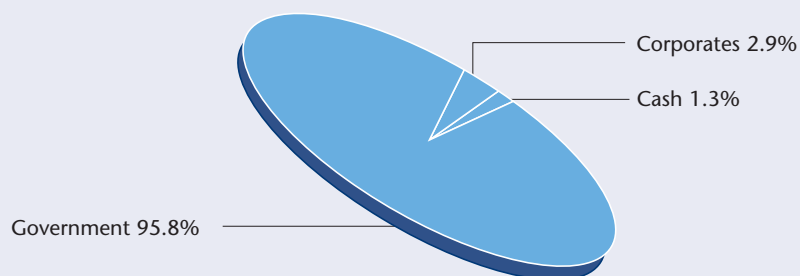


Gilt Fund - June 2008

Fund Description

The Gilt Fund invests in a diversified portfolio of conventional UK Government fixed interest securities. In addition, we may invest up to 10%, in aggregate, in UK Government Index-Linked securities and cash.

Composition of Portfolio as at 30 June 2008

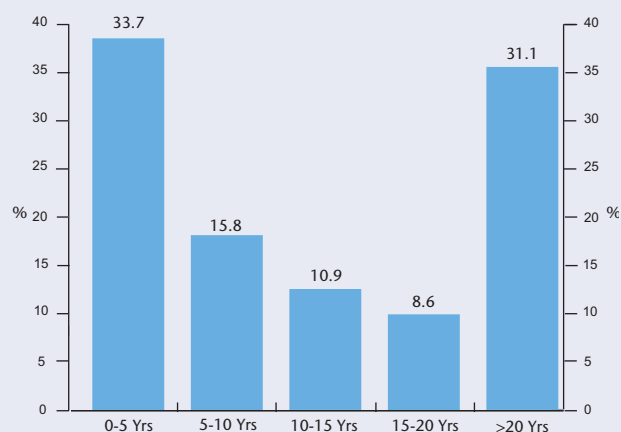


Fund Manager	Philip Laing
Launch Date	February 2002
Current Fund Size	£1,528m
Volatility	3.9
Yield	5%
Duration	9 years

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

Source: Standard Life Investments

Fund Distribution by Maturity as at 30 June 2008



Top Ten Holdings	(%)
UK (Govt of) 4.25% 2011	10.3
UK (Govt of) 8% 2021	8.4
UK (Govt of) 4.75% 2038	6.5
UK (Govt of) 4.25% 2032	6.3
UK (Govt of) 4% 2009	6.3
UK (Govt of) 4.5% 2013	5.6
UK (Govt of) 4.25% 2055	5.6
UK (Govt of) 4.5% 2042	5.0
UK (Govt of) 5% 2025	4.6
UK (Govt of) 5% 2014	4.3
Assets in top ten holdings	62.9%

Investment Review & Outlook

Environment

UK government bonds sold off at the start of the quarter as investors regained their appetite for risk and returned to the market, a trend that continued throughout April and into May. Soaring commodity prices and energy costs saw the UK Consumer Price Index (CPI) hitting 3%, moving market consensus to expect policy tightening. However, a raft of soft economic data later in the quarter, served to re-focus attention on the broader macroeconomic environment. Over the quarter, longer-dated debt marginally out-performed shorter-dated debt, driven by ongoing demand from pension funds for longer-dated assets, and expectations of policy tightening at the short end. A reversal in market sentiment away from equities and lower-rated debt mid June provided gilt valuations with an unexpected boost. This was augmented by month-end housing data that pointed to prolonged weakness in the sector.

Activity

During the quarter, we increased our exposure to short-dated UK gilts following market weakness, as expectations grew for tighter monetary policy. Elsewhere, we took a position in two-year US Treasuries as yields jumped to 2.5% following fears of a turn in the US interest rate cycle. We later took profits as yields slipped back to 2.25%. Tactical off-benchmark exposure was increased to AAA supranationals via new issues while we also took a long position in 10-year Australian bonds relative to US Treasuries through investment in futures.

Outlook

It is apparent that despite the ongoing increase in commodity-driven inflation, slowing global growth is the greater challenge to the market. In our view, rate-tightening action from the Monetary Policy Committee in the current environment will only serve to exacerbate the downturn. Although lighter turnover and increased supply through new issuance will weigh on markets, the deteriorating backdrop is supportive of gilts, as the market refocuses on the key macroeconomic drivers. However, while the defensive characteristics of longer-dated debt are increasingly being recognised, longer-dated issues may be vulnerable if interest rates were cut significantly.

Performance Commentary

The Gilt Fund returned -3.6% during the second quarter of 2008, against the FTSE British Government All Stocks Index return of -3.6%. Over the year to 30 June 2008, the Fund returned 6.6%, against the Index return of 6.2%.

Rising interest rate expectations had a negative impact on the Fund. In particular, our exposure to short-dated swaps and an overweight position at the front end of the UK yield curve was negative. This was partially

offset however by our overseas relative spread trades, index-linked and short-duration trading positions, which were all beneficial for returns.

Fund Performance

	Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception
	-3.6%	6.6%	2.4%	3.6%	4.5%
	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 (%)
Gilt Fund	6.6%	-0.9%	1.5%	11.2%	0.1%
FTSE British Govt All Stocks	6.2%	-0.7%	1.4%	10.9%	0.0%

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.

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