



STERLING

Investment matters

April 2011

An eventful start to 2011

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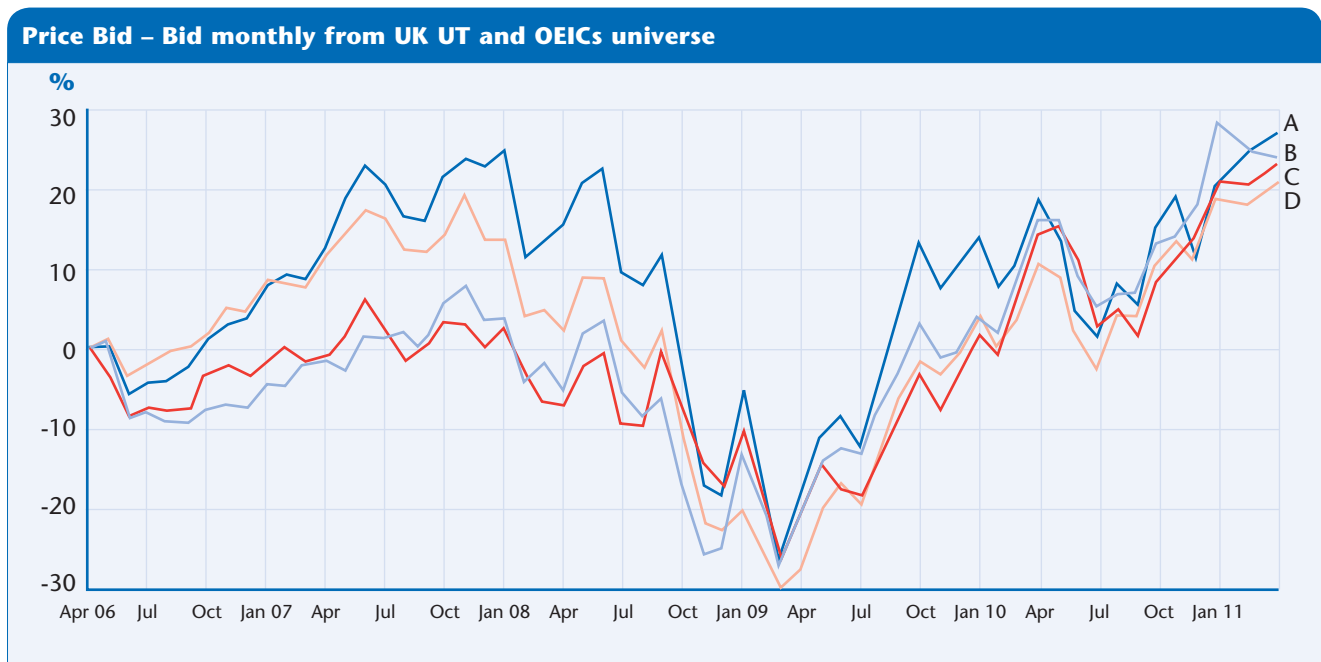
This five-year graph clearly shows how volatile the world's stock markets have been over the last five years. While no one can accurately predict the future, it's important you keep a close eye on your investments so you know what to expect from them.

You shouldn't use past performance as a suggestion of future performance. It shouldn't be the main or sole reason for making an investment decision.

The value of your investment and any income you take from it can fall as well as rise. You may not get back the amount you invested.

Tax concessions are not guaranteed and their value will depend on individual circumstances, which may change in the future.

Please call your adviser or us if you have any questions about your account or investments in general.



— A – FTSE World Europe Ex UK Index in GB
— B – FTSE USA Index in GB

— C – FTSE World Asia Pacific Index in GB
— D – FTSE All Share in GB

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From an economic perspective, the civil unrest in several North African and Middle Eastern countries was one of the most significant developments. The potential threat to oil supplies triggered a spike in the oil price, which has exacerbated inflationary pressures. At the end of March, the price of Brent crude for May delivery stood at \$117 a barrel, a rise of almost 24% since the start of the year. The average for 2010 was \$79 a barrel.

Most share markets made progress on the back of another strong corporate results season and attractive valuations. Additionally, shares remained an appealing asset class given the low level of official interest rates in the major economies. The Japanese equity market proved an exception and fell back in Quarter 1. It will inevitably take time for the economy to recover from the recent natural disasters, although the reconstruction programme should gradually prove supportive.

The continuing recovery in the US economy generally aided sentiment. The latest revision to Q4 2010 GDP data revealed that the economy grew by 3.1% against the previous estimate of 2.8%. Companies have been replenishing their inventories and increasing capital expenditure. Moreover, many US manufacturers are benefiting from the growing demand for western products from Asian businesses and consumers.

Within the UK, official growth forecasts for 2011 have been downgraded. Higher commodity prices and stubbornly high inflation, together with government austerity measures, are significant headwinds. At 5.5%,

the annual rate of retail price inflation is now the highest for 20 years. The government's preferred measure, the consumer price index, stands at 4.4%, which is more than double the Bank of England's 2% target. However, on a positive note, the March budget was generally seen as pro-business, with measures such as a cut in corporation tax. It is also important to distinguish between the UK economy and the stock market. As a whole, companies in the FTSE 100 Index derive around 70% of their earnings from overseas.

Elsewhere, sentiment towards European shares was buoyed by the health of the German economy and other core members of the eurozone. Within these countries, businesses are benefiting from stimulative monetary conditions, the weak euro and robust demand from developing economies. However, the health of countries on the eurozone periphery, namely Portugal, Ireland, Greece and Spain, remains fragile.

Turning to bonds, it was a lacklustre quarter for government bond markets which have also been affected by inflation worries, as well as the likely effects of the impending end of quantitative easing in the US and questions over valuation levels. However, high yield corporate bonds performed well over the quarter.

Balancing risk and reward

The table below shows the unpredictable nature of equity markets. The usual way to avoid the ups and downs is to keep an investment like your Sterling account for the medium to long term – for at least five to ten years.

What counts is when your investment started and when it ends. And if you are a more cautious investor, you can reduce risk by limiting your portfolio invested in equities. For example, by choosing less volatile funds, such as those using bond and gilt investments for part of your portfolio.

You shouldn't use past performance as a suggestion of future performance. It shouldn't be the main or sole reason for making an investment decision.

UK – FTSE All Share Index

This table shows how an investment of £20,000 in the Index would have grown by 31 March 2011 (dividends reinvested).

| | 10 years | 5 years | 4 years | 3 years | 2 years | 1 year | 6 months |
|------------------------------|----------|---------|---------|---------|---------|---------|----------|
| % growth | 58.04% | 19.99% | 7.95% | 17.02% | 65.58% | 8.72% | 8.48% |
| Average yearly growth | 4.68% | 3.71% | 1.93% | 5.38% | 28.68% | 8.72% | n/a |
| Cash value | £31,607 | £23,997 | £21,590 | £23,403 | £33,115 | £21,743 | £21,696 |

Source: Financial Express, April 2011. The FTSE All-Share Index represents 98-99% of the UK market capitalisation. It is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

Keeping in touch

There are literally millions of pounds lying unclaimed in insurance plans, pensions and other investments, simply because people fail to let companies know they have moved house. The Government already has plans to reinvest in the community unclaimed assets from bank

and building society accounts and it is keen to extend the scope to include other investments.

It's important we keep in touch. If you move, please let us know your new address.

Understanding your statement

How we show income in your statement

We send you two statements each year – one covers the six months from 6 April to 5 October and the other covers the twelve months from 6 April to 5 April.

Some of our funds can pay you an income, known as distribution payments. We collect these payments and pass them on to you every quarter, after taking the yearly charge – in March, June, September and December.

Depending on your fund choice, the difference between the dates of the statement and the income payments can make it difficult for us to show your income

payments clearly in the statement. For example, the statement we send you this April covers income from 6 April 2010 to 5 April 2011, so it will not include the income payment on 4 April 2010. However, it will include the payment made on 4 April 2011, which hasn't yet reached your bank account. Because of this, you may notice an inconsistency between what the statement shows and what you've had.

If you have any questions about your statement, please call us on our statement helpline on **0870 242 5597**. We are open Monday to Friday from 8am to 6.30pm and on Saturdays from 9.30am until 12.30pm.

Who's working for you?

Your adviser

It's important to find the most suitable product and invest in the most appropriate funds. To do that, your adviser has researched your investment objectives and attitude to risk before recommending your Sterling account. Your adviser can help you review your account regularly to make sure it continues to meet your needs.

If you are taking fixed amount regular withdrawals from your investment, please be aware you may be eroding your capital. We strongly recommend you talk to your adviser if this is the case.

Sterling

Sterling administers your account, which involves its day-to-day maintenance – acting on your instructions to switch funds, allocate further investments, pay withdrawals and income, reclaim tax and send regular statements. We are unable to give investment advice, or calculate or comment on individual tax payable.

Our website at www.sterling-assurance.co.uk gives more information.

The fund managers

Each investment company employs a team of dedicated fund managers, each responsible for a fund working to defined objectives. Backed by a team of researchers, they thoroughly analyse their market before deciding where to invest your money.

Is it time to review your Sterling account?

Have you stopped making regular investments?

If you originally chose to make regular investments into your account and have since stopped, it's probably a good idea to review it now.

If your circumstances have since changed and you no longer make regular investments, it's possible your Sterling account or the funds you have chosen are not the most suitable now. Our continuing charges may be eroding the value of your account. The same might also apply if you only have a small investment in your account.

Your adviser will review your circumstances and decide whether to recommend topping up your account so that it's above the current minimum, or moving to a different investment or a new fund or funds.

Have you considered changing your fund choice?

It's likely that over time your attitude to risk will change – usually becoming more cautious. Similarly, over time your investment objectives may change – after a period of investing for growth, income could become the main objective. With ever changing markets and the possibility your circumstances may have changed since you started your Sterling account, we suggest you review your funds regularly. This should help make sure you have the best chance of getting the most from your investment in the long term.

Your adviser can help you decide whether there are funds more suited to your current circumstances. Sterling does not take an administrative charge for making fund switches. However, some fund managers may make an initial charge when switching into a new fund.

Please speak to your adviser if you would like to review your fund choice.

What's changed?

At Sterling we are always evolving our products and services to keep them working as hard as possible for you. The same is true of the fund managers who look after your money. Here we detail changes since October 2010.

Panel funds

- Neptune moved the following funds from a dilution levy to a dilution adjustment basis in January 2011 – please see the Charges Summary for an explanation of 'dilution':
 - Neptune Balanced
 - Neptune European Opportunities
 - Neptune Global Equity
 - Neptune Income
 - Neptune US Opportunities.
- The Aviva International Property fund was closed on 21 January 2011. We have written to any customers who were invested in the fund.
- Threadneedle changed the investment policy of the Threadneedle Strategic Bond fund in January 2011.

For information on the panel funds currently available through the ISA and Investment Account, please refer to your adviser or go to www.sterling-assurance.co.uk where you can read the Sterling Panel Funds Guide.

Wider Market funds

- The following funds on the Wider Market fund offering have now been closed and we have written to any customers who were invested in them:
 - Henderson Global Care Growth
 - Henderson UK Equity
 - Henderson UK Opportunities
 - Invesco Perpetual UK Smaller Companies Growth
 - Martin Currie UK Growth (after merging with Martin Currie Global Growth)
 - Newton Japan
 - SVM Balanced Managed
 - T Bailey Equity Income.
- The following funds on the Wider Market fund offering have changed their names:
 - Martin Currie UK Equity Income changed name to Martin Currie Global Equity Income. The investment policy and objective of the fund have also changed
 - Premier AM Fellowship to Premier AM Ethical
 - Premier AM Alpha Growth to Premier AM UK Alpha Growth
 - Premier AM Managed Assets to Premier AM Global Strategic Assets
 - Premier AM Smaller Companies to Premier AM Environmental Power & Water
 - SVM UK Alpha to SVM World Equity. The investment policy and objective have also changed.

For information on the wider market funds currently available through the ISA and Investment Account, please visit our website at www.sterling-assurance.co.uk or refer to your adviser.

The fund centre

Keep track of your investment

Through our website at www.sterling-assurance.co.uk you can keep track of the funds you have chosen to invest in. The funds information pages let you see the latest unit prices and the fund factsheets show how your funds are performing, where they invest and other useful information to help you manage your investment with us.

The portfolio tool

An independent company called Financial Express runs the portfolio tool. This allows you to create, monitor and review your Sterling portfolios online. They don't connect to our records, so the results you get are based

on the information you enter. Financial Express doesn't take account of withdrawals, distribution payments, fund switches and any extra investments you may have made unless you enter them. Also, charges are not included, so the results will never reflect your investment exactly, but they can give you a good idea of how your combined fund choice is performing.

How to register

From the home page, select 'Fund information for customers' and then click on 'Portfolio Manager' account. You will then need to register as a user. To do this, click on 'Access the Tool' and when the new window opens click on the 'Register' button. Complete the information requested and press 'register'.

Preventing identity theft

If you have phoned us recently, you may have noticed we have made some changes when we check a caller's identity.

We regularly review our approach to data protection which includes how we identify our customers to satisfy ourselves that all callers are who they say they are and are entitled to any information they are asking for.

That's why we have increased the number of questions we ask, to identify you and confirm you are the real customer. If we have not been able to satisfy ourselves

of your identity, then – as before – we will ask you to write to us instead.

Tightening our procedure is meant to protect you, although we understand this might be problematic at times.

You can read more about how we deal with data protection on our website at www.sterling-assurance.co.uk

Visit www.hmrc.gov.uk/nifp/guide.pdf for more information about identity theft.

For more information

For more information, please contact your adviser. If you prefer, visit our website at www.sterling-assurance.co.uk or call us on **0870 909 6010**.

Please let us know if you'd like a copy of this in large print or braille, or on audiotape or CD.

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