

This leaflet gives information on the following

- ▶ types of assets – how these affect investment returns
- ▶ asset mixes – the asset mix for different classes of with profits pension business
- ▶ asset mix details – recent and historic
- ▶ investment returns – recent and historic
- ▶ investment market conditions.

This leaflet is intended for individuals who are familiar with investment terminology. If you need an explanation of the terms used email us at [wpreport@standardlife.com](mailto:wpreport@standardlife.com). Please note that there is no guarantee that any email sent will be received, or that the contents will remain private during internet transmission.

The return on the asset mix is only one of the factors that affect with profits plan values. Other factors are the deductions we make, and any other discretionary adjustments that we may apply such as smoothing. The deductions are for example for costs of guarantees and our expenses.

Some with profits plans guarantee a minimum payout, for example if it's used to buy an annuity at the retirement date selected at the start of the plan or on death. The payout will then be at least the guaranteed benefit, even if the investment returns have been poor.

For more information on with profits please see our 'Understanding With Profits' booklets available on our website at [www.standardlife.co.uk/withprofits](http://www.standardlife.co.uk/withprofits)

## Types of assets

We invest in a wide range of assets including equities, property, bonds and cash deposits. We expect that a higher proportion of equities and property will produce returns that are higher over the long term, but more variable over the short term. We expect that a higher proportion of bonds and cash will result in returns that are more stable, but lower over the long term.

## Asset Mix

Our investment strategy aims to achieve competitive returns for with profits plans, and at the same time continue to maintain an appropriate level of financial strength and meet all contractual obligations to planholders. We currently have five different asset mixes that cover most of our pensions business.

Class of with profits business	Fund Name (see your plan statement)	Asset Mix
Unitised pensions for which a minimum unit price growth rate of 4% a year applies	Pension With Profits Fund	Asset Mix 1
Most other unitised pensions	Pension With Profits One Fund Pension 2 With Profits 2 Fund Pension Millennium With Profits Fund Pension With Profits One 2006 Fund Pension 2 With Profits 2 2006 Fund Pension Millennium With Profits 2006 Fund	Asset Mix 3
With Profits Pension Annuities	N/A	Asset Mix 4
Non unitised pensions	N/A	Asset Mix 5
Stakeholder plans taken out before 10 July 2006	Stakeholder With Profits Fund Corporate Stakeholder With Profits Fund	Stakeholder

For information on Stakeholder plans taken out from 10 July 2006 onwards, please see the investment Report for the UK Smoothed Managed With Profits Fund

## Asset Mix Details at 30 September 2011

We regularly review the asset mix that backs our with profits business, taking account of such things as:

- ▶ the nature and size of the guarantees for each class of with profits business
- ▶ the strength of the fund
- ▶ any changes in current and expected future market conditions.

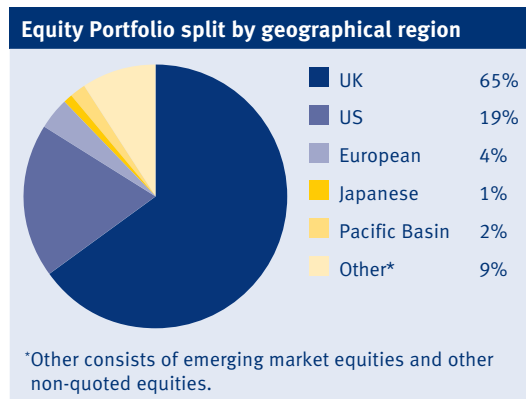
Note: the asset mix will also change as market values change.

Any change in the asset mix is likely to result in a change in future returns and plan payouts, see page 1 – Types of assets. But it will not affect existing guarantees.

\* Fixed Interest & Other includes index linked bonds, cash deposits and money market instruments.

Category	Asset Mix 1	Asset Mix 3	Asset Mix 4	Asset Mix 5	Stakeholder
Equities	16.2%	44.6%	40.7%	35.2%	56.0%
Property	5.9%	16.0%	14.7%	12.7%	–
Fixed Interest & Other*	77.9%	39.4%	44.6%	52.1%	44.0%

The following investment information applies to asset mixes 1, 3, 4 and 5.



### Top 5 Equity Holdings

- ▶ 1 BP
- ▶ 2 Vodafone Group
- ▶ 3 Glaxo Smith Kline
- ▶ 4 HSBC
- ▶ 5 Rio Tinto

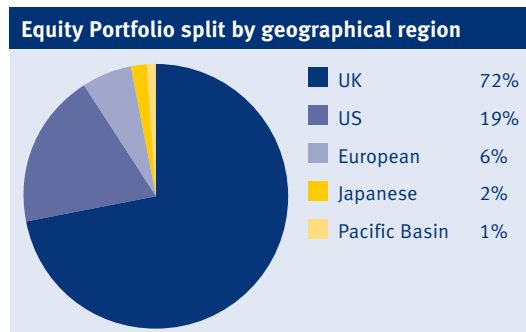
### Fixed Interest Holdings

- ▶ 64% Government Bonds
- ▶ 36% Corporate Bonds

### Corporate Bond portfolio

- ▶ 89% are rated investment grade bonds
- ▶ Over 18% are AAA rated (as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings)

The following investment information applies to Stakeholder With Profits.



### Top 5 Equity Holdings

- ▶ 1 BP
- ▶ 2 Vodafone Group
- ▶ 3 Glaxo Smith Kline
- ▶ 4 HSBC
- ▶ 5 Rio Tinto

### Fixed Interest Holdings

- ▶ 47% Government Bonds
- ▶ 53% Corporate Bonds

### Corporate Bond portfolio

- ▶ Over 96% are rated investment grade bonds
- ▶ Over 14% are AAA rated (as measured by a composite rating structure, derived from Standard & Poor's and Moody's ratings)

## Investment returns

Investment returns for the last four quarter years:

Quarter year ending on:	31/12/10	31/03/11	30/06/11	30/09/11
Asset Mix 1	-0.3%	0.3%	2.3%	1.5%
Asset Mix 3	3.2%	0.5%	2.2%	-4.7%
Asset Mix 4	2.7%	0.5%	2.2%	-3.9%
Asset Mix 5	2.0%	0.4%	2.2%	-2.6%
Stakeholder	4.4%	0.8%	1.7%	-7.9%

The return on the asset mix is only one of the factors that affect with profits plan values, see page 01.

## Historic Details

The proportions of different types of asset change over time as market values go up and down. They can also change as a result of the reviews we carry out, see page 2. Any change in the asset mix is likely to affect future returns and plan payouts – see ‘Types of assets’ on page 1 – but it won’t affect existing guarantees. The following tables show the asset mixes at the end of each of the last five years and the investment returns for each of those years.

Recent investment returns are estimates.

Investment returns are before tax and have been rounded down.

These figures refer to the past. Past performance is not a reliable guide to future performance.

Asset Mix 1	2006	2007	2008	2009	2010
Equities	21%	20%	13%	13%	14%
Property	10%	9%	8%	6%	6%
Fixed Interest & Other*	69%	71%	79%	81%	80%
Investment Returns	<b>5.9%</b>	<b>5.3%</b>	<b>-0.3%</b>	<b>3.6%</b>	<b>10.7%</b>

Asset Mix 3	2006	2007	2008	2009	2010
Equities	41%	42%	33%	43%	46%
Property	18%	18%	19%	14%	14%
Fixed Interest & Other*	41%	40%	48%	43%	40%
Investment Returns	<b>11.4%</b>	<b>5.6%</b>	<b>-12.9%</b>	<b>7.8%</b>	<b>13.0%</b>

Asset Mix 4	2006	2007	2008	2009	2010
Equities	39%	41%	30%	39%	42%
Property	18%	17%	17%	13%	13%
Fixed Interest & Other*	43%	42%	53%	48%	45%
Investment Returns	<b>10.9%</b>	<b>5.5%</b>	<b>-11.2%</b>	<b>7.3%</b>	<b>12.7%</b>

Asset Mix 5	2006	2007	2008	2009	2010
Equities	37%	39%	29%	33%	35%
Property	17%	17%	16%	12%	13%
Fixed Interest & Other*	46%	44%	55%	55%	52%
Investment Returns	<b>10.4%</b>	<b>5.4%</b>	<b>-10.3%</b>	<b>6.2%</b>	<b>12.3%</b>

Stakeholder	2006	2007	2008	2009	2010
Equities	74%	70%	63%	60%	62%
Fixed Interest & Other*	26%	30%	37%	40%	38%
Investment Returns	<b>12.5%</b>	<b>6.6%</b>	<b>-20.2%</b>	<b>19.1%</b>	<b>12.5%</b>

\* Fixed Interest & Other includes index linked bonds, cash deposits and money market instruments.

## Investment Market Conditions

### Fixed Interest

Corporate bonds significantly outperformed equities but significantly underperformed government issues over the quarter as risk appetite turned negative. Much of the period's performance was dictated by sovereign debt concerns, which had a knock-on effect on banks and other related areas such as utilities and telecoms. High-yield bonds were impacted by the prevailing risk-averse market sentiment. There was a dramatic reduction in primary issuance as companies were deterred from accessing the capital markets by the prevailing risk-averse climate.

Over the period, flight to quality flows meant that developed-world government bond yields fell (and prices rose) sharply. In late July/early August Italian and Spanish yields rose rapidly. The European Central Bank then announced that it would extend its debt purchases to include Italy and Spain, calming nerves in the short-term and triggering a rally in Italian/Spanish bond yields. The macro backdrop overshadowed Standard & Poor's downgrade of the US credit rating in August. Risk aversion predominated in September and core, developed-world government issues outperformed significantly as a result. US Treasury 10-year yields fell below 2% – a level not seen for sixty years – as investors anticipated renewed quantitative easing from the Federal Reserve. German bunds yields fell to similarly low levels.

### Global Equities

In the US, the S&P 500 Index fell over the quarter as concerns about weakening growth and sovereign debt continued to dominate headlines. In July, a political battle erupted over a vote to increase the US debt ceiling. This contributed to considerable nervousness within the market and almost led to the interruption of key government services. The worst case scenario was averted and an agreement was reached between the two main parties to form a committee that will focus on ways to reduce the deficit. However, Standard & Poor's downgraded the country's credit rating from AAA to AA+.

The third quarter was the worst period for European equity markets since the Lehman's financial crisis, with sovereign debt and mounting worries of bank defaults continuing to dominate the news. In the Euro-zone, a succession of meetings aimed at stemming the crisis in Greece, and averting a situation where

the crisis spread to other countries, failed to quell investors' concerns. Markets increasingly focused on European leaders' failure to deliver a decisive and comprehensive solution after many months of wrangling.

### UK Equities

Persistent market turbulence was the defining theme of recent months, with UK equities witnessing a spike in risk aversion. The FTSE® All-Share Index experienced its largest quarterly fall since 2002. The underlying sources of the market's turmoil remained unchanged, with Euro-zone problems, stagnant economic conditions and worries over the future direction of growth combining to fuel investor discomfort. The UK economy remained listless over the three months. Second quarter GDP growth stalled at 0.1%, while consumer confidence measures slipped back again.

### Property

The third quarter proved a challenging period for property investors, given that commercial real estate returns are a function of economic activity. As both global and domestic economic prospects weakened over the quarter, so too did sentiment towards commercial real estate. As a result, income growth and capital appreciation remained muted. Market polarisation was still a prevalent theme.

A stark divide remained between the outlook for real estate in the North and South of the country, as well as between prime and lower quality properties. However, compared to the marked volatility in the wider financial markets, UK commercial property displayed greater resilience compared to other asset classes. Given the attractive yield that UK commercial real estate offers over cash and bonds, property continued to be supported by investors seeking income in a low growth, low interest rate environment.