

Review Period:

12 months ended 31 August 2013
www.fandc.com



Fund Manager:
 Rebecca Seabrook

Ethical Bond Fund

The Fund aims to maximise returns through investment primarily in fixed interest securities of an ethically screened and diversified list of companies. The Fund may also invest in warrants, collective investment schemes, money market instruments and derivatives.

Fund Facts

Lead Fund Manager	Rebecca Seabrook	
Deputy Fund Manager	Andrew Brown	
Sector	UK Corporate Bond	
Benchmark	iBoxx Sterling Non-Gilts Index	
Launch date	1 October 2007	
Fund size	at 31 Aug 2012	£240.0m
	at 31 Aug 2013	£188.7m
£1,000 lump sum,		
Minimum Investments	£50 per month	
Distribution Yield	3.80% (1 Inc), 4.30% (2 Inc),	
	3.90% (C Inc)	
Share type	Income	
Number of stocks	203	
Initial charge	5.00%	
Annual charge	1.00%	
	1.05% (1 Inc), 0.54% (2 Inc),	
Ongoing charge	0.58% (C Inc)	
Account dates (interim)	28 February	
(annual)	31 August	
Distribution dates	31 Oct, 30 Apr	

Market review

The final months of 2012 rounded off a strong year for corporate bonds as the voracious appetite for yield continued. There were a number of uncertainties facing markets over this period but concerns over a change in leadership in the US passed as Obama won a second term and the fiscal cliff crisis was averted at the eleventh hour. The star performers were the more market sensitive areas such as sub-financials and high yield as well as issuers from peripheral Europe. The rally continued into the first few weeks of 2013 but then paused as the market tried to digest a variety of political and economic concerns. These included the Cyprus crisis, Italian elections and US budget deficit. In the event these were all resolved at least in the short term with little market impact and the market was again driven by the very supportive technical backdrop: spreads tightening once more. During the second quarter of 2013 more significant signs of a sustained recovery in the US emerged, causing government bond yields to start to rise. This was exaggerated further as the US Federal Reserve announced it was considering tapering its asset purchase programme. The rising yield and widening spread environment drove total returns negative in credit in May and June. Despite this weakness credit market soon recovered their poise and rallied into the end of the period.

Fund activity

In the first half of the period, we bought Nestle. This was a good quality long-dated sterling-denominated issue. We also purchased a Standard Life subordinated debt sterling-denominated new issue. This bond has a 30-year maturity and is callable in ten years. Standard Life is one of our favoured names in the subordinated insurance sector as it strengthens its balance sheet, cuts costs and improves revenue generation. At the end of 2012 there was a change in policy from the Committee of Reference regarding pharmaceuticals so we added GlaxoSmithKline to the portfolio. We participated in a new senior issue from Standard Chartered, selling our existing euro-denominated holding of the name to fund the position. Mid-period we reduced some of our overweight in housing associations (Circle Anglia, Affinity Sutton, Notting Hill Housing Association), cyclical companies (Chorus, BHP) and consumer names (Danone, Kellogg, Tate & Lyle). In the latter half of the period we bought a new issue from Dutch insurer Achmea and a high yield hybrid from Dutch telecommunications company KPN. We also reduced higher B-rated insurance names (Zurich, Bupa, QBE Insurance). Activity in the last three months of the period was limited due to the new issues market being very quiet over June and low volumes of trading over the summer holiday period.

Outlook

Our outlook for corporate bonds is cautiously optimistic. The fundamental economic outlook continues to be supportive and although there are signs of a more sustained recovery in some major economies we believe interest rates will remain at low levels for a prolonged period. Credit fundamentals, although weakening at the margin for corporates, are very supportive across the financial sectors and this is also where we perceive the most attractive valuations to be.

Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2013	1 Income (Net)	119.7	111.8	3.3851
2013	2 Income (Gross)	120.0	112.4	4.8250
2013	C Income (Net)	53.16	49.71	1.6390

Net Asset Value Record

Share Class	Share Type	Net Asset Value as at 31 August 2012 (pence)	Net Asset Value as at 31 August 2013 (pence)
1	Income (Net)	112.5	111.4
2	Income (Gross)	112.5	111.4
C	Income (Net)	-	49.43

Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Income (Net)	1.7036	Final	31/10/2013
2 Income (Gross)	2.4275	Final	31/10/2013
C Income (Net)	0.8610	Final	31/10/2013
1 Income (Net)	1.6815	Interim	30/04/2013
2 Income (Gross)	2.3975	Interim	30/04/2013
C Income (Net)	0.7780	Interim	30/04/2013

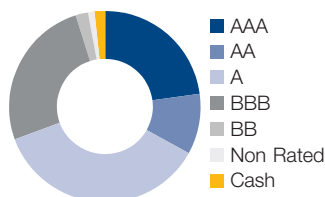
Top Ten Holdings

As at 31 August 2012	%
KfW 6% 2028	4.44
European Investment Bank 6% 2028	2.37
European Investment Bank 4.75% 2018	2.05
European Investment Bank 3.875% 2037	1.30
National Grid 6.5% 2028	1.29
Bank of America 7% 2028	1.04
Virgin Media Secured Finance 5.5% 2021	1.00
European Investment Bank 8.75% 2017	0.99
Danone 3% 2022	0.98
International Bank for Reconstruction & Development 5.75% 2032	0.98
Total	16.44

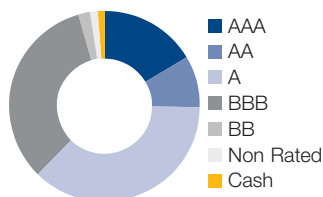
As at 31 August 2013	%
KfW 6% 2028	2.99
European Investment Bank 3.875% 2037	2.22
European Investment Bank 5% 2039	1.54
Anglian Water Services Financing 5.837% 2022	1.06
National Grid 6.5% 2028	1.02
Southern Water Services Finance 6.192% 2029	1.01
HSBC 7% 2038	0.96
Network Rail Infrastructure 4.75% 2035	0.93
Experian Finance 4.75% 2018	0.91
Stagecoach 5.75% 2016	0.91
Total	13.55

Portfolio Breakdown

As at 31 August 2012

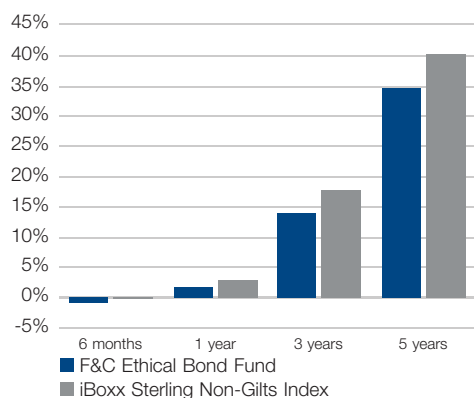


As at 31 August 2013

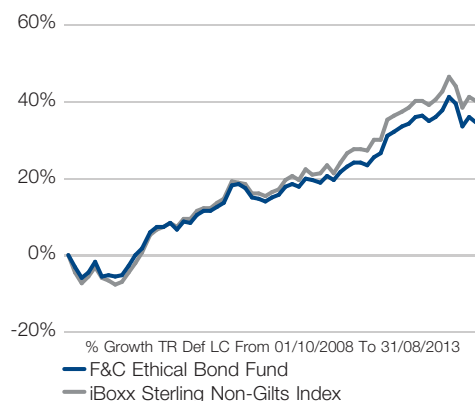


Fund Performance

As at 31 August 2013



As at 31 August 2013



Standardised Performance

31 Aug 2008 to 31 Aug 2009	31 Aug 2009 to 31 Aug 2010	31 Aug 2010 to 31 Aug 2011	31 Aug 2011 to 31 Aug 2012	31 Aug 2012 to 31 Aug 2013
5.90%	11.52%	1.22%	10.69%	1.84%

Past Performance is not a guide to future performance.

Source: Lipper, percentage growth total return (UK net tax), mid to mid, with no initial charges. Share Class 1 accumulation shares. For past performance data for the full range of F&C Funds visit www.fandc.com.

Risk Profile

Credit Risk: receiving income and capital due from debt instruments is dependant upon the provider's ability to pay.

Ethical Screening Risk: the screening out of sectors or companies on ethical grounds may mean the Fund is more sensitive to price swings than an equivalent unscreened fund.

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 II, which include this fund are available free of charge on request to the ACD or can be downloaded from our website 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: 0800 0852 752

Regulated by the Financial Conduct Authority.

Investment Adviser

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Depository

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

Administrator and Registrar

International Financial Data Services (UK) Limited, IFDS House, St Nicholas Lane, Basildon, Essex, SS15 5FS

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 Ethical Bond Fund is a sub-fund of the F&C Investment Funds ICVC II(IC66). 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 Conduct Authority. Registered Office; Exchange House, London EC2A 2NY. Registered in England No. 2170242. A registered company, limited by shares. A copy of the Key Investor Information Document is available from www.fandc.com.

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