

**SCOTTISH WIDOWS**

*official pensions and investment provider*



# Scottish Widows UK and Income Investment Funds ICVC

Short Report  
for the year ended  
28 February 2010

# Scottish Widows UK and Income Investment Funds ICVC

## The Company

Scottish Widows UK and Income Investment Funds ICVC  
15 Dalkeith Road  
Edinburgh  
EH16 5WL

Incorporated in Great Britain under registered number IC000165. Authorised and regulated by the Financial Services Authority.

## Authorised Corporate Director (ACD), Authorised Fund Manager & Registrar

Scottish Widows Unit Trust Managers Limited

### *Registered Office:*

Charlton Place  
Andover  
SP10 1RE

### *Head Office:*

15 Dalkeith Road  
Edinburgh  
EH16 5WL

Authorised and regulated by the Financial Services Authority and a member of the Investment Management Association.

## Investment Adviser

Scottish Widows Investment Partnership Limited

### *Registered Office:*

33 Old Broad Street  
London  
EC2N 1HZ

### *Business Address:*

Edinburgh One  
60 Morrison Street  
Edinburgh  
EH3 8BE

Authorised and regulated by the Financial Services Authority and a member of the Investment Management Association.

## Sub-Investment Adviser (High Income Bond only)

Mackay Shields LLC

9 West 57th Street  
New York  
NY 10019

Regulated by the Securities and Exchange Commission

## Depository

State Street Trustees Limited

### *Registered Office:*

20 Churchill Place  
Canary Wharf  
London  
E14 5HJ

### *Head Office:*

525 Ferry Road  
Edinburgh  
EH5 2AW

Authorised and regulated by the Financial Services Authority.

## Independent Auditors

PricewaterhouseCoopers LLP  
Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

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Long reports are available on request. If you would like a copy, please telephone Client Services on **0845 300 2244** or download the Financial Statements from the website **[www.scottishwidows.co.uk](http://www.scottishwidows.co.uk)** which is a website maintained by Scottish Widows plc on behalf of Scottish Widows Unit Trust Managers Limited.

Daily fund prices can also be found at the above website.

## Prospectus Changes

During the year and up to the date of this report, the Prospectus and Instrument have been changed to reflect that:

- With effect from 9 January 2010 changes were made to the investment objective and policy of the SafetyPlus® Fund. These changes were to clarify that the Fund can use alternative investment strategies in times of economic uncertainty causing unusual market volatility, and also to clarify that providing downside protection forms part of the Fund's objective. These changes do not affect the purpose of the Fund or its risk approach.

Also during the year and up to the date of this report, the Prospectus has been changed to reflect that:

- The ultimate holding company of the ACD has changed from Lloyds TSB Group plc to Lloyds Banking Group plc;
- The ACD may refuse to accept applications for subscriptions or switches of shares in a fund which it knows or in its absolute discretion considers to be associated with market timing activities;
- We have updated the Prospectus in line with FSA Rules in relation to suspension of dealings in the Company;
- We have updated the "UK Taxation" section and other parts of the Prospectus to clarify the tax position; and
- We have updated the list of "Other Eligible Securities Markets" in Appendix A of the Prospectus.

A copy of the Prospectus is available on request.

If you have chosen to view this report online, but now wish to receive a paper version of this report, please contact our Client Services team on 0845 300 2244 to arrange this.

## FUND PROFILE

### Fund Aims

To give either an income or growth (when income is kept within the fund). To do so by investing mainly in high quality corporate bonds and other fixed interest securities issued primarily by companies operating in the UK. The fund may also invest in Europe.

### Specific Risk Profile

**Fixed interest securities risk factor:** Some of the companies and governments that we invest in who issue bonds and other fixed interest securities might not be able to meet their payments, or their credit rating might fall. If they don't meet their payments, the value of your investment and any income you take will reduce. If their credit rating falls, the value of your investment will fall.

**Interest rates risk factor:** Fluctuations in interest rates are likely to affect the value of the bonds and other fixed interest securities held by the Fund. If long term interest rates rise, the value of your shares is likely to fall and vice versa.

**Single government issue risk factor:** More than 35% of the Fund may be invested in fixed interest securities issued by a single government. If they can't repay the amount borrowed, the value of your investment will fall.

### Distribution

XD date	Payment date
30/09/09	15/11/09
31/10/09	15/12/09
30/11/09	15/01/10
31/12/09	15/02/10
31/01/10	15/03/10
28/02/10	15/04/10

### TER

	28/02/10 %	28/02/09 %
A Accumulation	1.12	1.12
A Income	1.12	1.12
B Accumulation	0.87	0.87
B Income	0.87	0.87

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Portfolio Turnover Rate

	28/02/10 %	28/02/09 %
PTR	79.69	58.42

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## INVESTMENT MANAGER'S REVIEW

The turnaround in the performance of the corporate bond market in the past 12 months has been remarkable. Since April, corporate bonds have surged, wiping out their losses from the previous year, with indices hitting new highs.

Investors that moved into corporate bonds early in 2009 have enjoyed excellent returns.

The UK economy has begun a modest recovery; growth resumed in the fourth quarter of 2009. And although Consumer Price Indices inflation rose to 3.5% in January, the Bank of England expects lower growth and inflation in the medium term. As a result, the Bank has held its base rate at a historic low of 0.5% since March 2009. The Bank has also supported the bond market by buying £200 billion of government and corporate bonds – known as quantitative easing; it increased the programme by a further £25 billion in November.

With improving confidence among investors, companies have been increasingly keen to raise money through corporate bond issues. This has been an important feature of the market. Such has been the enthusiasm for corporate bonds, though, the wall of money being invested in the asset class has easily absorbed the high level of issuance.

We took part in several of the new issues: in the investment grade market, these included Intercontinental Hotels, Carlsberg, Stagecoach and Prudential. These issues performed well; we sold Stagecoach after its price rose sharply. Our holdings in the insurance sector were also notable positive contributors to performance. In fact, financial company bonds rebounded over the year and recouped a large proportion of their losses from the previous year.

One disappointment was the Fund's holding in Dubai Holding Co, which performed poorly late in 2009 due to the well-documented problems at Dubai World. We held on to our position, however, and it recovered later in the period.

Towards the end of the year, we took some profits in several of our corporate bond holdings that had delivered outstanding returns over the year, notably in the retail and telecoms sectors. We reallocated the proceeds to lower-risk UK government bonds; we do, however, plan to reinvest in corporate bonds when attractive opportunities arise.

Corporate bond investors could enjoy further gains in the coming year, though the gains will be less dramatic than last year. As the UK economic recovery continues and interest rates remain low, corporate bonds should continue to be attractive. There are, however, risks to watch out for in 2010. Quantitative easing will come to an end and as the prospect of inflation emerges, government bond yields could rise. These factors would be negative for corporate bonds, as would any fall back in stockmarkets. Share prices are holding up, however, supported by good corporate results and an increase in takeover activity.

In the coming year, it will be more important than ever for us to focus on the different prospects for sectors and individual companies.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Corporate Bond Fund (continued)

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Corporate Bonds	85.99	86.94
Mortgage-Backed Securities	6.16	6.37
Government Bonds	5.22	4.21
Net other assets	2.63	2.48
Total net assets	100.00	100.00

## Net asset value

	NAV per share 28/02/10 (p)	NAV per share 28/02/09 (p)	NAV percentage change %
A Accumulation	204.56	159.03	28.63
A Income	105.40	85.77	22.89
B Accumulation	207.23	160.79	28.88
B Income	105.31	85.69	22.90

## Summary of portfolio by credit ratings

Rating block	28/02/10	28/02/09
	%	%
AAA	8.24	13.48
AAA /*	0.92	0.63
AA+	2.51	-
AA	2.67	5.70
AA-e	0.40	0.67
AA /*	-	0.98
AA-	3.90	5.44
AA- /*	0.42	-
A+	7.52	9.94
A+ /*	-	0.46
A	16.07	13.72
Ae	0.26	1.13
A+e	-	0.63
A /*	1.04	2.13
A-e	0.11	0.54
A-	17.81	18.08
A- /*	1.95	0.62
BBB+	13.56	10.38
BBB+ /*	0.81	2.92
BBB	10.27	4.95
BBB /*	-	0.13
BBB-	5.99	2.07
BB+	1.30	0.06
BB+ /*	-	0.20
BB+ /*-	-	0.89
BB	0.16	-
BB /*	-	0.37
BB-	0.08	-
B	-	0.12
B /*	-	0.04
CCC+	-	0.07
CCC-	0.05	-
C	0.19	-
NR	1.14	0.67
Unrated	-	0.50
Total bonds	97.37	97.52
Net other assets	2.63	2.48
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
Corporate Bond Fund A						
Accumulation	27.26	(13.94)	(5.91)	(0.45)	6.02	5.70
£ Corporate Bond Sector						
Average Return	22.28	(10.99)	(4.23)	(0.86)	6.61	5.41
Composite*	25.40	(13.82)	(4.45)	1.17	8.20	7.37

Source: Lipper for Corporate Bond Fund and £ Corporate Bond Sector Average (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), triple BBB minus or above corporate bond securities (as measured by Standard & Poor's or equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs)). Basis: Mid to Mid, net income reinvested and net of expenses. \*Source: Rimes for the Composite total return index. This consists of 80% iBoxx Non Gilt ex Sov. 5-15 years Index, 10% iBoxx Non Gilt ex Sov. <5 year Index, and 10% iBoxx Non Gilt ex Sov. > 15 year Index. Basis: Gross income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Seventh interim 30/09/09 (p)	Eighth interim 31/10/09 (p)	Ninth interim 30/11/09 (p)	Tenth interim 31/12/09 (p)	Eleventh interim 31/01/10 (p)	Final 28/02/10 (p)
A Accumulation	0.6856	0.6937	0.7168	0.7187	0.6733	0.6676
A Income	0.3606	0.3637	0.3745	0.3741	0.3493	0.3454
B Accumulation	0.7261	0.7356	0.7604	0.7625	0.7152	0.7085
B Income	0.3770	0.3806	0.3920	0.3916	0.3659	0.3614

## Top five holdings

	28/02/10	28/02/09
	%	%
1. Barclays Bank 10% 21/05/2021	2.51	Alliance & Leicester 6.25% 27/09/2010
2. UK Treasury 4.5% 07/03/2019	1.44	France Telecom 8% 20/12/2017
3. SLM Student Loan Trust 2003-12 5.45% 15/03/2038	1.27	SLM Student Loan Trust 2003-12 5.45% 15/03/2038
4. UK Treasury 4.75% 07/09/2015	1.18	UK Treasury 4.75% 07/12/2038
5. Merrill Lynch 7.75% 30/04/2018	1.17	UK Treasury 5% 07/03/2025

Number of holdings: 220

Number of holdings: 204

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give long-term capital growth by investing in companies, mainly in the UK, which show a positive commitment to the protection and preservation of the natural environment.

### Criteria

These criteria are agreed from time to time with the Fund's independent advisory body which is made up of leading environmentalists. Negative and positive criteria are followed. For example, investment in companies which operate nuclear power stations, produce ozone depleting chemicals or practice intensive farming would be excluded from the Fund, whereas the Fund would look positively on companies employing environmental technology, waste management or those involved in healthcare and public transport. The Fund would also favour companies which, for example, exhibit high quality environmental reporting, develop energy from renewable resources, utilise managed and certified forests in wood products, avoid GM products or those active within the community.

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

## INVESTMENT MANAGER'S REVIEW

UK equities made strong advances over the period, as the effects of government and central bank intervention began to take hold and the global economy showed signs of stabilising.

The Fund was slightly behind its environmental benchmark over the period, with the holding in Connaught the largest single detractor from performance. Investors feared that the company, which provides services to both the public and private sector, would be hurt by wide ranging cuts in public-sector spending. Elsewhere, shares in housebuilder Berkeley Group had recovered strongly from mid-2008 and were among the largest contributors to performance in the previous year. But during the period under review the shares gave back some of those gains as concerns increased over the outlook for the housing market.

In contrast, Greenko, an operator of clean energy projects in India, was a key positive contributor to performance, with India's government announcing in November that it would reduce its carbon emission intensity by 20-25% from 2005 levels by 2020. Shares in Tullett Prebon also rose strongly during the first half of the review period and have moved further ahead since the period end as a result of a bid approach.

Changes to the portfolio have focused on increasing exposure to firms displaying a positive commitment to protecting the environment. New positions include Zenergy Power, which provides clean-energy devices that improve the efficiency with which customers generate, distribute and use electrical energy; Low Carbon Accelerator, a company that provides capital to businesses involved in products and services that reduce carbon dioxide emissions; and Impax Asian Environmental Markets, a fund set up to benefit from the growth of companies active in the environmental sector. We financed these additions with proceeds from reduced exposure to some of the more economically sensitive stocks that rallied strongly from March 2009.

Looking ahead, while an upswing in the UK economy seems to be underway, the stronger recovery being seen in other parts of the world is likely to be a more important factor for many UK-listed companies. With global economic growth set to accelerate through the first half of 2010, companies should be aided by a generally positive backdrop. Measures already announced by policymakers suggest environmental issues remain an important consideration for governments around the globe and we will continue to search out companies that will benefit from this focus.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Environmental Investor Fund (continued)

## Distribution

XD date	Payment date	
28/02/10	30/04/10	

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.62	1.62
X Accumulation	0.12	0.12

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	75.67	139.03

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Financials	35.91	26.94
Health Care	15.19	16.94
Consumer Services	12.49	15.03
Telecommunications	10.60	10.21
Industrials	8.51	8.89
Utilities	6.83	5.62
Consumer Goods	4.82	6.00
Technology	3.44	1.68
Basic Materials	0.91	2.22
Fixed Income	-	1.46
Net other assets	1.30	5.01
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	28/02/09
	(p)	(p)	%
A Accumulation	162.79	111.75	45.67
X Accumulation	182.47	123.40	47.87

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
Environmental Investor Fund						
A Accumulation	42.08	(43.78)	(16.41)	16.42	23.39	10.01
Customised Benchmark*	49.44	(36.30)	N/A	N/A	N/A	N/A
FTSE All-Share Index	N/A	N/A	(1.30)	11.63	22.27	15.04

Source: Lipper for Environmental Investor Fund. Basis: Mid to Mid, net income reinvested and net of expenses. \*Benchmark is calculated by removing a select group of stocks from the FTSE All Share Benchmark, which for ethical reasons the fund cannot invest. The remaining stocks are then rebased to 100% on a daily basis and applied to the stock returns. Basis: Income reinvested and gross of expenses. The benchmark index was amended for the period ended 28/02/2009. The new benchmark is a more accurate reflection of the investment available to this subfund. From 1 January 2010 the benchmark weights were capped at 10% and will drift until reset on 1 January each year. Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Final
	28/02/10
	(p)
A Accumulation	2.8013
X Accumulation	5.5795

## Top five holdings

	28/02/10		28/02/09
	%		%
1. HSBC	10.50	Vodafone	10.21
2. Vodafone	9.30	GlaxoSmithKline	8.93
3. GlaxoSmithKline	8.63	HSBC	7.57
4. AstraZeneca	4.60	AstraZeneca	6.10
5. Lloyds	3.73	Scottish & Southern Energy	3.76

Number of holdings: 48

Number of holdings: 50

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give long-term capital growth by investing in companies, mainly in the UK, with positive ethical practices.

### Criteria

The ethical criteria of the Fund are agreed from time to time with the Fund's advisory body. Negative and positive criteria are followed. For example, investment in companies which produce alcohol or tobacco, generate turnover from gambling, publish or distribute pornography, provide animal testing services, test cosmetics on animals, own or operate nuclear power stations or sell fur products would be excluded from the Fund, whereas the Fund would look positively on companies with a high proportion of their turnover coming from safety equipment, healthcare or environmental technology. The Fund would also favour companies which, for example, have good records on health and safety, equal opportunities or are active in the community.

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

## INVESTMENT MANAGER'S REVIEW

The period under review produced a strong rise in UK equity markets as investors saw evidence of the benefits of the co-ordinated actions taken by governments around the globe. Although the UK remained in recession until the fourth quarter of 2009, signs of a stronger economic recovery were visible elsewhere in the world, particularly in emerging markets. A more benign outlook for economic growth meant that mining stocks were among the strongest performers over the year. With the financial system on a more stable footing, the banks also bounced back strongly.

Shares in Greenko, an operator of clean energy projects in India, were a key positive contributor to performance, with India's government announcing in November that it would reduce its carbon emission intensity by 20-25% from 2005 levels by 2020. Shares in Aggreko, a supplier of temporary power equipment, also benefitted from the improved economic backdrop. Aggreko's share price rose strongly and we used this as an opportunity to sell all of our holding. With concerns over the global financial system receding, shares in inter-dealer broker Tullett Prebon recovered strongly and have made further progress since the review end as a result of a bid approach. On the downside, shares in Connaught fell as investors feared that the company, which provides services to both the public and private sector, would be hurt by wide ranging cuts in public-sector spending.

Turning to the portfolio, we took advantage of strong share price recovery to reduce exposure to a number of the more economically sensitive stocks, selling all of our holdings in the likes of Michael Page and Senior. New positions during the period include Zenergy Power, which provides clean-energy devices that improve the efficiency with which customers generate, distribute and use electrical energy. We also built a position in travel operator Thomas Cook during the placing by the distressed corporate holder Arcandor. The continued poor outlook for the UK consumer was, we believed, already reflected in Thomas Cook's share price.

Looking ahead, while an upswing in the UK economy seems to be underway, the stronger recovery being seen in other parts of the world is likely to be a more important factor for many UK-listed companies. With global economic growth set to accelerate through the first half of 2010, companies should be aided by a generally positive backdrop. The Fund continues to express its preference for companies with positive ethical criteria, reflected in holdings in Greenko, Trading Emissions and Zenergy Power. We are committed to seeking out companies that are well positioned to benefit from the focus by policymakers around the world on measures that encourage ethical corporate behaviour.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Ethical Fund (continued)

## Distribution

XD date	Payment date
28/02/10	30/04/10

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.63	1.63
B Accumulation	1.38	1.38
X Accumulation	0.13	0.13

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	97.04	151.38

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Financials	28.28	23.63
Health Care	15.29	16.57
Consumer Services	12.34	12.44
Telecommunications	10.10	9.35
Industrials	9.52	11.72
Oil & Gas	9.18	6.27
Utilities	7.56	9.82
Technology	3.39	1.32
Basic Materials	2.81	2.66
Consumer Goods	1.23	2.04
Corporate Bonds	-	1.43
Net other assets	0.30	2.75
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	
	(p)	(p)	%
A Accumulation	93.82	65.35	43.57
B Accumulation	95.70	66.49	43.93
X Accumulation	104.69	71.83	45.75

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%

## Ethical Fund

A Accumulation	40.58	(42.82)	(15.39)	15.74	21.62	12.07
Customised Benchmark*	44.18	(35.68)	N/A	N/A	N/A	N/A
FTSE All-Share Index	N/A	N/A	(1.30)	11.63	22.27	15.04

Source: Lipper for Ethical Fund. Basis: Mid to Mid, net income reinvested and net of expenses. \*Benchmark is calculated by removing a select group of stocks from the FTSE All-Share Benchmark, which for ethical reasons the fund cannot invest in. The remaining stocks are then rebased to 100% on a daily basis and applied to the stock returns. Basis: Income reinvested and gross of expenses. The benchmark index was amended for the period ended 28/02/2009. The new benchmark is a more accurate reflection of the investments available to this sub-fund. From 1 January 2010 the benchmark weights were capped at 10% and will drift until reset on 1 January each year.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Final
	28/02/10
	(p)
A Accumulation	1.5200
B Accumulation	1.7664
X Accumulation	3.1017

## Top five holdings

	28/02/10		28/02/09
	%		%
1. HSBC	10.19	Vodafone	9.35
2. Vodafone	9.03	GlaxoSmithKline	8.28
3. GlaxoSmithKline	7.93	HSBC	7.70
4. BG	6.48	AstraZeneca	6.50
5. AstraZeneca	5.53	BG	6.27

Number of holdings: 46

Number of holdings: 52

Please note: negative figures are shown in brackets.

## FUND PROFILE

## Fund Aims

To give an income, whilst having regard to the capital value, by investing in mainly UK Government and other fixed interest securities.

## Specific Risk Profile

**Interest rates risk factor:** Fluctuations in interest rates are likely to affect the value of fixed interest securities held by the Fund. If long term interest rates rise, the value of your shares is likely to fall and vice versa.

**Single government issue risk factor:** More than 35% of the Fund will be invested in securities issued by the UK Government. There could be a risk, for example, if it (or any other company or government in whose securities the Fund may invest) can't repay the amount borrowed or if their credit rating falls. If they don't repay, or their credit rating falls, the value of your investment will fall.

## INVESTMENT MANAGER'S REVIEW

The main drivers affecting UK government bonds over the past year have been fears over the large volume of gilt issuance – which has driven yields higher and prices lower – and the Bank of England's asset repurchase measures, which has had the opposite effect.

In early March 2009, the Bank of England cut interest rates to an all-time low of 0.5%. It also unveiled quantitative easing (QE), which involves buying gilts in the market. This has served to counter the massive programme of new gilt issuance to fund the UK government's economic rescue plans.

Initially, yields on the benchmark ten-year gilt plummeted below 3%, but for much of the year under review, fears over the volume of new issuance have prevailed. Between their mid-March low point and June, ten-year yields moved steadily higher to an initial peak of 4.02%. Thereafter, up to the end of 2009, gilts traded in a range between 3.5% and 4%, reacting in turn to the ebbs and flows of investor risk appetite and to the effects of repeated extensions to the QE programme. At the same time, concerns have grown over sovereign risk and the threat of a ratings agency downgrade for the UK.

Moving into 2010 the volatility continued. Interest rate concerns vied with a variety of other influencing factors including anxieties over the state of public finances, a halt to quantitative easing, and opinion polls that suggested a hung parliament was a possibility after the general election.

The Fund performed strongly in the 12 months to 28 February 2010. It started the review period with a long duration, and overweight relative to its benchmark in 10-year bonds. (If interest rates are expected to fall, a fund manager will create a portfolio of bonds with a long duration. These would be appealing because the bond's price will increase more than comparable bonds with shorter durations. Conversely, if rates are expected to rise, shorter duration bonds are more attractive.)

Duration was further lengthened in anticipation of QE. This boosted performance in March as yields fell, and profits were taken on this position in April as duration was reduced once more to neutral.

The Fund's exposure to corporate bonds was increased in May with the purchase of some very short-dated issues. Overall, the Fund was moved short duration; as yields rose, this helped performance relative to benchmark. The manager also took positions in Australian government bonds and Swedish index-linked bonds, both hedged back to sterling to negate the effects of currency movements. The Fund's above-benchmark performance in June was largely driven by these off-benchmark holdings. Profits were taken on these during the third quarter, while the manager increased the fund's weighting in index-linked gilts. This boosted fund performance between July and September.

During the last three months of 2009 the Fund outperformed its benchmark, boosted by the short duration position. The allocation in index-linked UK government bonds was also positive for performance as this asset class performed strongly.

The Fund took some profits on its short duration position in January. That said, the Fund remains short duration, as the manager expects yields to move higher during the remainder of 2010. The Fund has maintained its positions in short-dated index-linked bonds, while moving reducing the overweight in short-dated corporate bonds.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Gilt Fund (continued)

## Distribution

XD date	Payment date
30/11/09	31/01/10
28/02/10	30/04/10

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.12	1.11
A Income	1.12	1.11
B Income	0.87	0.86

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	566.27	422.83

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
United Kingdom	98.62	99.08
Forward Currency Contracts	0.02	-
Net other assets	1.36	0.92
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	28/02/09
	(p)	(p)	%
A Accumulation	192.13	186.06	3.26
A Income	155.95	153.69	1.47
B Income	155.94	153.67	1.48

## Summary of portfolio by credit ratings

Rating block	28/02/10	28/02/09
	%	%
AAA	95.61	99.08
Total bonds	95.61	99.08
Net other assets	4.39	0.92
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
<b>Gilt Fund</b>						
A Accumulation	3.12	8.77	1.42	(1.69)	7.92	3.65
<b>UK Gilt Sector</b>						
Average Return	0.77	7.91	2.12	(1.53)	8.61	3.82
<b>FTA British Government</b>						
All Stocks Index	2.46	9.55	4.59	(0.18)	9.34	5.25

Source: Lipper for Gilt Fund and UK Gilt Sector Average Return, (funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated, government backed securities, with at least 80% invested in UK government securities (Gilts)). Basis: Mid to Mid, net income reinvested and net of expenses. Source: Rimes for the FTA British Government All Stocks Index. Basis: Gross income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Third interim	Final
	30/11/09	28/02/10
	(p)	(p)
A Accumulation	0.7704	0.8002
A Income	0.6327	0.6500
B Income	0.7140	0.7262

## Top five holdings

	28/02/10		28/02/09
	%		%
1. UK Treasury 2.75 % 22/01/2015	19.86	UK Treasury 5 % 07/09/2014	20.38
2. UK Treasury 3.75 % 07/09/2019	18.43	UK Treasury 4.75 % 07/09/2015	8.07
3. UK Treasury Index Linked 2.5 % 16/08/2013	11.17	UK Treasury 5 % 07/03/2025	7.85
4. UK Treasury 4.75 % 07/03/2020	6.17	UK Treasury 8 % 07/06/2021	7.44
5. UK Treasury 4.25 % 07/03/2011	5.39	UK Treasury 4.5 % 07/03/2019	6.50

Number of holdings: 20

Number of holdings: 21

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give either an income or growth (when income is kept within the fund). To do so by investing primarily in corporate bonds and other fixed interest securities issued by companies and governments operating in the USA, the UK and Europe. The majority of the fund will be in securities with a higher than average risk.

### Specific Risk Profile

**Fixed interest securities increased risk factor:** The fund invests in companies who issue bonds and other fixed interest securities which carry a higher risk that they might not be able to meet their payments, or that their credit rating might fall. If they don't meet their payments the value of your investment and any income you take will reduce. If their credit rating falls, the value of your investment will fall.

**Interest rates risk factor:** Fluctuations in interest rates are likely to affect the value of the bonds and other fixed interest securities held by the fund. If long term interest rates rise, the value of your shares is likely to fall and vice versa.

**Exchange rate risk factor:** Exchange rate changes might cause the value of any overseas income received by the fund to go up or down. This might affect the amount of income paid to you or added to the fund.

**Annual management risk factor:** Part or all of the annual management charge may be taken daily from the capital of the fund which could result in the value of your investment reducing.

**Single government issue risk factor:** More than 35% of the fund may be invested in fixed interest securities issued by a single government. If they can't repay the amount borrowed, the value of your investment will fall.

### Distribution

XD date	Payment date
30/09/09	15/11/09
31/10/09	15/12/09
30/11/09	15/01/10
31/12/09	15/02/10
31/01/10	15/03/10
28/02/10	15/04/10

### TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.62	1.62
A Income	1.62	1.62

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## INVESTMENT MANAGER'S REVIEW

Corporate bond markets have delivered some substantial gains over the last twelve months. The high yield portion of the market performed particularly well, as investors re-discovered their appetite for riskier investments. Actions by governments and central banks to set the global economy back on track gave investors the confidence to move back into asset classes other than cash or government bonds. In their search for higher returns, high yield bonds sprung to prominence. The resulting rise in prices and fall in yields created a positive loop in which lower credit costs have increased the ability of companies to access bond markets. This resulted in high volumes of new issuance in the second half of the year.

The Fund invests in a mix of high yield US corporate bonds and UK government bonds. Over the last 12 months, the Fund produced a very strong return of almost 25%. This was behind the benchmark index, however. In part, this was because of the portfolio's relatively cautious positioning during the first part of the review period. Exposure to high yield bonds was increased during the last six months, though, at the expense of gilts. Stock selection within the US high yield bond portion of the portfolio also contributed to the underperformance.

Looking at the main drivers affecting UK government bonds over the past year, fears over the large volume of gilt issuance have driven yields higher and prices lower, while the Bank of England's asset repurchase measures had the opposite effect. As a result, returns from government bonds were broadly flat.

Looking ahead, there are reasons for both optimism and caution. On the upside, the level of defaults among issuing companies has peaked and is forecast to decline further. But there are still risks associated with the economy given the likely removal of key financial stimuli in the coming year. A lot of companies have benefited from one-off cost cutting measures and if they are to see a further upturn in performance, real economic improvement will be needed to help them grow revenues. With a slowdown in economic stimulus measures likely and the probability of rising interest rates later this year, this is by no means certain. In the coming year, it will be more important than ever to focus on the different prospects for sectors and individual companies in order to generate returns.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# High Income Bond Fund (continued)

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	227.15	221.83

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	28/02/09
	(p)	(p)	%
A Accumulation	163.86	129.83	26.21
A Income	89.54	74.57	20.08

## Summary of portfolio by credit ratings

Rating block	28/02/10	28/02/09
	%	%
AAA	28.60	35.75
A-	1.35	1.51
BBB+	0.10	0.11
BBB	0.89	0.63
BBB-e	-	0.13
BBB / <sup>*</sup>	-	0.58
BBB-	3.27	2.94
BB+	5.38	4.93
BB+e	0.15	-
BB	12.09	6.21
BB / <sup>+</sup>	0.20	-
BB / <sup>-</sup>	0.57	-
BB-	5.49	7.62
BB-e	0.27	-
B+	10.58	8.90
B+ / <sup>-</sup>	-	1.00
B	9.15	6.77
B / <sup>+</sup>	-	0.63
B / <sup>-</sup>	-	0.33
B-	10.07	8.34
B-e	0.18	0.04
B- / <sup>-</sup>	-	0.15
CCC+	2.10	3.27
CCC+ / <sup>*</sup>	0.52	-
CCC+ / <sup>+</sup>	0.13	0.53
CCC+ / <sup>-</sup>	-	0.25
CCC	1.94	2.81
CCC / <sup>-</sup>	-	0.09
CCC-	-	0.37
CC	0.14	0.25
C	-	0.61
C / <sup>-</sup>	-	0.08
D	0.19	0.27
NR	0.85	0.45
Unrated	1.20	1.44
Total bonds	95.41	96.99
Net other assets	4.59	3.01
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
US Dollar Denominated Bonds	66.72	60.12
Sterling Denominated Bonds	28.71	36.93
Collective Investment Schemes	2.24	-
United States Equities	0.16	0.21
Forward Currency Contracts	(5.26)	(3.02)
Net other assets	7.43	5.76
Total net assets	100.00	100.00

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
High Income Bond Fund						
A Accumulation	24.85	(11.62)	(1.46)	3.73	4.02	8.24
£ High Yield Sector Average Return	44.69	(19.83)	(6.18)	3.69	6.55	9.53
Composite*	32.64	(9.54)	1.13	7.17	6.00	11.09

Source: Lipper for High Income Bond Fund and £ High Yield Sector Average Return (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities and at least 50% of their assets in below BBB minus fixed interest securities (as measured by Standard & Poor's or an equivalent external rating agency), including convertibles, preference shares and permanent interest bearing shares (PIBs)). Basis: Mid to Mid, net income reinvested and net of expenses. \* Source: Rimes for the Composite total return index. This consists of 35% FTA All Stocks Index and 65% CSFB High Yield Index. Basis: Gross income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Seventh interim	Eighth interim	Ninth interim	Tenth interim	Eleventh interim	Final
	30/09/09	31/10/09	30/11/09	31/12/09	31/01/10	28/02/10
	(p)	(p)	(p)	(p)	(p)	(p)
A Accumulation	0.6723	0.5399	0.6427	0.6518	0.6366	0.7439
A Income	0.3763	0.3009	0.3570	0.3608	0.3508	0.4082

## Top five holdings

	28/02/10	28/02/09
	%	%
1. UK Treasury 3.75 07/09/2019	6.71	UK Treasury 5% 07/09/2014 7.39
2. UK Treasury 2.75% 22/01/2015	5.36	UK Treasury 5% 07/03/2025 2.98
3. UK Treasury Index Linked 2.5% 16/08/2013	2.45	UK Treasury 4.75% 07/09/2015 2.70
4. SWIP Sterling Credit Advantage Fund A Acc	2.24	UK Treasury 8% 07/06/2021 2.61
5. UK Treasury 2.25% 07/03/2014	1.83	UK Treasury 4.5% 07/03/2019 2.45

Number of holdings: 423

Number of holdings: 296

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give an income, and the potential for long-term capital growth, by investing mainly in shares and fixed interest securities (including corporate bonds) in the UK, but may include Europe.

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

**Fixed interest securities risk factor:** Some of the companies and governments that we invest in who issue bonds and other fixed interest securities might not be able to meet their payments, or their credit rating might fall. If they don't meet their payments, the value of your investment and any income you take will reduce. If their credit rating falls, the value of your investment will fall.

**Interest rates risk factor:** Fluctuations in interest rates are likely to affect the value of the bonds and other fixed interest securities held by the fund. If long term interest rates rise, the value of your shares is likely to fall and vice versa.

**Annual management risk factor:** Part or all of the annual management charge may be taken daily from the capital of the fund which could result in the value of your investment reducing.

**Single government issue risk factor:** More than 35% of the fund may be invested in fixed interest securities issued by a single government. If they can't repay the amount borrowed, the value of your investment will fall.

### Distribution

XD date	Payment date
30/11/09	31/01/10
28/02/10	30/04/10

### TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.37	1.37
A Income	1.37	1.37

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	79.66	96.40

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## INVESTMENT MANAGER'S REVIEW

UK equity and corporate bond markets advanced strongly during the review period as the benefits of coordinated actions from governments around the world were reflected in signs that the global economy was beginning to stabilise. As the year progressed, the global economic recovery gathered momentum, fuelling investors' growing appetite for exposure to risk assets.

The equity element of the portfolio produced strong gains but relative performance was negatively affected by the wider underperformance of high-yielding stocks. This reflected investors' belief that there were significant capital gains to be made elsewhere. The holdings in Scottish & Southern Energy, Imperial Tobacco and Centrica were left behind by the market rally that favoured mining companies and banks over companies with more reliable earnings. Our holding in the consolidation company Resolution was the largest detractor from performance as the market waited for the company's next move. More encouragingly, shares in Tullett Prebon recovered strongly as the market came to appreciate that the business model of the inter-dealer broker was not broken.

Recent transactions have concentrated on reducing exposure to a number of more economically sensitive stocks that have performed strongly since the lows of early March 2009. This included reducing our holdings in BSKyB, Wolseley, WPP and Daily Mail & General Trust. New holdings included WH Smith, which in addition to being attractively priced provides an attractive yield. We also participated in the placing of Thomas Cook shares by the distressed corporate holder Arcandor, believing that the continued poor outlook for the UK consumer was already reflected in the travel firm's share price.

The strong rally in equity markets was echoed in corporate bonds, with many investors using the asset class as a route to add risk to their portfolios. To some extent, the liquidity provided by central banks also found its way into corporate bond markets, which helped to lift markets by the end of the year. The Fund participated in this rally largely through the new issue market, and benefited from holdings in AB InBev, Centrica, Finmeccanica, Tesco and Rolls Royce. The latter half of 2009 produced good performances from the likes of Stagecoach, Prudential, Intercontinental, Bupa and Barclays.

The Fund remains tilted towards equities, as we believe that there remains value particularly in companies with good cash flows and solid yields. But recent turbulence in both equity and bond markets following the problems in Greece and Dubai show that vigilance is required and that volatility remains likely.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# High Reserve Fund (continued)

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Corporate Bonds	20.75	29.93
Financials	15.23	9.48
Oil & Gas	12.65	13.09
Consumer Goods	9.86	10.79
Health Care	8.82	8.26
Consumer Services	7.74	7.90
Basic Materials	6.44	2.22
Utilities	5.70	9.00
Telecommunications	5.64	4.94
Industrials	2.21	0.78
Government Bonds	1.90	0.76
Mortgage-Backed	0.91	1.41
Net other assets	2.15	1.44
Total net assets	100.00	100.00

## Summary of portfolio by credit ratings

Rating block	28/02/10	28/02/09
	%	%
AAA	2.72	3.61
AAA / <sup>*</sup>	-	0.80
AA+	0.49	-
AA	0.30	1.18
AA / <sup>*</sup>	-	0.78
AA-	0.52	2.94
AA-e	0.08	0.07
AA- / <sup>*</sup>	0.15	-
A+	2.31	3.27
A	3.22	4.48
Ae	0.44	0.24
A+e	-	0.08
A / <sup>*</sup>	0.29	0.34
A-	3.78	4.95
A-e	-	0.52
A- / <sup>*</sup>	0.26	-
BBB+	2.59	4.55
BBB+ / <sup>*</sup>	-	0.84
BBB	3.63	1.57
BBB / <sup>*</sup>	-	0.04
BBB-	1.43	0.61
BB+	0.55	-
BB+ / <sup>*</sup>	-	0.12
BB+ / <sup>*</sup>	-	0.09
BB / <sup>*</sup>	-	0.09
BB-	0.17	-
B / <sup>*</sup>	-	0.01
Unrated	0.63	0.90
Total bonds	23.56	32.08
Net other assets	76.44	67.92
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	%
	(p)	(p)	
A Accumulation	216.37	164.34	31.66
A Income	112.07	89.02	25.89

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
High Reserve Fund A						
Accumulation	29.87	(27.78)	(11.62)	9.45	21.22	11.46
UK Equity & Bond						
Income Sector						
Average Return	30.62	(26.06)	(4.28)	7.14	16.83	12.70

Source: Lipper for High Reserve Fund and UK Equity & Bond Income Sector Average Return (funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK Fixed Interest Securities and between 20% and 80% in UK Equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index). Basis: Mid to Mid, net income reinvested and net of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Third interim	Final
	30/11/09	28/02/10
	(p)	(p)
A Accumulation	2.0863	1.9175
A Income	1.1015	1.0015

## Top five holdings

	28/02/10		28/02/09
	%		%
1. HSBC	6.84	Vodafone	4.94
2. Vodafone	4.95	Royal Dutch Shell 'B'	4.68
3. AstraZeneca	4.72	AstraZeneca	4.46
4. BP	4.36	BG	4.22
5. Royal Dutch Shell 'B'	4.36	BP	4.20

Number of holdings: 153

Number of holdings: 154

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give long-term capital growth, normally by investing primarily in shares of companies included in the Financial Times Stock Exchange 100 Index. The fund may move away from the policy of being primarily invested in shares when market conditions indicate that an attractive return may be better achieved by being invested in cash, near cash and/or deposits and with or without options.

To give a level of protection against major stockmarket falls through the use of a Safety Price. By 'Safety Price' we mean the lowest possible selling price which is guaranteed not to fall for a period of time, the 'Safety Period', normally 12 months. The Safety Price is set at 95% of the share price at the start of each Safety Period.

### Important Notes

If the share price of class A shares rises 10% above the share price at the start of the Safety Period, we will raise the Safety Price and start a new Safety Period.

You can check the up-to-date Safety Price and end date for the Safety Period on our website at [www.scottishwidows.co.uk](http://www.scottishwidows.co.uk)

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

**SafetyPlus® risk factor:** The techniques we use to provide the Safety Price incur a cost. The effect of this cost is that, in the long term, growth is likely to be lower than would be achieved without the protection of the Safety Price. The Safety Price is guaranteed currently by a small number of major financial institutions and is dependent on each of these third parties meeting its obligations.

To offer the Safety Price we need access to specific types of investment. If in future, we can't get enough of these investment types, we won't be able to offer a Safety Price.

The Safety Price is normally reset every 12 months at 95% of the share price at the time. This new Safety Price may be set at a lower level than the previous Safety Price.

The SafetyPlus® Fund is not a guaranteed fund, although it does offer limited risk as well as growth potential. The value of shares may change on a daily basis and may fall as well as rise.

## INVESTMENT MANAGER'S REVIEW

The Fund rose 9.51% over the period under review. During this period, the FTSE 100 index rose 45.5% and the safety price for the A Class shares has increased to 37.8p. The potential for the Fund to gain from rises in the market continues to be provided by the holdings of FTSE 100 call options, while the majority of the portfolio continues to be held in cash. The net effect of this is to provide protection against a fall in the market while providing the potential for growth linked to this index. This is in accordance with the Fund's aim.

UK equities recorded strong gains over the period. With most of the world's major economies emerging from recession, and governments and central banks working hard to keep the financial wheels turning, most believe the worst of the economic and financial crises has passed. At the same time, though, there remains a great deal of uncertainty over the shape of the recovery to follow. Mining stocks were among the big winners during the period. The seemingly insatiable demand for resources from emerging markets – and China in particular – remains a key theme. China's rapid rebound has boosted economic activity in the region and been a boon to commodity producers. The financial sector, ravaged in the wake of the collapse of Lehman Brothers in September 2008, also staged something of a comeback.

Looking ahead, the economic upturn in the UK has been disappointingly slow to develop as yet. In part, this reflects the high level of household debt and the UK economy's excessive reliance on financial services in recent years. Yet there is a reasonable prospect that a fairly robust upturn will eventually take place. At the same time, the direction of UK-listed share prices is influenced more by global economic growth than domestic growth – the FTSE 100 generates close to 70% of its combined profits from overseas. Consequently, the pace of recovery in the major global economies such as the US and China may prove to be of greater importance to UK investors.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

### Performance record

	01/03/09 28/02/10	29/02/08 28/02/09	01/03/07 28/02/08	01/03/06 28/02/07	01/03/05 28/02/06	29/02/04 28/02/05
	%	%	%	%	%	%
SafetyPlus® Fund A						
Accumulation	9.51	(3.24)	(1.67)	4.82	12.66	8.44
Protected/ Guaranteed						
Sector Average	4.53	(4.87)	(1.57)	5.78	13.32	6.08

Source: Lipper for SafetyPlus® Fund and Protected/Guaranteed Funds Sector Average Return (funds, other than money market funds which principally aim to provide a return of a set amount of capital back to the investor (either explicitly guaranteed or via an investment strategy highly likely to achieve this objective) plus some market upside). Basis: Mid to Mid, net income reinvested and net of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

# SafetyPlus® Fund (continued)

## Distribution

XD date	Payment date	
28/02/10	30/04/10	

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.12	1.11
X Accumulation	0.12	0.11

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	10,376.45	1,526.88

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

The increase in PTR during the year is due to a significant increase in the number of investments in short term deposits.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Short Term Deposits	70.92	81.27
Options Contracts	2.11	3.15
Net other assets	26.97	15.58
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	
	(p)	(p)	%
A Accumulation	39.84	36.38	9.51
X Accumulation	43.00	38.88	10.60

## Distribution

	Final
	28/02/10
	(p)
A Accumulation	-
X Accumulation	0.2792

## Top holdings

	28/02/10		28/02/09
	%		%
1. Santander 0.65 % 04/03/2010	7.05	Abbey National 1.25 % 12/05/2009	3.87
2. Calyon 0.65 % 26/04/2010	4.94	Banca Intesa 1.4 % 05/05/2009	3.87
3. Danske Bank 0.5 % 29/03/2010	4.94	Banco Bilbao Vizcaya 1.6 % 15/04/2009	3.87
4. Clydesdale Bank 0.58 % 22/03/2010	4.94	Bank of America 1 % 10/03/2009	3.87
5. Abbey National 0.61 % 04/03/2010	4.59	Bank of Ireland 1.5 % 03/03/2009	3.87
6. Nordea Bank Finland 0.55 % 10/05/2010	4.59	Bank of Scotland 2.5 % 06/04/2009	3.87
7. Fortis Bank 0.54 % 04/05/2010	4.59	Barclays Bank 1.7 % 23/04/09	3.87
8. Credit Industriel Et Commercial 0.58 % 04/05/2010	4.59	BNP Paribas 1.53 % 05/05/2009	3.87
9. Bank Of Tokyo Mitsubishi 0.56 % 18/05/2010	4.59	Calyon 2.3 % 23/03/2009	3.87
10. Societe Generale 0.55 % 24/05/2010	4.59	Danske Bank 1.25 % 26/05/2009	3.87
11. Nationwide Building Society 0.8 % 19/08/2010	4.59	Den Norske Bank 1.02 % 26/05/2009	3.87
12. Royal Bank Of Scotland 0.68 % 24/03/2010	4.23	HSBC Bank 1 % 20/04/2009	3.87
13. Barclays Bank 0.92 % 25/05/2010	4.23	ING Bank 1.75 % 23/03/2009	3.87
14. Svenska Handelsbanken 0.5 % 03/03/2010	4.23	National Australia Bank 1.5 % 15/04/2009	3.87
15. Banco Bilbao Vizcaya 0.58 % 10/03/2010	4.23	Nationwide Building Society 2 % 23/04/2009	3.87
16.		Nordea Bank Finland 1.55 % 16/03/2009	3.87
17.		Rabobank International 1.4 % 22/04/2009	3.87
18.		Royal Bank of Scotland 2.56 % 07/04/2009	3.87
19.		Societe Generale 1.4 % 02/03/2009	3.87
20.		Svenska Handelsbanken 1.6 % 15/04/2009	3.87
21.		Unicredito Italiano 1.5 % 12/03/2009	3.87

Number of holdings: 19

Number of holdings: 29

Please note: negative figures are shown in brackets and all short term holdings are shown for this fund.

## FUND PROFILE

### Fund Aims

To give either an income or growth (when income is kept within the fund). To do so by investing primarily in UK and European corporate bonds and other fixed interest securities. The majority of the fund will be in high quality securities but a significant proportion will be in securities with a higher than average risk.

### Specific Risk Profile

**Fixed interest securities increased risk factor:** The fund invests in companies who issue bonds and other fixed interest securities which carry a higher risk that they might not be able to meet their payments, or that their credit rating might fall. If they don't meet their payments the value of your investment and any income you take will reduce. If their credit rating falls, the value of your investment will fall.

**Interest rates risk factor:** Fluctuations in interest rates are likely to affect the value of the bonds and other fixed interest securities held by the fund. If long term interest rates rise, the value of your shares is likely to fall and vice versa.

**Exchange rate risk factor:** Exchange rate changes might cause the value of any overseas income received by the fund to go up or down. This might affect the amount of income paid to you or added to the fund.

**Annual management risk factor:** Part or all of the annual management charge may be taken daily from the capital of the fund which could result in the value of your investment reducing.

**Single government issue risk factor:** More than 35% of the fund may be invested in fixed interest securities issued by a single government. If they can't repay the amount borrowed, the value of your investment will fall.

### Distribution

XD date	Payment date
30/09/09	15/11/09
31/10/09	15/12/09
30/11/09	15/01/10
31/12/09	15/02/10
31/01/10	15/03/10
28/02/10	15/04/10

### TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.38	1.37
A Income	1.38	1.37

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## INVESTMENT MANAGER'S REVIEW

The turnaround in the performance of the corporate bond market in the past 12 months has been remarkable. Since April, corporate bonds have surged, wiping out their losses from the previous year and rising to new highs.

Those investors that got into corporate bonds early in 2009 have been enjoyed excellent returns.

The UK economy has begun a modest recovery; growth resumed in the fourth quarter of 2009. And although Consumer Price Indices inflation rose to 3.5% in January, the Bank of England expects lower growth and inflation in the medium term. As a result, the Bank has held its base rate at a historic low of 0.5% since March 2009. The Bank has also supported the bond market by buying £200 billion of government and corporate bonds – known as quantitative easing; it increased the programme by a further £25 billion in November.

With improving confidence among investors, companies have been increasingly keen to raise money through corporate bond issues. This has been an important feature of the market. Such has been the enthusiasm for corporate bonds, though, the wall of money being invested in the asset class has easily absorbed the high level of issuance.

We took part in several of the new issues: in the investment grade market, these included National Australia Bank, General Electric and Stagecoach. These issues performed well; we sold Stagecoach after its price rose sharply. We added to our holdings in high yield bonds in June and again in January, where we had found some attractive opportunities. We took part in the new high-yield issues from Seat and HeidelbergCement. The high yield bond market, which is inherently higher-risk than investment grade or government bonds, performed strongly and added to the Fund's return over the period.

The Fund was helped towards the end of 2009 by its portfolio of investment grade financial issues. Holdings in Abbey, HBOS, Lloyds and Northern Rock were positive for performance. On the downside, our Greek government bonds were unhelpful as concerns grew about the Greek government's ability to refinance its debt.

Corporate bond investors could enjoy further gains in the coming year, though the gains will be less dramatic than last year. As the UK economic recovery continues and interest rates remain low, corporate bonds should continue to be attractive. There are, however, risks to watch in 2010. Quantitative easing will come to an end and as the prospect of inflation emerges, government bond yields could rise. These would be negative for corporate bonds, as would any fall back in stock markets. Share prices are holding up, however, supported by good results and an increase in takeover activity.

In the coming year, it will be more important than ever for us to focus on the different prospects for sectors and individual companies.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

### Net asset value

	NAV per share 28/02/10 (p)	NAV per share 28/02/09 (p)	NAV percentage change %
A Accumulation	130.17	92.78	40.30
A Income	86.85	65.33	32.94

# Strategic Income Fund (continued)

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	104.14	78.35

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Summary of portfolio by credit ratings

Rating block	28/02/10	28/02/09
	%	%
AAA	9.94	4.17
AAA /*-	0.65	0.18
AA+	1.07	-
AA	1.55	1.79
AA-e	0.35	0.36
AA-	2.63	3.12
AA- /*-	0.72	-
A+	5.43	4.22
A	9.66	16.82
Ae	0.23	1.42
A+e	-	0.18
A-	13.63	15.43
A- /*-	1.31	1.08
BBB+	6.12	5.16
BBB+ /*-	-	0.32
BBB	9.02	5.58
BBB /*-	-	0.15
BBB-	3.03	3.99
BB+	2.93	3.80
BB+ /*-	0.36	1.54
BB	4.15	5.13
BB /*-	-	0.43
BB-	3.47	3.36
BB- /*-	0.54	-
B+	3.95	3.02
B+ /*-	0.35	0.22
B	4.72	2.39
Be	0.13	-
B /*-	-	0.29
B-	2.54	6.76
B- /*-	1.33	-
CCC+	0.78	1.40
CCC+ /*-	0.66	0.10
CCC	1.06	0.16
CCC-	0.78	-
CCC- /*	0.17	-
CCC- /*-	0.17	-
CC	1.49	0.02
C	0.02	-
NR	0.12	0.34
Unrated	4.03	5.65
Total bonds	99.09	98.58
Net other assets	0.91	1.42
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Sterling Denominated Bonds	68.23	66.99
Euro Denominated Bonds	27.26	27.91
US Dollar Denominated Bonds	3.60	3.68
Forward Currency Contracts	(0.58)	(1.77)
Net other assets	1.49	3.19
Total net assets	100.00	100.00

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
Strategic Income Fund A						
Accumulation	40.27	(23.78)	(8.78)	2.38	6.29	8.90
£ Strategic Bond						
Sector Average						
Return	27.91	(15.19)	(6.18)	3.69	6.55	9.53
Composite*	36.98	(17.76)	(6.20)	3.81	6.34	10.31

Source: Lipper for Strategic Income Fund and £ Strategic Bond Sector Average Return (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities. This includes convertibles, preference shares and permanent interest bearing shares (PIBs). At any point in time the asset allocation of these funds could theoretically place the fund in one of the other Fixed Interest sectors. The funds will remain in this sector on these occasions since it is the Manager's stated intention to retain the right to invest across the Sterling fixed interest credit risk spectrum.) Basis: Mid to Mid, net income reinvested and net of expenses. \*Source: Rimes for the Composite total return index. This consists of 70%. iBoxx Non Gilt 5-15 Years ex Sov, 30% Merrill Lynch European Currency Original Issue High Yield Index (Hedged to GBP). Basis: Gross income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Seventh interim	Eighth interim	Ninth interim	Tenth interim	Eleventh interim	Final
	30/09/09	31/10/09	30/11/09	31/12/09	31/01/10	28/02/10
	(p)	(p)	(p)	(p)	(p)	(p)
A Accumulation	0.5494	0.4997	0.5222	0.5619	0.4538	0.4865
A Income	0.3755	0.3400	0.3539	0.3793	0.3050	0.3259

## Top five holdings

	28/02/10		28/02/09
	%	%	%
1. UK Treasury 4.75 %	2.52	BAA Funding 5.85 %	1.86
07/09/2015		27/11/2015	
2. BAA Funding 5.85 %	1.79	Southern Gas Networks	1.81
27/11/2015		4.875 % 21/12/2020	
3. Royal Bank of Scotland	1.57	Dignity Finance 6.31 %	1.69
6.375 % 29/04/2014		31/12/2023	
4. Southern Gas Networks	1.56	Ahold Finance USA 6.5 %	1.66
4.875 % 21/12/2020		14/03/2017	
5. Dignity Finance 6.31 %	1.51	Lloyds TSB Bank 5.125 %	1.48
31/12/2023		Perpetual	

Number of holdings: 234

Number of holdings: 238

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give an income together with some capital growth over the long term by investing, mainly, in a portfolio of UK company shares. The fund may also invest in fixed interest securities.

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

**Annual management risk factor:** Part or all of the annual management charge may be taken daily from the capital of the fund which could result in the value of your investment reducing.

## INVESTMENT MANAGER'S REVIEW

The period under review produced a strong rise in UK equity markets. The impetus for this rally has been the unprecedented monetary and fiscal stimulus injected into the global economy through the second half of 2008. This began to bear fruit in the early months of 2009. As the year progressed, the global economic recovery gathered momentum, fuelling investors' growing appetite for exposure to risk assets. This return of investor risk appetite signalled a dramatic change of sector leadership in the equity market. Companies with economically sensitive earnings streams were back in favour in anticipation of demand starting to recover.

The Fund's underperformance against its benchmark, the FTSE All-Share index, in part reflected the wider underperformance of high-yielding stocks amid the belief that there were significant capital gains to be made elsewhere. The holdings in Scottish & Southern Energy, Imperial Tobacco and Centrica were adversely affected by the market rally, driven by mining companies and banks, that saw companies with more reliable earnings left behind. Our holding in the consolidation company Resolution was the largest detractor from performance as the market waited for the company's next move. More encouragingly, shares in Tullett Prebon recovered strongly as the market came to appreciate that the business model of this inter-dealer broker was not broken. Since the period end the company has announced it has received a bid approach from a third party.

Recent transactions have concentrated on reducing exposure to a number of more economically sensitive stocks that have performed strongly since the lows of early March 2009. We reduced our holdings in BSKyB, Wolseley, WPP and Daily Mail & General Trust. New holdings included WH Smith, which in addition to being attractively priced provides an attractive yield. We also participated in the placing of Thomas Cook shares by the distressed corporate holder Arcandor, believing that the continued poor outlook for the UK consumer was already reflected in the share price of this travel company.

Looking ahead, after a period in which many companies have rebased their dividends, we expect to return to a period of rising dividends, albeit at a slower rate than the growth in earnings as companies rebuild dividend cover and repair stretched balance sheets. Equity valuations continue to offer good value relative to other asset classes.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# UK Equity Income Fund (continued)

## Distribution

XD date	Payment date
28/02/10	30/04/10

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.36	1.36
A Income	1.36	1.36
B Income	1.11	1.11
C Income	0.61	0.61
X Accumulation	0.11	0.11

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	53.08	66.92

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Financials	19.05	13.29
Oil & Gas	16.86	18.50
Consumer Goods	13.88	15.99
Health Care	11.89	11.81
Consumer Services	11.14	12.36
Basic Materials	8.64	3.19
Telecommunications	7.88	7.21
Utilities	7.77	13.79
Industrials	2.96	1.37
Net other (liabilities)/assets	(0.07)	2.49
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	%
	(p)	(p)	%
A Accumulation	2,858.69	2,137.36	33.75
A Income	623.41	485.62	28.37
B Income	638.61	496.06	28.74
C Income	660.62	514.80	28.33
X Accumulation	3,143.16	2,320.94	35.43

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%

## UK Equity Income Fund A

Accumulation	31.66	(33.59)	(12.89)	12.49	27.20	14.72
UK Equity Income						
Sector Average						
Return	37.25	(32.60)	(7.77)	11.46	22.29	16.51
FTSE All-Share Index	47.34	(33.90)	(1.30)	11.63	22.27	15.04

Source: Lipper for UK Equity Income Fund and UK Equity Income Sector Average Return (funds which invest at least 80% in UK equities and which aim to achieve a historic yield on the distributable income in excess of 110% of the FTSE All Share yield at the fund's year end). Basis: Mid to Mid, net income reinvested and net of expenses. Source: Rimes for the FTSE All-Share Index. Basis: Income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Interim
	28/02/10
	(p)
A Accumulation	47.7718
A Income	10.5950
B Income	10.8474
C Income	11.2097
X Accumulation	52.3906

## Top five holdings

	28/02/10		28/02/09
	%		%
1. HSBC	9.01	Vodafone	7.21
2. Vodafone	6.97	Royal Dutch Shell 'B'	6.75
3. AstraZeneca	6.10	AstraZeneca	6.14
4. BP	5.95	BP	6.06
5. GlaxoSmithKline	5.79	BG	5.69

Number of holdings: 39

Number of holdings: 35

Please note: negative figures are shown in brackets.

## FUND PROFILE

### Fund Aims

To give long term capital growth by investing in a wide portfolio of mainly UK company shares.

### Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

## INVESTMENT MANAGER'S REVIEW

The period under review produced a strong rise in UK equity markets. The benefit of earlier coordinated actions from governments around the world was reflected in signs that the global economy was beginning to stabilise. Though the UK remained in recession until the fourth quarter of 2009, other economies, particularly those in emerging markets, delivered a rapid return to growth. By the end of the calendar year, equities had regained the levels they had last reached prior to the collapse of Lehman Brothers in September 2008. The mining stocks and the banking sector were among the strongest performers over the review period.

The Fund underperformed its benchmark during the period. As investors' appetite for risk grew, the more economically sensitive stocks that had been hard-hit during the depths of the financial crisis were among those that recovered most strongly. Investors used those companies with more reliable earnings characteristics as a source of funds. As a result, they were somewhat left behind in the market rally that began in early March. These features were reflected in the performance of the Fund, with the holdings in Scottish & Southern Energy, Imperial Tobacco and Centrica among the largest detractors from performance. Our holding in the consolidation company Resolution also proved negative as the market waited for news of the company's next move. More positively, the share price of Rentokil Initial rallied strongly as the benefits of the new management team's turnaround strategy began to become apparent.

Over the course of the year, the share prices of a number of the more economically sensitive companies rallied strongly. We reduced our holdings in this area and reinvested the proceeds in reliable growth stocks such as GlaxoSmithKline, G4S, Scottish & Southern Energy and Centrica. More recently, we have increased our holdings in Lloyds Banking Group and Barclays, taking the Fund to an overweight position in the banking sector for the first time in many months.

Looking ahead, while an upswing in the UK economy seems to be underway, there are a number of reasons to believe that the recovery will be weak compared to past economic upturns. But the recovery in the wider global economy should pick up speed through the first half of 2010, providing a positive backdrop for companies and equity markets. Equity valuations continue to offer good value relative to other asset classes.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# UK Growth Fund (continued)

## Distribution

XD date	Payment date
28/02/10	30/04/10

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.61	1.61
B Accumulation	1.12	1.11
C Income	0.61	0.61
X Income	0.11	0.11

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	52.39	83.11

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Basic Materials	9.94	5.39
Consumer Goods	10.90	14.53
Consumer Services	5.69	5.80
Convertibles	-	0.05
Financials	19.93	11.00
Fixed Income	-	0.63
Health Care	11.13	12.25
Industrials	7.79	8.02
Oil & Gas	18.82	22.60
Technology	0.37	1.19
Telecommunications	6.86	8.57
Utilities	8.36	9.11
Net other assets	0.21	0.86
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	
	(p)	(p)	%
A Accumulation	113.29	82.09	38.01
B Accumulation	117.60	84.80	38.68
C Income	98.35	72.68	35.32
X Income	97.86	72.27	35.41

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
UK Growth Fund						
A Accumulation	35.30	(34.44)	(5.20)	12.36	22.33	12.30
UK All Companies Sector Average						
Return	43.67	(35.56)	(3.65)	11.08	21.85	13.13
FTSE All-Share Index	47.34	(33.90)	(1.30)	11.63	22.27	15.04

Source: Lipper for UK Growth Fund and UK All Companies Sector Average Return (funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth.) Basis: Mid to Mid, net income reinvested and net of expenses. Source: Rimes for the FTSE All-Share Index. Basis: Income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Final
	28/02/10
	(p)
A Accumulation	2,434.9
B Accumulation	3,032.7
C Income	3,080.3
X Income	3,521.1

## Top five holdings

	28/02/10		28/02/09
	%		%
1. HSBC	8.72	Royal Dutch Shell 'B'	8.29
2. BP	6.64	Vodafone	7.76
3. Vodafone	6.47	BP	7.44
4. Royal Dutch Shell 'B'	6.32	AstraZeneca	6.28
5. GlaxoSmithKline	5.70	BG	6.08

Number of holdings: 92

Number of holdings: 120

Please note: negative figures are shown in brackets.

## FUND PROFILE

## Fund Aims

To give long term capital growth by investing in a select portfolio of mainly UK company shares.

## Specific Risk Profile

**Equity risk factor:** Investing in equities generally has the potential for higher capital growth over the longer term than investing in, say, fixed interest securities. However there might be considerable fluctuations in equity prices and there is a greater risk that you might not get all your money back.

**Select portfolio risk factor:** A select portfolio contains a limited number of stocks. By investing in a select portfolio there might be greater fluctuations in the value of your shares than with a wider portfolio.

## INVESTMENT MANAGER'S REVIEW

The Fund delivered a very strong performance, comfortably exceeding its benchmark during the period. It is in the top quartile of its peer group over one, two, three and five years.

The unprecedented monetary and fiscal stimulus injected into the global economy through the second half of 2008 began to bear fruit late in the first quarter of 2009. Economies such as China and India were among the first to show strong recovery, with Europe and North America following. The UK was a notable exception, remaining in recession until the fourth quarter of 2009. This global economic recovery fuelled investors' appetite for risk assets, driving markets back to levels last reached prior to the collapse of Lehman Brothers. The mining sector was among the major winners, with rising commodity prices – fuelled by strong demand from China – propelling share prices higher. In contrast, a number of companies whose shares had risen strongly during the financial crisis performed comparatively poorly. Sectors such as tobacco, pharmaceuticals and utilities generated some of the lowest returns during the review period.

The Fund's strong performance was in part attributable to holdings in a number of companies that benefitted from a structural shortage of power in emerging markets. These included Indus Gas, an oil and gas exploration and development company focused on India; KSK Power Ventur, which develops and operates power plants in India; and Great Eastern Energy, which controls exploration and production licences to extract coal bed methane in West Bengal. We continue to believe that this theme will unfold over the coming decades, providing further opportunity for these investments. The holding in Xstrata was the largest single positive contributor to performance.

As the period progressed, we began to see greater valuation attractions in companies with a track record of delivering reliable growth. We built new positions in Scottish & Southern Energy, British American Tobacco, Tesco and United Utilities. These additions were financed by reduced exposure to a number of more economically sensitive stocks. These shares recovered strongly as fears over the global economy receded. We sold all of our holdings in Aggreko and took profits in Wolseley, a position that we had built during its capital raising.

Looking ahead, while recovery in the UK economy remains weak, the strength of global economic growth should prove to be a more important factor for the performance of the UK stock market. The excess liquidity which has been poured into the global economy through the actions of governments around the world has helped to support financial markets. Investors will need to be alert in order to anticipate the consequences of that support now starting to be withdrawn. Even with their strong performance over the past year, equity valuations continue to look attractive relative to other asset classes.

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# UK Select Growth Fund (continued)

## Distribution

XD date	Payment date
28/02/10	30/04/10

## TER

	28/02/10	28/02/09
	%	%
A Accumulation	1.62	1.62
B Accumulation	1.37	1.37
C Accumulation	1.12	1.12
X Accumulation	0.12	0.12

The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

## Portfolio Turnover Rate

	28/02/10	28/02/09
	%	%
PTR	477.49	630.23

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the Fund during the year. The PTR is the sum of all transactions in securities less the sum of all transactions in the Fund's shares against the Fund's average net asset value.

## Details of investments

Investments	28/02/10	28/02/09
	%	%
Oil & Gas	24.81	18.55
Financials	20.42	20.39
Utilities	16.16	6.07
Health Care	10.28	7.94
Consumer Goods	9.98	9.63
Consumer Services	7.22	7.84
Telecommunications	5.94	7.00
Basic Materials	5.02	6.63
Industrials	0.39	6.13
Fixed Income	-	9.17
Technology	-	0.09
Futures	-	(0.50)
Net other (liabilities)/assets	(0.22)	1.06
Total net assets	100.00	100.00

## Net asset value

	NAV per share	NAV per share	NAV percentage change
	28/02/10	28/02/09	
	(p)	(p)	%
A Accumulation	1,446.78	928.23	55.86
B Accumulation	1,476.40	944.91	56.25
C Accumulation	1,502.59	959.28	56.64
X Accumulation	1,624.83	1,027.05	58.20

## Performance record

	01/03/09	29/02/08	01/03/07	01/03/06	01/03/05	29/02/04
	28/02/10	28/02/09	28/02/08	28/02/07	28/02/06	28/02/05
	%	%	%	%	%	%
UK Select Growth Fund	52.92	(36.65)	3.59	10.37	29.13	9.78
UK All Companies						
Sector Average						
Return	43.67	(35.56)	(3.65)	11.08	21.85	13.13
FTSE All-Share Index	47.34	(33.90)	(1.30)	11.63	22.27	15.04

Source: Lipper for UK Select Growth Fund and UK All Companies Sector Average Return (funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth.) Basis: Mid to Mid, net income reinvested and net of expenses. Source: Rimes for the FTSE All-Share Index. Basis: Income reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any income from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

## Distribution

	Final
	28/02/10
	(p)
A Accumulation	10.6502
B Accumulation	14.1013
C Accumulation	17.6439
X Accumulation	33.2324

## Top five holdings

	28/02/10		28/02/09
	%		%
1. BP	5.98	BP	7.37
2. Vodafone	5.94	Vodafone	7.00
3. British American Tobacco	5.65	HSBC	6.07
4. GlaxoSmithKline	5.45	Xstrata	4.48
5. HSBC	5.27	Berkeley	4.41

Number of holdings: 39

Number of holdings: 46

Please note: negative figures are shown in brackets.

**SCOTTISH WIDOWS**

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