

# Cautious Managed Fund

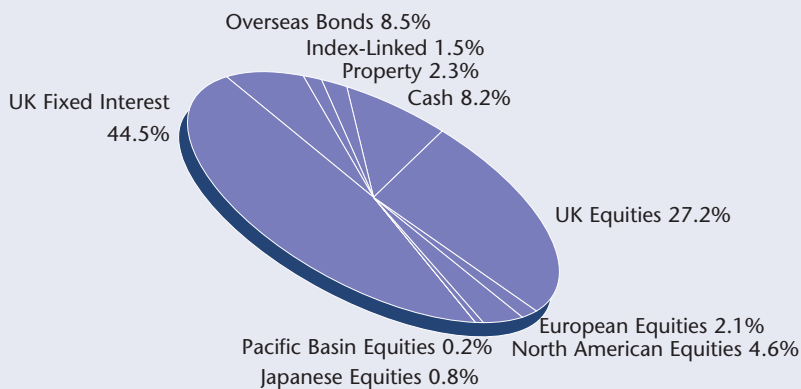
## Quarterly Report 31 December 2008

### Fund Profile

The Fund is designed for investors who are looking to obtain a broad spread of assets, predominantly invested in equities and fixed interest securities. It is intended to have a lower level of volatility than that offered by the Managed Fund. 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 specific sectors and stocks. Within the overall objective, asset allocation will reflect the House View set by our Global Investment Group. A broad range of criteria is used in this process such as the Global Macro Framework, Asset Class Inputs and Quantitative. There is no style bias in the 'Focus On Change' philosophy, it is not inherently growth or value biased and is therefore able to perform through all phases of the market.

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

### Composition of Portfolio as at 31 December 2008

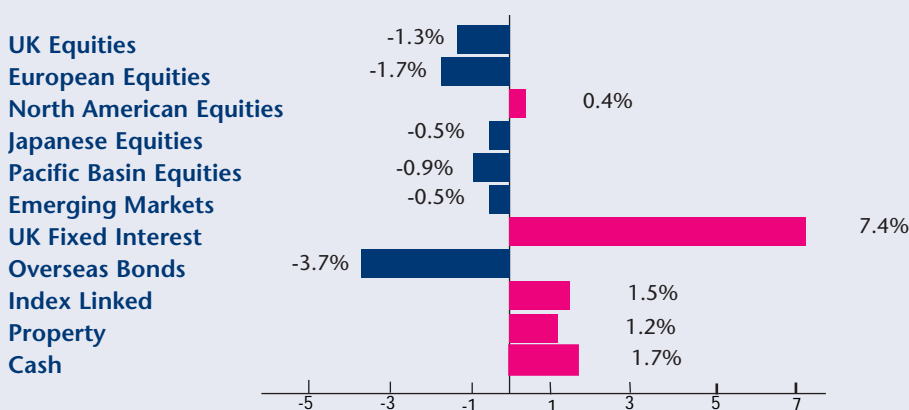


|                          |                  |
|--------------------------|------------------|
| <b>Fund Manager</b>      | Matt Savage      |
| <b>Launch Date</b>       | November 1995    |
| <b>Current Fund Size</b> | £1,183.17m       |
| <b>ABI Sector</b>        | Cautious Managed |

**Volatility** 8.3%

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

### Sector Positions Relative to the Lipper Median (%)



| Top Ten Holdings                  | %           |
|-----------------------------------|-------------|
| <b>Assets in top ten holdings</b> | <b>16.8</b> |
| BP                                | 2.7         |
| UK (Govt of) 8% 2021              | 2.1         |
| Vodafone                          | 1.8         |
| GlaxoSmithKline                   | 1.6         |
| UK (Govt of) 5% 2018              | 1.5         |
| HSBC                              | 1.5         |
| UK (Govt of) 5% 2014              | 1.4         |
| UK (Govt of) 4.75% 2038           | 1.4         |
| UK (Govt of) 4.5% 2013            | 1.4         |
| UK (Govt of) 4.25% 2032           | 1.4         |



## Environment

The fourth quarter brought further gloom for global equity investors, as the financial crisis continued, economic problems mounted and companies reported increasingly difficult trading conditions. Share prices fell in October and the first half of November, before rallying as volatility eased. Government bonds performed well as the economic environment was positive for the asset class and interest rates were cut aggressively. However, as recessionary fears gathered momentum, sentiment in UK commercial property remained low.

## Activity

During the quarter, we bought British American Tobacco, as a change in the share ownership structure led to an attractive entry point and the stock continues to see earnings upgrades. Meanwhile, we sold Barclays and HBOS as credit conditions in the UK deteriorated. In Europe, we bought Portuguese oil stock Galp Energia, as we believed the market had underappreciated the significance of the firm's oil discovery in Brazil. Turning to the US, we added to holdings in insurers Met Life, ACE and Reinsurance Group of America, on reassuring new business and healthy balance sheets. In UK bonds, we preferred short-dated gilts to benefit from interest rate cuts and selectively increased our corporate credit holdings. In property, we completed the sale of the Tesco Distribution Centre in Harlow, Essex, and exchanged contracts on properties valued at more than £23m.

## Outlook

The key issue for UK equity investors will be the battle between the economic headwinds and the effectiveness of the policy response. Meanwhile, share prices within cyclical sectors are reaching distressed levels. Although deepening economic gloom and risk aversion have supported government bond valuations, market participants have already priced in a great deal of bad news. Meanwhile, we expect to see upward pressure on commercial property yields, although we expect this to be concentrated in the first half of the year.

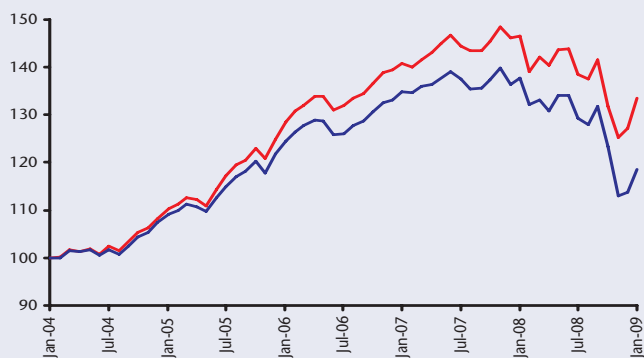
## Performance Commentary

During the fourth quarter of 2008, the unit price of the Cautious Managed Fund rose by 1.2%, against the peer group mean return of -5.0% (source: Morningstar).

In UK equities, performance was helped by being underweight in Rio Tinto, whose shares fell heavily after BHP Billiton abandoned its takeover bid. Holding BP was also helpful as the oil major's shares rallied due to the relative safety of its dividend but this was offset by an underweight in Royal Dutch

Shell, while RBS performed poorly due to worsening credit conditions. Within the overseas portfolios, US insurer ACE added value as insurance pricing was strong but holding banks Alpha Bank, BNP Paribas and Merrill Lynch all made a negative contribution. Within gilts, our long duration position once again benefited from interest rate cuts, while within property, the market remained difficult and had a negative impact on performance.

## Fund Performance - Price Indexed



— Standard Life Cautious Managed — Mstar Cautious Managed

## Performance

| 1 Jan 08 -<br>31 Dec 08 | 1 Jan 07 -<br>31 Dec 07 | 1 Jan 06 -<br>31 Dec 06 | 1 Jan 05 -<br>31 Dec 05 | 1 Jan 04 -<br>31 Dec 04 |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| -9.2%                   | 3.7%                    | 9.1%                    | 16.1%                   | 9.7%                    |

## Cumulative Performance

|                               | 1 Year | 3 Years | 5 Years |
|-------------------------------|--------|---------|---------|
| <b>Fund Return</b>            | -9.2%  | 2.7%    | 30.9%   |
| <b>Mstar Cautious Managed</b> | -15.6% | -6.2%   | 18.8%   |

## 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 31 December 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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