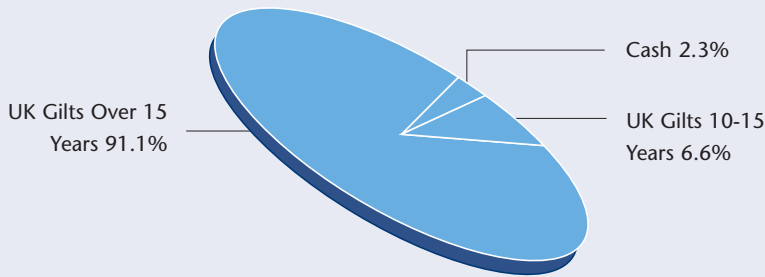


Protection Fund - June 2008

Fund Description

The fund is designed for investors approaching retirement and considering annuity purchase. This fund has a very different aim from all other investment-linked funds. It offers an investment which will rise and fall in value broadly in line with long-term interest rates, one of the main factors affecting the cost of an annuity. It therefore offers plan holders approaching retirement the opportunity to switch into a fund which aims to minimise any changes in the level of pension income at retirement resulting from changes in the cost of purchasing an annuity in the period before retirement.

Fund Distribution as at 30 June 2008



Fund Manager	Philip Laing
Launch Date	November 1995
Current Fund Size	£367m
Volatility	5.3
Yield	5.0
Duration	11 Years

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

Source: Standard Life Investments

Holdings	(%)
UK (Govt of) 5% 2025	56.1
UK (Govt of) 6% 2028	28.4
UK (Govt of) 8% 2021	6.7
UK (Govt of) 4.25% 2027	6.6
* Fund only holds 4 stocks	



Investment Review & Outlook

Environment

UK government bonds sold off at the start of the quarter as investors regained their risk appetites 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 outperformed 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

Although the over-15 Year Gilt Index is the index most closely resembling the Protection Fund, the Fund is managed in accordance with guidelines given by Standard Life Actuaries. These are designed to ensure that the Fund will broadly move in line with changes in annuity rates.

Consequently, in practice the Fund has a duration that is slightly shorter than the over-15 Year Gilt Index. This results in the Fund rising less when long-gilt prices rise, but falling less when long-gilt prices are falling.

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 Protection Fund returned -4.6% during the second quarter of 2008. Over the latest twelve month period the Fund returned 5.7%.

The Protection Fund is a specialist Fund with a slightly shorter duration than the FTA British Government Over 15 Year Gilt Index in order to better match the cost of

annuities. The Fund achieved its objective of mirroring movements in annuity rates and is not benchmarked against the FTA British Government Over 15 Year Gilt Index.

Fund Performance

	Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)
	-4.6	5.7	1.0	3.1	5.2
	Year to 30/06/2008 (%)	Year to 30/06/2007 (%)	Year to 30/06/2006 (%)	Year to 30/06/2004 (%)	Year to 30/06/2003 (%)
Protection Fund	5.7	-2.6	0.0	13.9	-0.9
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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