Annual Report

Standard Life Investments Strategic Bond Fund Annual Short Report for the year ended 31 January 2013

Standard Life Investments

Standard Life Investments Strategic Bond Fund ("the Trust")

Introduction

This is the annual Short Report for the Standard Life Strategic Bond Fund for the year to 31 January 2013.

The full Annual Report and Financial Statements are available on request. If you would like one please call our Customer Information Team on 0845 279 3003.

Stay informed

You can keep up to date with how your investment is performing by visiting www.standardlifeinvestments.co.uk. Alternatively, if you would rather speak to us, please call our Customer Information Team from 9.00 am to 5.00 pm Monday to Friday.

At Standard Life Investments, we are committed to producing the best possible results for our clients, whatever the market conditions.

Trust Profile

Launch Date	5 February 2009	
Objective	The investment objective of the Trust is to deliver a total return from income and capital appreciation.	
Policy	The current investment policy of the Trust is to invest in an actively managed portfolio consisting mainly of fixed interest securities (including conventional government bonds, investment grade corporate entities, inflation linked bonds and sub-investment grade bonds) and other interest bearing securities issued anywhere in the world. The Trust may also invest, at the Investment Adviser's discretion, in derivative and forward contracts, other transferable securities, deposits, money-market instruments and collective investment schemes and use may also be made of borrowing, hedging and other techniques permitted by the FCA Rules.	
Risk Profile	The price of stocks, shares and other securities on financial markets can move unpredictably. Many factors affect prices, including announcements by the issuer of a security, economic and political events and views of prospective events. Investment in the Trust should be regarded as medium to long-term. There is no guarantee that the objective of the Trust will be achieved.	
Benchmark	IMA Sterling Strategic Bond Sector*	
	*Prior to 1 August 2011, the benchmark was the 50% Iboxx All Stocks Gilts (£) and 50% Iboxx All Stocks Corporates (£)	
Reporting dates	**Interim**	**Annual**
	31 July	31 January
XD dates	**Interim**	**Annual**
	30 April	31 January
	31 July	
	31 October	
Payment dates		
Accumulation	**Interim**	**Annual**
	30 April	31 January
	31 July	
	31 October	
Income	**Interim**	**Annual**
	30 June	31 March
	30 September	
	31 December	

Trust Information

Manager

Standard Life Investments (Mutual Funds) Limited
1 George Street
Edinburgh
EH2 2LL
Tel: 0131-245-2676

Directors of the Manager

A.S. Acheson
D.G. Doran
S.A. Fitzgerald
D.E. Thomas
S.R. Wemyss
R. McKillop

D.E. Thomas was appointed as a Director on 17 January 2012.
D.G. Doran, S.A. Fitzgerald and S.R. Wemyss were appointed as Directors on 8 February 2012.
R. McKillop was appointed as a Director on 20 February 2012.
D.T. Cumming, R.L. Paris and N.K. Skeoch resigned as Directors on 8 February 2012.

Secretary of the Manager

S.E. Crewes was appointed secretary of the Manager on 30 September 2011.
D.J. Burns resigned as secretary of the Manager on 30 September 2011.

Trustee

Citibank International plc
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Auditors

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

Registrar

The Bank of New York Mellon (International) Limited
One Canada Square
London
E14 5AL

Investment Adviser

Standard Life Investments Limited
1 George Street
Edinburgh
EH2 2LL

Investment Report

Fund Manager: Andrew Sutherland

Investment background

The year saw positive returns across many bond markets, although there was significant divergence within the asset class. Corporate credit, both investment grade and high yield, strongly outperformed most government bond issues. A pro-risk tone dominated the market for much of the year, generated by central bank largesse in Europe and the US, as well as gradually improving US economic data. Only in the second quarter, as investor sentiment soured on renewed Euro-zone concerns, was there any significant repetition of the safe-haven buying of the previous year.

Despite the more sanguine environment, core government bonds proved surprisingly resilient, finishing the year not too far from where they began. They were, however, overshadowed by peripheral European sovereign debt, which rallied strongly from the lows of 2011 on supportive intervention from the European Central Bank.

Within corporate credit, lower-quality paper typically performed best. Financials, and in particular subordinated bank debt, was a notable source of returns, as was high yield. Demand for the asset class remained strong, as investors continued to seek yield in a low interest rate setting, ensuring new issuance was comfortably absorbed.

Composition of Portfolio

as at 31 January 2013	%
Euro Denominated (17.78%)	27.98
Sterling Denominated (36.52%)	31.05
US Dollar Denominated (2.13%)	3.86
Government Bonds (26.10%)	22.12
Collective Investment Schemes (15.24%)	14.46
Derivatives (0.79%)	(3.49)
Net other assets (1.44%)	4.02

The figures in brackets show the comparative percentage holding as at 31 January 2012.

Ten Largest Holdings (by market value)

as at 31 January 2013	%
SLI European High Yield Bond SICAV	14.27
Norway Government Bond 3.75% 2021	6.72
Australia Government Bond 5.5% 2023	6.67
UK (Govt of) 4.5% 2042	4.28
Germany Federal Republic 0.5% 2017	3.31
LBG Capital No.1 11.04% 2020	1.17
Canadian Government Bond 1% 2014	1.14
Wind Acquisition 11.75% 2017	1.11
John Lewis 8.375% 2019	1.05
Petroleos Mexicanos 8.25% 2022	1.03

Investment activity

Early in the year, we increased the Trust's exposure to high yield with purchases including Phones4U, R&R Ice Cream, Cemex, Ford, Heckler & Koch and Nord Education. A new relative value position was added which would benefit from US high yield outperforming European high yield. We reduced portfolio risk in April with sales of Codere, Cirsa and Schaeffler, and we also participated in a new issue from Direct Line. We added non-financial Spanish risk in June through debt issued by the power utility Iberdrola. Trading activity was relatively light in July with the main activity being gradual increases to high yield in the first part of the month.

We took profits in August on some of the high yield holdings that had performed well, including Campofrio, New World Resources, Norcell and Inaer. Over September and October, we participated selectively in new high yield issues and reduced investment-grade holdings in EIB and Commonwealth Bank of Australia. Tactical trading on Intesa Sanpaulo's subordinated debt also proved profitable. Following the strong rally in EU peripheral sovereign credits, we took profits on our Turkey versus Italy relative value position late in October. We diversified the Trust's sovereign bond holdings in November by reducing UK gilts and purchasing Australian, Norwegian, Canadian and German government issues (non-sterling currency exposure is hedged back into sterling as the base currency). We gradually increased high yield assets, including purchases of Guala, Aston Martin, Fiat and Unity Media, and the Fund finished 2012 with a high yield weighting close to 50%. Government bond markets would seem to have peaked and in recognition of that we had started to reduce Fund duration. In January we lowered duration further by selling longer-dated investment grade corporates, and using an interest rate swap strategy to bring overall Fund duration down. These derivative instruments allowed us to hedge away some of the interest rate risk that is inherent in a portfolio of corporate bonds.

During the year to 31 January 2013 the following material changes were made to the portfolio:

Purchases	**Cost £'000**	**Sales**	**Proceeds £'000**
Australia Government Bond 5.5% 2023	6,729		
Norway Government Bond 3.75% 2021	6,631		
Others (those not listed above)	45,222	Others (those not listed above)	56,646
Total	58,58	**Total**	56,646

Investment Report

Performance

Over the period under review, the Trust returned 11.76% compared to a 10.84% return from the IMA £ Strategic Bond peer group mean.*

Over the first half of the year, the decision to increase the Trust's exposure to high yield bonds and to retain a large allocation to investment grade issues, benefited performance. Both these areas outperformed government bonds over the six-months. A number of relative value trades, for example, our preference for US over European high yield and for Schneider Electric rather than Gaz de France, also contributed positively. On the downside, peripheral European exposure was a negative contributor, including holdings in Telefonica, Iberdrola, Intesa Sanpaulo and Telecom Italia.

Since July, above average exposure to credit, and to high yield debt in particular, was a positive contributor. Also positive was the contribution from some of the derivative positions, where the strategy of being overweight Italy and underweight Turkey bore fruit as peripheral sovereign debt rallied. Relative value trades all benefited returns including our preference for BMW over Deutsche Telecom and Dow Chemical over Lanxess. Single name derivative positions also contributed positively including our short BP and long UBS positions. On the downside, the main negative for overall returns was the Trust's holdings in UK gilts, which performed poorly in the 'risk-on' environment as investors were less concerned about a Euro-zone break up. A zero weighting in UK index-linked bonds was also negative towards the end of the reporting period as they rallied strongly after the Office of National Statistics announced no change to the way the RPI is calculated or constructed.

Outlook and future strategy

We remain in a low yield, low growth environment, and income remains a key requirement. The Trust, therefore, remains heavily weighted towards high yield bonds. While US and German government bond yields may not actually rise significantly, there are growing risks and uncertainties ahead for the sterling gilt market including cessation of QE, a change of Bank of England governor, less overseas appetite for gilts as Euro-zone issues evolve and a lack of domestic demand for gilts at current yield levels. Additionally, there is the issue of the UK's credit rating. Ordinarily, we would not be overly concerned about a one notch move in credit rating, but if this coincides with difficult market conditions or political uncertainties, it may have a disproportionate effect. Consequently, we retain only a limited exposure to the gilt market. Looking ahead, with the lower expected returns available from investment grade corporate bonds; we are actively looking at other areas to further diversify the Trust.

* Performance has been calculated over the stated period on the share price performance basis, based on the institutional shareclass and net of fees.

Cautionary note

It should be remembered that past performance is not a guide to future performance. The value of investments may go down as well as up and, therefore, investors may not get back the amount originally invested.

Comparative Tables

	Accounting period	Net asset value £'000	Net asset value per unit p	Units in issue
Retail accumulation	31 January 2011	16,344	60.12	27,183,518
	31 January 2012	16,119	64.59	24,955,967
	31 January 2013	19,889	71.84	27,686,269
Institutional accumulation	31 January 2011	305	60.69	501,823
	31 January 2012	329	65.53	501,823
	31 January 2013	147	73.24	201,171
Retail income	31 January 2011	2,531	57.36	4,412,890
	31 January 2012	2,388	60.13	3,971,553
	31 January 2013	2,423	64.94	3,730,674
Institutional income	31 January 2011	145	57.38	253,655
	31 January 2012	150	60.15	249,114
	31 January 2013	162	64.97	249,114
Standard Life income	31 January 2011	2,534	57.48	4,407,336
	31 January 2012	2,655	60.27	4,405,336
	31 January 2013	2,868	65.10	4,405,336
Standard Life accumulation	31 January 2011	63,432	61.31	103,455,442
	31 January 2012	68,064	66.53	102,304,292
	31 January 2013	73,664	74.74	98,555,670
Platform 1 accumulation	31 January 2013	61	54.99	111,305
Platform 1 income	31 January 2013	1	53.49	1,200

	Calendar year	Distribution per unit p	Highest price p	Lowest price p
Retail accumulation	2009*	1.0008	57.61	49.64
	2010	1.4127	62.78	56.52
	2011	1.5202	63.54	59.92
	2012	1.8465	72.47	62.84
	2013***	0.6066	73.09	72.33
Institutional accumulation	2009*	1.1914	57.86	49.68
	2010	1.6855	63.28	56.80
	2011	1.8497	64.30	60.48
	2012	2.2047	73.85	63.73
	2013***	0.7089	74.50	73.74
Retail income	2009*	0.9709	56.74	49.65
	2010	1.3744	60.66	55.17
	2011	1.4494	59.89	57.19
	2012	1.7143	66.01	58.87
	2013***	0.5477	66.51	65.83
Institutional income	2009*	1.2134	56.87	49.68
	2010	1.6438	60.78	55.25
	2011	1.7531	59.92	57.20
	2012	2.0214	66.10	58.95
	2013***	0.6348	66.60	65.93
Standard Life income	2009*	1.3520	56.97	49.72
	2010	1.9814	60.92	55.31
	2011	2.0814	60.04	57.33
	2012	2.3732	66.30	59.12
	2013***	0.7301	66.79	66.13

Comparative Tables (continued)

	Calendar year	Distribution per unit	Highest price	Lowest price
		p	p	p
Standard Life accumulation	2009*	1.3918	58.10	49.71
	2010	2.0235	63.82	57.09
	2011	2.1871	65.13	61.08
	2012	2.5900	75.34	64.69
	2013***	0.8168	76.01	75.26
Platform 1 accumulation	2012**	1.2320	55.45	49.90
	2013***	0.5280	55.93	55.37
Platform 1 income	2012**	1.2280	54.43	49.89
	2013***	0.3480	54.66	54.12

*from launch of the Trust on 5 February

**from commencement of the unit class on 18 April

***to 31 January

Ongoing Charges Figure (OCF)

	2013	2012
Retail accumulation	1.38%	1.37%
Institutional accumulation	0.75%	0.74%
Retail income	1.38%	1.37%
Institutional income	0.75%	0.74%
Standard Life income	0.05%	0.04%
Standard Life accumulation	0.13%	0.12%
Platform 1 accumulation	0.83%	-
Platform 1 income	0.83%	-

The ongoing charges figure (OCF) shows the annualised operating expenses of each share class as a percentage of the average net asset value of the class over the same period. Following the adoption of the requirements of UCITS IV, OCF has replaced the Total Expense Ratio (TER). The main difference between the calculations is the inclusion of custody related transaction charges in the OCF.

The OCF is designed to serve the same purpose as the TER but the calculations are not identical. The comparative figures have not been restated, and the historic TER is disclosed.

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