Manager's Annual Report

F&C Corporate Bond Fund

F&C Investments

Review Period:

12 months ended 31 August 2013

www.fandc.com

Fund Manager:
Ian Robinson

Corporate Bond Fund

The fund focuses on providing a high income through investment primarily in fixed interest securities, while minimising exposure to high levels of credit risk.

Fund Facts

Lead Fund Manager		Ian Robinson
Deputy Fund Manager		Rebecca Seabrook
Sector		£ Corporate Bond
Benchmark		IMA £ Corporate Bond Sector Median
Launch date		22 Jan 1996
Fund size	at 31 Aug 2012	£35.99m
	at 31 Aug 2013	£33.75m
Minimum Investments		£1,000 lump sum, £50 per month
Distribution Yield		3.90% (1 Inc), 4.40% (C Inc)
Share type		Income
Number of stocks		208
Initial charge		5.00%
Annual charge		1.00%
Ongoing charge		1.36% (1 Inc), 0.62% (C Inc)
Account dates	(interim)	28 February
	(annual)	31 August
Distribution dates		31 Oct, 31 Jan, 30 Apr, 31 July

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 strategy

Whilst markets experienced some volatility during the period, there were few concerns affecting either particular sectors or individual issuers. As a result, activity tended to be subdued and focused on relative value opportunities rather than themes. However, we tended to use periods of strength to reduce exposure to areas that had performed well, such as the financials. Amongst the sales at that time were senior banking issues, including RBS and JPMorgan, and subordinated insurance issues, including Delta Lloyd and CNP Assurance. Peripheral risk also remained a concern earlier in the year and we used the improved risk appetite to lower the Fund's exposure to bonds that we believed were too vulnerable to negative developments in the eurozone financial crises, such as the Spanish names Iberdrola and Telefonica.

The issuer that garnered most attention during the period was the banking arm of the Co-Op Group. We had sold a small amount of the Fund's exposure to the group back in September 2012 but the majority of the remaining holdings were sold as soon as the extent of the problems became apparent so limiting the impact on the fund. We retain a small exposure to Co-Op covered bonds where bondholders benefit from the extra security of a pool of mortgages.

Most purchases tended to be through the new issuance market. In the first half, the focus was on near issues from non-financials including Rio Tinto and Marks & Spencer. In the second half, there was more of a balance between financial and non-financial with new issues from names such as Credit Suisse and Societe Generale. New issuers always add colour to the market and we purchased attractive bonds from the AA (Automobile Association), Intu Properties (real estate) and the University of Cambridge.

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	56.30	52.41	1.6434
2013	C Income	56.04	52.13	2.3297

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	51.76	52.68
C	Income	51.47	52.38

Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Income	0.4163	Final	31/10/2013
C Income	0.5019	Final	31/10/2013
1 Income	0.4123	Interim	31/07/2013
C Income	0.4885	Interim	31/07/2013
1 Income	0.4167	Interim	30/04/2013
C Income	1.3393	Interim	30/04/2013
1 Income	0.3981	Interim	31/01/2013
C Income	-	Interim	31/01/2013

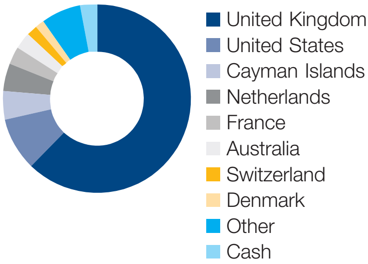
Top Ten Holdings

As at 31 August 2012	%
UK Treasury 4.25% 2039	5.38
ASIF II 5.125% 2013	1.97
Paragon 3.729% 2017	1.86
MBNA Credit Card Master Note Trust 5.45% 2016	1.68
Investec Bank 9.625% 2022	1.53
Premiertel 6.175% 2032	1.23
UK Treasury 4.25% 2027	1.22
QBE Insurance 10% 2014	1.18
Segro 6.75% 2024	1.17
Goldman Sachs 6.125% 2017	1.02
Total	**18.24**

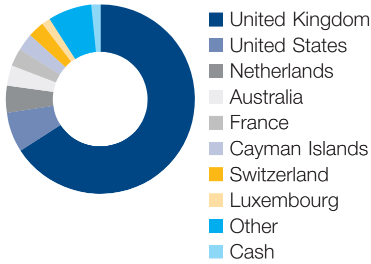
As at 31 August 2013	%
UK Treasury 4.25% 2039	4.43
Paragon 3.729% 2017	2.40
Investec Bank 9.625% 2022	1.74
UK Treasury 3.75% 2021	1.51
Premiertel 6.175% 2032	1.34
Segro 6.75% 2024	1.24
QBE Insurance 10% 2014	1.19
Goldman Sachs 6.125% 2017	1.11
Land Securities Capital Markets 4.875% 2025	1.03
F&C Commercial Property Finance 5.23% 2017	0.94
Total	**16.93**

Portfolio Breakdown

As at 31 August 2012

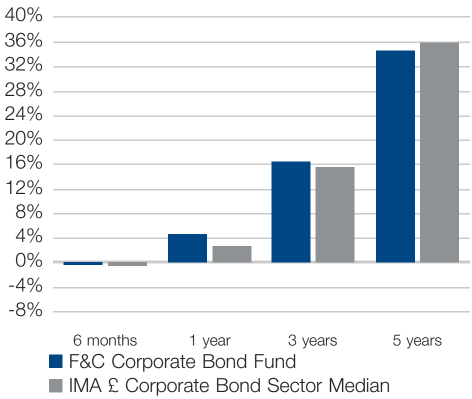


As at 31 August 2013

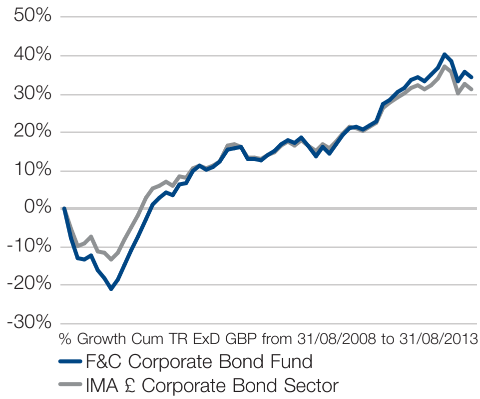


Fund Performance

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
-2.61%	18.62%	0.85%	10.47%	4.68%

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

Fixed Interest Securities Risk: changes in interest rates can affect the value of fixed interest holdings.

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

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

Depositary

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

Corporate Bond 12/13

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