

Review Period:

12 months ended 31 August 2013

www.fandc.com
Fund Manager:
Robert Siddles
US Smaller Companies Fund

The Fund aims to achieve long term capital growth through investment in smaller and medium sized quoted companies in the USA. There is no limit on the Fund's ability to invest in securities issued by the Government of the United States of America, subject to the Regulations.

Fund Facts

Lead Fund Manager		Robert Siddles
Sector	North American Smaller Companies	
Benchmark	Russell 2000 TR Index	
Launch date	1 September 1983	
Fund size	at 31 Aug 2012	£39.55m
	at 31 Aug 2013	£99.92m
Minimum	£1,000 lump sum,	
Investments	£50 per month	
Historic Yield	0.00% (1 Inc), 0.00% (C Inc)	
Share type	Income	
Number of stocks	53	
Initial charge	5.00%	
Annual charge	1.50%	
Ongoing charge	1.60% (1 Inc), 0.83% (C Inc)	
Account dates (interim)	28 Feb	
	(annual)	31 Aug
Distribution date	31 Oct	

Market review

The Russell 2000 Index rose by just shy of 30% over the twelve months as the impact of quantitative easing and other fiscal stimulus measures helped support the market. However, growth was below-trend for much of the year, with confidence taking a hit following a surprise deceleration of the economy in the final quarter of 2012. In September, the Federal Reserve announced its third round of quantitative easing – this time open-ended – in a bid to cushion the economy from the impact of the tax hikes and public spending cuts that were slated to commence in January 2013. Although the market retreated from its all-time high in June as the Fed signalled an imminent scaling back of quantitative easing, sentiment quickly recovered.

Fund activity

During the twelve months fund management focused buying on two areas: healthcare, which had been under pressure for several years and was showing areas of good value, and stocks affected by the weakness in the economy, where a recovery could be expected. Examples of healthcare purchases were Alere (professional diagnostics) and Allscripts Healthcare Solutions (IT for clinics): the former is now beginning to recover as the management team deal with past problems and the latter has new management aiming to bring about a turnaround. New stocks affected by the economy included Chefs Warehouse (a distributor of specialty foods) and WMS Industries (a manufacturer of gaming machines). The latter received an agreed bid from Scientific Games at a 60% premium to the prevailing share price. Stocks that performed well but where it was felt the risks had increased, were sold. Examples were SBA Communications (mobile phone towers) and floor coverings manufacturer Mohawk Industries, which was helped by improved sentiment towards housing-related stocks. We reduced stocks that had done well such as Conn's (retail), which has successfully executed a turnaround and LKQ (recycled car parts) which had become expensive after good results.

Outlook

In recent months optimism about the economic fortunes of the US has been growing, supported by improving activity with the ISM manufacturing survey rising and weekly initial jobless claims continuing to indicate a good labour market. The unwinding of the Federal Reserve's asset purchase programme, whilst sapping confidence in other regions such as the emerging markets, is a signal that US policy makers believe the domestic economic recovery is both strong enough and sustainable to withstand the withdrawal of monetary stimulus. These positive factors help us to have an optimistic short-term view, whilst the long-term view remains favourable in the light of cheap energy via shale gas, and hope that the near-term economic fillip can translate into a meaningful recovery in the US housing market.

Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2013	1 Income	1,675	1,284	-
2013	C Income	71.14	54.25	0.0956

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	1,196	1,595
C	Income	49.83	67.62

Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Income	-	Final	31/10/2013
C Income	0.0956	Final	31/10/2013

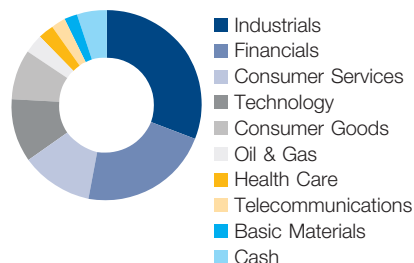
Top Ten Holdings

As at 31 August 2012	%
iShares Russell 2000 Index Fund	3.58
Conn's	3.33
America's Car Mart	2.66
SBA Communications	2.57
Mohawk Industries	2.52
Pool	2.31
Granite Construction	2.29
ACI Worldwide	2.18
Rex Energy	2.17
Alleghany	2.15
Total	25.76

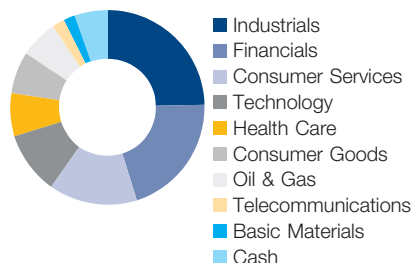
As at 31 August 2013	%
iShares Russell 2000 Index Fund	3.75
Rex Energy	2.78
Conn's	2.64
Andersons	2.61
Alere	2.46
Chefs' Warehouse	2.34
ViaSat	2.30
Allscripts Healthcare Solutions	2.25
Grand Canyon Education	2.22
Universal Truckload Services	2.17
Total	25.52

Portfolio Breakdown

As at 31 August 2012

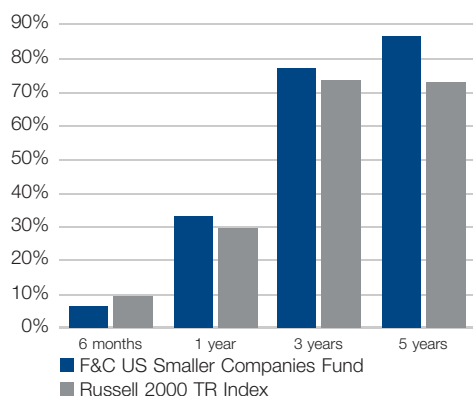


As at 31 August 2013

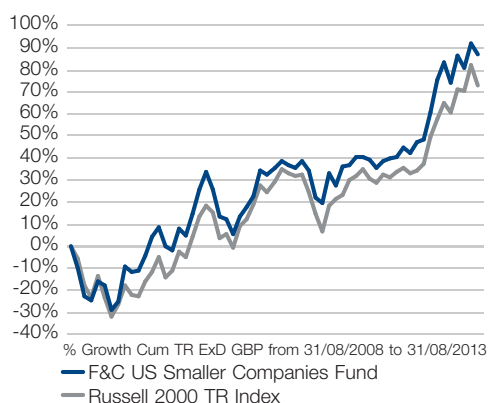


Fund Performance

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
4.04%	1.27%	16.03%	14.66%	33.33%

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.

Currency Risk: your investment may be adversely affected by changes in currency exchange rates.

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

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Depository

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Administrator and Registrar

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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 US 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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