

# Fixed Interest Fund

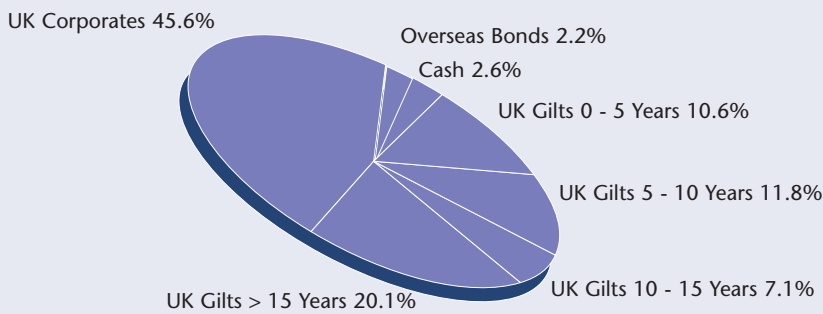
## Quarterly Report 30 September 2008

### Fund Profile

The Fund is designed for investors who are looking to obtain exposure to Fixed Interest securities. The Fund is mainly invested in UK government securities and UK corporate bonds, however the fund may gain some exposure to other fixed interest stocks and overseas bonds. Central to the decision making process is our 'Focus On Change' investment philosophy, which combines top down and bottom up insights to identify changes to the key drivers for the relevant markets. A broad range of criteria is used in this process including monitoring yield curve movements, liquidity levels and supply trends.

This communication is intended for investment professionals only and must not be relied on by anyone else.

### Composition of Portfolio as at 30 September 2008



<b>Fund Manager</b>	Philip Laing
<b>Launch Date</b>	March 1980
<b>Current Fund Size</b>	£457.71m
<b>ABI Sector</b>	UK Fixed Interest

<b>Yield</b>	5.60%
<b>Duration</b>	7.89
<b>Volatility</b>	1.13%

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

### Composition of Portfolio by Credit Rating

Ratings Breakdown %	
Aaa	50.2
Aa1	2.3
Aa2	3.4
Aa3	3.4
A1	1.5
A2	0.7
A3	2.8
Baa1	2.2
Baa2	1.6
Baa3	1.0
Ba1	0.0
Ba2	0.0
Ba3	0.0
B1	0.1
B2	0.1
B3	0.0
Caa1	0.0
NR	190
NA	11.7

NR may include cash

Source: Moody's

Top Ten Holdings	%
<b>Assets in top ten holdings</b>	<b>32.0</b>
UK (Govt of) 4.25% 2011	5.0
UK (Govt of) 8% 2021	4.6
UK (Govt of) 4.25% 2032	3.5
UK (Govt of) 4.75% 2038	3.1
UK (Govt of) 5% 2014	3.0
UK (Govt of) 4.25% 2055	3.0
UK (Govt of) 5% 2012	2.7
UK (Govt of) 4.5% 2042	2.6
UK (Govt of) 4.5% 2013	2.5
UK (Govt of) 4.75% 2015	2.0



## Environment

Global government bond markets enjoyed positive returns, as the deteriorating economic backdrop prompted a flight to quality. Although interest rates were raised in Europe, they remained on hold in the UK and US, as the severity of the economic slowdown tipped the balance away from inflation towards slowing growth. Conditions in the corporate bond market deteriorated, as global recession fears gained credence amid weak economic news. In addition, a stream of negative news from the financial sector also undermined the credit market.

## Activity

We purchased new debt issued from Bank of America and Royal Bank of Scotland. We also increased our exposure to defensive names by buying bonds from utility company Scottish and Southern Energy, and Imperial Tobacco. To fund these purchases, we took profits from strongly-performing names such as Tesco and Yorkshire Power. We increased our exposure to 2-year and 5-year bonds relative to 10-year bonds via the swap market, in anticipation of further rate cuts. We also took a position in short-dated debt government debt from the US and Europe. We entered into a relative inflation trade, to reflect our view that US inflation expectations were too low relative to the European market.

## Outlook

The economic situation is supportive of government bonds. Inflationary pressures are being quelled by the gloom engulfing global markets such that government markets are beginning to price in the possibility of interest rate cuts by central banks. The corporate bond market is likely to remain thin and nervous amid the instability within the financial sector, where a lack of confidence is clearly apparent. The support packages provided so far for individual financial institutions worldwide attempt to allay some of these concerns, with other moves likely.

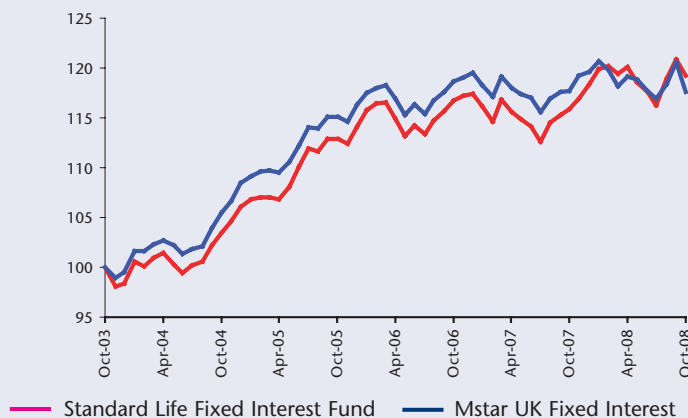
## Performance Commentary

The Fixed Interest Fund returned 2.45% during the third quarter of 2008, strongly ahead of the peer group mean return of -0.02% (source: Morningstar).

Our slight overweight position in corporate bonds relative to the index affected quarterly performance, as corporate bonds underperformed government debt. Short-

dated swaps performed well over the quarter, contributing to returns. Our lack of exposure to Lehman Brothers and Washington Mutual was positive for performance, as was our underweight positions in AIG and Bradford & Bingley. On the downside, the squeeze on the UK consumer affected our position in tenanted pub company Enterprise Inns.

## Fund Performance - Price Indexed



## Investment Market Line

If you would like more details on our current market views please call:

**0845 60 60 062**

## Performance

1 Oct 07- 30 Sept 08	1 Oct 06- 30 Sept 07	1 Oct 05- 30 Sept 06	1 Oct 04- 30 Sept 05	1 Oct 03- 30 Sept 04
2.5%	-1.1%	3.0%	8.6%	3.1%

## Cumulative Performance

	1 Year	3 Years	5 Years
<b>Fund Return</b>	2.5%	4.5%	17.0%
<b>Mstar UK Fixed Interest</b>	-0.2%	2.7%	15.6%

Figures quoted are calculated on a bid to bid basis over periods to 30 June 2008, with gross income reinvested.

Sources: Morningstar - [www.morningstar.com](http://www.morningstar.com) and Standard Life Investments.

Figures are based on units which contain 1.0% AMC. For the relevant charges on your policy please refer to your policy documentation.

Note: Past performance is not a guide to future performance and the value of units can go down as well as up.

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