

SRI Balanced Fund (Ethical Funds) Ethical Funds

Lead Manager(s): OtterWood Capital Management Inc.

Performance Review Date: December 31, 2013

Investment Objective: Aims to increase the value of the investment over the long-term, protect the original investment and provide a high degree of current income. It invests mostly in a mix of Canadian and U.S. Equities and fixed income investments and follows a socially responsible approach to investing.

Investment Style: Specialty

Annual Fund Performance (%)

	2009	2010	2011	2012	2013	5 yrs
SRI Balanced Fund (Ethical Funds)	15.65	10.06	-2.58	1.96	5.78	5.99
SRI Balanced Fund Benchmark (Ethical Funds)	18.29	10.85	-1.39	7.19	7.69	8.34
Value Added (+) / Lost (-)	-2.64	-0.79	-1.19	-5.23	-1.91	-2.35
Quartile Ranking ⁽¹⁾	3rd	3rd	4th	4th	4th	4th
Benchmark:	50% DEX Universe Bond Index + 40% S&P/TSX Composite TR Index + 10% MSCI World TR Index (Can\$)					

Annualized Performance – Relative Rankings ⁽¹⁾ (ending December 31, 2013)

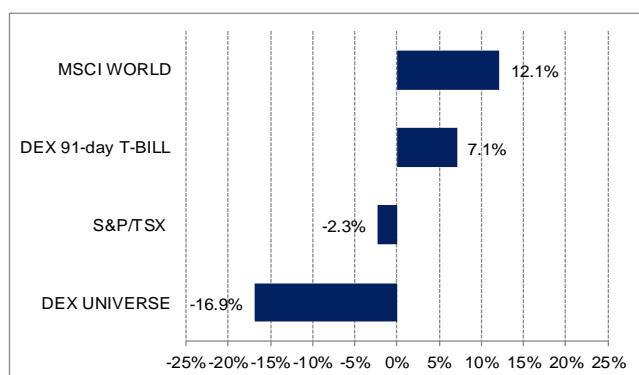
3 years	4 th	Quartile
5 years	4 th	Quartile
7 years	4 th	Quartile
10 years	4 th	Quartile

Risk Characteristics (5 years ending December 31, 2013)

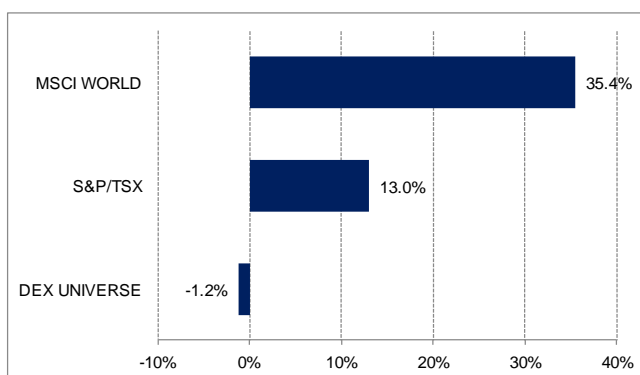
Downside Volatility	n/a
Standard deviation	n/a
Tracking error	n/a
Information ratio	n/a
Beta	n/a

Portfolio Positioning

Fund Sector Deviations



Year-to-date Index Sector Performance



Short-Term Performance Analysis

- In 2013, the fund underperformed its benchmark and ranks in the fourth quartile relative to its peers.
- Asset class performance was the main detractor of relative value.
- Asset allocation produced positive results.
- Given its Macro focused investment philosophy, style bias had no impact on short-term performance.

Long-Term Style Analysis

	2009	2010	2011	2012	2013	5 years
S&P/TSX Outperforming Style	Growth	Value	Value	Value	Value	Value
MSCI WORLD Outperforming Style	Growth	Growth	Value	Growth	Value	Growth

Long-Term Performance Analysis

- The fund underperformed its benchmark in all of the past five years and failed to add value on a five-year annualized basis. This long-term performance ranks it in the fourth quartile when compared to its peers.
- Asset class performance was the main detractor of relative value.
- Asset allocation produced mixed results over the long term.
- Given its Macro focused investment philosophy, style bias had no impact on short-term performance.

Significant Corporate Events

Corporate

- There were no significant corporate events over the last five years.

Fund Specific

- On April 11 2012, NEI Investments announced that the sub-advisor for the Ethical Balanced Fund has changed from Guardian Capital Management to OtterWood Capital Management Inc., led by portfolio manager Christine Hughes. OtterWood Capital Management Inc. assumed investment management responsibilities for the \$330 million Ethical Balanced Fund on May 14, 2012 and the investment strategies of the fund has been adjusted to conform to Ms. Hughes's investment approach.

Quality & Choice Commentary

- The portfolio manager actively manages the allocation to each of the Fund's asset classes, based on various macro-economic factors, including; financial market liquidity, sovereign solvency, credit spreads, money flows into the global banking system, and the behavior of central banks. Security selection of equities is driven by a bottom-up process taking into consideration "growth at a reasonable price" as the key criteria. The security selection process is focused on companies that generate high and growing levels of free cash flow and dividends. The Fund may invest up to 30% of its assets in non-Canadian securities.
- In early 2012, NEI Investments made the decision to change the sub-advisor of the fund from Guardian Capital Management to Otterwood Capital Management. We have since met with NEI Investments and Otterwood, and although we believe that the fund will maintain its above average socially responsible standards, we can confirm that Otterwood manages the fund with a very different investment philosophy and style.
- The sub-advisor changes are significant and of concern, as we believe that Otterwood's investment process is not as structured as the previous Manager. We do not believe that this new investment philosophy and style is in line with our objectives for a socially responsible balanced fund on the Quality and Choice platform.

Conclusion: Due to the fact that we do not believe that the fund's new investment philosophy and style is in line with our objectives for a socially responsible balanced fund on the Quality and Choice platform, we now rate this fund as No Longer Promoted.

Manager Outlook

- The manager remains bullish into 2014. OtterWood is expecting a positive equity market in both US and Canada, with bonds coming in flat to down in price. The Canadian dollar should continue to weaken against the US, especially given the continued US recovery. The US dollar should rise against most major currencies.

⁽¹⁾ Quartile rankings are based on the underlying fund's returns.

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