

# Bond Income Fund

annual short report for the period  
1 January 2009 to 31 December 2009

Terms in *italics* are explained in the glossary at the end of this document.

## fund objective

The Bond Income Fund aims to provide investors with income whilst seeking to maximise total return.

## investment policy

The Bond Income Fund will comprise a well-diversified global portfolio primarily of *debt securities* (including bonds issued by corporations, governments, *supranational* entities; asset backed and mortgage backed *securities*), currencies and preference shares. Investment will be through *collective investment schemes* ("funds"), either funds managed or operated by the Authorised Corporate Director (ACD) or its associates, or via funds not managed or operated by the ACD or its associates. Subject to the above policy, *derivatives* for efficient portfolio management may be used.

## risk profile

This Fund aims to maximise total return and therefore the level of income will fluctuate. It invests partly in high yielding corporate bonds. A high yield is the reward for lending money to companies that present a higher risk of default than those issuing lower yielding bonds. Defaulting can adversely affect the capital and income return from this Fund. This Fund includes some exposure to emerging markets, which tend to be less well regulated and more volatile than more established stock markets, so increasing the potential risk to investors.

## fund manager's report

Government bond markets had a mixed year in 2009. As signs of improvement in the economic backdrop began to emerge, investors' appetite for risk rose markedly and demand for government bonds waned. Investors also worried about the impact of increased bond issuance as governments sought to fund

economic stimulus packages and support the banking sector. On the positive side, central banks announced programmes to buy back bonds to encourage bank lending, providing some support to bond prices. In addition, interest rates remained low, with the Bank of England and European Central Bank cutting rates further early in the year, to 0.5% and 1%, respectively. In the UK, the FTSE British Government All Stocks Index fell 1.2% over the year as a whole.

Corporate bonds fell during the first quarter of 2009, dragged lower by the financial segment of the market, which suffered on concerns over the health of the banking sector. This trend subsequently reversed and corporate bonds staged a strong recovery for the rest of the year, driven by increasing signs of stabilisation in economic data and improving corporate results. Bonds issued by financial institutions led the rally as many banks were deemed to be in a better position than previously feared. High yield corporate bonds generated strong returns over the period, boosted by a recovery in equity markets and an increase in demand for riskier assets.

The Bond Income Fund performed well in 2009, recording a double-digit gain for the year. Both the Threadneedle High Yield Bond Fund and the JP Morgan High Yield Bond mandate recorded very strong returns, benefiting from investors' improving appetite for risk. The M&G Optimal Income Fund and the AEGON Strategic Bond Fund also recorded impressive, double-digit returns. The Royal London Corporate Bond mandate, which lagged the IMA Sterling Corporate Bond sector over the year, recorded the smallest gains.

**The mention of any particular stock should not be taken as a recommendation to buy or sell investments.**

## fund facts

The Fund offers income shares only.

Share class	Fund accounting dates (ex-dividend dates)	Fund payment dates
Retail and Institutional	31 December	28 February
Retail and Institutional	31 March	31 May
Retail and Institutional	30 June*	31 August
Retail and Institutional	30 September	30 November

\*26 June for the year 2009 only

The table below shows the net income in pence per share distributed for the calendar years indicated. The Bond Income Fund was launched on 22 August 2003.

Calendar year	Pence per share
2005 – Retail	1.7888 pence
2005 – Institutional	1.9852 pence
2006 – Retail	1.7231 pence
2006 – Institutional	1.8312 pence
2007 – Retail	2.0219 pence
2007 – Institutional	2.1684 pence
2008 – Retail	2.0241 pence
2008 – Institutional	2.2297 pence
2009 – Retail	2.3690 Pence
2009 – Institutional	2.4017 Pence
2010 – Retail*	0.5201 Pence
2010 – Institutional*	0.6034 Pence

\*to 28 February

## total expense ratio (TER)

The Total Expense Ratio is a figure representing all operating charges and expenses as a percentage of a fund's value. It includes the Annual Management Charge as well as all the regular administrative costs incurred by a fund.

Share class	TER as at 31 December 2009	TER as at 31 December 2008
Retail	2.05%	1.96%
Institutional	1.82%	1.61%

## share price performance

The table below shows the highest and lowest share prices in pence per share for the calendar years indicated.

Calendar year	Highest price	Lowest price
2005 – Retail	52.97 pence	50.84 pence
2005 – Institutional	53.15 pence	50.98 pence
2006 – Retail	53.18 pence	50.81 pence
2006 – Institutional	53.33 pence	50.94 pence
2007 – Retail	51.72 pence	48.99 pence
2007 – Institutional	51.85 pence	49.17 pence
2008 – Retail	49.21 pence	37.52 pence
2008 – Institutional	49.31 pence	37.62 pence
2009 – Retail	48.27 pence	36.61 pence
2009 – Institutional	48.44 pence	36.69 pence

## fund performance

Share class	Net asset value per share as at 31 December 2009	Net asset value per share as at 31 December 2008	% change
Retail	47.06 pence	38.43 pence	22.46 %
Institutional	47.22 pence	38.52 pence	22.59 %

Date	Net asset value of Fund	Shares in issue	Net asset value per share
<b>31 December 2007</b>	<b>£85,329,900</b>	–	–
Retail shares	£83,484,647	170,706,999	48.91 pence
Institutional shares	£1,845,253	3,765,575	49.00 pence
<b>31 December 2008</b>	<b>£59,357,200</b>		
Retail shares	£58,226,327	151,512,200	38.43 pence
Institutional shares	£1,130,873	2,935,936	38.52 pence
<b>31 December 2009</b>	<b>£65,198,993</b>	–	–
Retail shares	£63,893,927	135,783,226	47.06 pence
Institutional shares	£1,305,066	2,763,864	47.22 pence

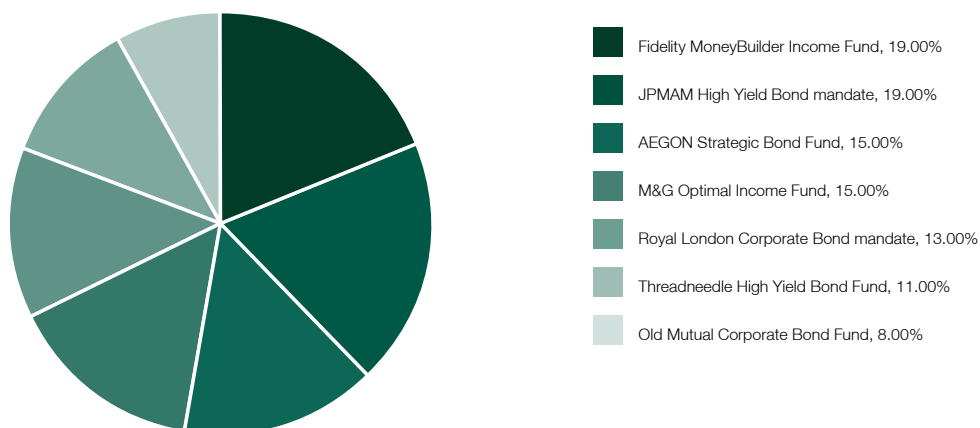
Percentage change to 31 December 2009	1 year	2 years	3 years	4 years	5 years	Since launch*
Fund performance retail	26.05%	4.88%	4.17%	4.99%	10.26%	18.20%

\*from 22 August 2003

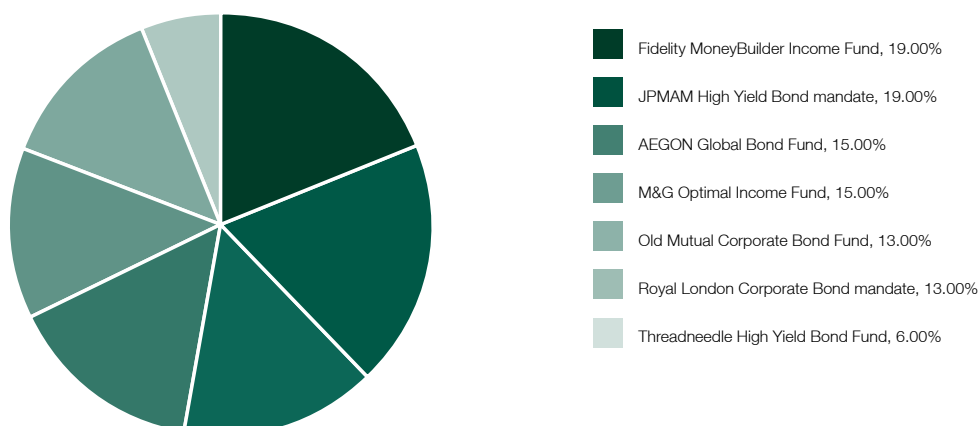
Source: Financial Express. Figures are calculated on a total return and single price basis, with net income reinvested into the Fund.

**You should not view past performance as an indication of future performance. The value of investments and any income from them may fall as well as rise and you may not get back the amount you invested. Where a fund invests in securities designated in a different currency to the fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.**

## target manager allocation as at 31 December 2009



## target manager allocation as at 31 December 2008



## major holdings

The table below shows the top ten holdings of the Fund. All holdings will be shown if there are less than ten holdings.

As at 31 December 2009	%	As at 31 December 2008	%
Skandia High Yield Bond Fund mandated to JP Morgan	19.12	Skandia High Yield Bond Fund mandated to JP Morgan	19.28
Fidelity MoneyBuilder Income Fund	19.03	Fidelity MoneyBuilder Income Fund	18.55
AEGON Strategic Bond Fund	15.13	M&G Optimal Income Fund	14.70
M&G Optimal Income Fund	15.11	AEGON Global Bond Fund	14.38
Corporate Bond Fund mandated to Royal London	12.91	Corporate Bond Fund mandated to Royal London	12.47
Threadneedle High Yield Bond Fund	11.11	Old Mutual Corporate Bond Fund	12.28
Old Mutual Corporate Bond Fund	7.91	Threadneedle High Yield Bond Fund	5.86

## glossary

**Collective investment schemes** – are investments, such as OEICs or unit trusts, in which money from individual investors is pooled into a professionally managed fund.

**Debt securities** – IOUs created through loan-type transactions such as commercial paper, bank Certificates of Deposit, bills, bonds, and other investment instruments.

**Derivatives** – derivatives are contracts between two or more parties whose value is derived from a related asset. The most common related assets include shares, fixed interest securities, commodities, currencies, interest rates and market indices. Derivatives can be used for speculative purposes but in investment funds they are generally used to reduce risk.

**Securities** – any investments that can be assigned a value and traded such as bonds or shares, where there is a right to receive interest or dividends from the investment.

**Supranational** – beyond the borders or scope of any one nation. European Union which is a union of sovereign member states is an example of supranational entity.

## report and accounts

Copies of the annual and half-yearly Long Form Report and Accounts are available on request, free of charge, from our Edinburgh office. To contact us please call 0844 892 0996\* or write to:

Skandia Investment Management Limited  
PO Box 23486  
12 Blenheim Place  
Edinburgh  
EH7 5YB

## depository

The independent Depository is the Royal Bank of Scotland, whose address is:

Royal Bank of Scotland plc  
Trustee & Depository Services  
Ground Floor  
15 Bishopsgate  
London  
EC2P 2AP

The Depository is authorised and regulated by the Financial Services Authority, whose address is:

25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

## auditors

The Fund's independent auditors are KPMG Audit plc, whose registered address is:

KPMG Audit plc  
8 Salisbury Square  
London  
EC4Y 8BB

## authorised corporate director (ACD)

The Bond Income Fund is managed by Skandia Investment Management Limited, which is the Authorised Corporate Director (ACD) of the Fund. Its registered address is:

Skandia Investment Management Limited  
Skandia House  
Portland Terrace  
Southampton  
SO14 7EJ

Skandia Investment Management Limited is a company limited by shares, incorporated in England and Wales and authorised and regulated by the Financial Services Authority.

## how to contact us

If you have any questions please contact us or call your financial adviser. Our offices are open on business days between the hours of 8.30am and 5.30pm.

To contact us please call 0844 892 0996\* or write to:

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12 Blenheim Place  
Edinburgh  
EH7 5YB

If you would like general information on the funds or on Skandia Investment Management Limited, you can visit our website:

**[www.skandiainvestmentmanagement.com](http://www.skandiainvestmentmanagement.com)**

*\* Calls cost 3 pence per minute from a BT landline. Customers who have telephone services with other providers may have different call charges. Calls from mobiles or internet services may be considerably higher.*

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Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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