

# BBS investment update

## Quarter to 30 September 2008

*While July and August were overshadowed by concerns about a slowdown in the global economy, September brought global economic and financial turmoil as markets collapsed over doubts about the ongoing security of many leading financial institutions.*

*The financial turmoil included the collapse of Lehman Brothers and the nationalisation of leading US insurance group AIG. In the UK, Bradford & Bingley was also nationalized and Lloyds TSB was given Government encouragement to proceed with a takeover of HBOS.*

### Economic Update at 30 September 2008

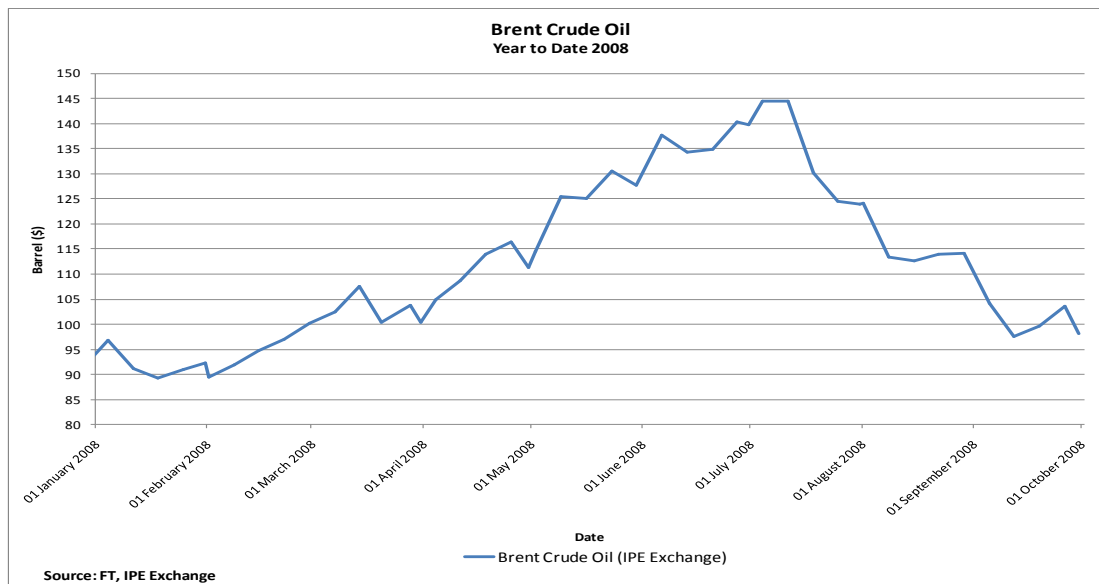
In the short-term, interest rate cuts had appeared unlikely as UK CPI price inflation rose from 3.8% to 5.2%. Fears about the global slowdown and falls in the oil price meant that investors changed their views about interest rate cuts and, following the quarter end, the US, UK and European central banks all made interest rate cuts in a bid to reassure markets affected by the market turmoil, and to kick start the global economy.

Benchmark Government bond yields fell as a result of demand for more secure investments.

	Base Rates	10 Year Bond Yield	CPI Inflation	Exchange Rate
UK	5.00	4.46	5.20	-
USA	2.00	3.84	4.90	\$1.7825
Europe	4.25	4.04*	3.60	€1.2690
Japan	0.50	1.48	2.10	¥189.234

Source: FT, \*= German Bund

The global slowdown was highlighted by a fall in the price of a barrel of Brent Crude from \$140 to \$95 over the course of the quarter.



## BBS investment update (continued)

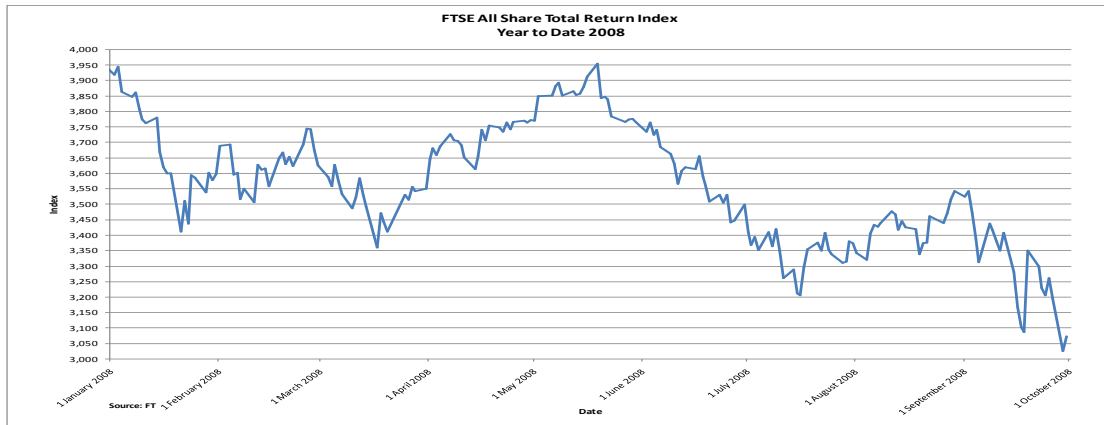
### UK Equities

The UK equity market fell 12.2% during the quarter, with small cap stocks suffering the largest falls. The UK stock market is 22% down for the year to date and 3-year returns have been flat.

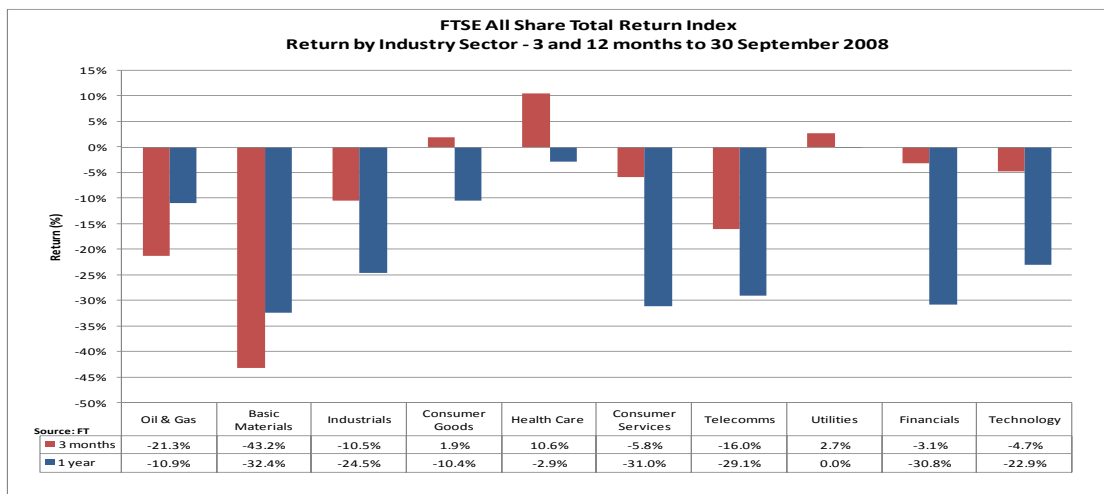
Index	Q3 2008 (%)	Year to Date 2008 (%)	1 year (%)	3 years (%pa)	5 years (%pa)
FTSE100	-12.0	-21.5	-21.2	-0.2	7.3
FTSE250	-13.0	-24.0	-26.3	2.4	10.6
FTSE Small Cap	-14.8	-27.5	-33.9	-6.3	2.9
<b>FTSE All Share</b>	<b>-12.2</b>	<b>-22.0</b>	<b>-22.3</b>	<b>0.0</b>	<b>7.6</b>

Source: FTSE International

The All Share Index lost ground in early July but had recovered by the end of August, before the market turmoil of September.



Falls in commodity prices and fears about the global slowdown meant that Oil & Gas and Basic Materials were the weakest sectors during the quarter. Over the past 12 months, Basic Materials, Consumer Services and Financials showed the largest falls.



## BBS investment update (continued)

### Global Equities

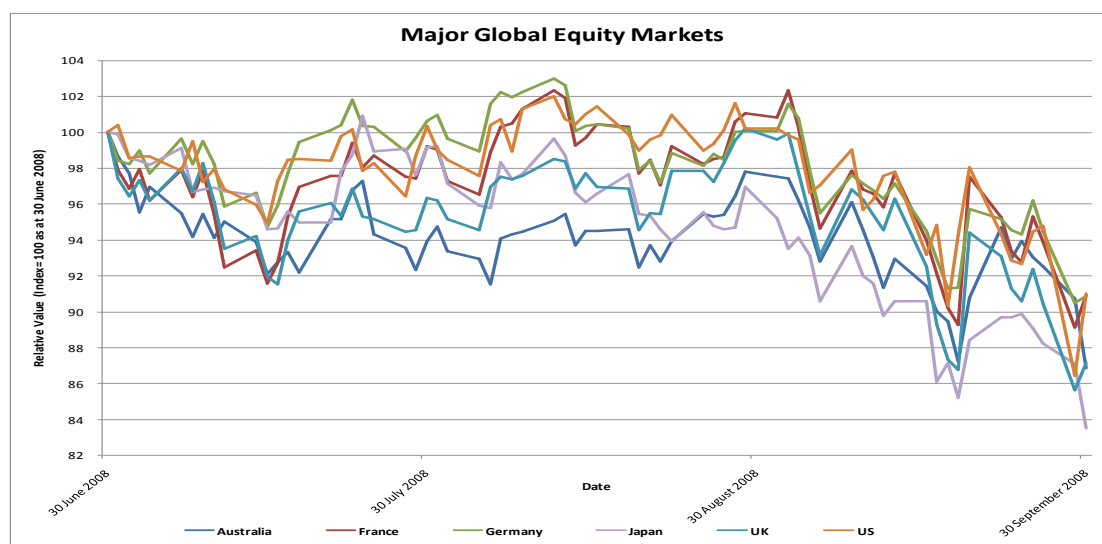
Sterling fell in value by 11.7% against the dollar and 11.5% against the Yen over the quarter, but gained 0.5% against the Euro over the quarter.

The weakness of sterling against the dollar meant that performance in North America for UK investors was positive over the quarter. European markets were slightly ahead of the UK over the quarter. The Japanese Nikkei 225 index fell over 16% during the quarter, although the loss was roughly 8% in sterling terms.

Index	Q3 2008 (%)	Year to Date 2008 (%)	1 year (%)	3 years (%pa)	5 years (%pa)
North America	1.4	-9.3	-9.8	0.9	4.8
Europe (ex UK)	-11.2	-22.4	-20.1	4.3	11.1
Japan	-7.8	-12.5	-15.5	-4.5	2.7
Pacific Basin (ex Jap)	-17.0	-27.8	-26.4	5.6	13.4
Emerging Markets	-18.3	-27.8	-23.4	8.4	17.4

Source: Russell Mellon CAPS, FTSE World, MSCI

The stock market falls were experienced in all the major global equity markets.



### Commercial Property

Commercial property continued to struggle, with concerns about liquidity and the outlook for the economy. The falls in the commercial property market were mirrored in the residential housing market.

Sector	Q3 2008 (%)	Year to Date 2008 (%)	1 year (%)	3 years (%pa)	5 years (%pa)
Office	-5.2	-10.7	-19.1	4.3	7.9
Retail	-4.6	-10.6	-18.4	0.6	7.7
Industrial	-4.5	-9.7	-15.9	2.2	7.8
<b>Commercial</b>	<b>-4.8</b>	<b>-10.4</b>	<b>-18.1</b>	<b>2.0</b>	<b>7.9</b>
Residential	-4.6	-12.7	-13.3	0.9	4.8

Source: Commercial - IPD Monthly Property Index, Residential - Halifax House Price Index (not seasonally adjusted)

## BBS investment update (continued)

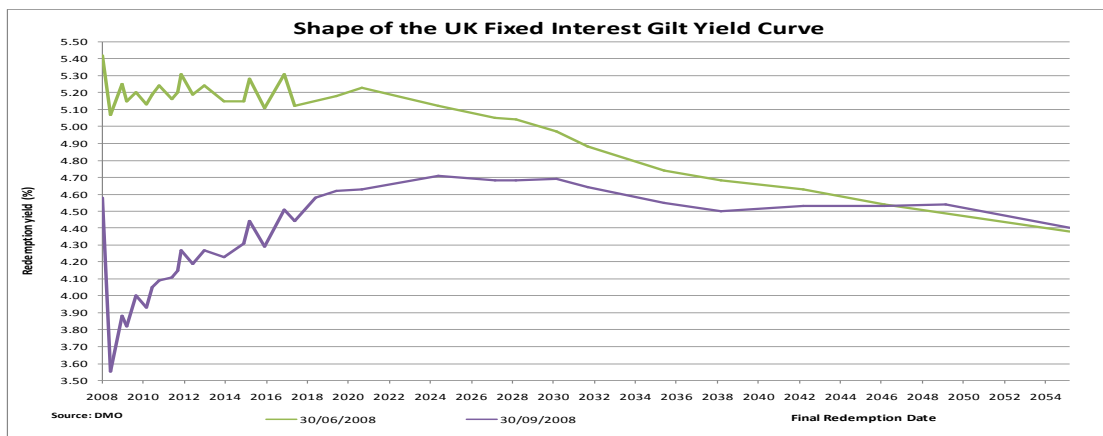
### Gilts and Bonds

Fixed interest gilts performed well during the quarter driven by investor demand for more secure investments and in anticipation of interest rate cuts. Corporate bond markets fell as investors remained concerned about the corporate outlook and the risk of higher levels of defaults. Index-linked gilts were generally flat. Overseas bonds performed well helped by the weakness of sterling against the dollar.

Index	Q3 2008 (%)	Year to Date 2008 (%)	1 year (%)	3 years (%pa)	5 years (%pa)
All Stocks Gilts	4.7	2.3	6.8	3.7	4.6
Long-dated Gilts	4.0	-0.2	5.4	2.4	4.4
Index-linked Gilts	-0.3	4.5	10.1	6.5	6.9
All Stocks Bonds	-1.5	-5.5	-3.2	-0.2	2.5
Long-dated Bonds	-1.7	-7.8	-5.0	-1.7	2.0
Overseas Bonds	9.1	14.8	22.3	5.4	3.8

Source: Russell Mellon CAPS, FT, iBoxx, JP Morgan

Short-dated Government bond yields fell sharply during the quarter as investors anticipated early interest rate cuts.



AAA bond yields also fell during the quarter, but the yields, and spreads, on AA, A and BBB rated bonds all rose during the quarter.

