

## Period:

For the 12 months ended 31 Dec 2012  
[www.fandc.com](http://www.fandc.com)



**Co-Fund Managers:**  
 Keith Patton and  
 Rebecca Seabrook

## Investment Objective

The Fund aims to produce a high income by investing in corporate bonds and other fixed interest securities.

## Fund Facts

Co-Fund Managers Keith Patton & Rebecca Seabrook

Sector	£ Strategic Bond	
Benchmark	IMA £ Strategic Bond Sector Median	
Launch date	8 February 2000	
Fund size	at 31 Dec 2011	£211.02m
	at 31 Dec 2012	£220.67m
	£1,000 lump sum,	
Minimum Investments	£50 per month	
Distribution Yield	4.8% (Acc/Dist)	
Share type	Accumulation/Distribution	
Number of stocks	204	
Initial charge	5.00%	
Annual charge	1.00%	
Ongoing charge	1.19% (inc) 1.17% (acc)	
Account dates (interim)	30 June	
	(annual) 31 Dec	
Distribution dates	Last working day of each month	

## Market Review

Corporate bonds made gains over the twelve months to the end of December. The start of the period saw several positive factors influencing markets including the effects of two liquidity injections by the European Central Bank and more positive US economic data. Against this backdrop, spreads (the difference between the yield on corporate bonds and government bonds) tightened with insurance, banking and other financials all performing strongly. Spreads widened into the middle of the year as concerns increased about Europe, in particular the situations in Greece and Spain. June, however, saw optimism return, as it appeared that policy makers had made more headway than was expected during the latest EU summit. For much of the rest of the year, credit markets ground higher; the ECB's announcement in September of unlimited bond buying in the eurozone was taken very positively by markets. The threat of an unresolved US fiscal cliff caused credit markets to pause in November but the positive tone returned in the final month of the year.

## Fund Activity

In the first half of the period we reduced our exposure to European high yield in light of the continued uncertainty. Specifically, major sells in this region included Wind Acquisition Finance, a subsidiary of the Italian telecommunications operator Wind, as well as Italian-based banking group UniCredit, and Fiat. However, moving into the latter half of the year we began to pare down the Fund's exposure to US high yield, a strategy we continued through to the end of the year. Proceeds were reinvested into new issues of European names, where we found a little more value. The Federal Reserve's announcement in September that it would embark on a third tranche of bond buying paved the way for a flood of new issues as companies saw a window of opportunity to issue new debt. We bought a new bond issued by Portuguese utility company EDP, adding to our existing exposure to this name. Towards the end of the period we reduced our exposure to South Africa due to the continued unrest in the region and the downgrade of the country's credit rating by ratings agency Moody's. At the end of the year we sold Japanese telecommunications company eAccess, banking profits after the strong performance enjoyed by the Fund due to the acquisition of the company in October. Within investment grade bonds, subordinated insurance continues to be our preferred sub-sector, with Swiss Re and Munich Re among our favoured names.

## Outlook

Despite the rally in credit during the second half of 2012, we continue to see value in corporate bonds given the improvement in credit fundamentals, particularly from banks. However, despite our positive view on valuations and a particularly strong technical backdrop, we do remain wary of the wider macro environment as economic growth is likely to remain subdued as fiscal tightening and low credit growth continue to weigh on the economies of the western world. While we expect this growth to remain challenged we believe central banks will keep rates at historically low levels helping to keep corporate default rates low, further supporting credit fundamentals. High yield markets will remain sensitive to fluctuations in sentiment, most notably relating to the eurozone crisis. Nevertheless, from a technical perspective, high yield bonds continue to look attractively priced, given the level of defaults that is priced in and the underlying credit quality of issuers.

## Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2012	1 Accumulation	184.2	155.0	6.8861
2012	1 Income	110.8	96.83	4.1260
2012	2 Accumulation	171.5	143.4	7.0165
2012	2 Income	110.7	96.63	4.4540
2012	4 Accumulation	202.2	168.8	9.1278
2012	4 Income	111.9	97.66	5.1531
2012	C Accumulation	55.68	50.07	1.2683
2012	C Income	54.67	50.08	1.2609

## Net Asset Value Record

Share Class	Share Type	Net Asset Value as at 31 December 2011 (pence)	Net Asset Value as at 31 December 2012 (pence)
1	Accumulation	153.5	182.8
1	Income	95.90	109.8
2	Accumulation	142.2	170.2
2	Income	95.70	109.5
4	Accumulation	167.0	200.7
4	Income	96.71	110.7
C	Accumulation	-	55.27
C	Income	-	54.06

## Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Accumulation	0.5931	Final	31/01/2013
1 Income	0.2672	Final	31/01/2013
2 Accumulation	7.0165	Final	31/01/2013
2 Income	0.4032	Final	31/01/2013
4 Accumulation	0.7966	Final	31/01/2013
4 Income	0.4341	Final	31/01/2013
C Accumulation	0.2103	Final	31/01/2013
C Income	0.2145	Final	31/01/2013
1 Accumulation	0.5955	Interim	31/12/2012
1 Income	0.2379	Interim	31/12/2012
2 Income	0.3670	Interim	31/12/2012
4 Accumulation	0.7923	Interim	31/12/2012
4 Income	0.4394	Interim	31/12/2012
C Accumulation	0.1878	Interim	31/12/2012
C Income	0.2050	Interim	31/12/2012
1 Accumulation	0.5806	Interim	30/11/2012
1 Income	0.2294	Interim	30/11/2012
2 Income	0.3601	Interim	30/11/2012
4 Accumulation	0.7846	Interim	30/11/2012
4 Income	0.4368	Interim	30/11/2012
C Accumulation	0.2182	Interim	30/11/2012
C Income	0.2266	Interim	30/11/2012
1 Accumulation	0.5062	Interim	31/10/2012
1 Income	0.1872	Interim	31/10/2012
2 Income	0.3154	Interim	31/10/2012
4 Accumulation	0.6814	Interim	31/10/2012
4 Income	0.3807	Interim	31/10/2012
C Accumulation	0.2030	Interim	31/10/2012
C Income	0.2066	Interim	31/10/2012

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Accumulation	0.6191	Interim	30/09/2012
1 Income	0.2151	Interim	30/09/2012
2 Income	0.4160	Interim	30/09/2012
4 Accumulation	0.8187	Interim	30/09/2012
4 Income	0.4547	Interim	30/09/2012
C Accumulation	0.2470	Interim	30/09/2012
C Income	0.2266	Interim	30/09/2012
1 Accumulation	0.9791	Interim	31/08/2012
1 Income	0.2318	Interim	31/08/2012
2 Income	0.9102	Interim	31/08/2012
4 Accumulation	1.1225	Interim	31/08/2012
4 Income	0.4414	Interim	31/08/2012
C Accumulation	0.2020	Interim	31/08/2012
C Income	0.1816	Interim	31/08/2012
1 Accumulation	0.5658	Interim	31/07/2012
1 Income	0.3420	Interim	31/07/2012
2 Income	0.3612	Interim	31/07/2012
4 Accumulation	0.7420	Interim	31/07/2012
4 Income	0.4198	Interim	31/07/2012
C Accumulation	-	Interim	31/07/2012
C Income	-	Interim	31/07/2012
1 Accumulation	0.6143	Interim	30/06/2012
1 Income	0.3730	Interim	30/06/2012
2 Income	0.3919	Interim	30/06/2012
4 Accumulation	0.8034	Interim	30/06/2012
4 Income	0.4562	Interim	30/06/2012
C Accumulation	-	Interim	30/06/2012
C Income	-	Interim	30/06/2012
1 Accumulation	0.3858	Interim	31/05/2012
1 Income	0.5295	Interim	31/05/2012
2 Income	0.0009	Interim	31/05/2012
4 Accumulation	0.7547	Interim	31/05/2012
4 Income	0.4475	Interim	31/05/2012
C Accumulation	-	Interim	31/05/2012
C Income	-	Interim	31/05/2012
1 Accumulation	0.2913	Interim	30/04/2012
1 Income	0.7874	Interim	30/04/2012
2 Income	0.1247	Interim	30/04/2012
4 Accumulation	0.3217	Interim	30/04/2012
4 Income	0.3705	Interim	30/04/2012
C Accumulation	-	Interim	30/04/2012
C Income	-	Interim	30/04/2012
1 Accumulation	0.5705	Interim	31/03/2012
1 Income	0.3539	Interim	31/03/2012
2 Income	0.3674	Interim	31/03/2012
4 Accumulation	0.7429	Interim	31/03/2012
4 Income	0.4278	Interim	31/03/2012
C Accumulation	-	Interim	31/03/2012
C Income	-	Interim	31/03/2012
1 Accumulation	0.5848	Interim	28/02/2012
1 Income	0.3716	Interim	28/02/2012
2 Income	0.4360	Interim	28/02/2012
4 Accumulation	0.7670	Interim	28/02/2012
4 Income	0.4442	Interim	28/02/2012
C Accumulation	-	Interim	28/02/2012
C Income	-	Interim	28/02/2012

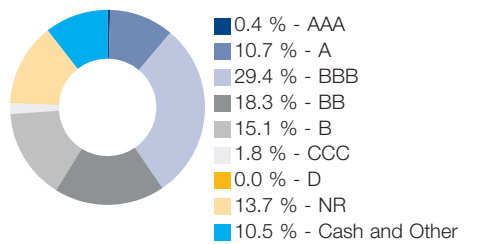
Top Ten Holdings

As at 31 December 2011	%
Paragon 7% 2017	1.73
Tesco Property Finance '2' 6.0517% 2039	1.66
Southern Gas Network (FRN) 1.26856% 2015	1.38
Wind Acquisition Finance 7.375% 2018	1.34
Credit Suisse 6.875% Perpetual	1.17
RSA Insurance 9.375% 2039	1.16
Rexam 6.75% 2067	1.16
Barclays Bank 4.875% Perpetual	1.15
Imperial Tobacco Finance 8.125% 2024	1.12
Petrohawk Energy 7.25% 2018	1.03
<b>Total</b>	<b>12.90</b>

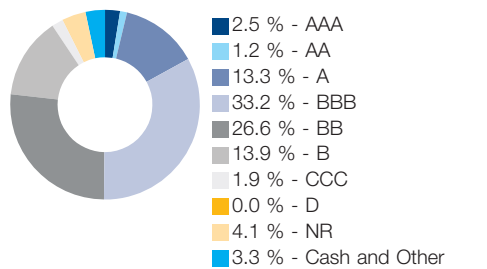
As at 31 December 2012	%
Tesco Property Finance '2' 6.0517% 2039	1.61
Paragon 3.729% 2017	1.54
Southern Gas Network (FRN) 0.81938% 2015	1.31
Rexam 6.75% 2067	1.25
RSA Insurance 9.375% 2039	1.25
BUPA Finance 6.125% Perpetual	1.12
ABN AMRO Bank 4.875% 2019	1.12
BNP Paribas 5.945% Perpetual	1.08
Provident Financial 8% 2019	1.08
Premiertel 6.175% 2032	1.07
<b>Total</b>	<b>12.43</b>

Portfolio Breakdown

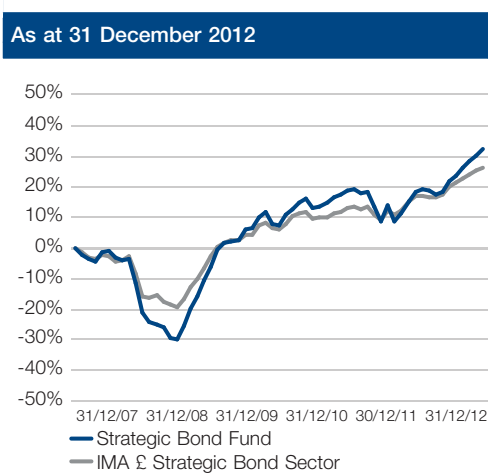
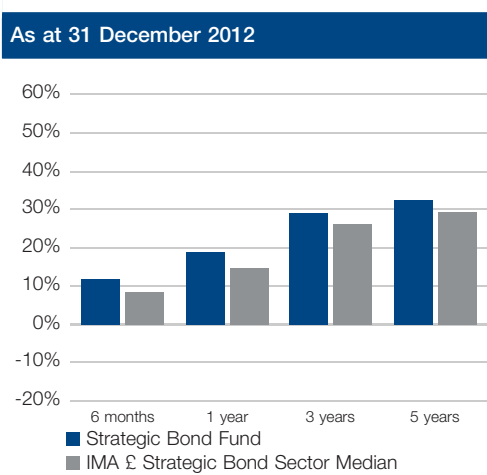
As at 31 December 2011



As at 31 December 2012



Fund Performance



Standardised Performance

31 Dec 2007 to 31 Dec 2008	31 Dec 2008 to 31 Dec 2009	31 Dec 2009 to 31 Dec 2010	31 Dec 2010 to 31 Dec 2011	31 Dec 2011 to 31 Dec 2012
-25.12%	37.27%	10.37%	-1.79%	18.99%

Past Performance is not a guide to future performance.  
Source: Lipper. Share Class 1 accumulation shares. For past performance data for the full range of F&C Funds visit [www.fandc.com](http://www.fandc.com)

Risk Profile

- Credit Risk:** receiving income due from debt instruments is dependant upon the provider's ability to pay.
- Fixed Interest Securities Risk:** changes in interest rates can affect the value of fixed interest holdings.
- Derivative Risk:** derivative values rise and fall at a greater rate than equities and debt instruments. Losses can be greater than the initial investment.

## Report and Accounts

Copies of the annual and half yearly Reports and Accounts for the F&C Investment Funds ICVC III, which include this fund are available free of charge on request to the ACD or can be downloaded from our website [www.fandc.com](http://www.fandc.com)

## Other information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the Fund during this and previous periods, please contact the Authorised Corporate Director.

### Authorised Corporate Director

F&C Fund Management Limited, Exchange House, Primrose Street, London EC2A 2NY

Telephone: (0207) 506 1100

Regulated by the Financial Services Authority.

### Investment Advisor

F&C Managers Limited, Exchange House, Primrose Street, London EC2A 2NY

### Depository

State Street Trustees Limited, 20 Churchill Place, London, E14 5HJ

### Administrator and Registrar

F&C Fund Management Limited, PO Box 9040, Chelmsford, Essex CM99 2XH

### Independent Auditor

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

### Fund Accounting and Unit Pricing

State Street Bank and Trust Company, 525 Ferry Road, Edinburgh, EH5 2AW

### Legal Advisers

Eversheds LLP, One Wood Street, London EC2V 7WS

The F&C Strategic Bond Fund is a sub-fund of the F&C Investment Funds ICVC III (IC105). Applications may only be made on the basis of the current Prospectus. Calls may be recorded. Past performance is not a guide to future performance. The Authorised Corporate Director (ACD) of the ICVC is F&C Fund Management Limited, a subsidiary of F&C Asset Management plc, Authorised (no 121940) and regulated by the Financial Services Authority (FSA). Registered Office; Exchange House, London EC2A 2NY. Registered in England No. 2170242. A registered company, limited by shares. A copy of the Key Investor Document is available from [www.fandc.com](http://www.fandc.com)

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