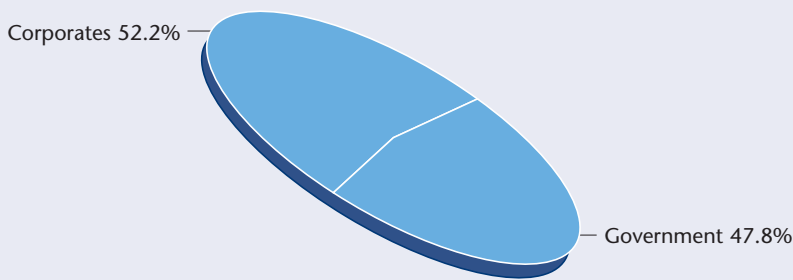


UK Fixed Interest Fund - June 2008

Fund Description

The UK Fixed Interest Fund invests in UK Government securities as well as other fixed interest stocks, such as corporate bonds. Although the income from fixed interest stocks is fixed, the price of the underlying assets can go down as well as up.

Fund Distribution by Asset Class as at 30 June 2008

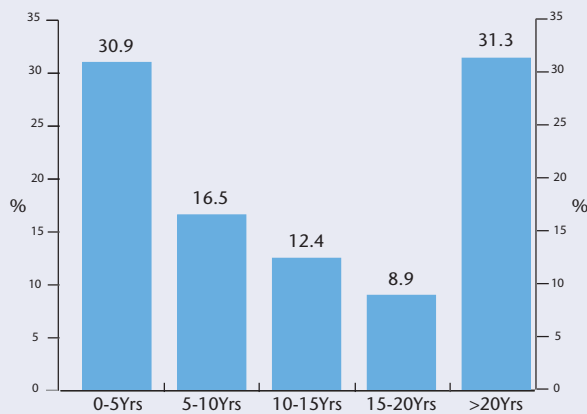


Fund Manager	Philip Laing
Launch Date	June 1998
Current Fund Size	£226m
Volatility	3.5%
Yield	6.1%
Duration	8 years

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	4.9
UK (Govt of) 8% 2021	3.8
UK (Govt of) 4.25% 2032	3.1
UK (Govt of) 4.75% 2038	3.0
UK (Govt of) 4% 2009	2.8
UK (Govt of) 4.25% 2055	2.6
UK (Govt of) 4.5% 2013	2.5
UK (Govt of) 4.5% 2042	2.3
UK (Govt of) 5% 2025	2.1
UK (Govt of) 5% 2014	1.9
Assets in top ten holdings	28.9

Investment Review & Outlook

Environment

UK government bonds sold off at the start of the quarter as investors regained their risk appetites. Although there was ample evidence of slowing economic growth, investors instead focused their attention on rising oil and energy prices and an ominous inflation report. Market expectations for further rate cuts were dampened as inflationary concerns began to dominate sentiment. In credit markets, the bailout of investment bank Bear Stearns in mid-March sparked a rally that continued through April and May. Investors also took encouragement from the efforts made by UK banks such as RBS and Barclays to rebuild their balance sheets and draw a line under their recent credit losses. Sentiment in the UK was buoyed further by the introduction of the Special Liquidity Scheme, which gave banks the option to collateralise their asset-backed securities. However, the return of risk aversion in June weighed heavily on credit markets, impacting especially on high yield debt.

Activity

Within our corporate bond holdings, market illiquidity resulted in significantly increased trading costs which prompted us to keep trading activity to a minimum. We did participate in new debt issues from highly-rated banks such as HSBC, as well as debt from US entities which have recently begun recapitalising such as AIG and Citigroup. Within our gilt holdings, we increased our exposure to short-dated issues as the market priced in interest rate rises, which we believe were overdone. Elsewhere, we took a position in two-year US Treasuries as yields jumped to 2.50% following fears of a turn in the US interest rate cycle. We later took profits as yields slipped back to 2.25%.

Outlook

Weakness in the financial sector has weighed heavily on corporate bond markets. In the long term, credit spreads still look attractive, but we expect volatility to continue in the coming months. It is apparent that despite the ongoing increase in commodity-driven inflation, slowing global growth is the greater challenge to the market, although prolonged inflation of commodity prices could start to affect low-rated debt. 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.

Performance Commentary

During the second quarter of 2008, the UK Fixed Interest Fund returned -2.7% against the benchmark return (50% FTA British Government All Stocks Index/50% Merrill Lynch Sterling UK Non Gilt All Stocks Index) of -2.4%. Over the year to 30 June 2008, the Fund returned 3.3%, against the index return of 3.2%.

Our underweight positions in financials such as HBOS and Barclays detracted from performance at the start of the quarter as credit markets rallied. However, this was offset by our overweight positions in utilities, which delivered solid returns over the course of the quarter. Our gilt holdings underperformed, mainly due to rising interest rate expectations.

In particular, our exposure to short dated swaps and an overweight position at the front end of the UK yield curve were negative.

Fund Performance

	Q2 (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	
	-2.7	3.3	1.7	3.5	
	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 (%)
UK Fixed Interest Fund	3.3	-0.2	2.1	12.7	0.3
Blended Benchmark*	3.2	-0.2	1.7	11.8	0.4

*50% FT British Govt All Stocks Index/50% Merrill Lynch UK Non Gilt All Stocks Index

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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