MyFolio

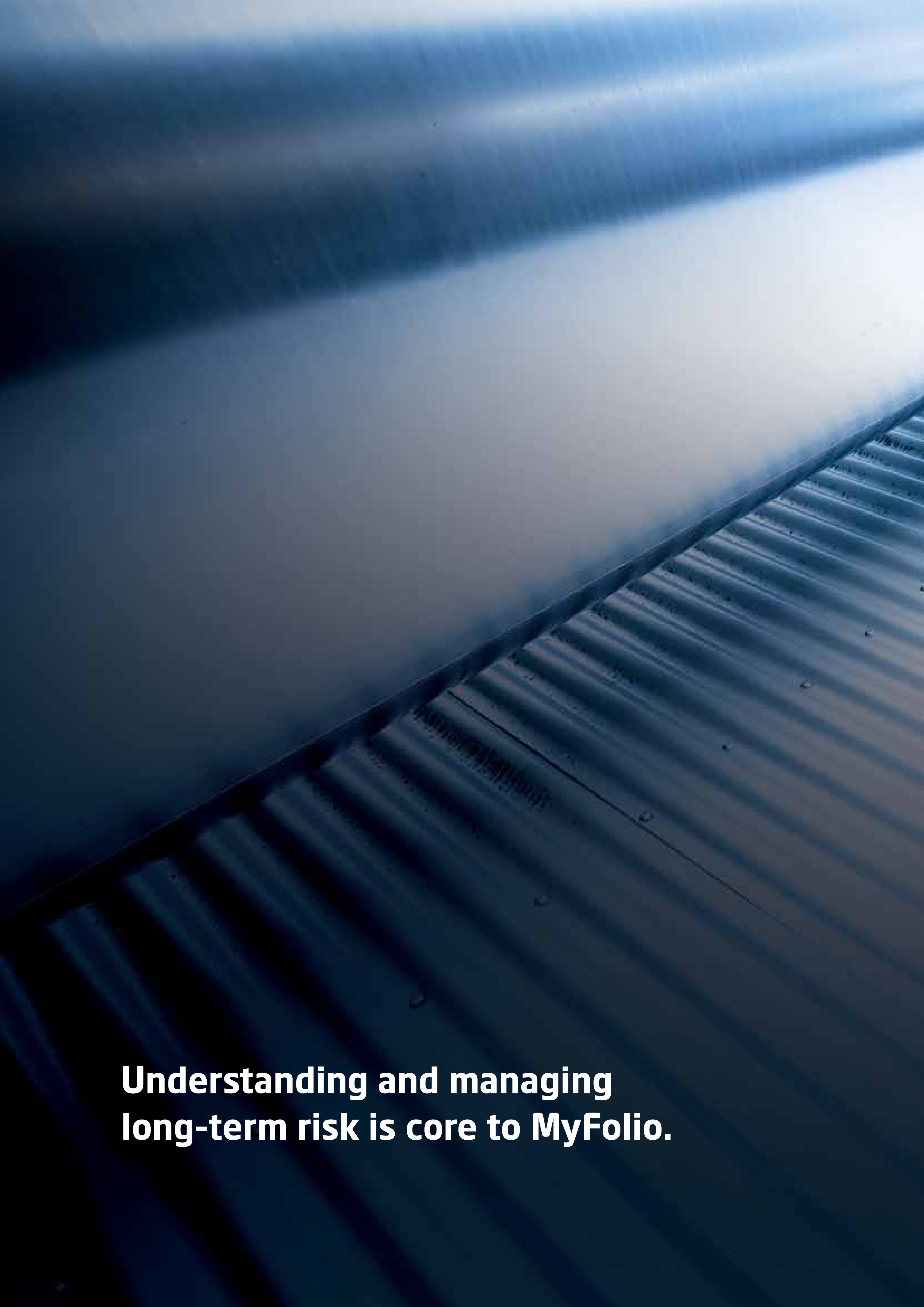
Understanding risk and reward

September 2013

The opinions expressed are those of Standard Life Investments as of September 2013 and are subject to change at any time due to changes in market or economic conditions. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any strategy.

Standard Life Investments has not considered the suitability of investment against your individual needs and risk tolerance. To ensure that you understand whether a financial product is suitable, please read the Prospectus or Key Investor Information Document and seek assistance from your professional adviser.

Standard Life Investments



Understanding and managing long-term risk is core to MyFolio.

Defining Risk

We all interpret risk in different ways. An understanding of what risk means is influenced by your past experiences and what you are willing to accept in the future.

In everyday life, risk is often associated with negative or adverse outcomes. Indeed, the dictionary definition of risk is "a situation involving exposure to danger."* In investment terms, however, this is not always strictly true.

Financial risk, in the context of your investments, is the risk of losing money. However, in order to grow your investments, you need to take on some element of financial risk. It is generally accepted that the more financial risk you are willing to take, the greater the potential financial reward. The downside is that losses suffered could be greater. Where the danger comes is if risk is not properly understood, managed or controlled and your money is exposed to financial risks with which you are uncomfortable.

Understanding your tolerance to risk

Before investing, your adviser will assess how much financial risk you are willing to take.

As part of this assessment, your adviser will attempt to assess your capacity for loss, a term which the Financial Services Authority (now Financial Conduct Authority) defined as "a customer's ability to absorb falls in the value of their investments. If any loss of capital would have a materially detrimental effect on their standard of living, this should be taken into account in assessing the risk that they are able to take."**

Your individual capacity for loss relates to your personal circumstances and goals. As the value of investments can fall as well as rise, you need to understand what the impact of losing money could mean for your financial plans. Exposing your investment to some financial risk is the price you pay for achieving better long-term returns.

There will be times when certain assets will tend to go up in value at the same time as others fall, meaning you could benefit from a more balanced approach that cushions the impact of an unexpected market downturn. Investing in assets that behave differently is essential in order to effectively spread risk.

*Oxford English Dictionary
** Financial Services Authority, Guidance Consultation: Assessing Suitability, January 2011

> **"In order to grow your investments, you need to take on some element of financial risk."**

An Overview of the MyFolio Funds

The MyFolio funds are a family of 25 portfolios carefully constructed to offer you an investment based on your attitude to risk and preferred investment style. You simply decide on the most suitable risk profile and investment style, then select the appropriate MyFolio fund.

Understanding and managing risk is central to MyFolio. We launched the MyFolio fund range at a time when market uncertainty meant investors were particularly focused on the risks to which their investments could be exposed.

We therefore designed the MyFolio funds to offer five risk levels, from lower to higher risk, so that you and your adviser can choose the level most suitable for you.

I

MyFolio I

Designed for investors with a conservative approach to investing and who prefer to take a small amount of risk to achieve modest or relatively stable returns. You accept there may be some short-term periods of fluctuation in value.

II

MyFolio II

Designed for investors who are relatively cautious with their investments, want to try to achieve a reasonable return and are prepared to accept risk in doing so. Typically these portfolios will exhibit relatively modest yet frequent fluctuations in value.

III

MyFolio III

Designed for investors with a balanced attitude to risk, e.g. do not seek risky investments but do not avoid them either. You are prepared to accept fluctuations in the value of your investments to try to achieve better long-term returns. You understand that your investments may be subject to frequent and, at times, significant fluctuations in value.

IV

MyFolio IV

Designed for investors who are relatively comfortable with investment risk, who aim for higher long-term returns and understand that this can mean some sustained periods of poorer performance. You are prepared to accept significant fluctuations in value to try to achieve better long-term returns.

V

MyFolio V

Designed for investors who are very comfortable with investment risk, aim for high long-term investment returns and do not overly worry about periods of poorer performance in the short to medium term. Ordinarily, these portfolios can be subject to the full extent and frequency of stock market fluctuations.

Once you have selected your risk profile, the next step is to choose an investment style.

► MyFolio Market Funds

There are five MyFolio Market funds, one for each risk level.

Each of these funds invests mostly in tracker funds, which generally aim to replicate the performance of an index, such as the FTSE All Share* or the S&P 500** These funds will, therefore, follow the market down as well as up. This is the lowest cost MyFolio option.

► MyFolio Managed Funds

There are ten MyFolio Managed funds; with growth and income options for each of the five risk levels.

The MyFolio Managed funds invest mainly in funds managed by Standard Life Investments. We have considerable experience investing across the major asset classes such as equities, property and bonds.

► MyFolio Multi-Manager Funds

There are ten MyFolio Multi-Manager funds; with growth and income options for each of the five risk levels.

The MyFolio Multi-Manager funds invest in carefully selected funds from some of the leading investment managers in the market. We carry out in-depth research to identify funds we believe to be among the best in the industry.

Regardless of which style is most suitable for you, all of our funds are managed by experts in their fields using a robust and transparent process.

* All FTSE indices are calculated solely by FTSE International Limited ("FTSE"). FTSE does not sponsor, endorse or promote these funds. All copyright in the index values and constituent lists vests in FTSE. "FTSE®" is a trade mark jointly owned by the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under licence. "All-Share"is a trade mark of FTSE.
* * The S&P 500 is a stock market index containing the stocks of 500 American Large-Cap corporations. The index is owned and maintained by Standard & Poor's. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of this index.

Setting the Right Risk Levels

Standard Life Investments sets the risk levels for the MyFolio funds. We then consult with Barrie & Hibbert (B&H), world leaders in risk modelling, to determine the mix of assets that can deliver the highest possible return for a given level of risk.

To achieve this, B&H seeks to optimise the balance between risk and return. This starts with an analysis of how different investment asset classes, such as equities, bonds and property, behave and how they are likely to perform relative to each other over the longer term.

B&H take a 10-year view on asset classes and make recommendations to Standard Life Investments on the best mix of assets in which to invest for each risk level. This mix of assets is known as the strategic asset allocation (SAA) of a fund.

We formally review the SAA every three months but our aim always stays the same – to generate the highest returns possible within a fund's risk level.

Providing peace of mind

Investors in any MyFolio fund can be reassured that the relative risk level of their investment always stays the same. Quite simply, lower risk is always lower risk and higher risk is always higher risk. We review holdings on a daily basis to ensure that the required asset mixes remain within their agreed parameters at all times.

Investors in any MyFolio fund can be reassured that the relative risk level of their investment always stays the same.

An Illustration of Risk and Reward

- Market Fund Range

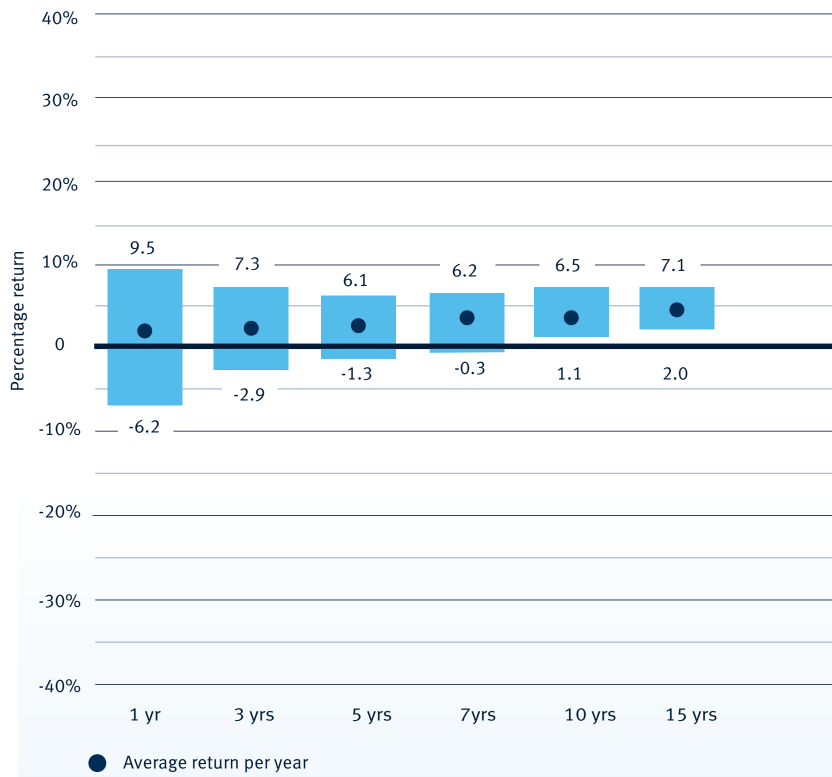
What do the charts show?

We have used the MyFolio Market Fund range as an illustration of what performance returns you could expect as you move up the risk spectrum. The charts show that as you move up the risk levels you should expect greater reward but also be comfortable with the prospect of greater loss. The charts also highlight the benefit of long-term investing, as the scope for loss is negated over the longer term.

Each MyFolio Fund has a different level of risk and it's important that you understand what that risk means.
The illustrations are a projection of the expected returns over a range of time periods, based on 95% of assumed outcomes. For ease of understanding we have annualised the projected returns. It's important to remember these are modelled returns and not guaranteed and the actual returns you would receive as an investor might be lower. The projected returns are based on a combination of historical and current market data. They illustrate the range of possible outcomes over 1, 3, 5, 7, 10 and 15 years for each fund, using the respective strategic asset allocation.

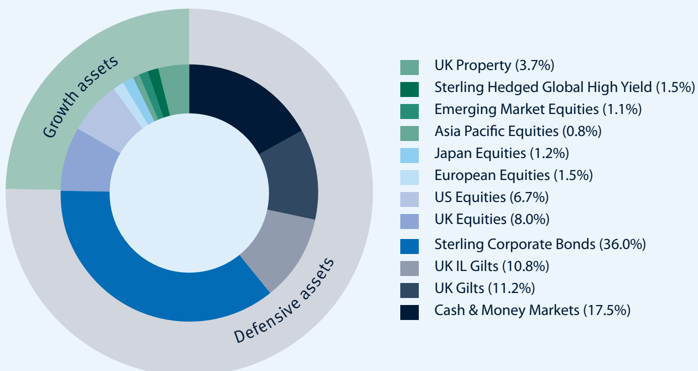
The illustrations are based on 95% of assumed outcomes, which means that 95% of the projected outcomes will fall within the higher and lower ranges shown in the charts. The returns do not take account of product charges. The average annualised return for each fund and time period has also been marked on the charts.

MyFolio Market I



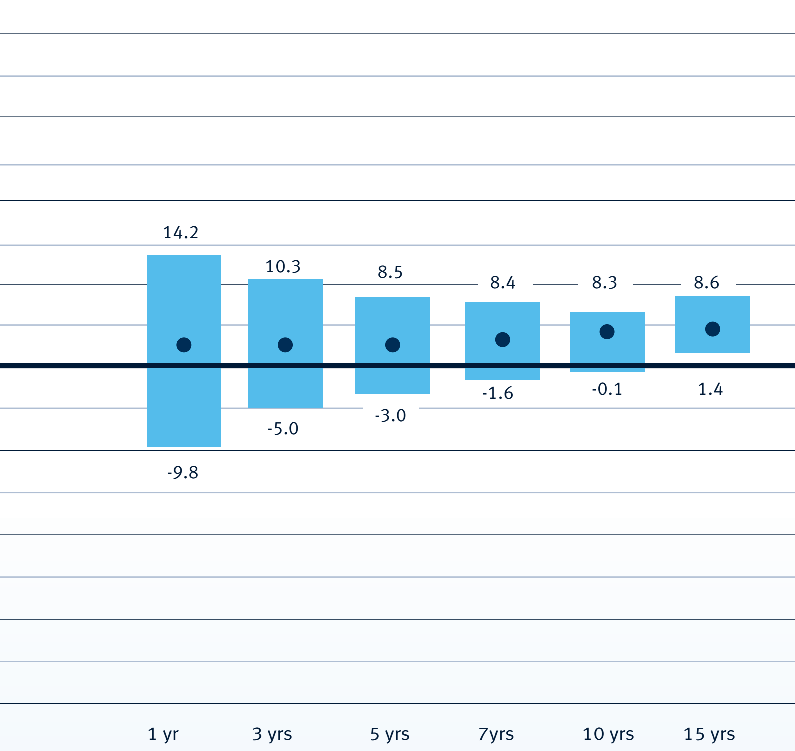
Source: Standard Life Investments, as at June 2013.

Strategic Asset Allocation MyFolio Market I

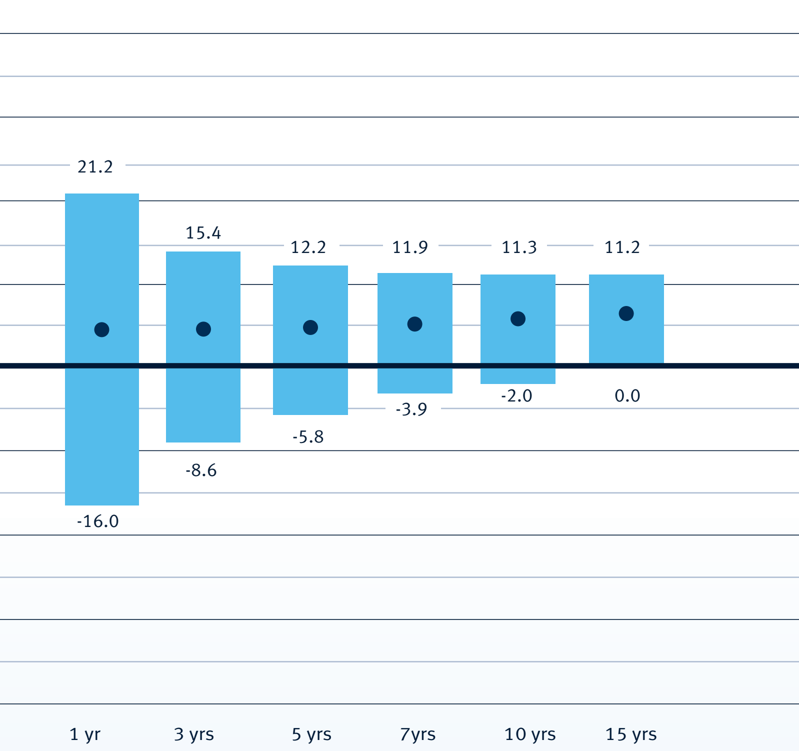


Source: Standard Life Investments, as at 31 August 2013.

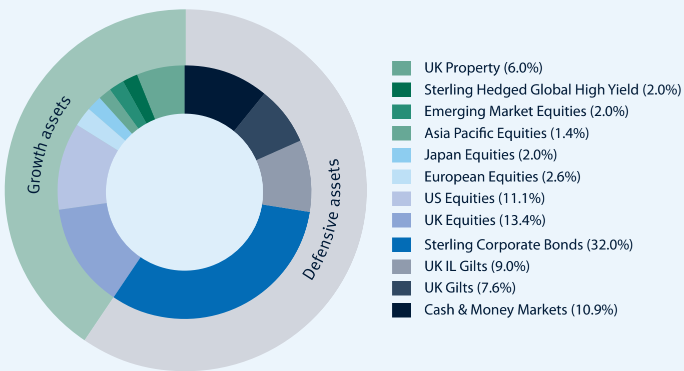
MyFolio Market II



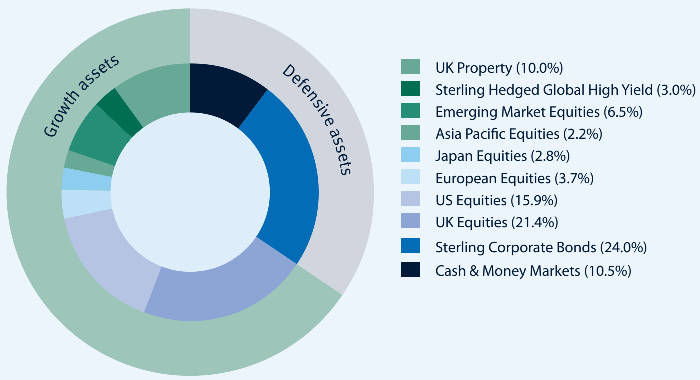
MyFolio Market III



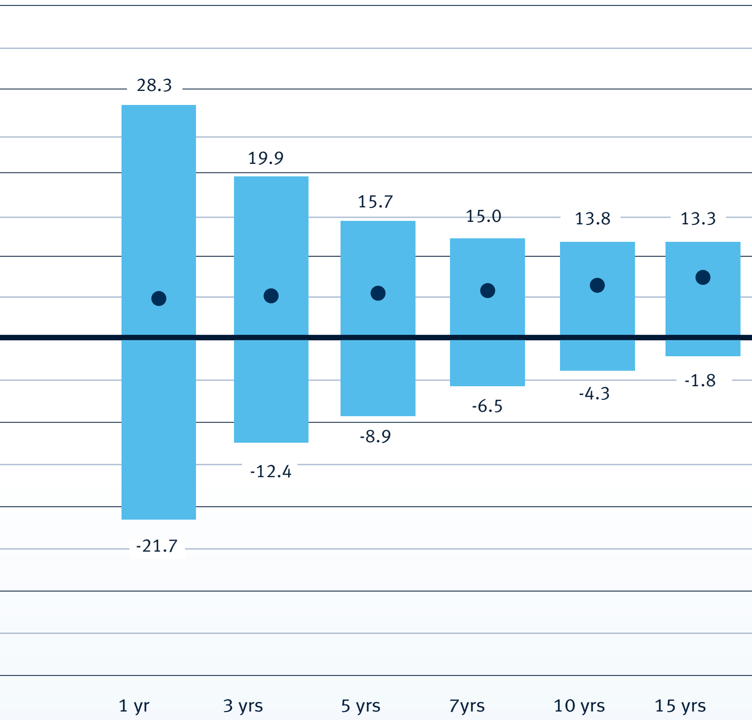
Strategic Asset Allocation MyFolio Market II



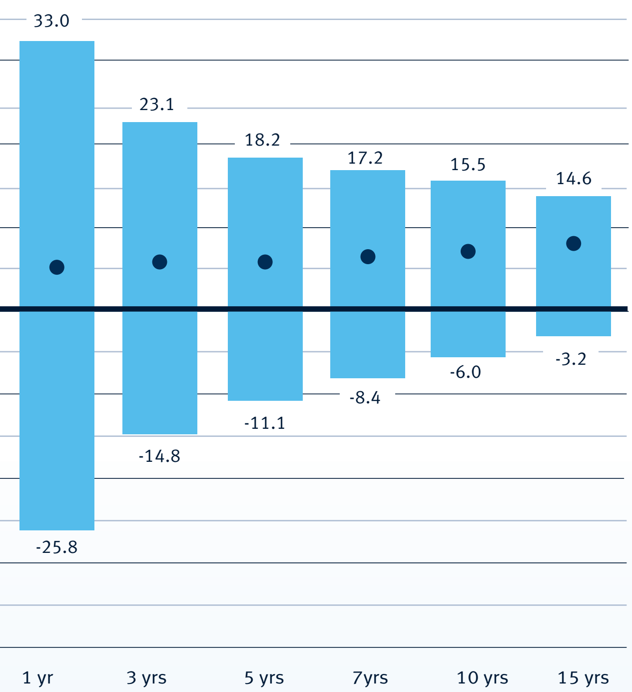
Strategic Asset Allocation MyFolio Market III



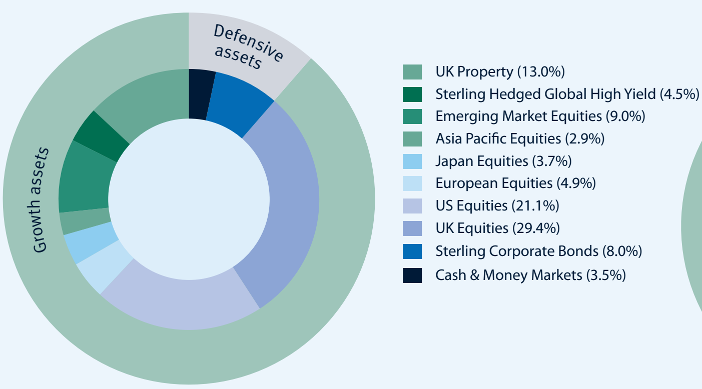
MyFolio Market IV



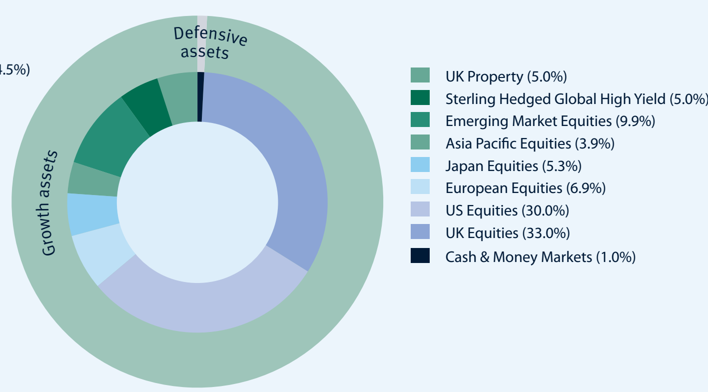
MyFolio Market V



Strategic Asset Allocation MyFolio Market IV



Strategic Asset Allocation MyFolio Market V



In Summary

No investment is ever risk free. However, taking on an element of financial risk can produce greater rewards over the long term.

Taking on more risk does, however, open you up to greater potential losses or short-term fluctuations in the value of your investment. Regardless of whether you deem yourself a risk-taker or someone who is more cautious, the important thing is that you understand the financial risk to which your investment is exposed and that you are comfortable with both the gains and losses you could experience over your investment timeframe.

By offering a choice of investment styles combined with a range of risk profiles, the MyFolio range is designed to help you achieve your investment goals.

To find out more about our MyFolio Funds, visit our website
www.standardlifeinvestments.com

Important Information

It is important that you speak to your adviser before you make any decisions. Your adviser can help you establish your investment goals, work out your attitude to risk and select the most suitable MyFolio option for you. This material is provided for reference purposes only and this does not constitute an offer, solicitation or recommendation to acquire or dispose of individual stocks.

Additional information you should be aware of

As with all investments, there are risks associated with investing in the MyFolio Funds. They are shown below. Please do take the time to read these risks, it is important you understand them. Some of the risks may use terminology you may not be as familiar with. If this is the case, please ask your adviser to explain them to you.

As all the MyFolio Funds are multi-asset investments the relevance of these specific risks will depend on the specific MyFolio Fund and associated risk level chosen.

General risks

The value of a fund can go down as well as up, and is not guaranteed. You may receive back less than the amount originally invested.

Past performance is not a guide to the future.

A fund can invest in collective investment schemes which can themselves invest in a diverse range of other assets. The fund may not have any control over the activities of any collective investment scheme invested in by the fund. These underlying assets may vary from time to time but each category of asset (which may include equities, bonds or immoveable property) has individual risks associated with them. If the value of a fund falls significantly, it may not be possible to maintain the same diversification of risk as the fund may hold a narrower range of assets.

Risk factors

1. Market risk is the risk that market conditions can negatively impact investment returns. For instance, the prices of securities are dependent on general supply and demand that fluctuates independently of any security in particular. Market risk is generally dependent on economic conditions, such as inflation, consumer sentiment, or credit availability.

2. Emerging markets tend to be more volatile than more established stock markets and therefore your investment may be subject to greater risk. Political and economic conditions should also be taken into account.

   The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds.

3. Currency risk means investments may be made in assets denominated in various currencies, and movements in exchange rates may have a separate effect on the value of and the returns from such investments.

4. Default/credit risk is the risk that a business will not be able to make payments due to its debt load. Interest and principal must be paid on borrowed money – failure to make payments can force the business into bankruptcy. A business with large amounts of debt relative to income does not have much reserve for unexpected expenses or lower income, and can fail if the economy sours or if it encounters some other factor that lowers income or increases expenses.

   Funds investing in corporate bonds are therefore subject to default on the interest owed and/or the ability of the bond issuer to return capital on the redemption date.

   The risk of this happening is usually higher with bonds classified as ‘sub-investment grade’. These may produce a higher level of income but at a higher risk than investments in ‘investment grade’ bonds. In turn, this may have an adverse impact on funds that invest in such bonds.

   The yields offered by funds investing in fixed interest securities reflect, in part, the risk rating of the issuers of these securities.

5. Interest rate risk is a risk that lowers yields or returns due to changes in the prevailing interest rate. Interest rate risk can affect different securities in different ways. The price of bonds in the secondary market, for instance, varies inversely to interest rates i.e. when interest rates rise, the price of bonds drops, and vice versa.

6. Inflation risk is a risk that lessens real returns due to the decreasing purchasing power of the returns.

7. Liquidity risk is the risk that an investment cannot be sold quickly for a reasonable price. Real estate or property, for instance, is an illiquid investment because it can take considerable time to sell unless it is sold below market value. Other markets can also be less liquid and therefore can be more volatile, such as smaller companies securities or emerging markets.

8. Property risk occurs as the valuation of property is a matter of judgment by an independent valuer. The value of capital and income will fluctuate as property values and rental incomes rise and fall.

   Where investment in property is made, either directly or indirectly, it should be noted that due to the nature of these assets, significant volatility may be experienced during times of extreme market turmoil.

   The underlying investments of property funds can generally be less liquid than equities or bonds and, as such, purchases and sales may be a long and uncertain process. At times, cash may remain uninvested if it proves difficult to make purchases. Equally, there may be times when property has to be sold quickly and for less than expected.

9. Business risk is any risk that can lower a business’s net assets or net income that could, in turn, lower the return of any security based on it. Some business risks are sector risks that can affect every company in a particular sector, while some business risks affect only a particular company. Higher mortgage rates can increase the business risk for real estate or construction companies, for instance. However, even similar businesses can have widely different risks depending on the quality of management and the resources that are available to the business.

10. Event risk is the risk of an event that can have an impact on the potential return of an investment. Generally, event risk is risk that affects a single company and its securities, such as the loss of a major lawsuit or an accounting scandal. Sometimes event risk can affect a number of securities, such as the political risk that a country will do something that will drive down the prices of any securities issued by companies located in there, such as increasing taxes, discouraging foreign investment, or in extreme cases, nationalising the companies without proper compensation.

11. Tax risk is the risk that a taxing authority will change tax laws which could have a negative impact on investment. Higher taxes on investment income reduce real returns and can lower the prices of investments in the secondary markets. Higher taxes on businesses will lower their net income, which will usually lower the stock price, and may lower its bond prices in the secondary market if their credit rating is lower as a result of the lower income.

12. Absolute return risks is with regards to the funds (except the MyFolio Market range) invested in absolute return funds. In order to achieve their return objectives, absolute return funds may use derivatives extensively. Derivatives can lead to increased risk due to the potential for large losses, relative to the small financial outlay, and through counterparty risk (default of the other party in a derivative contract). In addition, absolute return funds can use derivatives to establish ‘short’ positions in individual markets and assets, which carry inherent risk but also give the potential to benefit if the value of the market/asset falls. Given these risks, extensive oversight and a robust risk management process is required. It is also important not to confuse absolute return funds with guaranteed funds or products which guarantee a positive nominal return over any period.

MyFolio provides you with both flexibility and choice.

For more information on MyFolio Funds, visit our website standardlifeinvestments.com

standardlifeinvestments.com

This material is for informational purposes only. This should not be relied upon as a forecast, research or investment advice. It does not constitute an offer, or solicitation of an offer, to sell or buy any securities or an endorsement with respect to any investment vehicle. The opinions expressed are those of Standard Life Investments and are subject to change at any time due to changes in market or economic conditions.

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL.
Standard Life Investments Limited is authorised and regulated by the Financial Conduct Authority.
Calls may be monitored and/or recorded to protect both you and us and help with our training.

INVBGEN_13_0896_MyFolio_Risk_Return_Flyout_TCM 0913