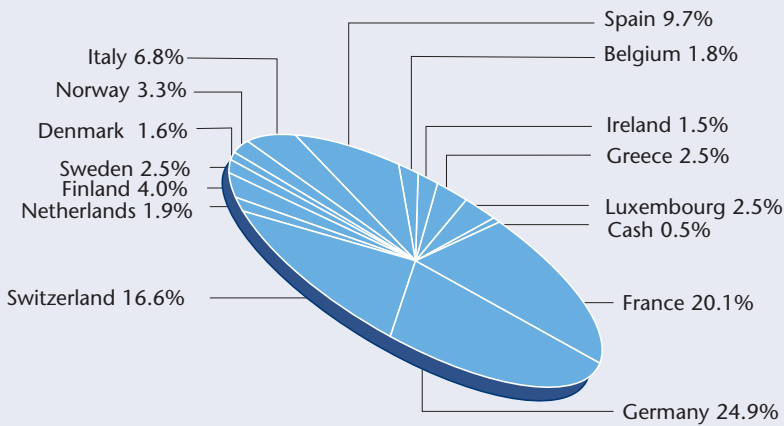


# European Fund - June 2008

## Fund Description

The European Fund invests in a portfolio of shares representing a wide variety of countries and industrial sectors in Europe. The distribution of the Fund's assets is adjusted in light of changing expectations for European economies, industries and companies.

### Composition of Portfolio as at 30 June 2008

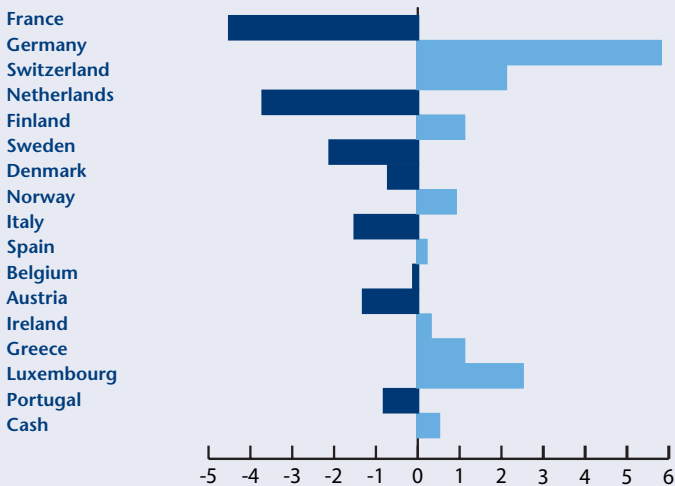


<b>Fund Manager</b>	Kay Eyre
<b>Launch Date</b>	July 1988
<b>Current Fund Size</b>	£851m
<b>Alpha</b>	0.12
<b>Beta</b>	1.0
<b>Volatility</b>	14.1
<b>Tracking Error Range*</b>	3.0 - 6.0%

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

\*Indication of current normal parameters, and may change without notice.  
Source: Standard Life Investments

### Sector Portions Relative to the FTSE World Europe ex UK (%)



Top Ten Holdings	(%)
Nestle SA	3.9
Roche Holding AG	3.5
Siemens AG	3.1
Novartis AG	3.0
Telefonica SA	2.9
Banco Santander SA	2.8
ArcelorMittal	2.5
Suez SA	2.5
Allianz SE	2.4
Bayer AG	2.2
<b>Assets in top ten holdings</b>	<b>28.8%</b>



# Investment Review & Outlook

## Environment

European markets made solid early gains, before capitulating to end the quarter in negative territory. The financial sector struggled to make headway amid concerns over the outlook for wholesale funding and the need for banks to reduce debt levels. Meanwhile, data showed that Euro-zone inflation hit a record 4% in June, double the European Central Bank's desired rate of 2%. In June, the ECB finally signalled that it may be forced to raise interest rates from 4% in response to the impact of soaring food and energy prices.

## Activity

We initiated a position in French steel tube manufacturing company Vallourec, which looked set to benefit from both innovations in its deep sea drilling technology and ongoing strength in the energy sector. We also purchased Belgium-based retail group Delhaize, on a belief that the company will be able to pass on food price inflation in its US supermarkets. We sold our holding in Swedish bank Handelsbanken, as its business outside of Sweden has failed to meet revenue growth expectations. Spanish fashion group Inditex was also eliminated, as the outlook for the Spanish consumer continued to decline.

## Outlook

Across Europe, many companies are struggling to cope with generally 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 addition, wage inflation is trending higher in those Eastern European countries to which more basic production processes have been outsourced. Over the longer term, a resolution of the credit crisis and a fall in inflation will be key triggers for a recovery.

## Performance Commentary

During the second quarter of 2008, the European Fund returned -2.7% against the FTSE World Europe ex UK Index return of -5.2%. Over the year to 30 June 2008, the Fund returned -6.8%, against the index return of -8.9%.

The Fund's overweight holding in steelmaker ArcelorMittal boosted returns

over the second quarter of 2008, profiting from rising steel prices throughout Europe and the US. Similarly, Vestas Wind Systems, another favoured stock, significantly helped performance after the company gave a confident outlook statement. Our lack of exposure to certain banking stocks, including UBS, was also beneficial. Elsewhere, both Fortum and StatoilHydro made positive

contributions, profiting from surging power prices. However, our underweight position in Total proved negative within this context. Meanwhile, Ramirent retreated, on concerns that Eastern European growth may slow more quickly than expected.

## Fund Performance

	Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)
	-2.7	-6.8	14.9	16.1	5.3
	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 (%)
<b>European Fund</b>	-6.8	27.2	28.0	19.7	16.1
<b>FTSE World Europe EX UK</b>	-8.9	25.8	24.0	19.0	18.8

## 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 30/06/2008. 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.

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