

# Corporate Bond Fund Quarterly Report 30 June 2009

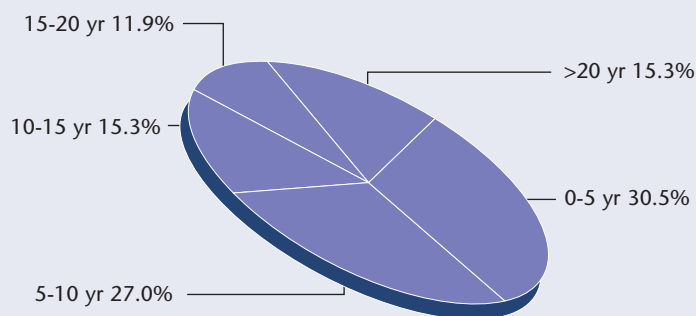
## Fund Profile

The Fund aims to provide long term growth mainly from the reinvestment of income generated by investing predominantly in Sterling denominated corporate bonds. The Fund is actively managed by our investment team who may also invest a proportion of assets in other fixed interest securities (e.g. overseas bonds and gilts) and/or money market instruments to try to take advantage of opportunities they have identified. The value of investments within the Fund can fall as well as rise and is not guaranteed – you may get back less than you pay in. The Fund may use derivatives for the purposes of efficient portfolio management, reduction of risk or to meet its investment objective if this is permitted and appropriate. The sterling value of overseas assets held in the fund may rise and fall as a result of exchange rate fluctuations.

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

### Composition of Portfolio as at 30 June 2009

#### Maturity Breakdown



<b>Fund Manager</b>	Craig MacDonald
<b>Launch Date</b>	January 1980
<b>Current Fund Size</b>	£2,208.8m

<b>Yield</b>	6.56%
<b>Duration</b>	6.54
<b>Volatility</b>	4.68%

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	22.9
AA	22.6
A	32.6
BBB	19.4
BB	1.0
B	0.5
CCC	0.3
N/R	0.7

Source: S&P

Top Ten Holdings	%
<b>Assets in top ten holdings</b>	<b>10.9</b>
EIB 6% 2028	1.9
EIB 4.8750%	1.6
Vodafone Group 5.375% 2017	1.1
EIB 5.375% 2021	1.0
KFW 6% 2028	0.9
Bank of America 7% 2028	0.9
Svenska Handelsbanken 5.5% 2016	0.9
BNP 6.125% 2011	0.9
Lloyds TSB Bank 6.75% 2018	0.9
JP Morgan Chase & Co 3.75% 2011	0.8



## Environment

Corporate bonds outperformed government debt in the second quarter, as rising hopes of an early end to the recession fuelled risk appetite. The improvement in market sentiment was partly in response to the G20 summit in April, where leaders agreed to commit a total of \$1.1 trillion to tackle the global economy. In addition, improving economic data suggested the pace of decline seemed to be slowing. For example, in May the Purchasing Managers' Index for the services sector rose above the key 50 level that marks the divide between expansion and contraction. In addition, the results of the US banks' stress tests were better than expected, leading to a strong rally in financial debt. Subordinated bank debt performed particularly well, having previously traded at distressed levels.

## Activity

We continued with our strategy of selectively participating in new corporate debt issues. We increased our exposure to more cyclical names such as Lafarge which came with an 8.75% coupon as well as an additional 1.25% should the issue be downgraded to high yield. We also added new telecom risk by participating in new issues from Vodafone and Telecom Italia and financial risk through mainly senior debt issued by banks such as HSBC. Finally, we continued to purchase issues from stable cash generative companies such as Pfizer. These moves were funded by taking profits in a number of new issues and a reduction in gilt exposure.

## Outlook

In light of the market's recent solid gains, we expect a moderation in the months ahead. The pace of new issuance is likely to slow during the summer, although we will continue to selectively participate in new issues to benefit from the discounts on offer. Overall, investment-grade credit reflects good value, as index spreads remain well in excess of expected default rates. Companies have taken considerable self-help measures, including equity issues to bolster balance sheets and cutting costs to conserve cash. However, the process of deleveraging is not yet complete, and high household debt-to-GDP ratios will forestall a wider recovery.

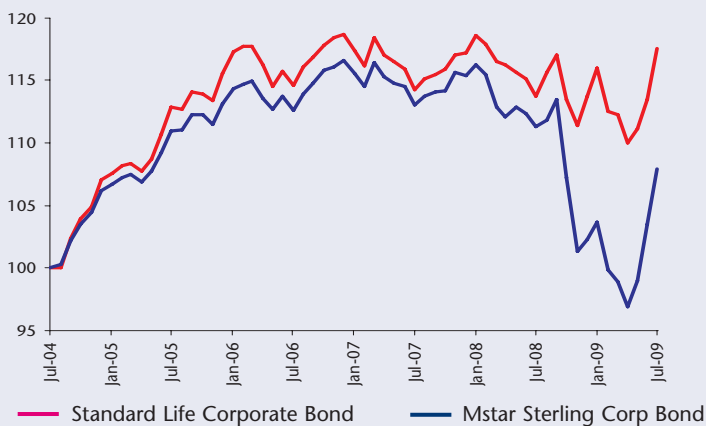
## Performance Commentary

During the second quarter of 2009, the Corporate Bond Fund returned 6.89%, compared with the peer group mean return of 11.62% (source: Morningstar). Over the year to 30 June 2009, the Fund returned 3.37%, against the index return of -3.05%. Although we began to increase the Fund's

exposure to subordinated financials in April and May, we were unable to buy sufficient quantities to offset our underweight position. As this type of bond performed very strongly, this had a negative impact on the Fund's performance. The Fund's increased, albeit relatively small weighting in high-yield bonds

helped performance, but this was offset by high levels of government bonds. We view these as the easiest way to reduce transaction costs while waiting for attractive new corporate bond issues.

## Fund Performance - Price Indexed\*



## Investment Market Line

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

**0845 60 60 062**

The fund performance figures quoted are calculated on a bid to bid basis over periods to 1 July 2009, with gross income reinvested.

The fund performance figures quoted 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.

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

## Performance\*

	1 Jul 08 - 1 Jul 09	1 Jul 07 - 1 Jul 08	1 Jul 06 - 1 Jul 07	1 Jul 05 - 1 Jul 06	1 Jul 04 - 1 Jul 05
	3.3%	-0.5%	-0.3%	1.5%	12.9%

## Cumulative Performance\*

	1 Year	3 Years	5 Years
<b>Fund Return</b>	-3.3%	2.6%	17.6%
<b>Mstar Sterling Corp Bond</b>	-3.1%	-2.6%	9.3%

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