



2009 Investment Report for Pearl Unit-Linked Life Funds



Each year we send you a statement to keep you up-to-date on how your unit-linked policy is performing. This booklet has been produced to provide you with some additional information about where your money is invested and how the investment markets performed in 2009. If you have access to the internet, please visit our website www.pearl.co.uk for the latest fund prices. Please note that 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.

Market Overview

After starting the year on a downward spiral as fear of a global financial meltdown and a deteriorating economic outlook took hold, global equities rebounded during 2009. Initially, equities sold off aggressively as various governments and central banks tried to reignite confidence by cutting base rates and introducing quantitative easing initiatives (the printing of money to purchase assets); base rates fell from 2.0% to 0.5% in the UK and from 2.5% to 1.0% in the Eurozone; rates in the US and Japan – already at a low level – were unchanged.

The turning point was March when sentiment reversed and investors became more positive and risk hungry, reflecting expectations of improved economic conditions. The ensuing market rally continued until mid-June, fuelled by positive economic data surprises, better-than-expected bank earnings, and extensions to quantitative easing programmes.

Apart from some minor setbacks, the global rally continued to gather pace during the remainder of the year. As 2009 drew to a close global equity markets hit new highs for the year, taking gains to over 20% for the year and over 50% up from the March lows.

In the UK, the FTSE 100 large-cap index rose 27.3%, the FTSE 250 mid-cap index rose 50.6% and the FTSE small-cap index rose 54.3%. The market was pulled higher by a relatively small number of stocks, mainly in the resources sectors.

The US market was in freefall at the start of the period as bleak economic data and continued concerns about plans to rescue ailing banks

weighed on investor sentiment. Subsequently, several investment banks released positive trading statements, the Treasury provided detail on the financial sector rescue plan, and there was positive news on housing and retail sales data. US equities ended the year on an upward trend. The S&P 500 index rose 12.6% in sterling terms over the year.

European markets also began to pick up after the low point in March. By the end of the year the larger economies of France and Germany were clearly in recovery, but the poorer performance of Spain, Italy and Greece put a dampener on the European scene. The FTSE All-World Europe (excluding UK) price index rose 16.0% during 2009.

After a bad start, Japan picked up in March despite no improvement in economic data; a further stimulus package of ¥15trn was announced in April. The general election in August resulted in a landslide victory for the opposition Democratic Party of Japan. Over 2009, the Topix index fell by 6.7% in sterling terms, but rose by 7.6% in yen terms.

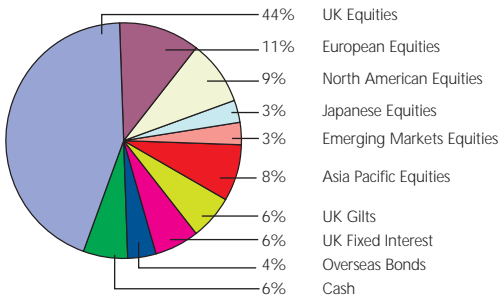
After a fierce sell-off early in 2009, Asian and emerging markets recovered dramatically after the low point in March. Asian markets finished the year in a positive mood, with the export-orientated markets of Taiwan and Korea particularly strong. The FTSE World Asia Pacific ex Japan index rose by 53.8% and the MSCI Emerging Markets index by 59.4%.

The change in economic outlook during 2009 was generally positive for equities and other risk assets, and negative for government bonds.

Pearl Balanced Managed (Mixed) Fund

The aim of this fund is to provide long-term growth by investing in a mix of assets, both in the UK and overseas.

The chart below shows where the fund was invested as at 31 December 2009.



Top five holdings within the fund (other than cash):

- British Petroleum: 2.8%
- Royal Dutch Shell: 2.7%
- GlaxoSmithKline: 2.6%
- HSBC: 2.5%
- Vodafone: 2.4%

Total Fund Size: £140.8 m

The fund produced a return of 13.8% in 2009 and has returned an average of 0.1% a year over the last three years.

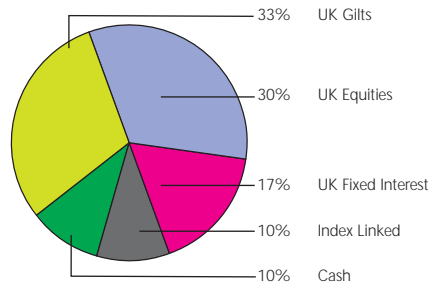
(This is the only fund available to Gold and Ultima policies, for which it is called the "Mixed" fund.)

Pearl Cautious Managed Fund

The Pearl Cautious Managed Fund, which aims to provide long-term growth, currently invests predominantly in UK fixed interest securities to ensure its risk level suits the profile of the fund.

The fund also holds some UK equities and a small cash component.

The chart below shows where the fund was invested as at 31 December 2009.



Top five holdings within the fund (other than cash):

- UK Treasury Gilt 4.5% (07/03/2019): 2.3%
- UK Treasury Gilt 5.25% (07/06/2012): 2.0%
- British Petroleum: 1.9%
- Royal Dutch Shell: 1.9%
- UK Treasury Gilt 8% (07/06/2021): 1.8%

Total Fund Size: £2.8 m

The fund produced a return of 6.7% in 2009 and has returned an average of 1.7% a year over the last three years.

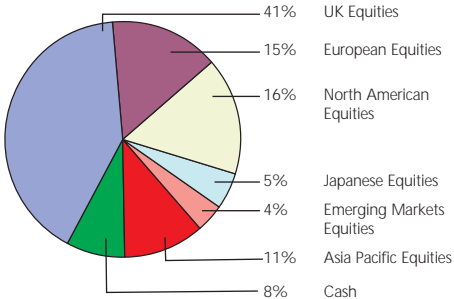
The fund traditionally has a lower weighting in equities than other similar funds and this was a significant detractor from performance in 2009.

(This fund is not available to Gold or Ultima policies.)

Pearl Adventurous Managed Fund

The Pearl Adventurous Managed Fund aims to provide long-term growth by investing in a mix of UK and overseas equities, with a small cash component.

The chart below shows where the fund was invested as at 31 December 2009.



Top five holdings within the fund (other than cash):

- British Petroleum: 2.6%
- Royal Dutch Shell: 2.5%
- GlaxoSmithKline: 2.4%
- HSBC: 2.3%
- Vodafone: 2.2%

Total Fund Size: £2.5 m

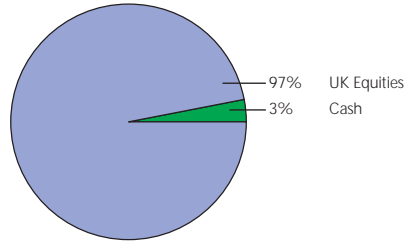
The fund produced a return of 16.4% in 2009 and, on average, has returned -0.7% a year over the last three years.

(This fund is not available to Gold or Ultima policies.)

Pearl UK Equity Fund

The Pearl UK Equity Fund primarily invests in UK shares with the aim of producing long-term growth.

The chart below shows where the fund was invested as at 31 December 2009.



Top five holdings within the fund:

- British Petroleum: 6.1%
- Royal Dutch Shell: 6.0%
- GlaxoSmithKline: 5.6%
- HSBC: 5.5%
- Vodafone: 5.3%

Total Fund Size: £40.3 m

The fund produced a return of 16.6% in 2009 and, on average, has returned -3.4% a year over the last three years.

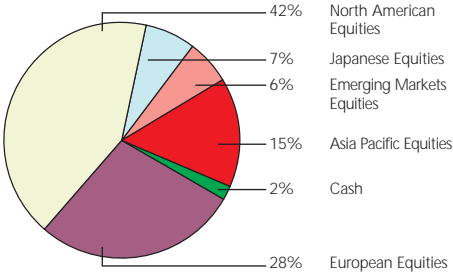
The fund's underweight position in the mining sector detracted from performance over the year as the sector gained 112.4%; strong underlying commodities led share prices higher. Positions in defensive stocks were also detrimental to performance as large-cap defensives came under pressure. Within financials, the fund's underweight position in HSBC was detrimental to performance. With merger and acquisition activity returning to the market, the fund's holding in Cadbury benefited performance after the company was subject to an informal bid from US rival Kraft.

(This fund is not available to Gold or Ultima policies.)

Pearl International Equity Fund

The fund invests primarily in overseas equities, with the aim of producing long-term growth. It also has a small cash component.

The chart below shows where the fund was invested as at 31 December 2009.



Total Fund Size: £14.8 m

The fund produced a return of 18.1% in 2009 and, on average, has returned 2.0% a year over the last three years.

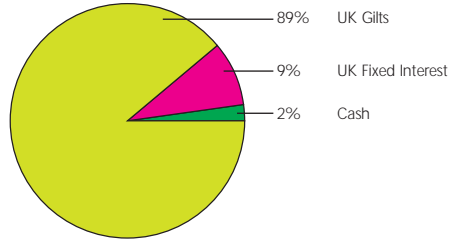
On the one-year measure, the returns were better than those achieved by the median fund in the sector. Global equities staged a massive rebound during 2009 having started the year on a downward spiral. Of the major markets, only the Japanese market fell in sterling terms over the year.

(This fund is not available to Gold or Ultima policies.)

Pearl Gilt & Fixed Interest Fund

The Pearl Gilt and Fixed Interest Fund invests in both UK government bonds (Gilts) and UK corporate bonds.

The chart below shows where the fund was invested as at 31 December 2009.



Total Fund Size: £0.6 m

Over the 12 months to 31 December 2009, the fund produced a return of 0.2%. Over the last three years it has returned an average of 3.7% a year.

Gilts began the year in favour as investors sought safe havens against volatile equity markets. As the year progressed, however, sentiment changed: stronger markets elsewhere eroded the value of the safe haven status, the end of the quantitative easing programme promised less support in the future from central bank purchases and there were growing concerns over the scale of the budget deficit and the unspecified plans to address it. Yields rose (prices fell) over the year. During 2009 corporate bond yields fell and prices rose as investors reduced their expectations of defaults.

(This fund is not available to Investment Plan, Homebuyer, Gold or Ultima policies.)

Pearl Money & Property Funds

These funds are designed to preserve the value of the investment whilst earning a reasonable level of interest.

As previously announced, the Property Fund started selling all its properties in 2004 and has been holding cash since the end of 2005.

As at 31 December 2009, their combined value was £1.6m and they were fully invested in cash deposits.

The funds produced a return of 0.1% in 2009 and have returned an average of 2.4% a year over the last three years.

(These funds are not available to Gold or Ultima policies.)

Outlook for 2010

Initially, the trends seen in late 2009 should continue into 2010. Economic data should remain positive and the employment picture should continue to improve, but unemployment may not fall meaningfully until later in the year. Confidence may remain fragile; governments and central banks will probably keep the stimulus in place until signs of recovery, such as falling unemployment, are unmistakable. Risk assets should continue to do well, but remain vulnerable to disappointing news flow.

As the global economy moves to a sounder footing, the removal of fiscal and monetary commitments will become a key issue. The UK election has to be held within the first half of the year and the new government will have to focus on the reduction of the public deficit in order to avoid a downgrade to Britain's credit rating.



The information about performance has been sourced from Datastream or FTSE. Other data have been internally sourced by Pearl.

Currency fluctuations affect the performance of overseas investments.

We have provided this booklet to give you some background information about your investment.

The views and opinions expressed are those of our investment managers and are for information only and are not intended as specific investment advice, or providing a forecast of future returns.

Please remember that the value of investments can go down as well as up and that past performance is not necessarily a guide to future performance.

Contact us

The Pearl Centre
Lynch Wood
Peterborough
PE2 6FY

TELEPHONE

0845 882 8121

INTERNET

www.pearl.co.uk

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or on CD, please call 0845 882 8121.



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