HBOS Specialised Investment Funds ICVC

Short Reports

for the year ended 31 May 2013

Contents

Introduction and Fund Information

Twice a year we are required to send you a Short Report of the Investment Company with Variable Capital (ICVC) in which you are invested. The report covers how the Funds in the ICVC have performed and how they are invested. It also includes a review from the Funds' managers. Short Reports are important as not only do they keep you up-to-date with fund activity and fund managers' opinion, but they also contain important information about any changes to how the Funds operate. However please note that Short Reports do not contain any details about the value of your personal investment. Information that is personal to you is sent to you in your OEIC or ISA statement.

A longer, more detailed, report called the Long Report is also produced twice-yearly. Copies of the Long Report, the Instrument of Incorporation and the Prospectus for the ICVC are available on request from the ACD (address on page 3).

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 ACD in writing at the address shown on page 3.

Where applicable, Scottish Widows Share Class 1 is referenced as SW1.

This report should not be regarded as an offer to sell or an invitation to buy investment products.

Prospectus changes

During the year and up to the date of this report, the following changes were made to the Company and therefore the following changes were reflected in the Prospectus of HBOS Specialised Investment Funds ICVC:

- With effect from 16 June 2012, the Depositary changed from National Westminster Bank plc, Trustee and Depositary Services to State Street Trustees Limited (SSTL), 20 Churchill Place, Canary Wharf, London, E14 5HJ;
- The wording in the Prospectus has been updated in accordance with regulations and the FCA Rules in the sections relating to Conflicts of Interests, Best Execution and Client Order Handling and details of the new Auditors have been inserted;
- The wording in the Prospectus was updated on 16 June 2012 to explain that Shares in the Funds are currently only available to be acquired or switched by persons that are resident in the UK (unless the ACD agrees otherwise). The ACD is unable to accept business from persons who are US residents or subsequently become US residents;
- The wording in the Prospectus was updated on 16 June 2012 and again on 6 April 2013 to explain the method used for the calculation of the global exposure of derivative and forward transactions that may be used by the Funds;
- With effect from 16 June 2012 the Depositary delegated the custody of the assets of the Funds to State Street Bank & Trust Company;
- State Street Bank & Trust Company was appointed as Fund Accountant of the Company with effect from 16 June 2012;
- With effect from 17 September 2012 the administrator for Retail Share Classes C, F and G changed from Norwich Union Life Services Limited to Scottish Widows Administration Services Limited, whose postal address is PO Box 28132, 15 Dalkeith Road, Edinburgh EH16 9B; and
- With effect from 6 April 2013 the dilution adjustment basis for the Funds was changed so that the ACD may now make a dilution adjustment under the following circumstances:
  - on a Fund where there is a net inflow or net outflow on any Dealing Day; or
  - in any other case where the ACD believes that the imposition of a dilution adjustment is required to safeguard the interests of continuing Shareholders.

Important information

- Amendments to the UK Regulations governing Open-Ended Investment Companies and the FCA's Collective Investment Schemes sourcebook which require limitation of liability between sub-funds of the Company came into effect on 21 December 2011. The new segregated liability regime is mandatory and it is our intention to apply to the FCA within the transitional period for approval to amend the Company's Prospectus and Instrument of Incorporation which will provide for this change. The transitional implementation period is open until 20 December 2013.
- From 1 April 2013 share classes C, F and G in all Funds except Cautious Managed Fund have borne the cost of professional fees incurred in meeting overseas tax compliance obligations and managing tax reclaims in countries where the Funds invest. This has been agreed jointly with your Authorised Corporate Director and Depositary and is in accordance with the conditions already permitted within the Prospectus.

HBOS Specialised Investment Funds ICVC
Short Reports
for the year ended 31 May 2013

Authorised Corporate Director (ACD) and Registrar*

HBOS Investment Fund Managers Limited
Trinity Road
Halifax
West Yorkshire
HX1 2RG

Depositary*

State Street Trustees Limited
20 Churchill Place
Canary Wharf
London
E14 5HJ

Investment Adviser*

Scottish Widows Investment Partnership Limited
33 Old Broad Street
London
EC2N 1HZ

Auditors

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

* Authorised and regulated by the Financial Conduct Authority.

Issued by HBOS Investment Fund Managers Limited, Registered in England No 941082, Registered Office: Trinity road, Halifax, West Yorkshire HX1 2RG. Authorised and regulated by the Financial Conduct Authority.

Cautious Managed Fund Short Report

for the year ended 31 May 2013

Investment objective and policy

The investment objective is to achieve long term growth by investing in a managed portfolio of equities investing mainly in the UK and fixed interest investments such as corporate bonds and gilts.

The Fund will actively manage a balanced mixture of assets between equities and fixed interest investments. The core of the equity assets within the Fund will tend to be invested in large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth. However, the Fund is not restricted to the choice of company either by size or industry. The fixed interest assets will be invested primarily in a wide range of sterling and euro dominated investment grade interest bearing securities.

Risk profile

The Cautious Managed Fund is a Cautious-Medium risk fund. It benefits from diversification from investing in both equities and fixed interest investments.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to the fund Risk Profiles we used to determine our investment portfolios (where we used our own methodology to take an overall look at the funds' risks and aims and group our funds into Cautious/Medium, Medium, Medium/Adventurous, Adventurous Profiles).

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 5 because it has experienced medium to high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 May 2013 and there have been no changes to this ranking to date.

Fund manager's comments

The period under review has been a positive one for most asset classes. There was an upturn in confidence among investors, with the result that riskier assets such as equities outperformed. The Fund is split between equities and bonds which means that it did not participate in the rally to the same extent as Funds that are focussed purely on equities. Nonetheless, it generated a very healthy return of 20.38% (gross of fees) over the twelve months under review.

In the UK, share prices have enjoyed an impressive run throughout the review period. From June 2012 through to the end of May this year, the FTSE 100 Index rose for twelve consecutive months. January 2013 represented the UK market's strongest start to the year since 1989. The run higher has not necessarily been the result of developments in the UK though. Some of the largest UK companies earn a large proportion of their profits overseas and investors took encouragement from economic developments abroad.

Fund manager's comments (continued)

In particular, the actions of central banks have been key. Throughout the last year, monetary authorities have been engaging in monetary easing policies such as "quantitative easing" to try and boost their economies by increasing the supply of money. Most recently, the Bank of Japan unveiled a programme of stimulus measures worth ¥7 trillion (£923 billion). This will involve buying a range of assets, including bonds and equities. The intention is to force down interest rates and therefore borrowing costs, while boosting inflation and economic growth. Similar, albeit less drastic, measures have been undertaken by the Bank of England, the European Central Bank and the US Federal Reserve. These measures have boosted confidence that something is being done to promote global economic recovery and encouraged global investors back into stock markets. As a result, most major global equity markets registered strong gains over the year.

The Fund also invests in bonds issued by both governments and companies. Government bond prices have rocketed in recent years because of their perceived status as a safe investment. As a result, yields are at record lows and we do not consider that they represent good value at current levels. The Fund has a relatively small position in this asset class. Corporate bonds offer slightly better value, although yields have also been driven lower and prices higher by the sheer amount of money targeting the asset and not enough new bonds are being issued to meet demand.

Within the portfolio, we reduced the Fund's equity exposure slightly during August as we took the view that, following the stock market rally, prices had become fully valued given the risks that remained. The proceeds were held in cash until November, when we decided to re-invest in the stock market. The rationale behind this decision to re-invest was that our economic and stock markets indicators both showed signs of improving prospects for equity investors. The move proved well timed, as equity markets produced some very strong performances during the latter part of the review period. In terms of stock selection, both the equity and the bonds portions of the portfolio performed comparatively well, thereby further enhancing returns to investors. The equity portion of the portfolio is designed to track the markets in which the Fund invests. Equity transactions therefore reflected changes to the composition of the underlying stock market.

Looking ahead, we believe that the Fund's current positioning leaves it well placed to participate in any future stock market gains, while providing a degree of diversification to investors via holdings in government and corporate bonds (diversification being the spread of the Fund's holdings across a combination of asset classes which are likely to perform differently in any particular set of market conditions). Overall, we are cautiously optimistic about the global economy's continuing recovery. This view is reflected in the composition of the portfolio through the comparatively large equity weighting and the corresponding lack of exposure to government bonds. The coming year is unlikely to be such a smooth ride for investors and volatility is likely. However, the Fund's cautious approach should help smooth returns, while allowing investors to take advantage of any further stock market gains.

Distributions

XD dates:	Payment dates:
Interim - 30 November	Interim - 31 January
Final - 31 May	Final - 31 July

Ongoing charges figure

	31/05/13 %
Share Class C	1.50
Share Class F	1.25
Share Class G	1.00
Share Class I†	0.00

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change, comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

† Fees are payable by institutional investors in this share class to the ACD outside the Fund.

Fund performance

Net Asset Value

	NAV per share 31/05/13 (p)	NAV per share 31/05/12 (p)	NAV percentage change %
Share Class C	37.62	31.74	18.53
Share Class F	32.45	27.32	18.78
Share Class G	32.78	27.54	19.03
Share Class I	41.57	34.65	19.97

Distributions

The distributions for share classes C, F, G and I were / will be credited to the capital of the relevant share class on or before the dates shown below and are stated in pence per share.

	31/07/13 (p)	31/01/13 (p)	31/07/12* (p)	31/01/12* (p)
Share Class C	0.3674	0.3595	0.4046	0.4107
Share Class F	0.3482	0.3389	0.3774	0.3792
Share Class G	0.3829	0.3710	0.4059	0.4091
Share Class I	0.6444	0.6152	0.6474	0.6460

*The distribution rates for the year ended 31 May 2012 have been included for comparison.

Please note: negative figures are shown in brackets.

Performance record

	01/06/12 to 31/05/13 %	01/06/11 to 31/05/12 %	01/06/10 to 31/05/11 %	01/06/09 to 31/05/10 %	01/06/08 to 31/05/09 %
Cautious Managed Fund	20.38	(1.74)	13.77	19.85	(11.36)
Benchmark*	19.05	1.03	13.68	19.33	(11.79)

Source: Morningstar for Cautious Managed Fund after 1 June 2011 and Lipper for previous periods. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

*51% FTSE All Share Index, 39.2% iBOXX Sterling Non-Gilt All Stocks Index and 9.8% FTSE Actuaries Government Securities UK Gilts All Stocks Index. Source: Scottish Widows Investment Partnership. Basis: Revenue reinvested and gross of expenses, at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down, and you may get back less than invested.

Portfolio information

Major Holdings

The Fund's major holdings at the end of the current and previous year were as follows:

Holding	Fund value % 31/05/13		Fund value % 31/05/12
SWIP Global Liquidity Fund	6.41	SWIP Global Liquidity Fund	5.73
HSBC	3.38	Vodafone	3.07
SWIP Sterling Investment Cash Fund	2.75	BP	2.90
Vodafone	2.35	HSBC	2.70
BP	2.25	UK Treasury 4.5% 2034	2.70

Classification of investments#

	Fund value % 31/05/13	Fund value % 31/05/12
UK Equities	45.80	48.46
Fixed Income	39.62	47.04
Ireland Equities	9.42	0.01
Jersey Equities	2.39	2.07
Guernsey Equities	0.33	0.47
Spain Equities	0.19	0.16
Bermuda Equities	0.16	0.09
Isle of Man Equities	0.09	0.08
India Equities	0.04	0.11
Luxembourg Equities	0.03	0.00
Gibraltar Equities	0.01	0.00
Derivatives	0.14	(0.39)
Net other assets	1.78	1.90

Since the previous annual report the Sector Classification headings on the classification of investments have been updated, this is due to a change in Fund Accountant and therefore sector data providers. The new sector names have been reflected in the report in respect of the current holdings and comparative holdings have been updated where appropriate.

Ethical Fund Short Report

for the year ended 31 May 2013

Investment objective and policy

The investment objective is to achieve capital growth in the long term by investing in companies whose activities are considered ethical, both in terms of their primary activities as well as in the means of achieving them.

The investment policy is to select an international portfolio of companies with above average potential for growth. The majority of the portfolio will be invested in the following areas:

a. Pollution Control.
b. Environmental Protection.
c. Efficient utilisation of material and energy resources.
d. Clean fuels and alternative energy systems.
e. Healthcare services and medical technology.
f. Enabling technologies considered to be beneficial to society.

Additionally, the Fund will strive to avoid investments in companies involved in any of the following areas:

alcohol, animal testing, armaments, banking, child labour, fur trade, gambling, links with undemocratic regimes, nuclear power production, polluting the environment, pornography and tobacco.

Risk profile

The Ethical Fund is a Medium-Adventurous risk fund. This primarily derives from its international nature (i.e. currency risk) and the restriction on the degree of diversification that is possible within the parameters of the investment objectives, which results in higher risk.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to the fund Risk Profiles we used to determine our investment portfolios (where we used our own methodology to take an overall look at the funds' risks and aims and group our funds into Cautious/Medium, Medium, Medium/Adventurous, Adventurous Profiles).

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 May 2013 and there have been no changes to this ranking to date.

Fund manager's comments

The world's equity markets have enjoyed strong returns over the last 12 months. The run higher has been propelled by the quantitative easing (QE) monetary policies pursued by a variety of central banks to stimulate and feed money back into their economies by buying assets such as corporate and government bonds. The gross return of the Fund over the reporting period was 28.89%. This compares to the 29.40% gross return of its benchmark, the FTSE World Index.

Notwithstanding the strong performance of equity markets, the global economy faced a number of challenges. In the US, late 2012 was characterised by worries over a looming combination of spending cuts and tax hikes. Once this "fiscal cliff" was averted (albeit temporarily), concern turned towards the threat of the sequestration (an automatic reduction in the federal budget). $85 billion of government spending cuts began to be rolled out at the beginning of March.

In the eurozone, negotiations over Greece's bailout were the main talking point in late 2012. An agreement was eventually reached, however, and attention turned towards political uncertainty in Italy. In Cyprus, a deposit levy designed to fund the country's own contribution to its international bailout was rejected by parliament, leading to last-minute negotiations over a new deal to avoid a threatened withdrawal of emergency funds by the European Central Bank (ECB).

Nevertheless, positive economic developments in the world's largest economies, particularly the US, helped investors to stay relatively optimistic in early 2013. At this point, the world's major central banks were continuing to signal their commitment to exceptional monetary stimulus over an extended period. This was particularly evident in Japan, which is now pursuing a more aggressive brand of monetary policy.

Investors were left feeling uncertain about the latest monetary policy news, however. Ben Bernanke, the chairman of the Federal Reserve appeared to hint that the central bank may soon consider "tapering" its $85 billion-a-month asset-buying programme, should there be sustained economic improvement in the US.

At asset level, our holding in Sanofi performed well over the reporting period. The pharmaceuticals group delivered strong results, with growth in emerging markets particularly encouraging. Its product pipeline is also rich and acquisitions have strengthened its market position.

In contrast, our holding in the UK's BG Group was detrimental to returns. The gas company was hit by a series of production delays and a warning that 2013's production will be lower than analysts had anticipated.

Recent transactions have included the sale of Baidu, the Chinese web services company, and Clarcor, the filter producer. The resulting cash positions were invested across the portfolio.

Equity markets have surrendered some of their gains in recent weeks. Investors had been confident that central bankers could co-ordinate sustainable recovery in major international economies and successfully address obstacles such as the tapering of QE in the US and intermittent political crises in Europe. But central banks have also become a source of market volatility.

The US remains on track for a robust economic upturn which has so far shown itself resilient in the face of fiscal (i.e. government spending) cutbacks. However, the anticipated tapering of QE this autumn, its subsequent conclusion in the first half of 2014 and the inevitable rise in bond yields as prices fall has made investors nervous. The Federal Reserve has therefore shifted from being a source of stability for financial markets to one of instability.

The portfolio remains balanced, with a bias towards US equities. We have maintained its underweight exposure to the energy sector, a position that should continue to have a positive effect on returns over the months to come.

Distribution

XD date:	Payment date:
Final - 31 May	Final - 31 July

Ongoing charges figure

	31/05/13 %
Share Class A	0.50
Share Class C	1.52
Share Class F	1.27
Share Class G	1.02
Share Class I†	0.00
Share Class SW1	1.65

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change, comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

† Fees are payable by institutional investors in this share class to the ACD outside the Fund.

Fund performance

Net Asset Value

	NAV per share 31/05/13 (p)	NAV per share 31/05/12 (p)	NAV percentage change %
Share Class A	124.79	98.43	26.78
Share Class C	52.91	41.74	26.76
Share Class F	32.84	25.85	27.04
Share Class G	33.23	26.10	27.32
Share Class I	124.86	98.43	26.85
Share Class SW1	91.13	72.00	26.57

Classification of investments#

	Fund value % 31/05/13	Fund value % 31/05/12
Industrials	18.72	14.95
Financials	17.15	12.05
Health Care	15.83	21.07
Technology	12.89	15.51
Consumer Goods	11.18	8.55
Basic Materials	8.23	9.48
Oil & Gas	7.04	7.08
Consumer Services	6.31	7.86
Utilities	2.89	1.51
Telecommunications	0.00	2.44
Net other liabilities	(0.24)	(0.50)

Since the previous annual report the Sector Classification headings on the classification of investments have been updated, this is due to a change in Fund Accountant and therefore sector data providers. The new sector names have been reflected in the report in respect of the current holdings and comparative holdings have been updated where appropriate.

Please note: negative figures are shown in brackets.

Performance record

	01/06/12 to 31/05/13 %	01/06/11 to 31/05/12 %	01/06/10 to 31/05/11 %	01/06/09 to 31/05/10 %	01/06/08 to 31/05/09 %
Ethical Fund	28.89	(2.15)	10.29	26.45	(20.42)
FTSE World Index	29.40	(5.95)	12.40	29.06	(19.59)

Source: Morningstar for Ethical Fund after 1 June 2011 and Lipper for previous periods. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Source: Morningstar for the FTSE World Index. Basis: Revenue reinvested and gross of expenses, at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down, and you may get back less than invested.

Portfolio information

Major Holdings

The Fund's major holdings at the end of the current and previous year were as follows:

Holding	Fund value % 31/05/13		Fund value % 31/05/12
Hexcel	3.25	Pfizer	4.78
Bayer	3.20	Apple	4.73
American Express	3.14	Sanofi	4.28
Google	3.11	SolarWinds	3.28
Fresenius Medical Care	3.09	American Express	3.15

Geographical spread#

	Fund value % 31/05/13	Fund value % 31/05/12
United States	57.07	65.33
United Kingdom	15.40	7.74
Germany	6.29	0.00
Switzerland	4.55	1.47
Japan	4.00	4.81
Denmark	2.49	0.00
France	2.26	8.04
Ireland	1.88	0.00
Isle of Man	1.86	0.00
Norway	1.83	0.00
Canada	1.55	4.33
Brazil	1.06	0.99
Hong Kong	0.00	2.44
Korea	0.00	2.32
India	0.00	1.51
Australia	0.00	0.89
Netherlands	0.00	0.63
Net other liabilities	(0.24)	(0.50)

Distributions

The distributions for share classes A and I were paid/are payable on or before the dates shown below and are stated in pence per share. For share classes C, F, G and SW1, the distributions were/will be credited to the capital of the relevant share class on or before the dates shown below and are stated in pence per share.

	31/07/13 (p)	31/07/12* (p)
Share Class A	1.1867	1.0021
Share Class C	0.0542	0.0171
Share Class F	0.0976	0.0734
Share Class G	0.1672	0.1366
Share Class I	1.7034	1.4768
Share Class SW1	0.0000	0.0000

*The distribution rates for the year ended 31 May 2012 have been included for comparison.

Fund of Investment Trusts Short Report

for the year ended 31 May 2013

Investment objective and policy

The investment objective is to achieve capital growth in the long term by investing mainly in Investment Trust companies.

The investment policy is to select Investment Trust companies which the managers believe are investing in attractive markets and having a manager expected to outperform the relevant asset category. The portfolio will also include trusts that are likely to benefit from reconstruction.

Risk profile

The Fund of Investment Trusts is a Medium-Adventurous risk fund. Although internationally invested, there is a significant degree of diversification provided by the underlying investment of the investment trusts in a large number of different companies.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to the fund Risk Profiles we used to determine our investment portfolios (where we used our own methodology to take an overall look at the funds' risks and aims and group our funds into Cautious/Medium, Medium, Medium/Adventurous, Adventurous Profiles).

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 May 2013 and there have been no changes to this ranking to date.

Fund manager's comments

The world's equity markets have enjoyed strong returns over the last 12 months. The Fund made a gross return of 28.54% over the reporting period. Its benchmark (50% FTSE All Share Index, 50% FTSE World ex UK Index), generated a gross return of 29.80%.

Notwithstanding the strong performance of equity markets, the global economy faced a number of challenges. In the US, late 2012 was characterised by worries over a looming combination of spending cuts and tax hikes. Once this "fiscal cliff" was averted (albeit temporarily), concern turned towards the threat of the sequestration (an automatic reduction in the federal budget). $85 billion of government spending cuts began to be rolled out at the beginning of March.

In the eurozone, negotiations over Greece's bailout were the main talking point in late 2012. An agreement was eventually reached, however, and attention turned towards political uncertainty in Italy. In Cyprus, a deposit levy designed to fund the country's own contribution to its international bailout was rejected by parliament, leading to last-minute negotiations over a new deal to avoid a threatened withdrawal of emergency funds by the European Central Bank (ECB).

Fund manager's comments (continued)

Nevertheless, positive economic developments in the world's largest economies, particularly the US, helped investors stay relatively optimistic in early 2013. At this point, the world's major central banks were continuing to signal their commitment to exceptional monetary stimulus over an extended period. This was particularly evident in Japan, which is now pursuing a more aggressive brand of monetary policy.

Investors were left feeling uncertain about the latest monetary policy news, however. Ben Bernanke, the chairman of the Federal Reserve, appeared to hint that the central bank may soon consider the idea of "tapering" its $85 billion-a-month asset-buying programme, should there be a sustained economic improvement in the US.

For the Fund, exposure to UK medium and smaller companies trusts proved to be especially beneficial to performance. Other notable contributors included growth-focussed trusts such as Finsbury Growth & Income and Biotech Growth. Meanwhile, TR Property enjoyed a sharp rerating as many investors looked to the property sector as a source of income in a world of low interest rates.

In general, income-orientated funds were also in demand as such accommodative monetary policy led to a world-wide "hunt for yield". Conversely, the "insurance" offered by funds with an emphasis on capital preservation and robust discount controls (such as Personal Assets, Troy Income & Growth and Cayenne Trust) proved not to be required. Other drags on performance included SVM Global (where accounting errors prompted the appointment of a new manager), Monks (where a cautious market stance was compounded by poor stock selection) and BlackRock World Mining (which was affected by slowing growth in China).

With SWIP's Global Equities team maintaining a very positive view on US equities, the main change in the portfolio was an increase in US exposure. This was predominantly achieved by new purchases of BlackRock North American Income, a recently-launched fund, and of Worldwide Healthcare. We took advantage of good performance to take profits in some European-focussed trusts and also to fund a new addition in the area, BlackRock Greater Europe, via a placing of stock. This fund has a good performance record and a pro-active board.

Elsewhere, we reduced our emerging markets exposure early in the year (in part via a sizeable reduction in BlackRock World Mining) and also continued to sell down the large exposure to successful investments such as BlackRock UK Smaller Companies, JPMorgan Mid-Cap and Schroder Mid-Cap. The latter funded an addition to Diverse Income Trust which is our preferred fund in the UK income sub-sector.

Towards the very end of the reporting period, markets became quite jittery in response to the possibility that monetary stimulus may soon be phased out in the US. The impact was most keenly felt in Japan where "Abenomics" (the suite of new economic policies introduced by Shinzo Abe, the Japanese prime minister) has been notably successful in boosting the stockmarket and depressing the yen (which severely dampened returns to sterling-based investors). It is too soon to tell how the policy will boost the broader domestic economy and, for now, we are happy to retain our modest exposure to Japanese funds.

With investors understandably keen to lock-in gains built up over the last three years, a period of consolidation for global risk assets would be quite healthy. This is especially true for bond markets which have become quite frenetic in places. Being mindful of the fairly sharp corrections that investors have experienced over the last two years, we are happy to retain a fairly balanced portfolio with a bias towards investment trusts which have robust discount control policies.

Distributions

XD dates:	Payment dates:
Interim - 30 November	Interim - 31 January
Final - 31 May	Final - 31 July

Ongoing charges figure

	31/05/13 %
Share Class A	0.50
Share Class C	1.51
Share Class F	1.26
Share Class G	1.01
Share Class I†	0.00

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

† Fees are payable by institutional investors in this share class to the ACD outside the Fund.

Fund performance

Net Asset Value

	NAV per share 31/05/13 (p)	NAV per share 31/05/12 (p)	NAV percentage change %
Share Class A	607.31	480.06	26.51
Share Class C	70.06	55.07	27.22
Share Class F	31.43	24.66	27.45
Share Class G	31.84	24.92	27.77
Share Class I	607.42	480.06	26.53

Distributions

The distributions for share class A and I were paid/are payable on or before the dates shown below and are stated in pence per share. For share classes C, F, and G the distributions were/will be credited to the capital of the relevant share class on or before the dates shown below, and are stated in pence per share.

	31/07/13 (p)	31/01/13 (p)	31/07/12* (p)	31/01/12* (p)
Share Class A	4.6322	3.9272	4.1758	2.8887
Share Class C	0.2355	0.1713	0.1856	0.0504
Share Class F	0.1303	0.1037	0.1169	0.0546
Share Class G	0.1667	0.1380	0.1484	0.0868
Share Class I	5.8990	5.1169	5.4401	4.1020

* The distribution rates for the year ended 31 May 2012 have been included for comparison.

Performance record

	01/06/12 to 31/05/13 %	01/06/11 to 31/05/12 %	01/06/10 to 31/05/11 %	01/06/09 to 31/05/10 %	01/06/08 to 31/05/09 %
Fund of Investment Trusts	28.54	(10.17)	24.78	25.86	(27.88)
Benchmark*	29.80	(6.59)	15.72	26.40	(20.38)

Source: Morningstar for Fund of Investment Trusts after 1 June 2011 and Lipper for previous periods. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

*50% FTSE All Share Index and 50% FTSE World ex UK Index. Source: Scottish Widows Investment Partnership. Basis: Revenue reinvested and gross of expenses, at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down, and you may get back less than invested.

Portfolio information

Major Holdings

The Fund's major holdings at the end of the current and previous year were as follows:

Holding	Fund value % 31/05/13		Fund value % 31/05/12
Monks Investment Trust	6.31	Monks Investment Trust	7.40
F&C Investment Trust	4.04	F&C Investment Trust	4.71
North American Income Trust	3.97	BlackRock World Mining Trust	4.69
Electra Private Equity	3.61	Scottish Mortgage Investment Trust	3.31
Scottish Mortgage Investment Trust	3.14	BlackRock British Smaller Companies Trust	3.26

Classification of investments#

	Fund value % 31/05/13	Fund value % 31/05/12
UK Equities	96.05	97.36
UK Fixed Interest Bonds	0.68	1.36
Derivatives	0.04	(0.04)
Net other assets	3.23	1.32

Since the previous annual report the Sector Classification headings on the classification of investments have been updated, this is due to a change in Fund Accountant and therefore sector data providers. The new sector names have been reflected in the report in respect of the current holdings and comparative holdings have been updated where appropriate.

Please note: negative figures are shown in brackets.

Smaller Companies Fund Short Report

for the year ended 31 May 2013

Investment objective and policy

The investment objective is to achieve long term capital growth through investing mainly in smaller companies, principally in the UK.

The investment policy is to concentrate the core of the portfolio on smaller companies with above average potential for growth.

Risk profile

The Smaller Companies Fund is a Medium-Adventurous risk fund. This Fund should be considered by those able to accept a higher level of volatility, although our objective is to invest in better quality stocks that should offer fundamental value.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to the fund Risk Profiles we used to determine our investment portfolios (where we used our own methodology to take an overall look at the funds' risks and aims and group our funds into Cautious/Medium, Medium, Medium/Adventurous, Adventurous Profiles).

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 May 2013 and there have been no changes to this ranking to date.

Fund manager's comments

It was a rewarding year for investors in smaller companies. The Numis Smaller Companies (excluding investment trusts) Index, which is the Fund's benchmark, had a gross return of 39.31% over the 12 months. In comparison, the Fund's gross return over the period was 39.37%.

That the share prices of small companies rose so far despite lacklustre news on the UK economy was testament to the role that central banks, including the Bank of England, have played in supporting risk appetite and asset prices. January 2013, as a result, represented the UK equity market's strongest start to a year since 1989.

Investors were, however, left feeling uncertain about the latest monetary policy news. Ben Bernanke, the chairman of the US Federal Reserve (the US central bank), appeared to hint that it may soon consider "tapering" its $85 billion-a-month asset-buying programme, should there be sustained economic improvement in the US.

Fund manager's comments (continued)

In terms of stock selection, the Fund's strongest performer was Ashtead, which rents heavy equipment such as cranes and pumps. Ashtead's US operation has benefited from the economic and housing recovery in the United States which has driven demand for construction equipment. It continued to press the enhanced pricing power it has enjoyed since the financial crisis, which wiped out many of its rivals. Other strong performers over the year included Howden Joinery, which supplies kitchens to the building trade. It continued to grow its business while shedding a legacy of onerous leases it inherited after being spun out of MFI.

New holdings established during the year included Playtech. It creates the software used in online gambling and recently received £424m for its share of a joint venture with William Hill. It is now working in partnership with Ladbrokes. Other new holdings included Carphone Warehouse, which is responding to a changing mobile telecoms market by using an enhanced in-store experience to sell higher margin products and services. A new position in housebuilder Bellway, meanwhile, may be a beneficiary from the government's recent attempts to jumpstart the housing market.

Many of our sales reflected a view that a given holding was looking fully valued, making further gains hard to envisage. These included taking profits on successful positions such as ASOS. More recent sales included Debenhams, whose turnaround story looks less convincing than it once did. We have reduced the Fund's exposure to resources.

Looking ahead, after a very strong run, smaller companies look less attractively valued than they did a year ago. In this environment, investors need to broaden their horizons to find undervalued companies. With some of last year's strongest performers now appearing expensive, the portfolio managers are searching for value by looking for "recovery situations" where valuations are more attractive (such as recruitment agency Robert Walters) and, while keeping liquidity constraints in mind, searching for opportunities among companies with lower market capitalisations.

Distributions

XD dates:	Payment dates:
Interim - 30 November	Interim - 31 January
Final - 31 May	Final - 31 July

Ongoing charges figure

	31/05/13 %
Share Class A	0.50
Share Class C	1.51
Share Class F	1.26
Share Class G	1.01
Share Class I†	0.00
Share Class SW1	1.60

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

† Fees are payable by institutional investors in this share class to the ACD outside the Fund.

Fund performance

Net Asset Value

	NAV per share 31/05/13 (p)	NAV per share 31/05/12 (p)	NAV percentage change %
Share Class A	154.22	113.43	35.96
Share Class C	69.56	50.52	37.69
Share Class F	35.78	25.93	37.99
Share Class G	35.46	25.63	38.35
Share Class I	154.26	113.43	36.00
Share Class SW1	112.57	81.81	37.60

Distributions

The distributions for share classes A and I were paid / are payable on or before the dates shown below and are stated in pence per share. For share classes C, F, G and SW1, the distributions were / will be credited to the capital of the relevant share class on or before the dates shown below and are stated in pence per share.

	31/07/13 (p)	31/01/13 (p)	31/07/12* (p)	31/01/12* (p)
Share Class A	1.9218	1.3938	1.3166	1.4376
Share Class C	0.5506	0.3487	0.3390	0.3933
Share Class F	0.3191	0.2115	0.2055	0.2316
Share Class G	0.3560	0.2440	0.2333	0.2579
Share Class I	2.2612	1.6935	1.5855	1.6950
Share Class SW1	0.9589	0.4750	0.4961	0.6097

* The distribution rates for the year ended 31 May 2012 have been included for comparison.

Please note: negative figures are shown in brackets.

Performance record

	01/06/12 to 31/05/13 %	01/06/11 to 31/05/12 %	01/06/10 to 31/05/11 %	01/06/09 to 31/05/10 %	01/06/08 to 31/05/09 %
Smaller Companies Fund	39.37	(7.24)	27.21	30.43	(27.16)
Benchmark*	39.31	(9.36)	22.10	21.06	(27.61)

Source: Morningstar for Smaller Companies Fund after 1 June 2011 and Lipper for previous periods. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12:00pm.

*Numis Smaller Companies ex Investment Trusts Index after 1 July 2012 and FTSE Smaller Companies ex Investment Trusts Index up to 30 June 2012. Source: Scottish Widows Investment Partnership. Basis: Revenue reinvested and gross of expenses at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major Holdings

The Fund's major holdings at the end of the current and previous year were as follows:

Holding	Fund value % 31/05/13		Fund value % 31/05/12
Beazley	2.86	Robert Walters	2.70
Hansteen	2.73	National Express	2.61
Howden Joinery	2.71	UBM	2.58
Bellway	2.67	Ashstead	2.54
Carphone Warehouse	2.55	Talk Talk Telecom	2.46

Classification of investments#

	Fund value % 31/05/13	Fund value % 31/05/12
Consumer Services	26.43	24.52
Industrials	26.20	25.53
Financials	23.49	17.43
Technology	6.95	7.73
Consumer Goods	5.87	5.81
Telecommunications	5.63	4.50
Oil & Gas	3.84	5.69
Health Care	1.74	2.47
Utilities	0.50	0.78
Basic Materials	0.06	5.36
Net other (liabilities)/assets	(0.71)	0.18

Since the previous annual report the Sector Classification headings on the classification of investments have been updated, this is due to a change in Fund Accountant and therefore sector data providers. The new sector names have been reflected in the report in respect of the current holdings and comparative holdings have been updated where appropriate.

Special Situations Fund Short Report

for the year ended 31 May 2013

Investment objective and policy

The investment objective is to achieve capital growth by active investment in UK companies with above average potential for growth.

The investment policy is to select and actively manage a portfolio of large, medium and small sized companies with above average potential for capital growth. Advantage will be taken of opportunities offered by management pressures, recovery situations and market anomalies.

Risk profile

The Special Situations Fund is a Medium-Adventurous risk fund. This Fund can be expected to be more volatile than the market average and should only be chosen by those able to accept the above-average risk.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to the fund Risk Profiles we used to determine our investment portfolios (where we used our own methodology to take an overall look at the funds' risks and aims and group our funds into Cautious/Medium, Medium, Medium/Adventurous, Adventurous Profiles).

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 May 2013 and there have been no changes to this ranking to date.

Fund manager's comments

UK equities have risen strongly over the year under review, with May 2013 representing the twelfth consecutive month of gains for the market. The Fund's benchmark, the FTSE All-Share Index, produced a gross return of 30.11% over the 12 months. The Fund, meanwhile, generated a gross return of 25.24%.

The extraordinary monetary easing policy measures enacted by the world's central bankers to stimulate their economies were among the main drivers of performance. These measures have involved injecting huge amounts of cash into the financial system (via central banks' purchases of government bonds and other assets) in a process known as quantitative easing (QE). Meanwhile, interest rates have been kept historically low. January 2013, as a result, represented the UK market's strongest start to the year since 1989. Late in the reporting period, however, worries that the US Federal Reserve might soon "taper" its QE scheme left investors feeling jittery, sparking a sell-off in developed equity markets.

Fund manager's comments (continued)

Overall, the market's gains tended to be led by high-quality annuity-type stocks that generate predictable dividend payments, as investors looked for yield. The telecoms, pharmaceuticals, beverages and household goods sectors all produced strong returns. In contrast, the mining sector struggled over the period. The sector was punished for its reliance on demand from China, where survey data pointed towards a slowing in the pace of economic expansion.

Our failure to match the rise in the market was mainly attributable to two factors - we have remained underweight the banking sector throughout the year on concerns that capital buffers were generally inadequate and would be likely to prevent banks carrying out much needed repairs to their existing loan books. These concerns remain valid even if central bank policy has been more supportive than we would have expected and the sector has done well as a result. Secondly, holdings in three India-focused energy stocks –KSK Power Ventur, Indus Gas and Great Eastern Energy – weighed on relative returns as visibility remained limited on exactly when much needed energy policy reform would be delivered, despite blackouts, denying power to hundreds of millions.

Early in the reporting period, we built holdings in BAE Systems, RSA Insurance and Travis Perkins. These additions were funded by selling holdings in SABMiller, Berkeley Group and Indus Gas. More recently, we added to our holding in IMI, the engineering company. We believe the stock has good prospects due to the company's niche market in producing mission-critical valves and pumps for nuclear facilities. We have also built a holding in Whitbread, the company that owns the Costa Coffee and Premier Inn chains. Given that coffee consumption in the UK is still at a level of around half that seen in some European countries and that budget hotels remain a less mature concept in the UK than in other developed economies, we think that Whitbread's success will continue. In contrast, we have recently taken profit by reducing exposure to DS Smith. The decision was prompted by our belief that the company may need to make more acquisitions and the risks that this potential strategy would present.

Volatility has been rife and is likely to persist over the short term. In general, though, the anticipated changes to monetary policy do point to a stronger US economy. They also indicate that the financial system, after years of dysfunction, should be returning to pre-crisis normality. In the long run, this should be beneficial to the global economy as a whole. With China slowing and the eurozone facing many challenges, this should provide a modicum of relief to investors.

The outlook for the UK economy has finally started to improve. The construction sector belatedly returned to growth in May, while retail sales picked up 3.4%. The Markit/CIPS construction purchasing managers' index (PMI) (a measure of activity in the industrial sector) hit 50.8 in May from 49.4 the previous month. The 50 mark is the point between growth and contraction. UK manufacturing expanded more quickly than consensus economists' forecasts. Finally, the service sector is also performing well.

Distribution

XD date:	Payment date:
Final - 31 May	Final - 31 July

Ongoing charges figure

	31/05/13 %
Share Class A	0.50
Share Class C	1.51
Share Class F	1.26
Share Class G	1.01
Share Class I†	0.00
Share Class SW1	1.60

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Conduct Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change, comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

† Fees are payable by institutional investors in this share class to the ACD outside the Fund.

Fund performance

Net Asset Value

	NAV per share 31/05/13 (p)	NAV per share 31/05/12 (p)	NAV percentage change %
Share Class A	143.53	117.30	22.36
Share Class C	41.90	33.68	24.41
Share Class F	26.90	21.57	24.71
Share Class G	27.24	21.78	25.07
Share Class I	143.59	117.30	22.41
Share Class SW1	89.04	71.64	24.29

Distributions

The distributions for share classes A and I were paid / are payable on or before the dates shown below and are stated in pence per share. For share classes C, F, G and SW1, the distributions were / will be credited to the capital of the relevant share class on or before the dates shown below and are stated in pence per share.

	31/07/13 (p)	31/07/12* (p)
Share Class A	3.9106	2.8068
Share Class C	0.7353	0.4302
Share Class F	0.5319	0.3375
Share Class G	0.6000	0.3982
Share Class I	4.5764	3.4473
Share Class SW1	1.4821	0.8505

* The distribution rates for the year ended 31 May 2012 have been included for comparison.

Please note: negative figures are shown in brackets.

Performance record

	01/06/12 to 31/05/13 %	01/06/11 to 31/05/12 %	01/06/10 to 31/05/11 %	01/06/09 to 31/05/10 %	01/06/08 to 31/05/09 %
Special Situations Fund	25.24	(16.99)	26.84	20.51	(26.72)
FTSE All Share Index	30.11	(8.00)	19.57	23.03	(23.37)

Source: Morningstar for Special Situations Fund after 1 June 2011 and Lipper for previous periods. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12:00pm.

Source: Morningstar for the FTSE All Share Index. Basis: Revenue reinvested and gross of expenses, at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major Holdings

The Fund's major holdings at the end of the current and previous year were as follows:

Holding	Fund value % 31/05/13		Fund value % 31/05/12
AstraZeneca	6.01	BP	6.43
GlaxoSmithKline	5.61	AstraZeneca	6.31
BP	5.18	Indus Gas	6.07
Reed Elsevier	4.55	Reed Elsevier	5.49
Royal Dutch Shell 'B'	4.18	GlaxoSmithKline	5.33

Classification of investments#

	Fund value % 31/05/13	Fund value % 31/05/12
Oil & Gas	20.00	27.92
Financials	18.93	14.51
Consumer Services	12.92	7.08
Consumer Goods	12.20	11.75
Health Care	11.62	11.64
Industrials	10.43	5.74
Basic Materials	6.46	8.03
Utilities	5.51	3.92
Technology	2.82	4.55
Net other (liabilities)/assets	(0.89)	4.86

Since the previous annual report the Sector Classification headings on the classification of investments have been updated, this is due to a change in Fund Accountant and therefore sector data providers. The new sector names have been reflected in the report in respect of the current holdings and comparative holdings have been updated where appropriate.