Personal Retirement Plan Investors' Report as at 31 March 2011

The Society's Personal Retirement Plan currently offers two investment funds:

- Deposit Fund
- Managed Fund

The Investors' Report for each of these funds is set out below.

Pensions Deposit Fund

Objective

The Deposit Fund aims for steady growth, with low risk, by investing in a cash account. We take a charge each year to manage the investment. When interest rates are lower than the charge (see enclosed Trustees' Report for more detail), the value of your plan could go down.

Market Update

Interest rates on UK cash accounts remained low throughout the last year as the Bank of England continued to use interest rates to help the economy out of recession. The Bank of England base rate has remained at 0.5% throughout the period this report covers (April 2010 to March 2011 inclusive).

Performance

Whilst this continued focus on maintaining low interest rates is generally believed to be in the best interests of the overall economy it clearly reduces the amount of interest savers can expect. In the year to 31 March 2011 the interest rate on the Deposit Fund was 0.4%.

Pensions Managed Fund

Objective

The Pensions Managed Fund invests in the UBS Global Allocation Fund (UK) and its aim is to achieve long-term capital growth through active management of a diversified portfolio. It does this by investing mainly in UK and international shares and bonds, and in units in UK and overseas 'collective investment schemes' (e.g. unit trusts or investment trusts).

Market Update

The 12-month period under review began with encouraging signs of economic growth. Increasingly positive data began to appear in Western economies but consumer confidence remained low reflecting fears of a double dip recession. As the end of summer 2010 approached, there were concerns surrounding the budget deficits of some European countries (Portugal, Italy, Ireland, Greece and Spain), leading to a sell off in sovereign debt which created downward pressure on the Euro.

Market prices started to be affected by the likelihood of a second round of central bank intervention (quantitative easing or QE) in the US and a high probability of the same in the UK. In November 2010 this was confirmed in the US as the Federal Bank announced its intention to increase QE by a further $600 billion. This led to a significant rise in the prices of risk assets (e.g. stocks, shares and property) towards the end of 2010.

However, the beginning of 2011 saw volatility return to markets with equities (shares) under extreme pressure towards the end of January. This was driven by concerns surrounding the breakdown of a number of autocratic regimes in North Africa and the Middle East and the resulting impact on the oil price, as well as ongoing difficulties in some of the European countries mentioned above. The devastating earthquake and tsunami in Japan also created an environment of uncertainty and investors quickly moved out of equities and into 'safe-haven' assets (such as government and corporate bonds) as they weighed up the likely impact of the disaster. The period ended with a significant recovery in the price of risk assets as events in Japan were identified to be a humanitarian disaster but not an economic one.

Performance

Over the 12 months to end March 2011, the Fund delivered a positive absolute return (5.6%) but underperformed its benchmark (7.6%).

In terms of asset allocation, the Fund continued to benefit from being overweight in equities relative to government bonds. In particular, the UK equity overweight and the global (excluding UK) bonds underweight were the largest positive contributors to relative performance over the period. The Fund's overweight to high yield debt (higher risk bonds) also helped performance, although the underweight to emerging market debt slightly detracted from overall returns.

Security selection (the individual stocks, share and bonds that UBS choose to buy) was a little more mixed. While the fixed income assets tended to perform well, especially the UK corporate bond component, the UK equity and global equity components both underperformed over the year. The UK equity component primarily underperformed as a result of weak stock selection within the oil & gas sector (BP and British Gas were large detractors here) and the retail sector (Dixons and HMV). This was partially offset by stronger selection within the industrial goods and services sector. The global equity component suffered from weak stock selection within the technology, travel & leisure and bank sectors. This was partially offset by stronger selection in the insurance and personal & household goods sectors. However, stock selection within the global and UK equity components of the portfolio was the main performance detractor over the year.

Currency allocation also slightly detracted over the period. Performance was initially very strong as the Fund benefited from being underweight in euros in the fallout from the Eurozone sovereign debt crisis in the first half of 2010. However, later in the period, performance of the currency strategy suffered as a result of the Fund's underweight position in commodity-linked currencies, such as the Australian, New Zealand and Canadian dollars.

Asset Allocation and Outlook

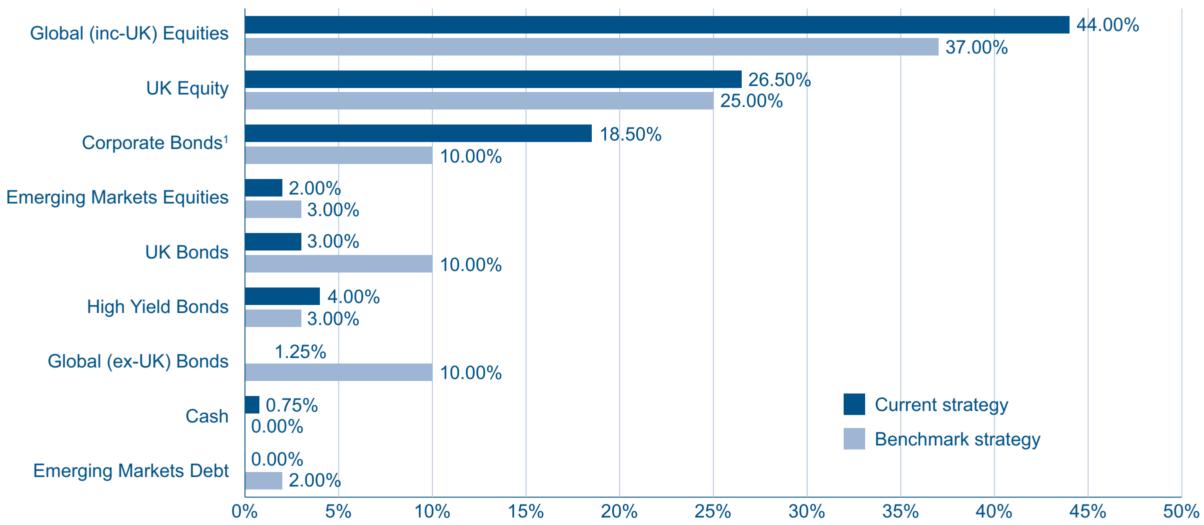
The asset allocation strategy for the UBS Global Allocation Fund (UK) as at 31 March 2011 is shown below.

UBS's fundamental outlook has not materially changed. They still view risk assets – stocks, shares and property – as offering better risk-adjusted returns compared to government bond markets. Despite some significant setbacks over the last few months, such as the problems in North Africa and the Middle East, and the tragic events in Japan, the global economic recovery remains intact and equity markets have continued to make further gains. Stronger GDP growth is anticipated while unemployment has been falling across the globe.

Looking at government bond markets, growing inflationary pressures, largely driven by surging commodity prices, indicates that they provide little value currently and therefore UBS still have a preference for equities over bonds at this point. As central banks begin moving towards normalising monetary policy over the next year, bonds are likely to face further headwinds, making it harder for them to produce good risk-adjusted returns.

Corporate bonds still look attractively priced and the default rate (that measures the number of companies that fail to repay the bonds when due) remains low but there is less scope for further improvement so these positions are increasingly held for the yield that they provide.

While the portfolio remains positioned to benefit from a continuation in the global economic recovery, UBS have increasingly adopted more relative market trades within the portfolio. This reflects both the fact that markets are now closer to fair value so outright exposure is comparatively less attractive than a couple of years ago, but also that many of the 'leading' markets, such as Swedish equities, emerging equities and US small caps, are looking increasingly overvalued relative to some of their 'lagging' counterparts, such as European equities, developed equities and US large caps respectively.



Source: UBS Global Asset Management

1. The corporate bond component includes an allocation to a UK corporate bond fund and a global corporate bond fund. The net strategy exposures in the above chart reflect holdings of physical assets and futures

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