

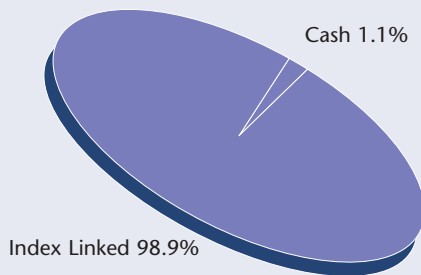
Index Linked Fund

Quarterly Report 30 September 2008

Fund Profile

The Fund is designed for investors who are looking to obtain exposure to UK Government issued index-linked treasury stock. 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 index-linked gilts. A broad range of criteria is used in this process including monitoring yield curve movements and credit analysis to assess the prudence and value of purchase.

Composition of Portfolio as at 30 September 2008



Fund Manager	Jonathan Gibbs
Launch Date	March 1982
Current Fund Size	£777.54m
ABI Sector	UK Index-Linked Gilt
Yield	4.42%
Duration	8.91
Volatility	1.87%

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

Top Ten Holdings	%
Assets in top ten holdings	90.1
UK (Govt of) 2.5% IL 2016	21.1
UK (Govt of) 2.5% IL 2024	14.9
UK (Govt of) 1.125% IL 2037	11.8
UK (Govt of) 2% IL 2035	11.3
UK (Govt of) 2.5% IL 2020	8.4
UK (Govt of) 1.25% IL 2055	7.4
UK (Govt of) 1.25% IL 2017	6.6
UK (Govt of) 0.75% IL 2047	3.2
France 3.15% 2032	2.9
UK (Govt of) 1.25% IL 2027	2.5

Composition of Portfolio by Maturity

Years to Maturity	%
Total 0-5 yr	4.1
Total 5-10 yr	29.1
Total 10-15 yr	9.3
Total 15-20 yr	18.7
Total >20 yr	38.9



Environment

As the credit crunch tightened during the quarter, volatility across financial markets increased. Oil and commodity prices fell back sharply from their previous highs as cyclical demand waned. As a result, inflation expectations declined, and breakevens sold off sharply. This environment led to the first meaningful underperformance of index-linked debt relative to gilts in some time. The UK market was placed under further pressure by a major extension of the benchmark index, when the 2013 bond fell below five years to maturity. This resulted in further volatility, and led to longer-dated bonds out-performing their short-dated counterparts. Long-dated bond valuations received further support from pension fund demand.

Activity

We sold UK index-linked bonds to fund the purchase of 25-year French index-linked bonds, as we believed the latter to be attractively valued. This trade was around half way to its reversal target at the close of the quarter. In addition, we enacted a relative value swap position to express our view that US inflation expectations should be higher than those in Europe over the long term. We replaced our holding in 2037 Network Rail bonds, buying the new tranche of 2027 bonds at a wider yield spread.

Outlook

Volatility remains at extreme levels, which we expect will continue as long as the issues of liquidity and funding are unresolved. Although the credit crunch appears to be reaching a climax of sorts, a recovery could be a long way off. Implied inflation rates are their lowest level since 2002 for 10-year maturities, making it difficult to assess how much is priced in. On the basis of these low implied rates, we remain positive on index-linked bonds relative to conventional gilts. While we expect inflation expectations to decline in the short term, in our view inflation over the medium term will be more volatile and materially higher than the market currently prices in.

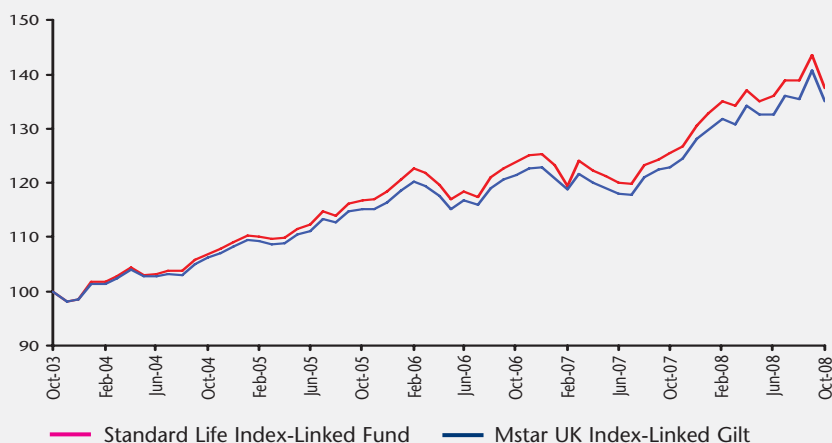
Performance Commentary

During the third quarter of 2008, the Index Linked Bond Fund returned -1.04%, compared to the peer group mean return of -0.45% (source: Morningstar).

Our relative value swap position detracted from Fund performance, as the US leg

significantly under-performed the European one. Our exposure to long-dated debt was positive for performance over the quarter, as sustained demand from pension fund trustees supported valuations.

Fund Performance - Price Indexed



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
9.2%	1.0%	5.5%	8.9%	6.6%

Cumulative Performance

	1 Year	3 Years	5 Years
Fund Return	9.2%	16.3%	35.0%
Mstar UK Index-Linked Gilt	10.1%	17.2%	35.1%

Investment Market Line

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

0845 60 60 062

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

Source: Morningstar - 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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