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A Standard Life Investments presentation

Developing new and appropriate investment products for the DC market

21 January 2009



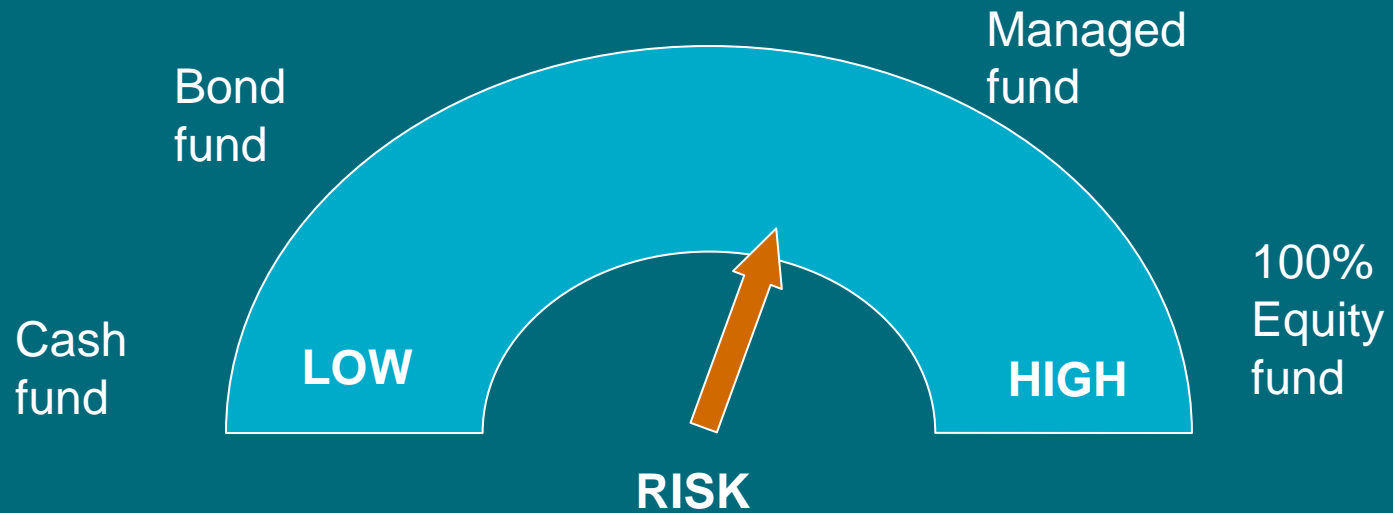
What will I cover?

- “New”
- “Appropriate”
- “DC Market”
- But not in that order....
- Oh yes and “product” – is this just investments?

DC Market

- What is the DC “market”?
- Investor profile – you and me, individuals
- Long term savers – until we get our annual benefit statements!
- Majority are still young but ... what about the minority?

Typical DC scheme



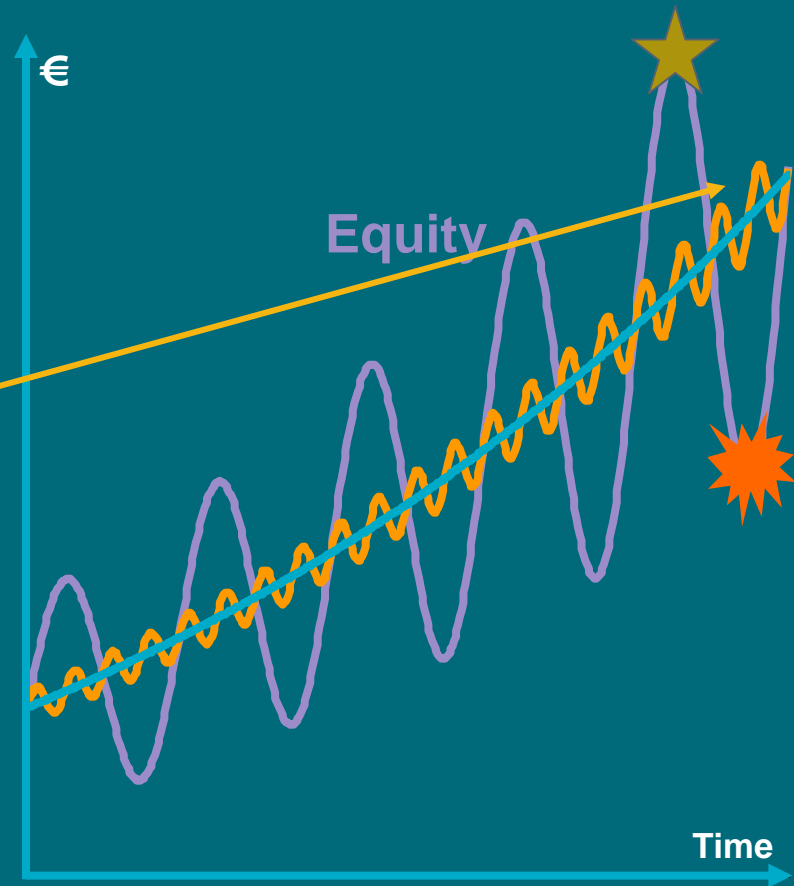
- Minimum of four basic options
- Default fund = Managed/Consensus fund
- Equity component very high in growth portfolios

DB solutions packaged for DC schemes

An appropriate investment product?

What does an investor want?

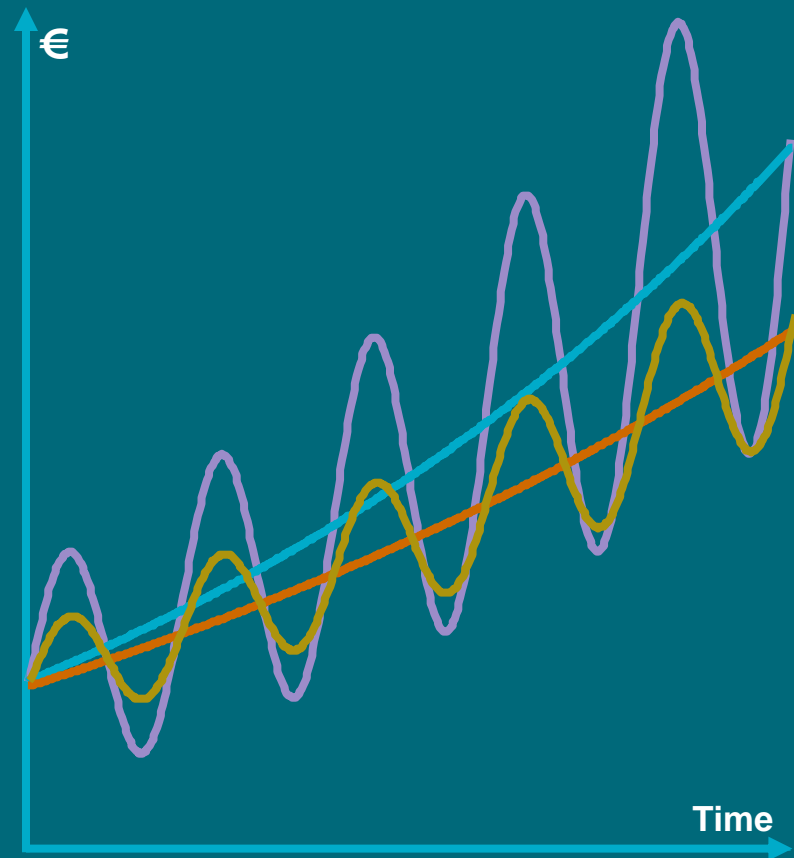
- Maximise return
- No surprises at retirement
- Long run return on equities:
cash + 5%



We need more certainty around returns

An appropriate investment product?

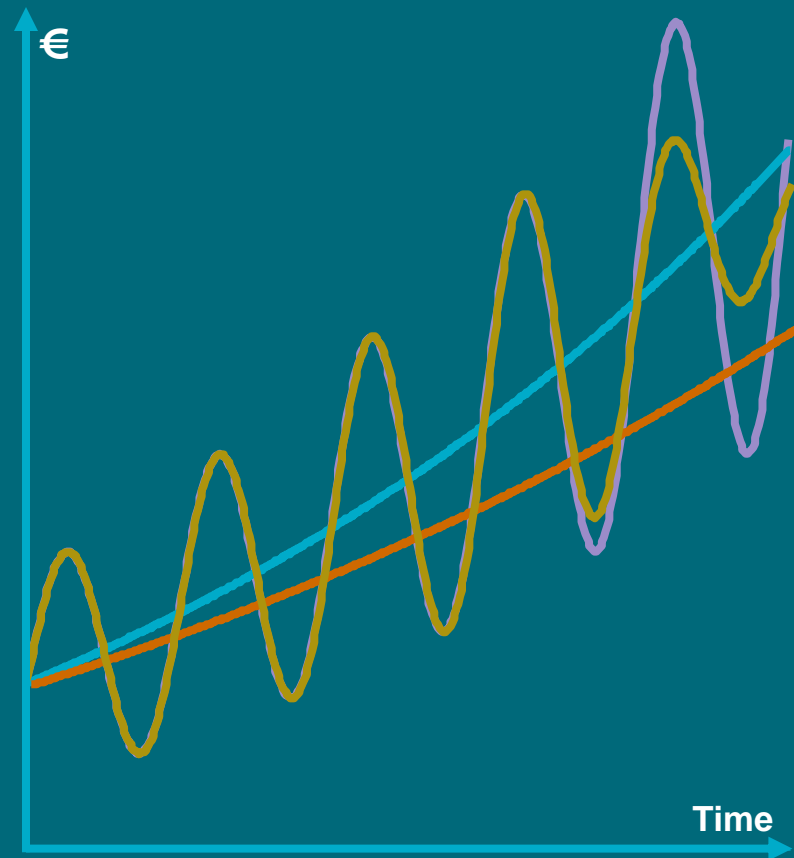
- Maximise return
- No surprises at retirement
- Achieved by:
Managed Funds: reducing investment risk



Return potential is sacrificed for more certainty

An appropriate investment product?

- Maximise return
- No surprises at retirement
- Achieved by:
 - Managed Funds: reducing investment risk
 - Lifestyle Funds: take less risk at the end
 - Market timing concerns



Return potential is still sacrificed for more certainty

Place for a more appropriate fund?



- Simple objective – equity like returns with much lower levels of risk

Simple to describe – difficult to achieve!

So what is the “new” bit?

A broad range of approaches

Market Returns

- Equities, Bonds & Property
- Good long term return expectations
- But can be negative returns over shorter periods

Opportunistic

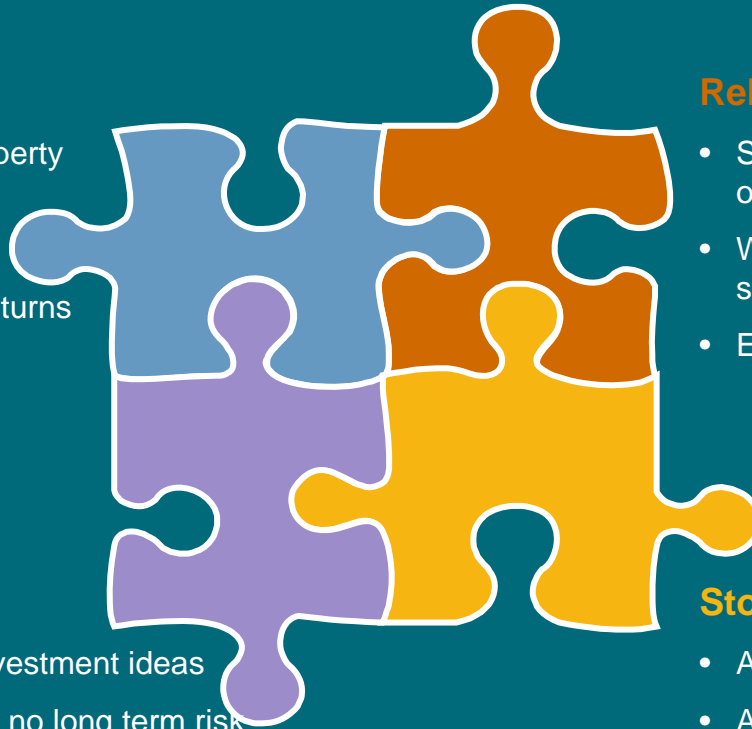
- Specific directional investment ideas
- In markets with little or no long term risk premium
- With significant return potential on a 3 yr view

Relative Value

- Seek highly correlated markets or segments
- Where their relative valuation is strained
- Exploit their realignment

Stock Selection

- Active stock selection
- Added value in its own right



Enduring diversity – through a wider opportunity set

Utilising a much broader investment universe



Absolute or Target Return funds

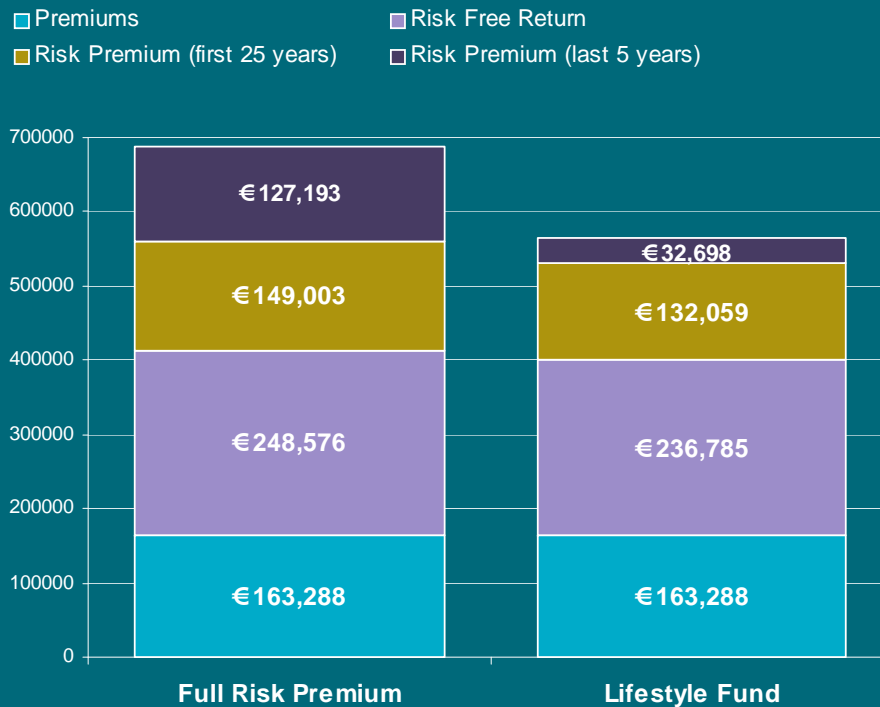
- Seek a target level of return with a reduced level of risk
- A credible alternative to the traditional balanced approach
- Significant market size in Europe: 305 funds, €39.6bn*
- “VW takes a new DC route” – FTfm November 23rd 2009
- “Investment return with low volatility is what members want”. Anne Swift, Hewitt Associates, FTfm November 23rd 2009
- Hewitt Ireland InVision – 5 funds plus 11 other diversified funds

*Source: Lipper FMI, 30 September 2009

Significant interest from pension funds and individuals

Lifestyling – a better way?

Importance of investment return



- Scenario

- Salary €30,000 p.a.
- Salary inflation 3.5%
- 10% p.a. premiums
- 30 years to invest
- Risk premium 5%

- Risk premium makes up 40%

- Contributions just 24%

- Risk premium impact even greater in last five years

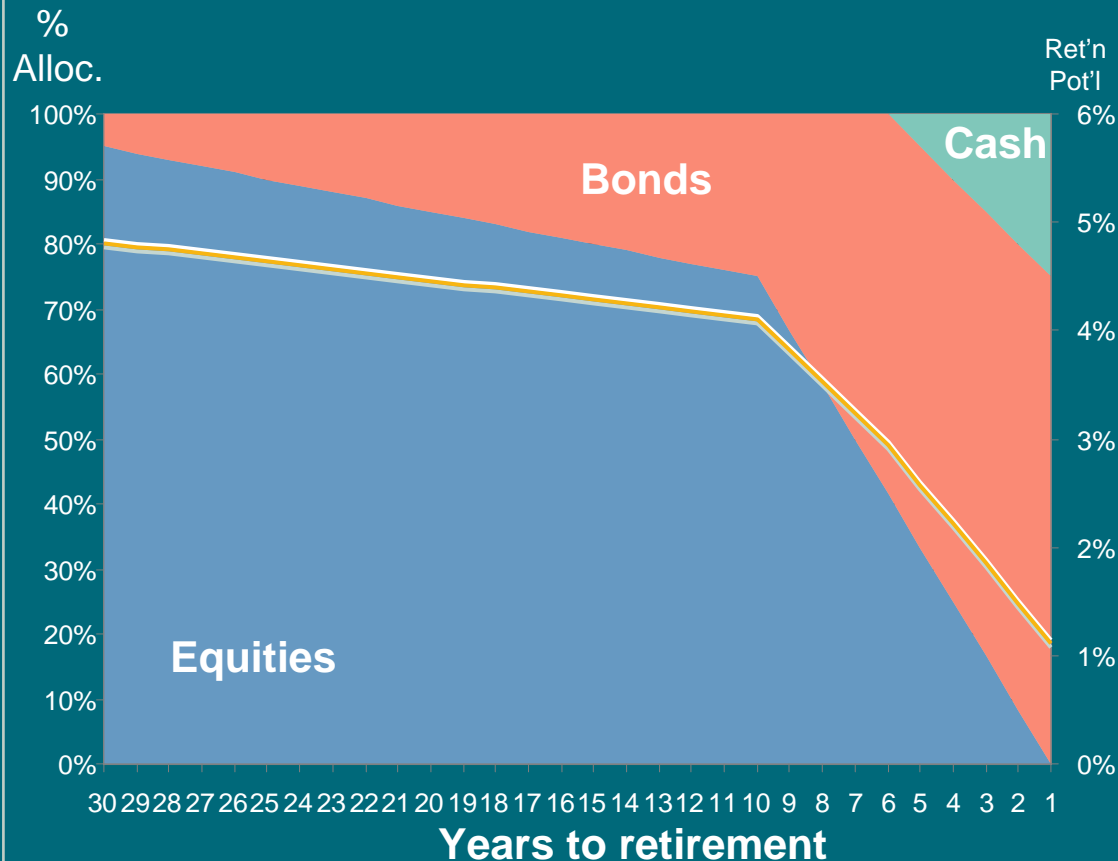
Closing fund value 18% lower for Lifestyle Fund approach!

What value do Lifestyle funds add?

- Typically start to move out of equities from 10 years prior to retirement
- On average you don't get the full equity risk premium for c. 5 years
- Closing fund value just 82% of value it could have achieved
- Requires additional 2% p.a. of salary contributions to make up for this
- Better solution?

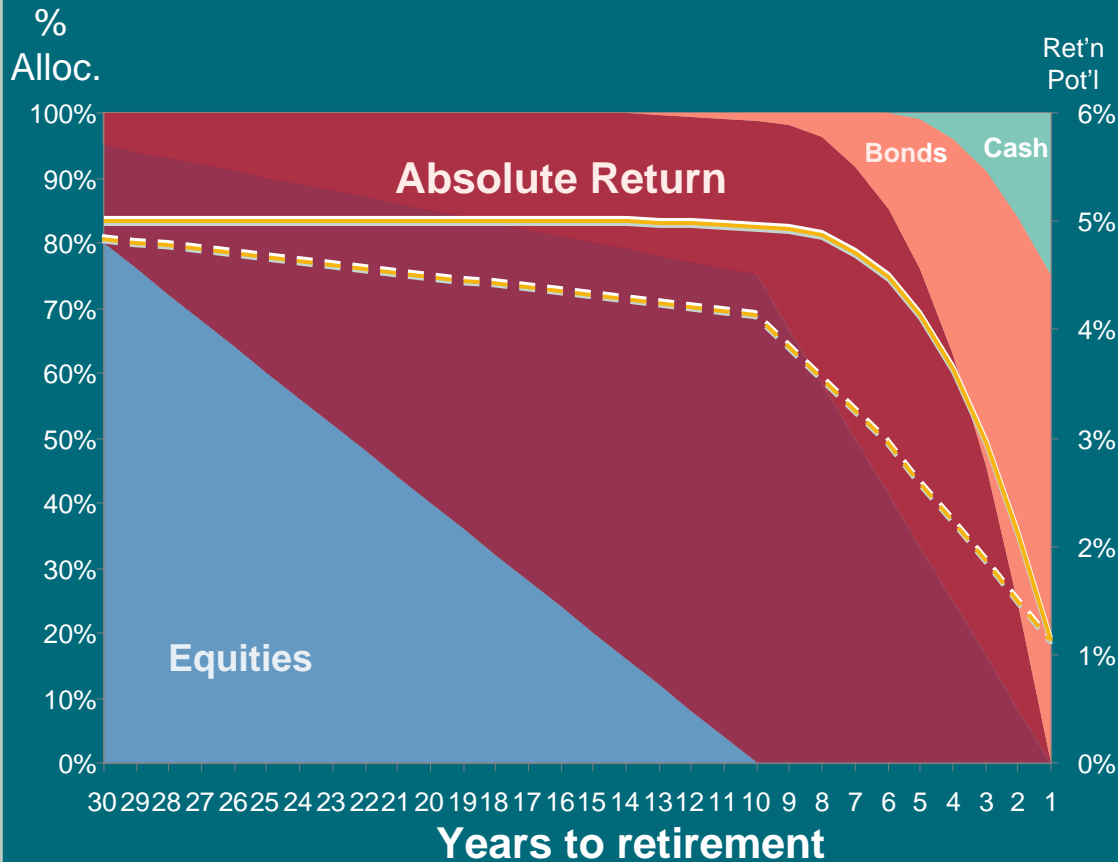
Enduring diversity – through a wider opportunity set

DC Lifestyle Fund Investment



- Conventional Lifestyle fund ramps down the exposure to return-seeking assets over the last 5 to 15 years before retirement
- Return potential drops just as the fund becomes worthwhile to invest
- Appropriate only for those who are likely to annuitize on a fixed date
- How many default savers will discover they need to defer their retirement due to insufficient pension savings?

DC Lifestyle with Absolute Returns



- Carve out part of the equity and bond portfolios
- Increased Return Potential at all times
- Reduced risk at all times due to more durable diversification
- More return-seeking exposure during the important last 10 years
- 16% better retirement outcome

Product – is this just the
investments?

Communication

- A well designed investment product is only part of the solution
- Trustees (and advisors) need to be open to new ideas
- Investment managers need to improve their literature
 - “man on the street” friendly
 - No jargon
 - Balance between technical information and being easy to read
- We all need to engage more with members
- All suggestions are welcome!!!

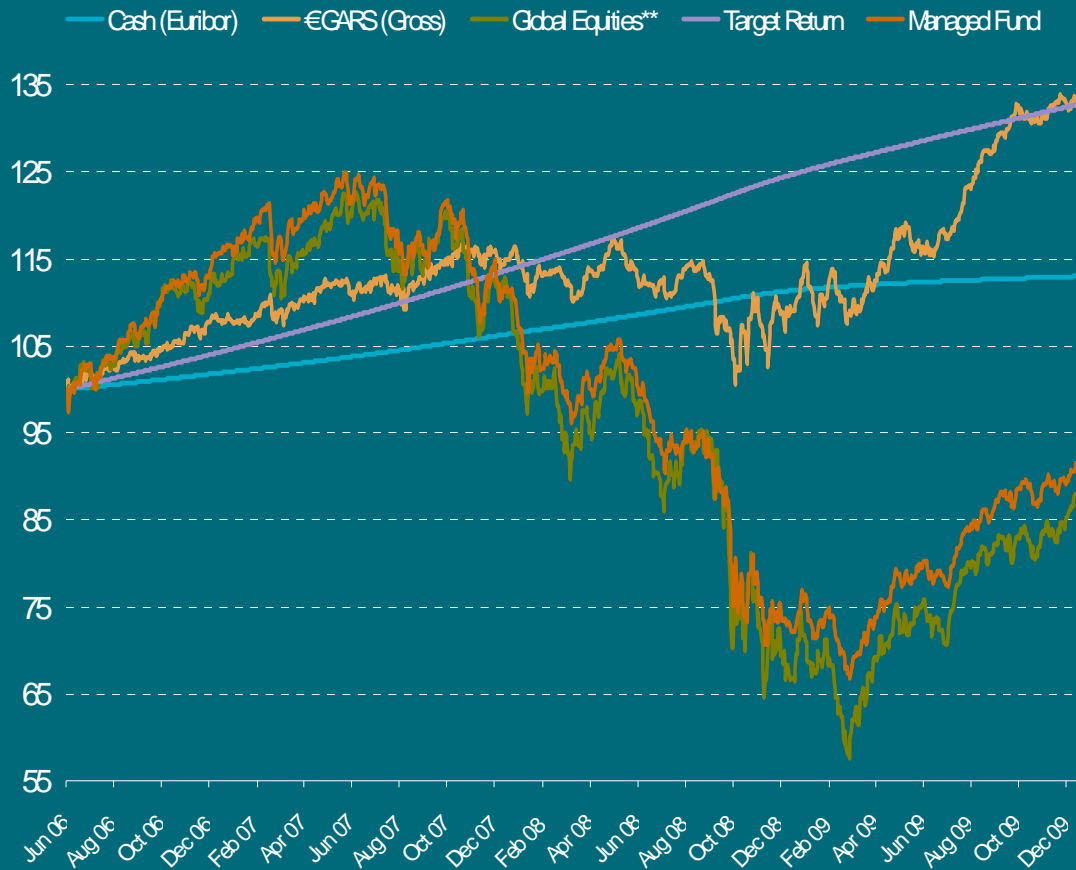
Developing New and Appropriate Investment Products for the DC Market

- Lots of good development done already
- More is sure to come:
 - Scheme specific lifestyle funds
 - White-labelling of DC schemes
 - New providers
 - New funds
- Exciting times for DC pensions!!

Questions?

Performance

Comparison with Managed & Global Equity Funds



- Volatility:

GARS *	6.8%
Managed Fund	13.3%
Global Equities	16.8%

(annualised, using monthly data, to 31/12/09)

- 8.3% annualised return (from inception to 01/01/10, Simulated € return gross of fees)

* Simulated € performance of £ Fund. ** Datastream (net of 0.2% tracker fund fee)

Source: Standard Life Investments (12/6/2006 to 01/01/2010)

Equity levels of return at reduced levels of risk

Remember – past performance is no guarantee of future performance.

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