

# Cautious Managed Fund Quarterly Report 30 June 2009

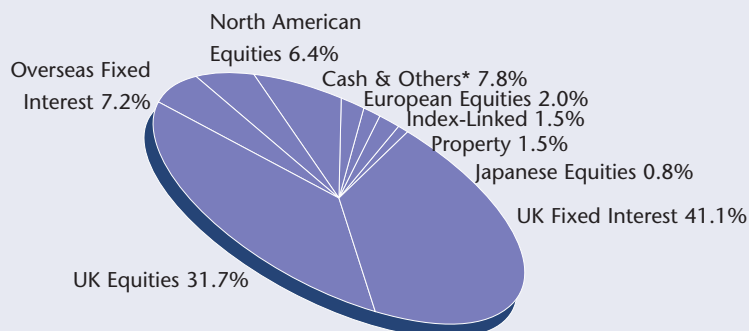
## Fund Profile

The Fund aims to provide long term growth whilst investing in a diversified portfolio of assets (including equities, fixed interest and property) in order to reduce the risk associated with being solely invested in any one asset class. These assets can be from both the UK and overseas. It aims to be less volatile than the Standard Life Pension Managed Fund, investing a higher proportion in assets that are traditionally less volatile (such as fixed interest assets). The Fund is actively managed by our investment team, who will vary the proportions held in each asset class 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.**

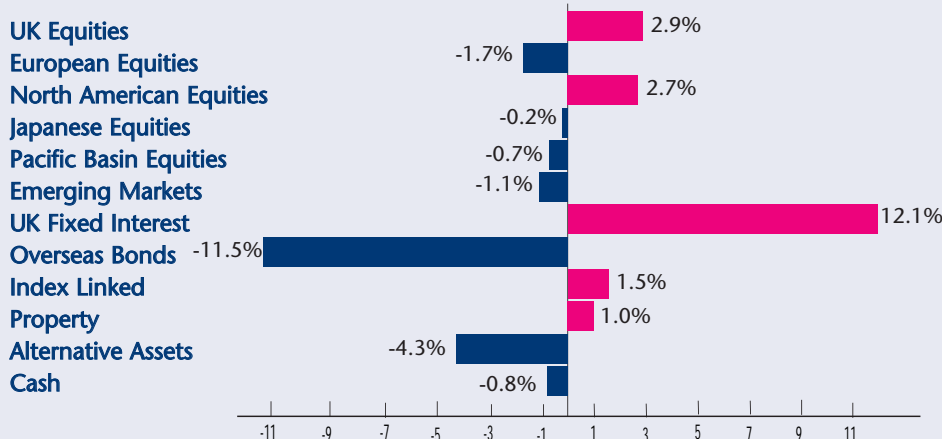
## Composition of Portfolio as at 30 June 2009

### Sector Allocation



\*Other includes those countries with less than 0.3% exposure

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



<b>Fund Manager</b>	Matt Savage
<b>Launch Date</b>	November 1995
<b>Current Fund Size</b>	£1,224.1m
<b>ABI Sector</b>	Cautious Managed

**Volatility** 8.81%

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

Top Ten Holdings	%
<b>Assets in top ten holdings</b>	<b>14.2</b>
BP	2.5
HSBC	2.3
Vodafone	1.8
GlaxoSmithKline	1.4
UK (Govt of) 5% 2018	1.2
AstraZeneca	1.0
Royal Dutch Shell "B"	1.0
British American Tobacco	1.0
UK (Govt of) 4.75% 2030	1.0
UK (Govt of) 4.75% 2015	1.0



## Environment

Having deteriorated in the first quarter of 2009, there were some positive signals for the UK economy in the second quarter. These included the manufacturing sector contracting at its slowest pace in a year during May, better-than-expected retail sales data and a slight improvement in the housing market. However, data remained mixed and at the end of the period it was revealed that the UK economic contracted 2.4% in the first quarter of the year, the largest quarterly decline since 1958. The Bank of England left interest rates on hold during the quarter, having previously cut them to record low levels. Instead, the Bank expanded quantitative easing but also gave mixed signals that it is considering an eventual exit route in order to prevent any inflation risks.

## Activity

The investment policy of reinvesting all new subscriptions, income and bond receipts in short-term liquid assets remains firmly in place. All longer-term assets are being allowed to mature naturally, with the proceeds being reinvested in more liquid assets. During the last quarter, the Lanark position has been reduced to a holding size of 5% of the Fund's NAV following two tender offers by the issuer. Market confidence and sentiment has improved somewhat recently, with investors starting to look for yield once again. However, our focus on preservation of capital remains of paramount importance as the outlook for the rest of 2009 is still very uncertain.

## Outlook

The Bank of England continues to maintain interest rates at record low levels. We expect this policy to remain in place well into 2010. Despite its sizeable support for the wider banking system, the Bank acknowledges that commercial banks are unlikely to resume their supply of credit to any meaningful level while they restructure their balance sheets. Regarding the inflation outlook, there is an immediate threat from deflation, although the future risk is higher inflation than is currently priced into the markets.

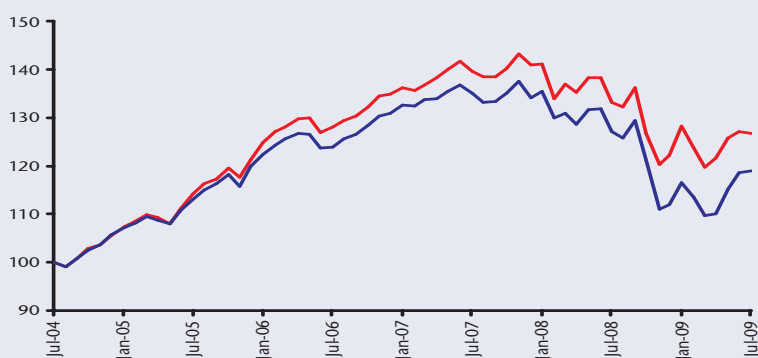
## Performance Commentary

During the period under review, the unit price of the Sterling Fund rose in value by 0.23%, compared to its peer group mean return of 0.1% (source: Morningstar).

Spreads in asset-backed securities moved wider during the second quarter, reflecting concerns about the direction of the global economy and the increase in unemployment. Quantitative easing had the desired effect on money supply by keeping interest rates low

at the short end of the yield curve. Investors remained cautious about counterparty risk, keeping most cash at the short end of the yield curve for liquidity purposes at the expense of higher yields further out. However, risk appetite did improve towards the end of the quarter, which bodes well for the quarter to come.

## Fund Performance - Price Indexed\*



## 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
	-4.9%	-4.5%	9.0%	12.2%	14.1%

## Cumulative Performance\*

	1 Year	3 Years	5 Years
Fund Return	-4.9%	-1.0%	26.7%
Mstar Cautious Managed	-7.9%	-6.3%	16.2%

## 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.