Global Absolute Return Strategies
Agenda

- Standard Life Investments
- The Global Absolute Return Strategies Fund (GARS)
  - Objectives
  - Process
  - Structure
  - Risk Management
  - Opportunity and outlook
- Q&A
Standard Life Investments Worldwide

- Premier investment house founded in 1998
- Dedicated investment management arm of the Standard Life Group
- Clearly differentiated, successful investment philosophy and process
- Strong active management track record in traditional asset classes
- Expertise in active asset allocation and absolute return investing
- Headquartered in Edinburgh with an international presence

Focus on delivering consistent and repeatable outperformance

Offices in Edinburgh, London, Dublin, Montreal, Boston, Mumbai, Beijing, Hong Kong, Seoul, Sydney and Tokyo
Standard Life Investments AUM

Investor type:
- £103.9bn Institutional
- £56.7bn Retail

Asset class:
- £67.1bn Fixed Income
- £49.6bn Equities
- £16.1bn Absolute Return Strategies
- £10.0bn Real Estate
- £4.2bn Private Equity
- £13.6bn Other (inc. Cash)

£160.6bn AUM, of which £76.1bn are third-party assets
Growing proportion of flows coming from outside UK

Well diversified with strength across multiple asset classes

1 As at 31 March 2012
The Genesis of GARS

- GARS aims to deliver a positive return regardless of market conditions with low risk – ‘you can’t eat relative returns’
  - In adverse market conditions, clients were disappointed with benchmark outperformance as the overall value of investment fell
- In 2005 the £1bn Standard Life Pension Fund converted to an absolute return strategy
- GARS developed as a core proposition that would provide absolute returns, with lower risk and acceptable fees
- GARS is a set of strategies that can be integrated with a wide range of investment approaches and asset classes to enhance potential returns whilst managing risk
- Built upon existing Standard Life Investments expertise
The GARS framework

Objective:

- Cash\(^1\) +5% per year (gross) performance target over rolling 3 year periods
- Expected annualised volatility range of between 4% - 8%

Key Investment Themes:

- **Time Frame: 3 year investment outlook**
  - Captures return more consistently from demonstrable market inefficiencies
  - These opportunities can be exploited by patient investors

- **Breadth: Broad investment freedom**
  - A diverse array of strategies build a robust portfolio
  - Experienced and integrated team combines idea generation, risk analysis and fund management

- **Balance: Risk controlled implementation**
  - Strategy selection based on return, diversification and liquidity
  - Portfolio constructed for resilience and to maximise the range of scenarios that will provide a positive return

\(^1\) UK 6 month LIBOR
Drawing on expertise from across the business

- Team of 25 with an average of 17 years industry experience and 10 years at Standard Life Investments
- Structure highly scalable
- Principle of recruitment ahead of need

**Investment Governance & Oversight**
- Independent Risk Analysis
- Counterparty Risk Management
- Investment governance

**Strategic Investment Group**
- Review
- Debate
- Ratify / Reject

**Multi Asset Risk and Structuring**
- Pre-trade risk
- Diversification measurement
- Scenario Analysis

**Multi Asset Management**
- Strategy implementation
- Final position sizing
- Execution

**Fundamental economic analysis**
**Asset class team views and strategies**
**Valuation modelling**
**Quantitative modelling**
Broad diversified investment approach

Market
- Dynamic Allocation
- Long term risk premia such as Equities, Credit, Listed Real Estate
- Only when we expect to be rewarded on a 3 year view

Security Selection
- Active security selection
- Conventional benchmarks
- Bottom-up, ‘Focus on Change’ process

Directional
- Specific directional investment ideas
- Markets with little or no long term risk premium
- Significant return potential on a 3 year view

Relative Value
- Seek pairs of closely related markets or segments
- Where we believe relative performance will differ over 3 years
- Profit from the difference in performance irrespective of market direction
High returns with low volatility

• Rolling 3 year time horizon

• £15.5bn portfolio size at Q1

• c.450 UK institutional clients

• 9.0% gross annualised return since inception

Portfolio performance is based on the £, institutional pooled pension portfolio, as at 31/3/12

1 Thomson Datastream, MSCI World (£) (net of tracker fund fee)
2 Thomson Datastream, UK 6 month LIBOR

Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®). The fund specific data presented above is supplementary information to the Corporate Global Absolute GIPS® composite report, which is enclosed in the Appendix for your reference.
GARS portfolio breakout

Share of physical allocation¹

Share of market risk exposure¹

Physical allocation is not representative of market exposure, which is much more diversified

¹ As at 31 March 2012
Risk management

1. Independent risk modelling (ex-ante risk)
   - Daily risk reporting
   - Pre-trade risk analysis

2. Scenario analysis
   - Historical extreme events
   - Future extreme events modelled internally

3. Realised volatility based on performance (ex-post risk)
   - Tracking realised against modelled volatility

4. Liquidity
   - Days to exit for cash
   - Days to neutralise position
Independent risk modelling - low expected volatility

GARS risk profile

- Portfolio exposed to multiple diversified market risks
- 22.0% is total expected volatility
- To achieve a similar expected return with equities, expected volatility would be 18.8%
- Diversification reduces expected volatility to 5.7%

As at 31 March 2012

1 As at 31 March 2012
Historical scenario analysis

GARS shows low volatility when stress-testing against notable historical market events

1 UK £ GARS Regulated Unit Trust, RiskMetrics, 30 March 2012
## Stress-testing under hypothetical scenarios

<table>
<thead>
<tr>
<th>Hypothetical scenarios</th>
<th>Key stress test characteristics</th>
</tr>
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</table>
| China crisis                 | • Chinese financials fall 70%  
• US 10 year interest rates reach 1.7%                                                               |
| Margin squeeze               | • US equity falls 45%  
• US 10 year rates fall 30bps                                                                       |
| Quantitative Easing (QE) Bubble | • Global Equities up 25%  
• Brazilian Equity up 50%  
• US 5 year inflation over 1%                                                                       |
| QE Collapse                  | • S&P Volatility rises to 60%  
• Yen volatility rises 70%                                                                             |
| Germany leaves the €         | • Euro falls vs US$ by 65%  
• German 10-year bund yield falls 50bps  
• French 10-year yields reach 6%                                                                      |
| Shale Gas                    | • Oil falls 70%  
• Russian Equity falls 50%                                                                              |

- Hypothetical scenarios are created with various impacts across asset classes
- GARS stress-tested against scenarios
- Portfolio impact is estimated and analysed
- Results are taken into account when considering portfolio decisions
Ex-post risk analysis

- Target absolute volatility range of 4 – 8%
- Track realised volatility relative to expectation and risk model estimates
- Many different bases can be used:
  - monthly, weekly, daily data
  - various window sizes and weightings
- Measuring relative to equities is a useful way to normalise
- Within target range of 33-50% of global equity volatility

Source: Standard Life Investments UK GARS portfolio; Datastream MSWRLD$(RI)~£. as at 30 March 2012
## Risk removal liquidity analysis

<table>
<thead>
<tr>
<th>Risk Categories as at 31/3/2012</th>
<th>Current Instruments</th>
<th>Fastest way to neutralise risk</th>
<th>Days to exit for cash without market impact</th>
<th>Fastest time to neutralise risk (days)</th>
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<tr>
<td>US equity</td>
<td>Physical, Futures &amp; Options</td>
<td>Futures</td>
<td>17*</td>
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<tr>
<td>Broad v financial sector equity</td>
<td>Index futures &amp; Options</td>
<td>Physical</td>
<td>18</td>
<td>1</td>
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<tr>
<td>Financial sector v broad credit</td>
<td>Index CDS</td>
<td>OAT Futures**</td>
<td>18</td>
<td>4</td>
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<tr>
<td>High yield credit</td>
<td>Index Futures</td>
<td>CDX</td>
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<td>US equity tech v small cap</td>
<td>Index Futures</td>
<td>Physical and Futures</td>
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<tr>
<td>Long USD v EUR</td>
<td>FX forward</td>
<td>FX forward</td>
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<tr>
<td>Korean Equity</td>
<td>Index Call Options</td>
<td>Index Futures</td>
<td>25^</td>
<td>1</td>
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<tr>
<td>US forward-start duration</td>
<td>Bond future, Swap and Swaption</td>
<td>Physical</td>
<td>3</td>
<td>1</td>
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<tr>
<td>Russian Equity</td>
<td>Physical (ADRs and GDR)</td>
<td>Futures basket</td>
<td>3</td>
<td>1</td>
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<tr>
<td>Nikkei v S&amp;P variance</td>
<td>Variance Swap</td>
<td>Index Futures</td>
<td>15</td>
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<td>Mexican rates v EUR</td>
<td>Mexican Gov Bonds</td>
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<tr>
<td>US equity large v small cap</td>
<td>Index Futures</td>
<td>Physical and Futures</td>
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<tr>
<td>European equity</td>
<td>Physical and Futures</td>
<td>Futures</td>
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<tr>
<td>Global index-linked bonds</td>
<td>Physical &amp; Swaption</td>
<td>ZCI Swaps</td>
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<tr>
<td>Long BRL v CZK</td>
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<td>FX forward</td>
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<tr>
<td>UK corporate bonds</td>
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<td>Stock Selection</td>
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<td>FX Hedging</td>
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<tr>
<td>HKSEI v FTSE Variance</td>
<td>Variance Swap</td>
<td>Index Futures</td>
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<tr>
<td>Global equity</td>
<td>Physical and Futures</td>
<td>Physical and Futures</td>
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<td>1</td>
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<tr>
<td>European swaption steepener</td>
<td>Swaption</td>
<td>Swaption</td>
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</tr>
<tr>
<td>Nikkei v FTSE Variance</td>
<td>Variance Swap</td>
<td>Index Futures</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Cash</td>
<td>Deposits, CoD &amp; CP (WAM 48d)</td>
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</tbody>
</table>

Notes:
*As well as physical assets and S&P futures, we now have an option based approach to gain US Equity exposure
**As well as OAT Futures the long financial credit exposure would be neutralised using a basket of European equity beta hedges (allowing for current restrictions in Belgium, France, Italy and Spain)
* Based on the open interest in the listed market for the KOSPI calls
^ Based on a programme trade in our physical portfolios that removed their tracking error to their benchmark

- Speed with which the GARS risk positions could be neutralised, as at 31 March 2012
- Speed of execution is indicative of how fast the strategy could be altered without materially moving the underlying market. It is also indicative of capacity for the GARS strategy to grow without impeding return generation
- Time to liquidate a given strategy for cash with no market impact is generally less than one week
- Time to neutralise risk is much quicker – can be achieved by a variety of methods
Diverse client base and ongoing opportunities

- Variety of client types, including DB pensions, DC pensions, Charities, Endowments and Foundations
- Compound annual growth rate of 85% since December 2009
- Excluding Standard Life pension scheme, the 10 largest 3rd party UK GARS clients represent only 9% (£1.4bn) of assets
- 3 of top 10 are platforms
- Euro assets form c.10% of pooled assets
- North America, Australia and Asia now starting to allocate – client base diversified

GARS third-party assets under management

- GARS is attractive to both retail and institutional investors and is a global proposition
- We are expanding our global reach (Japan, Australia, US via John Hancock)
- Opportunity for ‘higher return + higher volatility’ version
- Raising profile of Standard Life Investments across all asset classes – introducer effect
GARS summary

• Performance
  ▪ Achieving target of cash + 5% while minimising volatility through diversification
  ▪ Asset and client growth remains strong

• Process
  ▪ GARS is an embodiment of Standard Life Investments – not just a product
  ▪ Strong and experienced team drawing on expertise across SLI

• Risk
  ▪ Risk management is at the heart of GARS
  ▪ Achieving demanding risk criteria

• Opportunity
  ▪ Substantial potential for growth through US and other new international markets
  ▪ Core investment solution with broad investor appeal
  ▪ Highly scalable operation with low marginal costs
  ▪ Opening doors for our wider propositions in new markets
Global Absolute Return Strategies performance

1 Portfolio performance is based on the £, institutional pooled pension portfolio
2 Thomson Datastream, UK 6 month LIBOR and MSCI World (£)
### Strategy activity in recent quarters

#### Q3 2011
- Closed / took profit on European Equity Variance
- Closed relative value Swiss Equity vs German Equity
- Added US technology vs US Small cap equity
- Altered Financial vs Broad credit to take additional financial credit exposure
- Added Norwegian Krone vs Swiss Franc then altered to Norwegian Krone vs Euro
- Added Polish Zloty vs Czech Koruna
- Added Long UK Inflation real yield

#### Q4 2011
- Altered Forward Starting US Duration – sold receiver swaption at 2.4%
- Altered Korean vs European equity relative value position by implementing Korean and German equity index call options
- Altered Australian vs US short term duration by closing US short leg
- Added US Dollar vs Canadian Dollar
- Closed Swedish vs German short term rates strategy

#### Q1 2012
- Added US Large Cap volatility via VIX index
- Closed UK 5Y inflation
- Closed Long Norwegian Krone vs Euro
- Added Long Brazilian Real vs Czech Koruna
- Altered Financial vs Broad credit to take additional protection on the Broad credit position
- Closed Australian Short Term Rates position
- Assumed market exposure to Korean equities by closing the European side of Korean vs European equity relative value strategy
- Added interest rate protection to Global Inflation-Linked bonds position

#### Q2 2012
- Altered Long Brazilian Real vs Czech Koruna to be short AUD
- Altered US technology vs US Small cap equity to reduce APPL exposure that had reached 18% from 9% originally
- Added RV Forward Start Duration Long UK 10 year vs Europe 20 year
- Added RV Volatility via Long puts on Hang Seng vs short puts on S&P as volatility spread close to flat
- Altered Financial vs Broad Credit and Broad vs Financial Equity to operate a new European Financials Capital Structure strategy. New position is: Long Sub Financials, Short Senior Financials and Short Bank Equity

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1 Up to and including 12 June 2012
**Directional strategy - example**

**US Long Bond yields (Forward Start)**

- This strategy is designed to benefit from the higher yields offered in the long end of the US Treasury market, with the fund benefitting as these yields fall. It provides useful diversification to equity and other risk assets.

- The strategy is implemented by buying ultra-long (30yr) US Treasury bond futures and selling 10yr US SWAP interest rates. Additionally, we have sold a swaption position on the 30 year position which reduces our duration position as yields fall.

- By implementing the strategy in this way we avoid the very low yields at the front end of the US yield curve and believe SWAP spreads are vulnerable. We will also benefit from the flattening of the curve as investors realise interest rates are unlikely to rise within our investment time horizon and that looser monetary policy, via say lower mortgage rates, are needed to stimulate consumer activity.

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1 As at 30/4/12
Relative value strategy – example

**European Bond yield steepener**

- We think that longer term European interest rates may still fall further as the ECB cuts short rates to historically low levels again.
- However, the structure of yields that the market implies for three years’ time suggests that the curve between 5 year and 10 year will be far flatter than we believe is possible at such low yields.
- By entering this curve steepening strategy using swaptions the fund will benefit if yields are lower in the future than they are today as long as the curve is steeper then than the market anticipates today. If yields rise there is no cost to the fund.

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1 As at 30/4/12
Structure of the GARS team

**Strategic Investment Group:**
- Foremost strategic thinkers
- Diversity of backgrounds
- Regular meetings to discuss portfolio
- Assess new ideas from across the asset class desks
- Forum to examine, test and approve multi-asset strategies

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Investment experience (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euan Munro (Chair)</td>
<td>Director of Multi-Asset Investing and Fixed Income</td>
<td>20</td>
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<tr>
<td>Guy Stern</td>
<td>Head of Multi-Asset Management</td>
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<tr>
<td>Andrew Milligan</td>
<td>Head of Global Strategy</td>
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<tr>
<td>Stan Pearson</td>
<td>Head of European Equities</td>
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<tr>
<td>Andrew Sutherland</td>
<td>Head of Credit</td>
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<tr>
<td>Neil Matheson</td>
<td>Senior Vice-President, Investment Strategy</td>
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<tr>
<td>Dr Brian Fleming</td>
<td>Head of Multi-Asset Risk and Structuring</td>
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<tr>
<td>Dr Richard Batty</td>
<td>Global Investment Strategist</td>
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<td>Frances Hudson</td>
<td>Global Thematic Strategist</td>
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<tr>
<td>David Jubb</td>
<td>Investment Director, Multi-Asset Investing</td>
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<tr>
<td>David Millar</td>
<td>Investment Director, Multi-Asset Investing</td>
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<tr>
<td>Jason Hepner</td>
<td>Investment Director, Global Strategy</td>
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</table>

**Global Investment Specialist Team**

- **Strategic Research**
  - Andrew Milligan
  - Dr Brian Fleming
  - Dr Anne Friel PRM
  - Dr Robert de Roeck
  - Dr Jens Kroeske

- **Risk Analysis**
  - David Millar FIA
  - David Jubb FIA
  - Colette Conboy
  - Audrey Simpson
  - Harry Smith
  - Murray Forbes
  - Malin Naim
  - Thad Quinn
  - David Kirkpatrick
  - Scott Smith
  - Julia Mikhniak
  - Alex Berry

- **Multi Asset Management**
  - Guy Stern CFA
  - Gwilym Satchell PRM
  - Dr Brian Fleming
  - CFA PRM

- **Global Investment Specialist Team**
  - Jason Hepner CFA
  - Dr Jens Kroeske
  - Dr Robert de Roeck
  - Dr Brian Fleming
  - Dr Anne Friel PRM
  - Colette Conboy
  - Audrey Simpson
  - Harry Smith
  - Murray Forbes
  - Malin Naim
  - Thad Quinn
  - David Kirkpatrick
  - Scott Smith
  - Julia Mikhniak
  - Alex Berry

- **Euan Munro FIA**
  - Director of Multi-Asset Investing and Fixed Income

- **Global Absolute Return Strategies | July 2012**
Corporate Global Absolute - Disclosure requirements

Composite Report

Composite Name: Corporate Global Absolute
Creation Date: 01/07/2006
Firm: Standard Life Investments
Currency: U.K. £
Report End Date: 31/12/2011
Benchmark / Sector: 6 MONTH LIBOR / LIBOR Top Level (Factset)
Class Order: All stocks (0)
Fees (%):

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<tbody>
<tr>
<td>Composite Weighted Average</td>
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<td>20.14</td>
<td>11.31</td>
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<td>Composite Final Market Value</td>
<td>31,370,397</td>
<td>241,596,257</td>
<td>708,066,897</td>
<td>1,522,384,843</td>
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<td>5,985,982,703</td>
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<td>Total Firm Assets</td>
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<td>82,468,000,000</td>
<td>93,581,500,000</td>
<td>113,842,000,000</td>
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<td>Percentage of Firms Assets</td>
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Firm Disclosure

A complete list and description of all of the firm’s composites are available from Standard Life Investments. The change from Process Date to Trade Date was made during 1999. No valuations are based on Settlement Date. There are no minimum asset levels set below which portfolios are not included in a composite. All performance calculations and returns have been calculated gross of management fees. All returns are presented on an all-inclusive basis and as such all capital gains interest income and withholding taxes have been taken into account in market valuations and returns. All indices are on a gross of tax basis apart from FTSE UK indices which are net of Withholding Tax. There are no Non-Fee-Paying portfolios included in any composite. The Daily True Time Weighted Rate of Return methodology has been used from 2001 apart from unitised Cash Property GARS and MyFolio products where NAV performance is used. Prior to this NAV performance was used for all products. Additional information regarding policies for calculating and reporting returns is available upon request. Dispersion is calculated using high/low difference Returns and market values in Irish punts prior to 1999 are converted from punts into Euros at the fixed conversion rate. Standard Life Investments 'The Firm’ consists of all fee-paying funds managed by Standard Life Investments and its Subsidiaries which include Standard Life Investments (Mutual Funds) Limited SLTM Limited Standard Life Investments Limited USA Limited and Standard Life Investments Limited Irish Firm. Standard Life Investments Limited Irish Firm have been linked to form the performance record of the new firm Standard Life Investments. The new firm was created on 01/01/2008 Standard Life Investments Limited claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Composite Disclosure

The standard annual fee applicable to this composite is 0.70% but individual fees are negotiable on an account basis. The composite includes funds that invest in a highly diversified strategy including equities, bonds, property and cash with a derivative overlay in options futures swaps and currency forwards to deliver a positive absolute return. The fund is benchmarked against 6 month Libor. It includes part period return for 2006 from 01/07. Derivatives may be used to vary exposure to markets and express views on the direction of currencies interest rates sectors and securities to enhance capital return limit downside volatility and preserve capital.