markets hit new highs for the year, taking gains to over 20% for the half year.

Markets rose significantly over the period, with the exception of Japan.

**PERFORMANCE OF GLOBAL STOCKMARKETS FROM 01/07/2009 TO 31/12/2009**

COUNTRY/REGION	INDEX	% TOTAL RETURN
UK	FTSE All Share	+ 29.1
UK	FTSE 100	+ 29.4
UK	FTSE 250	+ 27.2
UK	FTSE Small Cap	+ 25.7
North America	S & P 500	+ 25.1
Europe	FTSE World Europe (Ex UK)	+ 30.2
Emerging Markets	MSCI Emerging Markets	+ 34.0
Japan	FTSE World Japan	+ 4.9 (- 0.7 in Yen)

Global government bonds underperformed equity markets over the six-month review period, with UK gilts returning 1.0% and index-linked gilts 4.8%. The JP Morgan Global Government Bond index rose 6.0%.

The Bank of England maintained interest rates at 0.5% and extended its quantitative easing programme to £175bn from £150bn. Corporate bonds also benefited from the favourable environment, with yields falling and prices rising as investors reduced their expectations of defaults. The improvement in liquidity and pricing in the debt markets resulted in the re-emergence of merger and acquisition activity which, again, further supported equities.

Commentators have now begun to debate when, and how, the stimulus will be removed. Governments and central banks have been at pains to emphasise that the recovery remains fragile and that stimulus will be in place for some time yet.

## London Life Unit-Linked and With-Profits Funds Details at 31 December 2009

### Unit-Linked Funds

The ex-AMP Life (Gold and Ultima) unit-linked policies invest only in the Life *Managed* Fund. The ex-AMP Pension unit-linked policies invest in the Pension *Managed* Fund or, for *Guaranteed* Units, in the London Life Pension Deposit Fund. Other policies may invest in one or more of the funds available.

### Mixed Fund

**Medium/High risk rating.** Spread across the other unit-linked assets, the Fund Manager seeks to achieve lower capital risk through greater diversification.

The Mixed Fund is designed to provide investors with a diverse portfolio of investments, with the aim of long-term growth. The Fund invests in a mix of assets in proportions chosen by the Fund Manager. The largest holdings are expected to be in the Equity and International Funds, as the Fund Manager's view is that these continue to provide the greatest potential for growth over the long term. Holdings in the other funds will be used to provide a balanced approach and to take advantage of opportunities in their respective markets.

**Life fund size:** £72.2m

**Life fund mix:** UK Equity 45.5%; International Equity 34.4%; Fixed Interest 12.7%; Cash 7.4%

**Pension fund size:** £46.1m

**Pension fund mix:** UK Equity 38.6%; International Equity 43.1%; Fixed Interest 12.1%; Cash 6.2%

### Managed Fund

**Medium/High risk rating.** Spread across the other unit-linked assets, the Fund Manager seeks to achieve lower capital risk through greater diversification.

The *Managed* Fund has the same objectives as the London Life Mixed Fund.

**Life *Managed* Fund size:** £12.3m

**Life *Managed* Fund mix:**

UK Equity 45.5%; International Equity 33.8%; Fixed Interest 15.2%; Cash 5.5%

**Pension *Managed* Fund size:** £204.2m

**Pension *Managed* Fund mix:**

UK Equity 44.1%; International Equity 34.9%; Fixed Interest 15.0%; Cash 6.0%

### Deposit (*Guaranteed*) Fund

**Low risk rating.** Very secure

The aim of the Fund is to maintain capital security and maximise interest income by choosing suitable investments in deposits with leading banks and other major borrowers, the money markets and short-term fixed interest securities. The price of units in this fund is not expected to fall.

### Deposit (Property) Fund

Until November 1998 this was the London Life Property Fund, originally investing in offices, shops and industrial properties.

The aim and risk rating of the Fund are now the same as those of the Deposit Fund.

This Fund is not open to new investment.

**Life fund size:** £4.3m [Total of both Deposit and Deposit (Property) Funds]

**Pension fund size:** £13.8m [Total of both Deposit (*Guaranteed*) and Deposit (Property) funds]

### Equity Fund

**High risk rating.** High potential return over the longer term, although the volatile nature of underlying investments presents a substantial capital risk.

The aim of the Fund is to achieve medium-term to long-term growth through capital appreciation and income from dividends.

The Fund is invested mainly in first-line ordinary stocks and shares of British companies but also includes smaller companies as suitable opportunities arise.

Investment will be in a spread of companies in the various market sectors, with the Fund Manager paying regard to the timing of sales and purchases, market trends and growth areas in the UK economy.

The Fund Manager's policy is to fully invest the Fund after allowing adequate cash to meet the needs of day-to-day business.

**Life fund size:** £31.8m

**Pension fund size:** £31.4m

**Sector Mix:** Consumer Staples 18.9%; Energy 16.8%; Financials 16.2%; Health Care 10%; Consumer Discretionary 9.7%; Utilities 8%; Industrials 7.3%; Telecommunication Services 6.9%; Materials 5.4%; Cash 0.8%

**Major Holdings:** British Petroleum 6.3%; Royal Dutch Shell 6.2%; GlaxoSmithKline 5.8%; HSBC 5.6%; Vodafone 5.5%; AstraZeneca 4.1%; British American Tobacco 3.5%; Imperial Tobacco 3.3%; British Gas 3.1%; Rio Tinto 2.7%

## Indexed Stock Fund

**Medium/Low risk rating.** Unit values can fluctuate, but aim to keep pace with inflation over the long term.

The Fund will be invested in index-linked stocks issued by the Government from time to time. Interest payments and redemption values are increased in-line with the Retail Prices Index (RPI), so the Fund should, in the long term, provide a hedge against inflation. However, as prices of the stocks are subject to market forces, the unit price cannot be guaranteed to match the RPI at all times. Full investment of the Fund will depend upon availability of suitable stock.

**Life fund size:** £1.3m

**Pension fund size:** £1.7m

## International Fund

**High risk rating.** High potential return over the longer term, although the volatile nature of underlying investments and currency presents a substantial capital risk.

The aim of the Fund is to achieve medium-term to long-term growth through capital

appreciation and income growth. The Fund is invested mainly in equity shares of overseas companies, although the Fund may invest in overseas fixed interest securities from time to time. The holdings of the Fund will display a broad and well-balanced spread of investments.

The largest world stock markets are likely to feature strongly. Other collective funds (e.g. investment trusts) may be used to provide exposure to smaller markets. The Fund Manager may use foreign currency borrowing and other means to give flexibility to the mix of currencies held.

**Life fund size:** £5.4m

**Life fund geographic mix:**

North America 42.1%; Europe 28.2%; Pacific 14.3%; Japan 7.6%; Emerging Markets 5.8%; Cash 2.0%

**Pension fund size:** £6.0m

**Pension fund geographic mix:** North America 38.5%; Europe 30.3%; Pacific 13.8%; Japan 11.2%; Emerging Markets 6.2%

## Fixed Interest Fund

**Medium risk rating.** Potential for reasonable long-term returns, with some capital risk.

The Fund is invested in all types of quoted fixed interest securities but chiefly in UK gilts, with the aim of maximising returns through income and capital gains. The Fund Manager will actively buy and sell gilts to take advantage of favourable price differences and anticipated interest rate changes. Therefore, the Fund may at times include shorter-term assets for these purposes.

**Life fund size:** £5.3m

**Life fund mix:** UK Gilts 93.2%; Corporate Bonds 6.8%

**Pension fund size:** £2.7m

**Pension fund mix:** UK Gilts 90.6%; Corporate Bonds 9.4%

## Unitised With-Profits Fund

**Medium/High risk rating.** The Fund seeks to provide good potential returns over the longer term, with lower capital risk by diversification in a wide range of assets. Smoothing of investment returns provides some stability of payouts. Guarantees are limited to death and, for pensions, normal retirement or at age 75, and generally are set at lower levels than for conventional with-profits benefits.

The Fund is invested in a wide range of assets including equities, properties and fixed interest securities. The intention is to invest for long-term growth, coupled with a degree of stability.

For policies issued since 1998, at least 90% of investment returns, adjusted for smoothing, in excess of those needed to provide basic benefits and meet expenses, are allocated to policyholders in the form of bonuses. For earlier policies, the full smoothed return is allocated to policyholders. Bonuses take two forms:

**Annual bonus** – extra bonus units added each year to policy.

**Final bonus** – might be paid when units are encashed.

The amount paid out when a claim is made is consistent with the accumulation of premiums at the appropriate smoothed return, with allowance for other factors such as mortality, expenses and taxation.

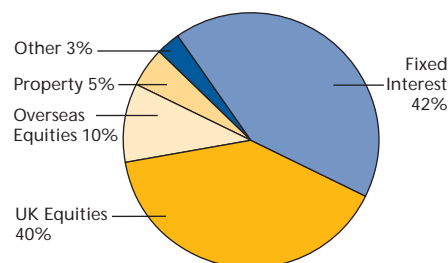
The actual investment return is smoothed, to even out peaks and troughs in the stock market and provide some stability of payouts. Therefore, claim values will broadly reflect investment performance

over the full term of the policy, and will not necessarily respond immediately to large fluctuations in the market.

The value of investments in the Unitised With-Profits Fund may be subject to Market Value Reductions (MVRs) when they are encashed or switched. For pensions, an MVR may also be applied at the nominated retirement date if this has been changed in the 12 months before the revised retirement date. MVRs apply when the full value of policies invested in the Unitised With-Profits Fund is significantly higher than the value of the underlying assets and we need to limit overpayments to protect the interests of all policyholders. Possible situations when we might apply MVRs would include occasions where there has been a sharp fall in equity values, or a significant but less pronounced downward drift in market values.

MVRs do not apply on death or, for pensions, at the nominated retirement date or at age 75. The times we can, and cannot, apply an MVR to your policy depend on the type of policy you have, and are set out in your policy document.

### Target mix at 31 December 2009



**Fund size (life & pensions):** £19.1m

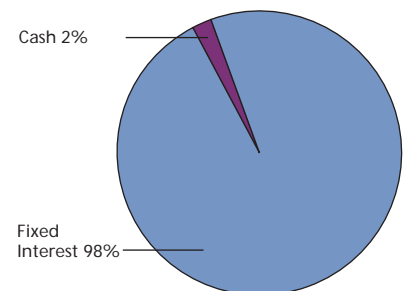
## Pension Conventional With-Profits Fund (including Secure Pension Plus)

**Medium risk rating.** The current investment objective is to secure payment of guaranteed contractual benefits including annual bonuses already added to policies

The Fund is currently almost entirely invested in fixed interest securities. It is unlikely that the Fund will be able to invest in equities or property in the future. Future investment returns will largely reflect the yields currently available on fixed interest investments, averaging around 3% to 5% per annum before tax and charges, but may vary from year to year.

This return will first be used to fund the growth rate needed to provide contractual benefits, including annual bonuses already added to policies. Any balance is more likely to be used to pay a final bonus, rather than annual bonuses

### Target mix at 31 December 2009



**Fund size (life & pensions):** £873.9m

## Performance Life Funds

### UNIT-LINKED FUND PERFORMANCE AT 31 DECEMBER 2009 (Average annual compound growth)

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Equity	19.9%	-5.3%	3.3%	-0.8%
Index Linked	4.0%	4.4%	4.2%	3.8%
International	22.5%	2.3%	6.4%	-0.6%
Deposit	0.5%	2.8%	2.9%	3.2%
Deposit (Property)	0.5%	2.7%	2.9%	3.5%
Fixed Interest	0.3%	4.1%	3.6%	4.0%
Mixed	17.2%	-0.8%	4.8%	0.1%
Managed (ex-AMP)	15.8%	-0.6%	4.2%	0.6%
UK Retail Prices Index (for comparison)	2.4%	2.5%	2.8%	2.7%

Performance statistics shown are for the 'Old' series of units.

The original (old) series of funds have an annual management charge (AMC) of 0.6%.

The later 'A' and 'B' series of funds have an AMC of 0.75%, and have identical performance.

'A' and 'B' series performance is slightly less than that of the 'old' series of units.

Performance statistics shown for the *Managed Fund* (for ex-AMP policies) are for Gold Accumulation Units, which have an AMC of 1.25%.

Life assurance funds are liable to tax on investment income and realised capital gains, equivalent to the basic rate of income tax. Higher rate income tax may be payable when an investment is encashed in part or full. All unit-linked funds are managed by Henderson Global Investors. For latest fund prices, for all funds and series, please visit our website at [www.london-life.com](http://www.london-life.com).

## Performance Pension Funds

### UNIT-LINKED FUND PERFORMANCE AT 31 DECEMBER 2009 (Average annual compound growth)

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Equity	19.6%	-5.5%	3.0%	-0.6%
Index Linked	4.9%	5.6%	5.2%	4.7%
International	20.9%	1.4%	5.9%	-0.7%
Deposit	0.5%	3.3%	3.4%	3.6%
Deposit (Property)	0.5%	3.3%	3.4%	3.8%
Fixed Interest	0.5%	4.9%	4.3%	4.7%
Mixed	17.8%	-0.4%	5.1%	0.5%
Managed (ex-AMP)	20.6%	-0.6%	5.2%	0.7%
UK Retail Prices Index (for comparison)	2.4%	2.5%	2.8%	2.7%

Performance statistics shown are for the 'P' series of units.

The 'P' (and 'Q') series of funds have an annual management charge (AMC) of 0.9% and have identical performance.

The later 'S' and 'T' series of funds have an AMC of 0.75%, and have identical performance.

'S' and 'T' series performance is slightly greater than that of the 'P' and 'Q' series units.

Performance statistics shown for the *Managed Fund* (for ex-AMP policies) are for Accumulation Units, which have an AMC of 0.75%.

Pension funds are free of Capital Gains Tax and partially free of taxation of income. All unit-linked funds are managed by Henderson Global Investors. For the latest fund prices, for all funds and series, please visit our website at [www.london-life.com](http://www.london-life.com). Pension benefits are not available until retirement.

The value of investments can go down as well as up and cannot be guaranteed. Exchange rate changes can also affect returns on overseas securities. Therefore, past performance is not necessarily a guide to future returns and you may not get back the full amount invested.

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