

Protection Fund

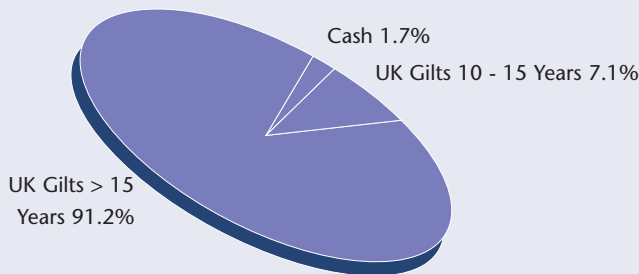
Quarterly Report 30 September 2008

Fund Profile

The fund is designed for investors approaching retirement and considering an 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.

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



Fund Manager	Philip Laing
Launch Date	November 1995
Current Fund Size	£394.15m
ABI Sector	UK Long Bond

Yield	4.69%
Duration	11.38
Volatility	1.64%

Volatility source: Morningstar.

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

Fund Holdings	%
UK (Govt of) 5% 2025	55.0
UK (Govt of) 6% 2028	29.7
UK (Govt of) 8% 2021	7.1
UK (Govt of) 4.25% 2027	6.5

The Fund holds 4 stocks



Environment

Government bond prices rose as investors faced the increasing prospect of a global slowdown. At the start of the period, gloomy economic data from the British Chambers of Commerce was followed by the forced intervention of the US government to rescue government-sponsored mortgage lenders Fannie Mae and Freddie Mac. Increased risk aversion and a freezing in credit markets culminated in the demise of Lehman Brothers and Washington Mutual, and the purchase of Merrill Lynch by Bank of America. This led investors to sell risky assets in favour of the safety of government debt, prompting a significant decline in bond yields. In particular, the front end of the market benefited from a renewal of risk aversion, and a greater focus on interest rate cuts.

Activity

Although the FTSE 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 FTSE Over 15 Year Gilt Index. This results in the Fund rising less when long gilt prices rise, but falling less when long gilt prices fall.

Outlook

Bond markets have benefited considerably from the sense of crisis across the globe, and have priced in significant rate cuts in all major economies. While the severity of recent events will encourage large rate cuts, we believe the frequency of failures within the financial sector is unsustainable. When some calm begins to descend on the sector, the eventual cost of government actions will need to be assessed by bond markets. This will inevitably increase the level of supply issued into the market, and could be a drag on bond prices. Nevertheless, the protracted nature of the current economic downturn should encourage greater investment in the safety of government bonds.

Performance Commentary

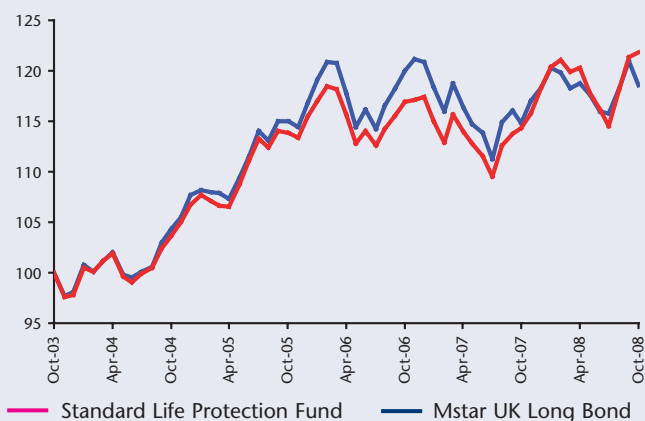
The Protection Fund returned 6.25% during the third quarter of 2008, compared to the peer group mean return of 2.02% (source: Morningstar).

The Fund invests primarily in long-dated government gilts, whose performance has been increasingly linked to volatility in stock

markets. The average length to maturity of bonds in the Protection Fund is slightly shorter than that of the FTSE over 15 Years Index, against which the Fund's performance is measured. This means that the Fund rises less when the prices of long-dated gilts increase, but falls less when long-dated gilts do badly.

Over the reporting period, the Fund has performed in line with its general aim of moving in accordance with annuity rates.

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
	6.1%	-2.6%	2.3%	9.5%	3.2%

Cumulative Performance

	1 Year	3 Years	5 Years
Fund Return	6.1%	5.8%	19.5%
Mstar UK Long Bond	1.8%	2.6%	18.3%

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

Sources: 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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