

Review Period:

12 months ended 31 August 2013

www.fandc.com

Fund Manager:
Catherine Stanley

UK Smaller Companies Fund

The Fund aims to achieve medium to long term capital growth through investment primarily in UK smaller companies.

The Fund invests mainly in a spread of equities of UK smaller companies. A proportion of the assets may comprise convertible stocks and other permitted investment vehicles which are linked to UK smaller companies.

Fund Facts

Lead Fund Manager	Catherine Stanley	
Deputy Fund Manager	Peter Ewins	
Sector	UK Smaller Companies	
Benchmark	Numis Smaller Companies (-InvTrust) TR	
Launch date	4 Feb 1988	
Fund size	at 31 Aug 2012	£74.79m
	at 31 Aug 2013	£104.5m
Minimum	£1,000 lump sum,	
Investments	£50 per month	
	0.40% (1 Acc), 1.20% (2 Acc),	
Historic Yield	1.30% (3 Acc), 1.70% (4 Acc)	
Share type	Accumulation	
Number of stocks	89	
Initial charge	5.00%	
Annual charge	1.50%	
	1.83% (1 Acc), 0.83% (2 Acc),	
Ongoing charge	0.49% (3 Acc), 0.05% (4 Acc)	
Account dates (interim)	28 February	
(annual)	31 August	
Distribution date	31 October	

Market review

UK equities produced double digit returns in the year to the end of August. The UK economy showed improvement, which was reflected by GDP growth of 0.7% in the second quarter of 2013. Sentiment towards equities was driven largely by investor perceptions of the longevity of the central banks' stimulus programmes around the world. Concerns that this would start to be curtailed in the US saw the market rally pause in the summer months. Signs that the eurozone – the UK's biggest trading partner – was also recovering led to some encouraging data from the manufacturing sector. Retail sales benefited from the good summer weather and the housing market saw improvement due to government initiatives. At the end of the period the economic forecasts for the UK saw an upwards revision from the Office of National Statistics. Over the period smaller UK companies returned double that of their larger counterparts.

Fund activity

During the first half of the year we bought building materials supplier Grafton as the new management team has a strong track record and is likely to deliver improved trading performance. We also bought Max Property as this was attractively priced and the company has good exposure to the London property market. Enterprise Inns was another purchase; the trading environment is improving for the company. Sells over the first half included Brewin Dolphin as we felt the stock had reached full valuation and there was limited scope for outperformance. We made a number of adjustments late in 2012 to reflect the annual rebasing of the benchmark, starting a new holding in Carphone Warehouse and selling Barratt Developments, Telety, UBM, Ophir Energy, Ladbrokes and Talk Talk Telecom. With the small cap universe enjoying a very good 2012, attractively valued stocks became harder to find as we moved through into the second quarter of 2013. We participated in a placing of international specialist healthcare company BTG as well as a Thomas Cook rights issue. Moving into July and August, Fund activity was limited as the market experienced the usual lull over the summer holiday period. A late purchase was LSL Property Services, an estate agency which we added to gain exposure to the pick up in the housing market.

Outlook

We continue to look for good quality ways of participating in the domestic recovery at sensible valuations. The good weather over the summer has helped some stocks in the portfolio such as the pubs and the combination of warm weather and improving house prices does seem to have created a positive atmosphere for the UK consumer. The better economic outlook has also allowed housebuilders to continue to perform well and recruitment firms have come back into favour. We have benefitted from our positions in these areas and expect these to offer favourable returns in the medium term.

Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2013	1 Accumulation	560.4	458.5	2.4895
2013	2 Accumulation	638.6	519.3	8.2875
2013	3 Accumulation	699.5	565.9	-
2013	4 Accumulation	416.6	337.2	8.1756

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	Accumulation	404.3	549.9
2	Accumulation	456.4	626.9
3	Accumulation	476.6	686.8
4	Accumulation	295.5	409.1

Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Accumulation	2.4895	Final	31/10/2013
2 Accumulation	8.2875	Final	31/10/2013
3 Accumulation	-	Final	31/10/2013
4 Accumulation	8.1756	Final	31/10/2013

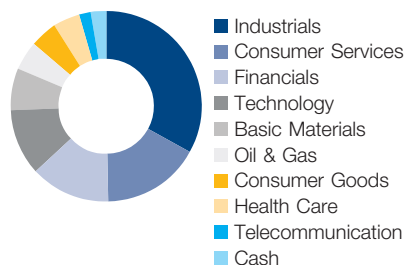
Top Ten Holdings

As at 31 August 2012	%
CLS	3.16
RPC	2.94
Ashtead	2.44
Elementis	2.25
SDL	2.11
Beazley	1.88
Galliford Try	1.84
Brewin Dolphin	1.80
Hill & Smith	1.77
Laird	1.74
Total	21.93

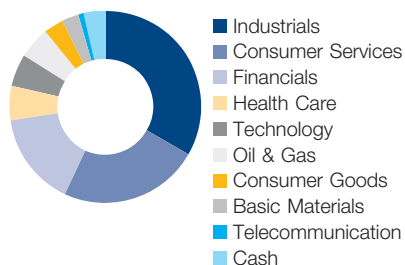
As at 31 August 2013	%
CLS	3.69
James Fisher & Sons	2.04
Ted Baker	1.92
Tyman	1.86
Max Property	1.80
Senior	1.79
RPC	1.78
Galliford Try	1.75
Grafton	1.62
Novae	1.60
Total	19.85

Portfolio Breakdown

As at 31 August 2012

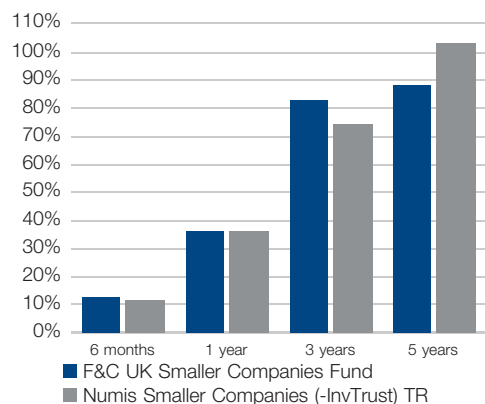


As at 31 August 2013

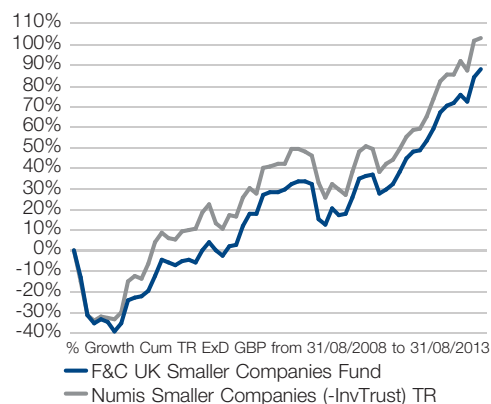


Fund Performance

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
-12.06%	16.81%	12.37%	19.80%	36.01%

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

Smaller Companies Risk: smaller companies carry a higher degree of risk and their value can be more sensitive to market movement.

Liquidity Risk: the ability to buy and sell assets at a favourable price may be affected by a low level of counterparties willing to enter into a transaction with the Fund.

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

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

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 UK Smaller Companies 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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