

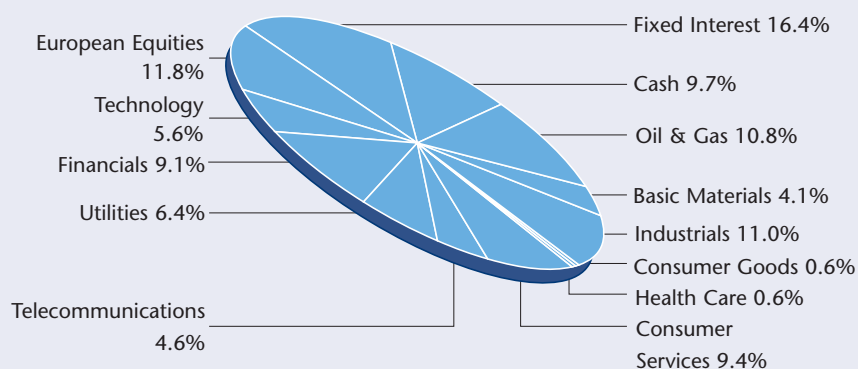
Ethical Fund – June 2008

Fund Description

The Ethical Fund is invested primarily in UK equities to provide good long-term growth prospects. The Fund also invests in UK corporate bonds to provide an element of price stability. In the medium term this Fund may invest internationally. However, there will always be a bias towards the UK. The choice of equities and bonds is restricted by the Ethical Policy which, for example, prevents investment in companies which damage the environment or test cosmetics on animals. Companies making a positive contribution to society, for example those with environmental initiatives, will be favoured.

Corporate Bonds are issued by companies as a way of raising money. They offer the relative security of a fixed rate of interest over a pre-set term until the capital is paid.

Composition of Portfolio as at 30 June 2008



Fund Manager	Matt Savage
Launch Date	August 1999
Current Fund Size	£299m
Volatility	10.9

Volatility is the annualised standard deviation of monthly total returns over the last 36 months.

Source: Standard Life Investments

Top Ten Holdings	(%)
Vodafone Group	3.4
Kreditanstalt fuer	
Wiederaufbau 5.375% 2014	2.5
Xstrata	2.4
Expro International Group	2.0
Royal Bank of Scotland Group	2.0
BG Group	1.8
Tullow Oil	1.5
Invensys	1.3
International Power	1.3
Micro Focus International	1.3
Assets in top ten holdings	19.5

Investment Review & Outlook

Environment

The UK stock market retreated in the second quarter, led by financial and consumer related stocks. Further asset writedowns and cash calls by banks crushed the nascent optimism early in the period. European markets made solid early gains, before capitulating to end the quarter in negative territory. Industrial and oil-related stocks were in demand, while investors retreated from autos and general retailers on concerns over their ability to pass on higher input costs and the financial health of consumers. In terms of corporate bonds, the bailout of investment bank Bear Stearns in mid-March sparked a rally in credit markets that continued through April and May. However, credit markets faltered mid-June as a raft of soft economic data undermined investor confidence.

Activity

We took profits in some strongly performing resource stocks such as mining companies Kazakhmys, Vedanta Resources and Xstrata, and oil companies Expro International, BG Group and Dana Petroleum. We eliminated HBOS in favour of Barclays, which is better financed. In Europe, we purchased Belgium-based retail group Delhaize, on a positive view that the company will be able to pass on food price inflation in its US supermarkets. There was limited trading in ethical corporate bonds, although early in the period we used a large cash inflow to buy mid-dated KFW bonds, increasing our exposure to AAA-rated bonds.

Outlook

Macroeconomic factors will continue to buffet UK equities, as investors fret over the slowing economy and rising inflation. The effects of the credit crisis on the financial system and wider economy will continue to drive volatility and risk aversion. In Europe, inflationary pressures remain the key threat to corporate profitability, as companies struggle to cope with higher input costs. Rising inflation, together with the continued strength of the euro, preclude the monetary loosening necessary to boost flagging southern European economies. In corporate bonds, credit spreads still look attractive in the long term, but we expect volatility to continue in the coming months. Prolonged inflation of commodity prices could affect low-rated debt.

Performance Commentary

During the second quarter of 2008, the Ethical Fund returned -0.1% against the Micropal UK Individual Pensions Balanced Managed Average return of -1.6%. Over the year to 30 June 2008, the Fund returned -13.1%, against the index return of -7.9%.

The UK portfolio held its value relatively well on the back of exposure to the oil services and exploration & production sector, with Expro International, Dana Petroleum, Tullow Oil, Oilexco and Wood Group boosting returns. European performance was held back by an underweight exposure to oil, pharmaceuticals and utilities, where many

stocks do not meet the portfolio's ethical criteria. At a stock-specific level, our overweight position in Vestas Wind Systems significantly added to returns. Regarding ethical corporate bonds, relative performance improved over June, as our lack of holdings within the financial sector made a positive contribution.

Fund Performance

Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
-0.1	-13.1	9.3	12.0	5.3

Investment Market Line

If you would like more details on our current market views please call:

0845 60 60 062

Performance figures are calculated on a gross basis over the periods to 30/06/08. They do not allow for any charges which may be deducted.

Source: Standard Life Investments

Note: Past performance is not necessarily a guide to future performance and the value of units can go down as well as up.

	Year to 30/06/2008	Year to 30/06/2007	Year to 30/06/2006	Year to 30/06/2005	Year to 30/06/2004
	(%)	(%)	(%)	(%)	(%)
Ethical Fund	-13.1	22.3	22.9	15.9	16.3
Micropal Balanced Managed Sector	-7.8	14.0	14.9	14.5	12.0

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