HBOS International Investment Funds ICVC

Short Reports

for the year ended 31 March 2013

Contents

Introduction and Fund Information 2

European Fund Short Report 4

Far Eastern Fund Short Report 6

International Growth Fund Short Report 8

Japanese Fund Short Report 10

North American Fund Short Report 12

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 year it covers and the results of those activities at the end of the year.

For more information about the activities and performance of the Fund during this and previous years, 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 International Investment Funds ICVC:

- With effect from 21 April 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 FSA 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 21 April 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 21 April 2012 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 21 April 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 21 April 2012; and
- 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 9BF.

Important information

- Amendments to the UK Regulations governing Open-Ended Investment Companies and the FSA'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 FSA 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; and
- From 1 April 2013 share classes C, F and G 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.
- Following announcements made by Lloyds Banking Group during the second quarter of 2012, four Funds within the Company executed in-specie transfers during the year as a result of phased transitioning of equity management within the group's multi asset Funds. The Funds involved in the transfers and the dates of those transfers were as follows:
  - European Fund: transfer date 8 March 2013;
  - Far Eastern Fund: transfer date 21 March 2013;
  - Japanese Fund: transfer date 15 February 2013; and
  - North American Fund: transfer date 22 February 2013.

Authorised Corporate Director (ACD) and Registrar*

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

Investment Adviser*

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

Depositary*

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

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.

European Fund Short Report

for the year ended 31 March 2013

Investment objective and policy

The investment objective of the European Fund is to achieve capital growth in the long term by investing mainly in European companies excluding the UK.

The investment policy is to concentrate the core of the portfolio on large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth.

Risk profile

The European Fund is a Medium-Adventurous risk fund. The Fund offers access to a diversified portfolio of predominantly the larger capitalised European stocks (excluding UK), but is potentially more volatile than a fund that invests solely in similarly capitalised stocks in the UK because of the currency risk involved.

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 7 because it has experienced very high levels of volatility over the past 5 years.

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

Fund manager's comments

The Fund returned 19.84% over the review period (gross of fees), beating its benchmark index, the FTSE World Europe ex-UK Index, which returned 17.98%.

Looking at the portfolio, our preference for cheap companies that are starting to outperform, which is an investment style known as "value" in combination with "momentum", did well. Similarly, our overweight position in firms that display improving profitability, increasing liquidity and decreasing leverage – or "financial strength" – also boosted the Fund's returns. By contrast, our strategy centred on the belief that cheap, efficiently run companies generate excess returns (known as "value" in combination with "quality") underperformed.

Turning to the wider market, ever since Mario Draghi, President of the European Central Bank (ECB), said he would do "whatever it takes" to save the euro in the summer, equities have enjoyed a robust rally. Mr Draghi's pledge has shown traders that his support for the single currency is unwavering – and confidence has returned as a result. Ongoing central bank policy support from around the world – historically low interest rates, quantitative easing (the policy used by central banks to feed money back into the economy by buying assets such as corporate and government bonds) and a host of other unconventional measures – have also encouraged investors into riskier assets. The gently improving outlook for the global economy, in particular the US, has further lifted sentiment.

It hasn't all been smooth sailing, however. Cyprus was in the headlines after it had to be rescued following the near-collapse of its banking sector. Italy, too, is without a government after a general election failed to yield an outright winner. The eurozone economy also remains in the doldrums, with many nations to the south languishing in recession. Nonetheless, Mr Draghi's proclamation ensured equities finished the period in positive territory.

Looking ahead, despite recent gloomy headlines, some progress has been made to resolve Europe's problems. Policy response from the ECB has become much more assertive, while governments have acted to restore a measure of competitiveness to parts of the eurozone's periphery. Even France – a policy laggard so far – is beginning to address its excessively labour-friendly employment laws.

For all of these achievements, however, much still needs to be done. The region's monetary policy transmission mechanism is still gummed up by a general lack of investor confidence and a banking system reluctant (or unable) to recognise its bad debts. As a result, economic recovery has continued to prove elusive; even the "Plan B" that the ECB is now reportedly contemplating (no doubt exploring the limits of its mandate and German political goodwill in the process) may not be enough. The key to unlocking this impasse, then, remains a cohesive response from eurozone politicians.

Distribution

XD date:	Payment date:
Final distribution – 31 March	Final distribution – 31 May

Ongoing charges figure

	31/03/13 %
Share Class A	0.50
Share Class C	1.53
Share Class F	1.28
Share Class G	1.03
Share Class I †	0.00
Share Class SW1	1.05

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.

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.

	31/05/13 (p)	31/05/12* (p)
Share Class A	4.4489	5.0361
Share Class C	0.8113	0.9895
Share Class F	0.4518	0.5324
Share Class G	0.5068	0.5909
Share Class I	5.1537	5.7688
Share Class SW1	1.5610	1.7227

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

Fund performance

Net Asset Value	NAV per share 31/03/13 (p)	NAV per share 31/03/12 (p)	NAV percentage change %
Share Class A	191.05	164.91	15.85
Share Class C	52.36	44.54	17.56
Share Class F	26.16	22.21	17.78
Share Class G	26.57	22.51	18.04
Share Class I	191.30	164.91	16.00
Share Class SW1	82.78	70.14	18.02

Performance record

	01/04/12 to 31/03/13 %	01/04/11 to 31/03/12 %	01/04/10 to 31/03/11 %	01/04/09 to 31/03/10 %	01/04/08 to 31/03/09 %
European Fund	19.84	(11.18)	8.28	49.36	(31.26)
FTSE World Europe ex UK Index	17.98	(11.38)	7.49	48.76	(31.06)

Source: Morningstar for Fund returns after 1 April 2011 and Lipper for all previous years for the European Fund. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

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

Past performance is not a guide to future performance. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

Portfolio information

Major holdings

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

Holding	Fund value % 31/03/13	Holding	Fund value % 31/03/12
Nestle	4.55	Nestle	4.69
Novartis	3.89	Roche	2.77
Roche	3.76	SWIP Sterling Liquidity Fund	2.77
Sanofi	3.00	Novartis	2.41
Total	2.47	Total	2.36

Classification of investments*

	Fund value 31/03/13 %	Fund value 31/03/12 %
Financials	20.72	23.43
Industrials	18.55	18.36
Consumer Goods	17.70	18.58
Health Care	13.58	10.01
Basic Materials	8.11	8.35
Consumer Services	6.54	4.60
Oil & Gas	6.24	7.44
Telecommunications	4.51	5.32
Utilities	3.10	3.91
Technology	3.08	2.70
Fixed Income	0.04	0.01
Derivatives	(0.07)	(0.12)
Net other liabilities	(2.10)	(2.59)

* 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.

Geographical spread

	Fund value 31/03/13 %	Fund value 31/03/12 %
France	23.22	22.50
Switzerland	21.35	17.26
Germany	20.43	19.60
Sweden	7.37	7.50
Netherlands	6.56	6.15
Spain	5.99	6.98
Italy	4.55	5.27
Belgium	3.19	2.15
Denmark	2.76	2.68
Norway	2.52	2.96
Finland	1.38	1.68
Ireland	1.00	3.02
Austria	0.89	0.83
Luxembourg	0.63	0.84
Portugal	0.24	0.26
Greece	0.09	0.15
Hungary	-	0.43
Poland	-	1.21
Turkey	-	0.92
Czech Republic	-	0.32
Derivatives	(0.07)	(0.12)
Net other liabilities	(2.10)	(2.59)

Please note: negative figures are shown in brackets.

Far Eastern Fund Short Report

for the year ended 31 March 2013

Investment objective and policy

The investment objective of the Far Eastern Fund is to achieve long term capital growth by investing mainly in Far Eastern companies (excluding Japanese companies).

The investment policy is to concentrate the core of the portfolio on large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth. The Fund will invest mainly in transferable securities. It may also invest in collective investment schemes and derivatives. Derivatives may be used for the purposes of investment as well as efficient portfolio management.

Risk profile

The Far Eastern Fund is a Medium-Adventurous risk fund. The Fund can be expected to provide a greater degree of volatility than many of the other funds for which HBOS Investment Fund Managers Limited is the authorised corporate director, being symptomatic of the markets in which the Fund is invested. There is also exposure to the currency movements of the different areas in which the Fund is invested.

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 March 2013 and there have been no changes to this ranking to date.

Fund manager's comments

Equity markets in the Asia Pacific region made strong gains over the review period. The gross return of the Fund was 18.10%. Its benchmark, the FTSE All-World Pacific ex Japan Index had a gross return of 16.69%.

Australia provided one of the biggest talking points in the Asia Pacific area over the first half of the reporting period. The country's central bank surprised analysts when it made a series of cuts to interest rates. The key lending rate finished the period at 3%.

The initial cut was larger than many had expected, and was made in an attempt to kick-start Australia's slowing economy. Tourism and manufacturing numbers have been disappointing, weighed down by the strength of the Australian dollar. House prices have also fallen, with many fearing a slump in the real estate market could damage the economy. But more recently there was positive employment news from Australia: the economy added 71,500 jobs in February, a huge increase on the expected figure of 10,000.

Meanwhile, the Bank of Korea also reduced interest rates for the first time in three years in July. A second cut, carried out in October, left rates at 2.75%. South Korea is heavily dependent on exports, so fears of declining demand from Europe and the US have caused concern. Domestic demand is also weak. The country's government announced that it will unveil a new stimulus package in April, aimed at spurring the property market and reviving the economy.

Elsewhere, China has recently released some disappointing economic data. An index showing the strength of the country's services sector slowed in February, while property companies felt the effects of a new tax on real estate profits. Other economic reports revealed a rise in consumer inflation coupled with weaker industrial output and retail sales.

The managers continued to employ a range of enhancement strategies, or "tilts", based on quantitative analysis. This research process identifies strategies we expect to outperform over the long run and targets stocks that provide exposure to each strategy. These are then combined to produce diversification benefits by investing across a combination of stocks which are likely to perform differently in any particular set of market conditions, thereby spreading the risk within the Fund. Early in the reporting period, we continued to employ country-specific strategies. From June, we revisited the country models and replaced them with a pan-regional valuation and revisions tilt which favours cheap stocks with improving earnings prospects, a strategy that has generated positive returns over the period.

Finally, our capital expenditure tilt, which leads us to avoid companies with aggressive capital expenditure plans, based on the belief that they are detrimental to the long-term interests of shareholders, delivered negative returns over the year.

Distribution

XD date:	Payment date:
Final distribution – 31 March	Final distribution – 31 May

Ongoing charges figure

	31/03/13 %
Share Class A	0.50
Share Class C	1.56
Share Class F	1.31
Share Class G	1.06
Share Class I †	0.00
Share Class SW1	1.09

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.

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.

	31/05/13 (p)	31/05/12* (p)
Share Class A	14.4303	16.5108
Share Class C	1.0185	1.2706
Share Class F	0.5602	0.6676
Share Class G	0.6284	0.7586
Share Class I	16.7824	18.8263
Share Class SW1	2.3670	2.5646

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

Fund performance

Net Asset Value

	NAV per share 31/03/13 (p)	NAV per share 31/03/12 (p)	NAV percentage change %
Share Class A	648.88	568.19	14.20
Share Class C	70.54	60.92	15.79
Share Class F	34.71	29.93	15.97
Share Class G	35.25	30.34	16.18
Share Class I	649.09	568.19	14.24
Share Class SW1	129.31	111.07	16.42

Portfolio information

Major holdings

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

Holding	Fund value % 31/03/13	Holding	Fund value % 31/03/12
Samsung Electronics	3.26	Samsung Electronics	3.44
Westpac Banking	3.00	BHP Billiton	3.09
Australia & New Zealand Banking	2.56	SWIP Sterling Liquidity Fund	2.14
BHP Billiton	2.16	Commonwealth Bank of Australia	1.68
Commonwealth Bank of Australia	2.10	Westpac Banking	1.56

Performance record

	01/04/12 to 31/03/13 %	01/04/11 to 31/03/12 %	01/04/10 to 31/03/11 %	01/04/09 to 31/03/10 %	01/04/08 to 31/03/09 %
Far Eastern Fund	18.10	(5.81)	13.81	68.01	(22.72)
FTSE All World Pacific ex Japan Index	16.69	(6.27)	13.05	69.32	(22.65)

Source: Morningstar for Fund returns after 1 April 2011 and Lipper for all previous years for Far Eastern Fund. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.
Source: Morningstar for the FTSE All World Pacific ex Japan Index. Basis: Revenue reinvested and gross of expenses, at the close of business.

Past performance is not a guide to future performance. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

Classification of investments*

	Fund value 31/03/13 %	Fund value 31/03/12 %
Financials	37.55	33.63
Industrials	13.78	14.51
Technology	11.07	10.82
Basic Materials	8.20	12.83
Oil & Gas	7.52	5.60
Consumer Goods	7.12	9.45
Telecommunications	5.91	5.65
Consumer Services	4.59	4.80
Utilities	3.56	2.15
Health Care	2.17	2.32
Property	0.05	0.07
Derivatives	0.03	(0.13)
Fixed Income	-	0.02
Net other liabilities	(1.55)	(1.72)

* 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.

Geographical spread

	Fund value 31/03/13 %	Fund value 31/03/12 %
Australia	25.73	21.97
Hong Kong	15.45	15.09
South Korea	15.31	16.25
China	11.78	11.53
Taiwan	11.14	11.53
India	6.30	8.08
Singapore	5.29	4.99
Malaysia	3.29	3.96
Indonesia	2.98	2.76
Thailand	2.54	2.16
Philippines	1.07	0.76
New Zealand	0.37	0.46
Ireland	0.27	2.24
Mongolia	-	0.03
Papua New Guinea	-	0.04
Derivatives	0.03	(0.13)
Net other liabilities	(1.55)	(1.72)

Please note: negative figures are shown in brackets.

International Growth Fund Short Report

for the year ended 31 March 2013

Investment objective and policy

The investment objective of the International Growth Fund is to achieve capital growth in the long term by investing in a diversified global portfolio.

The policy is to concentrate the core of the portfolio on large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth.

Risk profile

The International Growth Fund is a Medium-Adventurous risk fund. This is a widely diversified portfolio that is subject to the currency risk associated with the areas of investment.

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 March 2013 and there have been no changes to this ranking to date.

Fund manager's comments

Global equity markets registered solid gains over the reporting period. The gross return for the Fund over the reporting period was 21.24%. This compares favourably to the 17.47% gross return of its benchmark, the FTSE World Index.

2012 got off to a buoyant start amid growing confidence that the actions of European policymakers would help rescue the eurozone from economic disaster. That early optimism dissipated on fresh concerns about the state of the Greek economy. These concerns grew to encompass Italy and Spain, affecting stock prices. But in July, European Central Bank officials made a pledge to support the euro, which bolstered confidence and fuelled an upturn in risk appetite. The political climate, however, remains precarious. Italy's general election in February failed to deliver a clear winner, ushering in ongoing political deadlock.

The challenges faced by the global economy have continued into recent months. In the US, $85 billion of government spending cuts began to be rolled out at the beginning of March. 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 United States, have helped investors to stay relatively sanguine. All eyes now turn to first quarter earnings; expectations as gauged by share prices are high, but in reality, the market knows this will be a difficult reporting season and the focus is much more likely to be on outlook statements.

In addition, the world's major central banks have continued to signal their commitment to exceptional monetary stimulus over an extended period. Nowhere is this more evident than in Japan, which is now pursuing a more aggressive brand of monetary policy.

Finally, investors appear to have faith that the extreme 'tail' risks that dominated concerns last year remain contained.

The UK's BG was one of the stocks that had a negative effect on returns. The gas company was affected by a series of production delays and a warning that next year's production will be lower than analysts had anticipated.

In contrast, our position in SolarWinds, a provider of network management solutions, has been a boon over the 12 months. It has repeatedly beaten market expectations, experiencing very strong revenue growth in addition to profit margin expansion.

Our holding in TripAdvisor also performed well. The company recently produced a solid earnings report, while the stock benefitted from the decision by a large existing shareholder to increase their stake in the company at a substantial premium to the current share price.

While our medium-term view of equity markets is constructive, the near-term picture is more complicated. Challenges in the eurozone with regard to fiscal positions and growth remain, while devaluation of the yen will affect export competitiveness.

Distribution

XD date:	Payment date:
Final distribution – 31 March	Final distribution – 31 May

Ongoing charges figure

	31/03/13 %
Share Class A	0.50
Share Class C	1.51
Share Class F	1.26
Share Classs G	1.01
Share Class I †	0.00
Share Class SW1	1.64

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.

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.

	31/05/13 (p)	31/05/12* (p)
Share Class A	2.7399	3.4204
Share Class C	0.0889	0.2672
Share Class F	0.1243	0.2325
Share Classs G	0.1955	0.2955
Share Class I	3.8412	4.4146
Share Class SW1	0.0499	0.3719

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

Fund performance

Net Asset Value

	NAV per share 31/03/13 (p)	NAV per share 31/03/12 (p)	NAV percentage change %
Share Class A	265.52	222.61	19.28
Share Class C	52.16	43.72	19.30
Share Class F	32.83	27.45	19.60
Share Classs G	33.22	27.71	19.88
Share Class I	265.73	222.61	19.37
Share Class SW1	91.23	76.58	19.13

Portfolio information

Major holdings

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

Holding	Fund value % 31/03/13	Holding	Fund value % 31/03/12
American Express	3.53	Apple	3.82
Bayer	3.13	Pfizer	3.58
McKesson	2.93	Sanofi	3.14
Harley-Davidson	2.92	Wells Fargo	2.89
Allianz	2.86	Qualcomm	2.84

Performance record

	01/04/12 to 31/03/13 %	01/04/11 to 31/03/12 %	01/04/10 to 31/03/11 %	01/04/09 to 31/03/10 %	01/04/08 to 31/03/09 %
International Growth Fund	21.24	3.43	7.11	39.38	(19.96)
FTSE World Index	17.47	0.44	8.15	47.13	(19.96)

Source: Morningstar for Fund returns after 1 April 2011 and Lipper for all previous years for the International Growth Fund. 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 the close of business.
Past performance is not a guide to future performance. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

Classification of investments*

	Fund value 31/03/13 %	Fund value 31/03/12 %
Financials	23.52	21.48
Basic Materials	15.14	8.42
Consumer Goods	14.22	19.26
Industrials	10.82	7.65
Health Care	9.47	11.89
Consumer Services	8.24	12.80
Oil & Gas	7.57	7.52
Technology	6.29	9.10
Utilities	1.65	-
Telecommunications	1.31	-
Net other assets	1.77	1.88

* 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.

Geographical spread

	Fund value 31/03/13 %	Fund value 31/03/12 %
United States	55.47	57.30
Germany	8.12	3.42
United Kingdom	7.96	7.17
Japan	7.43	5.84
Ireland	4.68	5.20
Switzerland	3.15	5.07
France	2.84	3.18
Singapore	2.22	1.98
Australia	1.78	-
India	1.57	0.54
Hong Kong	1.31	-
Austria	0.87	-
Norway	0.81	-
Brazil	0.02	2.43
Belgium	-	1.40
Canada	-	3.09
Netherlands	-	1.50
Net other assets	1.77	1.88

Please note: negative figures are shown in brackets.

Japanese Fund Short Report

for the year ended 31 March 2013

Investment objective and policy

The investment objective of the Japanese Fund is to achieve long term growth from investments in a broad range of Japanese companies.

The investment policy is to concentrate the core of the portfolio on large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth. The Fund will invest mainly in transferable securities. It may also invest in collective investment schemes and derivatives. Derivatives may be used for the purpose of investment as well as efficient portfolio management.

Risk profile

The Japanese Fund is a Medium-Adventurous risk fund. The Fund can be expected to provide a greater degree of volatility than many of the other Funds for which HBOS Investment Fund Managers Limited is the authorised corporate director, being symptomatic of the markets in which the Fund is invested. There is also exposure to the currency movements of the different areas in which the Fund is invested.

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 March 2013 and there have been no changes to this ranking to date.

Fund manager's comments

Japanese equity markets made double-digit gains over the reporting period, with particularly strong progress being made from December 2012 onwards. The gross return for the Fund was 15.63%. This compares to the gross return of 14.31% by its benchmark, the FTSE World Japan Index.

As ever, the yen's manoeuvres against foreign currencies were keenly observed by investors. Japan has an export-led economy and the share prices of companies who sell goods abroad are heavily influenced by exchange rates, with a stronger yen putting off overseas buyers.

Exporters continued to worry over slackening demand from Europe and the relative strength of the Japanese currency. In economic news, growth figures at that stage were less than exemplary. More recently, however, strong returns were driven by the victory of Shinzo Abe and the Liberal Democratic Party (LDP) in the Japanese general election on 16 December. Investor optimism and appetite for risk assets such as equities surged on news of Mr Abe's triumph due to his take on monetary policy (which determines the size and rate of growth of a country's money supply). Attention is also focused on the new governor of the Bank of Japan, Haruhiko Kuroda, and hopes that the Bank will pursue aggressive policy measures to fight deflation (falling prices) and boost economic growth.

The managers continued to employ a range of enhancement strategies, or "tilts", based on quantitative analysis. This research process identifies strategies we expect to outperform over the long run and targets stocks that provide exposure to each strategy. These are then combined to produce diversification benefits by investing across a combination of stocks which are likely to perform differently in any particular set of market conditions, thereby spreading the risk within the Fund.

Considering the broad trends in Japanese equities over the 12 months, investing in momentum stocks, or those that are starting to outperform, did well. Conversely, the tactic of making selections based on value (an approach that attempts to capture cheap stocks) underperformed.

Reflecting on the above, our value in combination with accruals preferences had a positive effect on returns. This "tilt" is biased towards cheap stocks with low levels of non-cash earnings (accruals). Our core value bias also made a positive contribution. In contrast, our value in combination with quality theme underperformed. This is based on the view that cheap, efficiently-run companies should generate excess returns.

Our outlook for the Japanese market is optimistic, based on positive earnings revisions, attractive valuation, a strong price performance, a compelling technical picture and positive fund flows.

Distribution

XD date:	Payment date:
Final distribution – 31 March	Final distribution – 31 May

Ongoing charges figure

	31/03/13 %
Share Class A	0.50
Share Class C	1.52
Share Class F	1.28
Share Class G	1.02
Share Class I †	0.00
Share Class SW1	1.05

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.

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.

	31/05/13 (p)	31/05/12* (p)
Share Class A	0.5544	0.5019
Share Class C	0.3799	0.3247
Share Class F	0.3281	0.2870
Share Class G	0.3610	0.3404
Share Class I	0.6311	0.6223
Share Class SW1	0.8995	0.7424

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

Fund performance

Net Asset Value

	NAV per share 31/03/13 (p)	NAV per share 31/03/12 (p)	NAV percentage change %
Share Class A	32.64	28.92	12.86
Share Class C	38.53	33.85	13.83
Share Class F	29.15	25.57	14.00
Share Class G	29.74	26.05	14.17
Share Class I	32.66	28.92	12.93
Share Class SW1	69.94	61.24	14.21

Performance record

	01/04/12 to 31/03/13 %	01/04/11 to 31/03/12 %	01/04/10 to 31/03/11 %	01/04/09 to 31/03/10 %	01/04/08 to 31/03/09 %
Japanese Fund	15.63	2.26	(3.79)	29.70	(10.53)
FTSE World Japan Index	14.31	0.94	(4.02)	29.60	(10.64)

Source: Morningstar for Fund returns after 1 April 2011 and Lipper for all previous years for the Japanese Fund. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

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

Past performance is not a guide to future performance. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

Portfolio information

Major holdings

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

Holding	Fund value % 31/03/13	Holding	Fund value % 31/03/12
Toyota Motor	5.34	Toyota Motor	3.87
SWIP Sterling Liquidity Fund	4.24	SWIP Sterling Liquidity Fund	3.34
Mitsubishi UFJ Financial	3.00	Mitsubishi UFJ Financial	2.94
Honda Motor	2.23	Canon	2.92
Softbank	2.21	Honda Motor	2.00

Classification of investments*

	Fund value 31/03/13 %	Fund value 31/03/12 %
Financials	24.13	20.27
Consumer Goods	20.31	20.27
Industrials	17.70	21.90
Consumer Services	9.58	7.21
Technology	8.03	8.80
Basic Materials	6.75	7.74
Health Care	6.05	5.94
Telecommunications	3.67	3.56
Utilities	2.88	3.35
Oil & Gas	0.78	1.23
Derivatives	0.05	(0.01)
Net other assets/(liabilities)	0.07	(0.26)

* 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.

North American Fund Short Report

for the year ended 31 March 2013

Investment objective and policy

The investment objective of the North American Fund is to achieve capital growth in the long term by investing mainly in North American companies.

The investment policy is to concentrate the core of the portfolio on large companies whilst maintaining a reasonable presence in medium and small sized companies with above average potential for growth.

Risk profile

The North American Fund is a Medium-Adventurous risk fund. In addition there is a currency risk – principally that of the US Dollar against the £.

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 March 2013 and there have been no changes to this ranking to date.

Fund manager's comments

US equity markets were up over the 12 months, with significant gains occurring in the early part of 2013. The gross return for the Fund over the reporting period was 21.07%. Its benchmark, the S&P 500 Index, had a gross return of 19.91%.

Confidence was boosted by the Federal Reserve's decision to introduce more quantitative easing (QE). This process is used to stimulate the economy by increasing the supply of money. QE involves central banks making purchases of assets such as corporate and government bonds. Investors finally got the news they were waiting for in September, when a third round of stimulus - dubbed "QE3" - was launched. The Fed promised to "support a stronger economic recovery" by making open-ended purchases of mortgage debt to the tune of $40 billion a month. In contrast to its predecessors, QE3 will continue indefinitely – or at least until unemployment falls to an acceptable level.

In politics, US President Barack Obama beat his Republican challenger Mitt Romney on 4 November to secure a second term in the White House. As soon as the election was over, however, the focus returned to the looming fiscal cliff (a potential combination of tax increases and spending cuts), which was averted in the early days of 2013. Indeed, the country's economy technically went "over the edge" for a period of just a few hours. On the evening of 1 January 2013, the House of Representatives approved the American Taxpayer Relief Act and it was signed into law by President Obama the next day.

In early March, Mr Obama was left with no option but to sign into effect $85 billion of government spending cuts for the fiscal year 2013. The strong performance by US equity markets over the month seems to indicate that so far, investors have managed to shrug off the looming threat of the so-called "sequester". Perhaps consumers are more inclined to fret, however. Many analysts felt that government spending cuts were likely to be the main reason behind an 8.3% fall in consumer sentiment, as measured by research group, The Conference Board.

Other economic data were more encouraging, though. The Bureau of Labor Statistics said that the US economy added 236,000 jobs in February, much higher than the forecast number of 165,000. Meanwhile, positive home price data provided cause for celebration in late March: according to the S&P/ Case-Shiller Index, single-family house prices began 2013 with their biggest year-on-year gain since June 2006.

The managers continued to employ a range of enhancement strategies, or "tilts", based on quantitative analysis. This research process identifies strategies we expect to outperform over the long run and targets stocks that provide exposure to each strategy. These are then combined to produce diversification benefits by investing across a combination of stocks which are likely to perform differently in any particular set of market conditions, thereby spreading the risk within the Fund.

Looking at the general trends in equity performance over the 12 months, the tactic of investing in selections based on cyclical value (an approach that attempts to capture stocks that are both comparatively cheap and likely to benefit from an improving economic background) outperformed. In contrast, investing in quality (or safe companies that have the ability to generate modest returns, despite a difficult investment environment) struggled.

Our value in combination with quality selections did well over the reporting period. This "tilt" is based on the theory that cheap, efficiently-run companies can generate excess returns. Meanwhile, our value and momentum tilt underperformed. This bias leads us to buy cheap companies that are starting to outperform. Finally, our financial strength theme, which leads us to seek companies with improving profitability, increasing liquidity and decreasing leverage, also disappointed. Overall, the strategy underperformed for the period.

While the most recent US gross domestic product number (representing the market value of all goods and services produced within the country) disappointed markets, the world's largest economy remains flexible and entrepreneurial, with much better demographics than many of its Asian and European counterparts. We have recently become more constructive on the US market, owing to unabated positive economic data flow, a stabilisation in earnings revisions, and better-than-feared corporate earnings results for the fourth quarter.

Distribution

XD date:	Payment date:
Final distribution – 31 March	Final distribution – 31 May

Ongoing charges figure

	31/03/13 %
Share Class A	0.50
Share Class C	1.51
Share Class F	1.26
Share Class G	1.00
Share Class I †	0.00
Share Class SW1	1.04

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.

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.

	31/05/13 (p)	31/05/12* (p)
Share Class A	4.3503	3.7162
Share Class C	0.3042	0.2698
Share Class F	0.3330	0.2643
Share Class G	0.4051	0.3346
Share Class I	5.4666	4.6779
Share Class SW1	1.0004	0.7585

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

Fund performance

Net Asset Value

	NAV per share 31/03/13 (p)	NAV per share 31/03/12 (p)	NAV percentage change %
Share Class A	311.37	263.66	18.10
Share Class C	44.16	37.18	18.77
Share Class F	38.62	32.46	18.98
Share Class G	39.22	32.91	19.17
Share Class I	311.57	263.66	18.17
Share Class SW1	100.53	84.04	19.62

Performance record

	01/04/12 to 31/03/13 %	01/04/11 to 31/03/12 %	01/04/10 to 31/03/11 %	01/04/09 to 31/03/10 %	01/04/08 to 31/03/09 %
North American Fund	21.07	8.52	8.83	42.57	(14.69)
S&P 500 Index	19.91	8.89	9.97	41.52	(14.15)

Source: Morningstar for Fund returns after 1 April 2011 and Lipper for all previous years for the North American Fund. Basis: Percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Source: Morningstar for the S&P 500 Index. Basis: Revenue reinvested and gross of expenses, at the close of business.

Past performance is not a guide to future performance. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

Portfolio information

Major holdings

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

Holding	Fund value % 31/03/13	Holding	Fund value % 31/03/12
Exxon Mobil	3.15	Apple	4.55
Apple	3.02	Exxon Mobil	3.50
SWIP Sterling Liquidity Fund	2.84	Microsoft Corporation	2.41
Chevron	2.18	SWIP Sterling Liquidity Fund	2.33
General Electric	2.03	Chevron	2.31

Classification of investments*

	Fund value 31/03/13 %	Fund value 31/03/12 %
Financials	18.97	19.19
Technology	14.70	18.94
Consumer Services	14.13	10.46
Health Care	12.42	10.77
Consumer Goods	11.46	9.99
Industrials	11.11	11.09
Oil & Gas	11.08	11.13
Telecommunications	3.29	3.23
Utilities	2.66	3.34
Basic Materials	2.54	3.58
Derivatives	(0.02)	0.02
Net other liabilities	(2.34)	(1.74)

* 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.