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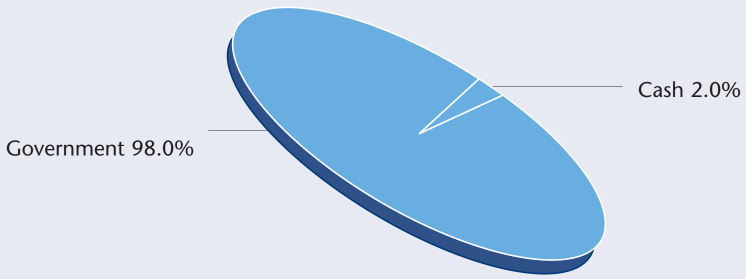
STANDARD LIFE INVESTMENTS

Long Bond Fund - June 2008

Fund Description

The Long Bond Fund invests principally in the UK long gilt market with up to 25% being invested in non-gilt, sterling fixed interest bonds. However, non-gilt bonds will only be invested in when conditions are suitable and the relative valuations with gilts look attractive. The Fund will identify bonds which represent good fundamental value and where this value is likely to be realised on a six to twelve month view, will be one of the main driving forces behind the Fund.

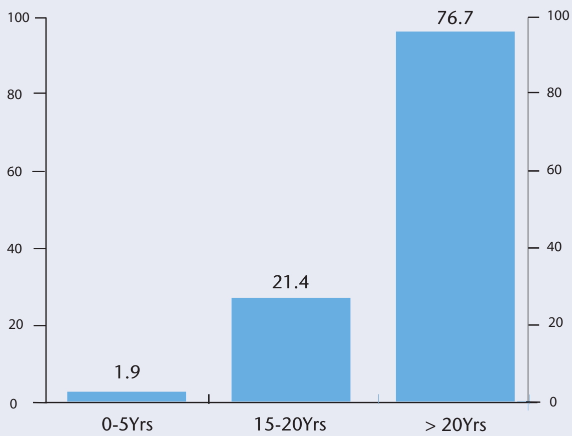
Fund Distribution by Asset Class as at 30 June 2008



Fund Manager	Philip Laing
Launch Date	May 2001
Current Fund Size	£217m
Volatility	6.5%
Yield	4.5%
Duration	15 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% 2032	14.5
UK (Govt of) 4.75% 2038	14.1
UK (Govt of) 4.25% 2055	13.3
UK (Govt of) 4.25% 2027	12.0
UK (Govt of) 4.25% 2046	10.7
UK (Govt of) 4.25% 2036	9.6
UK (Govt of) 5% 2025	9.4
UK (Govt of) 6% 2028	8.1
UK (Govt of) 4.5% 2042	4.6
UK (Govt of) 4.75% 2030	1.8
Assets in top ten holdings	98.1

UK Pooled Pension Funds

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 overweight exposure to ultra-long dated gilts in response to an increase in pension fund focus in that area. We purchased two-year US Treasuries as yields jumped to 2.5% following fears of a turn in the US interest rate cycle, later taking profits as yields slipped back to 2.25%. In the UK, we increased overweight exposure to the short-end of the UK interest rate curve via swaps in two and three-year issues. In addition, we also took an off-benchmark position in 30 year inflation-linked bonds at government auction. We later moved to take profits on this trade after a 0.15% outperformance in implied 30-year breakeven inflation rates.

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

During the second quarter of 2008, the Long Bond Fund returned -3.9% against the FTA British Government Over 15 Years Index return of -4.0%. Over the year to 30 June 2008, the Fund returned 6.6%, against the index return of 6.0%.

The Fund produced good performance despite our overweight exposure to the short end of the UK interest rate curve. Ultra-long dated bonds saw particularly strong interest from liability matching pension funds and outperformed the remainder of the long bonds. Other positive performance elements came from good duration trading profits and exposure to index-linked bonds, which more than offset losses from our holdings of short-dated swaps.

Fund Performance

Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception
-3.9%	6.6%	1.5%	3.7%	4.8%

	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 (%)
Long Bond Fund	6.6%	-3.0%	1.1%	15.2%	-0.3%
FTSE British Govt > 15 Years	6.0%	-3.3%	1.0%	14.4%	-0.1%

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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