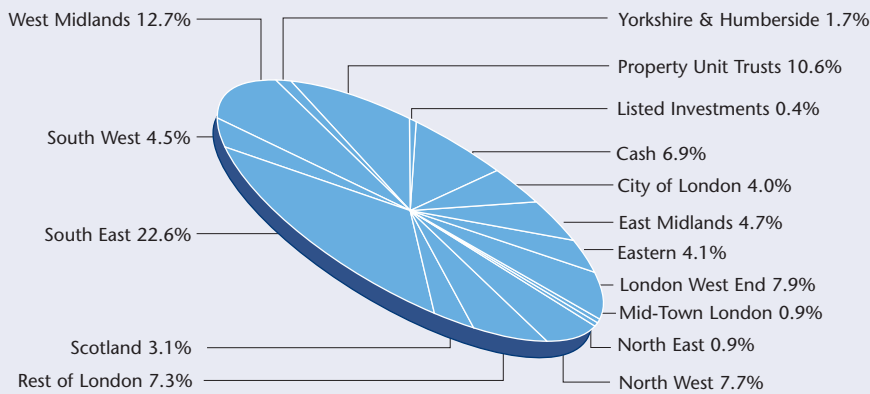


# Property Fund - June 2008

## Fund Description

The Property Fund is invested in a diversified portfolio of properties throughout the UK with the assets of the Fund held in a mix of freehold and leasehold retail, commercial and industrial properties. The Investment Managers may invest a small part of the Fund in properties elsewhere in Europe and in property developments, if opportunities arise. The value placed on the holdings in the Property Fund is based on independent valuations of each property on a monthly basis.

### Regional Distribution as at 30 June 2008



<b>Fund Manager</b>	Mike Hannigan
<b>Launch Date</b>	November 1984
<b>Current Fund Size*</b>	£2,369m
<b>Yield</b>	5.3%
<b>Average Lease Length</b>	9.6 years
<b>Average Lot Size</b>	£22m
<b>Net Current Assets**</b>	6.6%

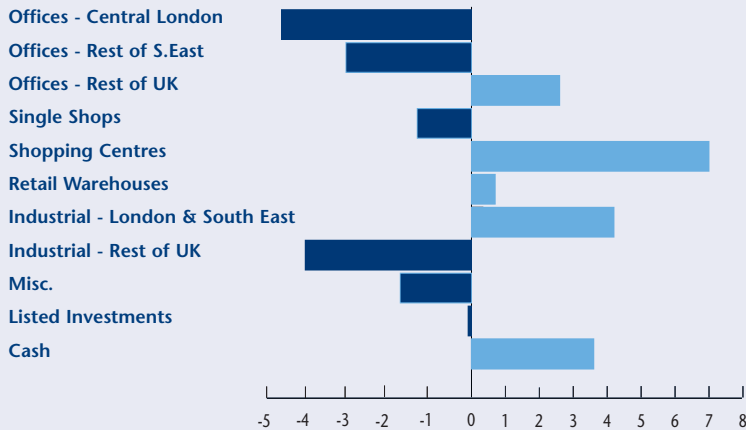
\*Net Asset Value

\*\*Net Current Assets includes the available cash balance held by the Fund.

Fund ratios are calculated against the relevant sector peer group over 3 years to 31 March 2008.

Source: HSBC/AREF

### Fund Sub-Sector Exposure Against HSBC/AREF Index



Sub-Sector Exposure as at 30/06/2008 for Standard Life Investments Property Fund and as at 31/12/2007 for HSBC

### Top Five Holdings

Top Five Holdings	Value Bands (m)
St Marks Shopping Centre, Lincoln	100-110
The Water Gardens, Harlow	100-110
Solihull Retail Warehouse Park, Solihull	90-100
The Marlowes Shopping Centre, Hemel Hempstead	90-100
200 Piccadilly/34 Jermyn St, London	80-90

# Investment Review & Outlook

## Environment

Despite showing signs of stabilisation early in the quarter, UK commercial property values once again came under pressure. In April, the pace of decline in capital values looked to be moderating. However, valuations took a further downward tack from May onwards, precipitated by worsening economic prospects. In addition, escalating oil prices led investors to renew their focus on inflation. The value of retail property declined more significantly than the office and industrial sectors. Tenant demand softened in all sectors and at the same time occupiers became increasingly selective in their choice of location.

### Indirect property vehicles

We maintain our holdings in 'indirect' vehicles, particularly the two 'unregulated collective investment schemes' (CIS's) held in the form of Jersey Property Unit Trusts, all in the retail sector. In total, the Fund currently holds approximately £182.5 million in these two J-PUT investments, equivalent to circa 7.1% of total fund value. We are permitted to consider further investments in other indirect vehicles, up to a ceiling currently set at 20%.

## Activity

During another challenging quarter, we sold several buildings and made good progress on our development portfolio. We sold 1 Old Jewry, our development in the City of London for circa £75 million, Crossley Retail Park in Kidderminster, Worcestershire, for circa £40 million, and a B&Q retail warehouse in Milton Keynes, for circa £25 million. We continued to make progress with our 1.8m sq ft joint venture with logistics developer Gazeley, in Sittingbourne, Kent. We are due to complete contracts with supermarket chain Morrisons for a 900,000 sq ft facility there with a 20-year lease. This will represent the largest ever letting achieved by the Fund.

## Outlook

We anticipate another year of negative returns for UK commercial property, given the deteriorating economic environment and persistent credit market problems. It is likely to be some time before capital values sustain a solid floor. Constrained credit, pressures on the consumer and delayed investment and expansion plans are impacting occupier demand. This is reflected in significantly enhanced incentives and elevated vacancy rates in some sectors. Following the negative returns we expect in the next 12 months, we would then anticipate property providing a positive low single-digit return in 2009/10, improving in the 2010/11 period as we see an economic recovery take effect.

## Performance Commentary

During the second quarter of 2008, the Institutional Pooled Property returned -0.6% against the IPD UK PPF Index-All Balanced Fund Median return of -2.7%. Over the year to 30 June 2008, the Fund returned -13.3%, against the benchmark median return of -15.0%.

Despite a positive start to the quarter, the performance of the commercial property sector was impacted by concerns of a possible 'double dip' in property values and by escalating recessionary worries. The continued restrictions on borrowing and loss of investor confidence, meanwhile, impacted occupier

demand. Our focus on prime quality buildings and credit worthy tenants helped mitigate some of the market volatility. We also held a healthy level of cash in the Fund, which was helpful for performance.

## Fund Performance

	Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)
	-0.6	-13.3	6.0	9.5	10.2
	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>Property Fund</b>	-13.3	12.7	21.9	16.4	13.5
<b>HSBC/AREF Property Fund Index</b>	-15.0	13.1	21.1	17.3	14.6

## 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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