HBOS UK Investment Funds ICVC

Short Reports

for the year ended 31 January 2014

Contents

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 Classes 1 and 3 are referenced as SW1 and SW3 respectively.

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 UK Investment Funds ICVC:

- With effect from 6 April 2013, the dilution adjustment basis for the Funds was changed so that the ACD may now make a dilution adjustment under the following circumstances:
  - on a Fund where there is a net inflow or net outflow on any Dealing Day; or
  - in any other case where the ACD believes that the imposition of a dilution adjustment is required to safeguard the interests of continuing Shareholders;
- The wording in the Prospectus was updated on 6 April 2013 to explain the method used for the calculation of the global exposure of derivative and forward transactions that may be used by the Funds;
- The wording in the Prospectus was updated on 6 April 2013 to show the current Annual Management Charge for Share Classes C, D and F for the UK FTSE 100 Index Tracking Fund and UK FTSE All Share Index Tracking Fund had been reduced to 1% per annum;
- With effect from 2 December 2013, the Company's Prospectus and Instrument of Incorporation were updated to reflect recent regulations which were introduced for UK open-ended investment companies (OEICs), known as the Protected Cell Regulations (PCR). As a result of the new regulations, OEICs which have a number of sub-funds - such as the Company - now benefit from ring-fencing provisions which mean that the assets of a sub-fund belong exclusively to that sub-fund and may not be used for any other purpose. As a result, in the event that a sub-fund is unable to meet its own liabilities, the assets of other sub-funds cannot be used. Effectively, therefore, the new regulations introduce further protection for individual sub-funds. As a result of these protections, it is now also possible for a sub-fund of the Company to invest in another sub-fund of the Company (subject to the investment policy and existing investment and borrowing powers of the investing sub-fund);
- The wording in the Prospectus was updated on 2 December 2013 to make it clear that no redemption charge applies to Share Class D of the UK FTSE 100 Index Tracking Fund; and
- With effect from 2 December 2013, the eligible securities and derivatives markets were updated.

A copy of the Prospectus is available on request.

Important information

Changes within our investment management business.

On Monday 18th November 2013, Lloyds Banking Group (the 'Group') announced that, having conducted a strategic review of its investment management activities, it had concluded that another owner would be better able to develop and commercialise further the strong capabilities that exist within Scottish Widows Investment Partnership (SWIP).

As a result, the Group agreed to sell SWIP to Aberdeen Asset Management ('Aberdeen'). The sale was completed on Monday 31st March 2014. The sale only involves the Group's asset management business and does not directly impact Scottish Widows or HBoS Investment Fund Managers Limited. In time, following a transitional period, the SWIP brand will no longer be used.

Importantly, as part of the sale agreement the Group and Aberdeen have entered into a long-term strategic asset management relationship whereby Aberdeen continues to manage assets on behalf of the Group. This means that you do not need to take any action as a result of the sale and there is no immediate change to the name of the funds you invest in or their aims, risks and objectives.

HBOS UK Investment Funds ICVC
Short Reports
for the year ended 31 January 2014

Authorised Corporate Director (ACD) and Registrar*

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

Depositary*

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

Independent Auditors

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Investment Adviser*

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

* 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.

Corporate Bond Fund Short Report

for the year ended 31 January 2014

Investment objective and policy

The investment objective of the Corporate Bond Fund is to provide an above average income from a diversified portfolio of interest bearing securities.

The portfolio is invested primarily in a wide range of investment grade interest bearing securities, principally sterling and euro denominated, offering a yield in excess of the FTSE FTA Government Securities All Stocks Index. If the FTSE FTA Government Securities All Stocks Index is discontinued or the basis of compilation of that index is changed, another index or basis which (as nearly as possible) will give a similar result to that which would have been the case but for the discontinuance or change will be used.

Risk profile

The Corporate Bond Fund is a Cautious-Medium risk fund. It aims to achieve above-average yield, in relation to the FTSE FTA Government Securities All Stocks Index, from primarily investment grade interest bearing securities. The inclusion of up to 20% non investment grade securities will potentially reduce the value of capital in a bear market.

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 3 because it has experienced low to medium levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 31 January 2014 and there have been no changes to this ranking to date.

Fund manager's comments

The 12 months to 31 January 2014 have brought mixed fortunes for the corporate bond market. Over this period, returns from the HBOS Corporate Bond Fund were strong at 4.26% (gross of tax and charges).

Up until April prices of corporate bonds had moved steadily higher. Demand was buoyed by investors' looking for higher yields than were available via government bonds and by a scarcity of new issuance relative to demand. And while the spread in yield over government bonds narrowed only marginally, total returns were nevertheless positive, thanks to a sharp downward movement in government bond yields.

But in May and June, returns deteriorated sharply. Government bond yields moved significantly higher, caused in the main by US Federal Reserve (The Fed) indications that it would scale back its accommodative monetary policy. After Fed chairman Ben Bernanke said he expected to "taper" its bond buying programme when economic data improved, the market reacted dramatically, interpreting the comments as a prelude to aggressive monetary tightening.

Corporate bonds, both investment grade and high yield, outperformed government bonds in the latter part of 2013. In the third quarter, while government bonds moved higher, this was accompanied by a significant tightening of credit spreads, meaning overall returns were positive. That tightening was largely due to a rise in investor confidence following a series of better-than-expected economic data. Sovereign yields continued to rise in the final three months of 2013. Yield spreads over government bonds narrowed considerably, but the rise in sovereign yields was such that overall returns from credit were only marginally positive. There were pockets of excellence; high-yielding bonds were strongly positive and higher beta instruments such as subordinated bank debt and corporate hybrids delivered healthy returns. The fund benefited from exposure to these areas of the market.

In January 2014, government bonds in core areas of the eurozone benefited from a flight to quality as investors became increasingly nervous about economic conditions in the emerging markets. Meanwhile, yield spreads widened significantly in the latter part of the month – again a result of emerging market turmoil.

Hybrid new issues have been a notable theme during 2013, as investors migrate along the risk curve in the search for yield. Hybrid bonds are an increasingly important part of the market. The Fund's purchases in this area included a sterling issue from Pennon, owners of South West Water, and a euro-denominated issue from Hutchison Whampoa.

Early in the review period, trades to reduce portfolio risk included the sale of HSBC lower Tier 2 debt. The Fund reduced its exposure to G4S, the security services company. The holding in Telecom Italia was also reduced as the utility could be subject to a ratings downgrade in the coming months.

Recent trades included the sale of sold senior financial bonds including Goldman Sachs in favour of covered bonds including Abbey National. We bought Mitchell & Butler, a securitisation of the cash flows from a public house estate. We think the bond has a strong structure and offers a healthy yield over government bonds. We also bought BHP Billiton 2024. This is a high quality low risk bond, with a decent yield pick-up compared to government bonds.

Fund manager's comments (continued)

The Fund benefited from being short duration over the review period as core government bond yields moved higher. A further improvement in developed economies should see rates move higher on a longer term view. The Fund is currently overweight in high yield bonds. These represent good value given the relatively low default rate. Looking ahead, the fund managers are looking to take advantage of attractive valuations following the recent sell-off and selectively add risk in the coming months.

Distribution

XD dates:

First quarter – 30 April
Interim – 31 July
Third quarter – 31 October
Final – 31 January

Payment dates:

First quarter – 30 June
Interim – 30 September
First quarter – 31 December
Final – 31 March

Ongoing charges figure

	31/01/14 %	31/01/13 %
Share Class B	0.76	0.76
Share Class C	1.01	1.01
Share Class D	1.01	1.02
Share Class E	0.76	0.77
Share Class I†	0.00	0.00
Share Class SW1	1.05	1.05
Share Class SW3	1.05	1.05

The ongoing charges figure (OCF) 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.

Fund performance

Net Asset Value

	NAV per share 31/01/14 (p)	NAV per share 31/01/13 (p)	NAV percentage change %
Share Class B	29.63	28.51	3.93
Share Class C	29.75	28.68	3,73
Share Class D	22.55	22.48	0.31
Share Class E	22.17	22.10	0.32
Share Class I	22.56	22.49	0.31
Share Class SW1	70.88	68.49	3.49
Share Class SW3	58.48	58.28	0.34

Classification of investments

	Fund value % 31/01/14	Fund value % 31/01/13
Sterling Denominated Bonds	84.22	85.23
Euro Denominated Bonds	10.66	11.60
US Dollar Denominated Bonds	2.83	1.90
Collective Investment Schemes	1.29	0.02
Derivatives	0.34	(0.32)
Net other assets	0.66	1.57
Total net assets	100.00	100.00

Distribution

The distributions for share classes D, E, I and SW3 were paid/are payable on or before the dates shown below and are stated in pence per share. The distributions for share classes B, C and SW1 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.

	31/03/14 (p)	31/12/13 (p)	30/09/13 (p)	30/06/13 (p)
Share Class B	0.2593	0.2559	0.2684	0.2555
Share Class C	0.2455	0.2424	0.2550	0.2426
Share Class D	0.1876	0.1868	0.1982	0.1902
Share Class E	0.1958	0.1948	0.2062	0.1980
Share Class I	0.2343	0.2331	0.2454	0.2352
Share Class SW1	0.5798	0.5733	0.6045	0.5725
Share Class SW3	0.4830	0.4802	0.5105	0.4874

Performance record

	01/02/13 to 31/01/14 %	01/02/12 to 31/01/13 %	01/02/11 to 31/01/12 %	01/02/10 to 31/01/11 %	01/02/09 to 31/01/10 %
Corporate Bond Fund	4.26	12.14	4.87	5.82	24.43

Source: Financial Express after 1 February 2013, Morningstar between 1 February 2012 and 31 January 2013 and Lipper for previous periods.

Basis: percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major holdings

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

Holding	Fund value % 31/01/14		Fund value % 31/01/13
UK Treasury 4.25% 07/03/2036	2.44	HSBC 6.375% 18/10/2022	1.21
HSBC 6.375% 18/10/2022	1.48	Delamare Finance 5.5457% 19/02/2029	0.97
Lloyds Bank 6.9625% 29/05/2020	1.46	Lloyds TSB 6.9625% 29/05/2020	0.96
SWIP Sterling Liquidity Fund	1.29	HSBC Bank Capital Funding 5.844% Perpetual	0.96
BP Capital Markets 4.325% 10/12/2018	1.17	InterContinental Hotels 6% 09/12/2016	0.96

Please note: negative figures are shown in brackets.

UK Equity Income Fund Short Report

for the year ended 31 January 2014

Investment objective and policy

The investment objective of the UK Equity Income Fund is to provide an above average income, together with prospects of capital appreciation over the longer term, derived mainly from a portfolio of securities in UK companies.

The investment policy is to select companies with a high probability of providing a rising income and capital growth over the longer term. Convertible stocks and bonds which provide a higher yield than equities are also considered for the portfolio.

Risk profile

The UK Equity Income Fund is a Cautious-Medium risk fund. It aims to achieve above-average yield, in relation to the FTSE All-Share Index, from predominantly larger capitalisation stocks. This is typically a core holding in any portfolio, and may be expected to be less vulnerable during bear markets to capital depreciation when compared to the index as a whole.

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 January 2014 and there have been no changes to this ranking to date.

Fund manager's comments

UK equity markets had a strong 12 months. Traders were encouraged into riskier assets by the extraordinary policy actions of the world's central banks and the gradually improving economic climate. At a sector level, telecoms and consumer services were among the best performers over the 12 months. In contrast, basic materials and oil & gas lagged behind. The Fund made a net return of 9.93% (11.58 % on a gross basis). The Fund's benchmark, the FTSE All-Share Index, had a gross return of 10.10%.

Just after the end of the reporting period, the Bank of England chose to abandon its six month-old "forward guidance" policy. The move was prompted by an unexpected fall in the unemployment rate over the three months to end-November. Having reached 7.1%, the rate was very close to 7%, the level at which the Bank had previously indicated it may consider raising interest rates. Instead, however, Governor Mark Carney has stated that policy will not be guided by unemployment alone.

In January, Mr Carney commented that the British economy was in a "different place" from last summer. Indeed, the strength of its recovery has surprised nearly everyone. The International Monetary Fund (IMF) recently upped its 2014 UK growth forecast from 1.9% to 2.4% – the fastest expansion rate in Europe. But while the recovery has been impressive, most commentators agree that the UK economy could ill-afford an increase in interest rates at this early stage. Wage growth has stagnated for five years (although it is starting to recover), while corporate spending remains stubbornly below pre-crisis levels. Finally, the much-hoped-for rebound in workers' productivity – viewed as essential if economic growth is to gain momentum – remains frustratingly absent.

Turning to the portfolio, a holding in Travis Perkins, the builders' merchant, boosted returns. The company had an excellent twelve months as the fortunes of the UK housing market improved after a long period in the doldrums. Travis Perkins' market value rose impressively, culminating in the firm entering the FTSE 100 Index.

In contrast, KSK Power Ventur, the Indian power company, detracted from returns over the reporting period. Most recently, the company has been the victim of general declines in emerging market stocks. The falls were sparked by concerns over the "tapering" of US monetary stimulus.

In terms of recent transactions, we recently opened a position in Wood Group. We bought the stock based on our view that the company's engineering repair and maintenance segments would shelter it from the reductions to investment spending currently being made by the oil majors. Unfortunately, this has not been the case and profit guidance was downgraded as a result. Nevertheless, we believe that the current valuation remains attractive.

We have also reduced the Fund's exposure to RSA Insurance, after the company had to review its revenue recognition policy in Ireland. Although a recent auditors' report suggested that the problems uncovered were specific to Ireland, we believe the issue has left the company in a position where it will have to raise additional capital.

Overall, the Fund is positioned towards a continued economic recovery. Importantly, however, given recent jitters in emerging markets, this positioning is mainly via stocks that should benefit from increased credit availability and corporate and consumer confidence in developed economies. We are concerned that profits in some emerging markets will be under pressure for several years as a result of reduced liquidity and pockets of deflation, partly due to excessive investment over the last decade. Consequently, the Fund is underweight in sectors that have been heavily reliant upon these markets for earnings growth. These include mining and some traditionally "defensive" areas such as food & beverages.

Distribution

XD dates:

First quarter – 30 April
Interim – 31 July
Third quarter – 31 October
Final – 31 January

Payment dates:

First quarter – 30 June
Interim – 30 September
Third quarter – 31 December
Final – 31 March

Ongoing charges figure

	31/01/14 %	31/01/13 %
Share Class A	0.50	0.50
Share Class B	1.00	1.00
Share Class C	1.50	1.53
Share Class D	1.50	1.52
Share Class E	1.25	1.26
Share Class F	1.25	1.25
Share Class G	1.00	1.00
Share Class I†	0.00	0.00
Share Class SW1	1.60	1.60
Share Class SW3	1.60	1.61

The ongoing charges figure (OCF) 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.

Fund performance

Net Asset Value

	NAV per share 31/01/14 (p)	NAV per share 31/01/13 (p)	NAV percentage change %
Share Class A	232.98	217.93	6.91
Share Class B	24.95	23.46	6.35
Share Class C	67.10	60.93	10.13
Share Class D	50.95	48.15	5.82
Share Class E	24.61	23.20	6.08
Share Class F	31.65	28.67	10.39
Share Class G	32.01	28.92	10.68
Share Class I	246.72	229.65	7.43
Share Class SW1	91.76	83.40	10.02
Share Class SW3	75.06	71.00	5.72

Classification of investments

	Fund value % 31/01/14	Fund value % 31/01/13
Financials	18.80	19.53
Oil & Gas	15.92	18.29
Consumer Services	12.28	8.91
Consumer Goods	11.18	13.00
Industrials	10.90	6.56
Health Care	10.69	11.61
Telecommunications	9.51	5.37
Basic Materials	5.42	7.15
Utilities	4.05	6.75
Technology	1.38	2.71
Derivatives	(0.01)	0.08
Net other (liabilities)/assets	(0.12)	0.04
Total net assets	100.00	100.00

Distribution

The distributions for share classes A, B, D, E, I and SW3 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.

	31/03/14 (p)	31/12/13 (p)	30/09/13 (p)	30/06/13 (p)
Share Class A	1.5580	2.5105	2.0940	3.1630
Share Class B	0.1667	0.2693	0.2249	0.3409
Share Class C	0.4459	0.7136	0.5913	0.8848
Share Class D	0.3409	0.5511	0.4608	0.6992
Share Class E	0.1646	0.2659	0.2222	0.3370
Share Class F	0.2103	0.3362	0.2785	0.4165
Share Class G	0.2126	0.3397	0.2811	0.4203
Share Class I	1.6486	2.6532	2.2100	3.3350
Share Class SW1	0.6106	0.9765	0.8098	1.2088
Share Class SW3	0.5031	0.8124	0.6787	1.0291

Performance record

	01/02/13 to 31/01/14 %	01/02/12 to 31/01/13 %	01/02/11 to 31/01/12 %	01/02/10 to 31/01/11 %	01/02/09 to 31/01/10 %
UK Equity Income Fund	11.58	13.52	(2.09)	17.90	32.36
FTSE All-Share Index	10.10	16.30	(0.31)	18.13	33.24

Source: Financial Express for UK Equity Income Fund and FTSE All-Share Index after 1 February 2013, Morningstar between 1 February 2012 and 31 January 2013 and Lipper for previous periods.
Basis: For UK Equity Income Fund, percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.
Basis: For FTSE All-Share Index, revenue reinvested and gross of expenses at close of business.
Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major holdings

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

Holding	Fund value % 31/01/14		Fund value % 31/01/13
Royal Dutch Shell 'B' Shares	7.32	Royal Dutch Shell 'B' Shares	7.17
Vodafone	6.53	GlaxoSmithKline	5.81
HSBC	5.88	BP	5.50
GlaxoSmithKline	5.70	Vodafone	5.37
BP	4.12	British American Tobacco	4.22

Please note: negative figures are shown in brackets.

UK FTSE 100 Index Tracking Fund Short Report

for the year ended 31 January 2014

Investment objective and policy

The investment objective of the UK FTSE 100 Index Tracking Fund is to aim to match as closely as possible, subject to the effect of charges and regulations in force from time to time, the capital performance and net income yield of the FTSE 100 Index.

The portfolio is invested primarily in companies comprising the FTSE 100 Index. Index futures may be used for efficient portfolio management purposes only.

Risk profile

The UK FTSE 100 Index Tracking Fund is a Cautious-Medium risk fund. It benefits from the significant diversification of investing in the 100 stocks comprising the FTSE 100 Index.

Tracking Error

Tracking Error measures the standard deviation of the relative returns. It is the annualised standard deviation of the returns of a fund minus those of its benchmark (relative returns) and not the standard deviation of each fund's unique returns. The lower the tracking error of a fund, the more the fund resembles its benchmark or the market regarding risk and return characteristics.

The tracking error at the end of the trailing 36 month period ended 31 January 2014 was 0.05%.

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 January 2014 and there have been no changes to this ranking to date.

Fund manager's comments

UK equity markets had a strong 12 months. Traders were encouraged into riskier assets by the extraordinary policy actions of the world's central banks and the gradually improving economic climate. The Fund made a net return of 5.32% (6.90% on a gross basis). The Fund's benchmark, the FTSE 100 Index, had a gross return of 7.55%.

Just after the end of the reporting period, the Bank of England chose to abandon its six month-old "forward guidance" policy. The move was prompted by an unexpected fall in the unemployment rate over the three months to end-November. Having reached 7.1%, the rate was very close to 7%, the level at which the Bank had previously indicated it may consider raising interest rates. Instead, however, Governor Mark Carney has stated that policy will not be guided by unemployment alone.

In January, Mr Carney commented that the British economy was in a "different place" from last summer. Indeed, the strength of its recovery has surprised nearly everyone. The International Monetary Fund (IMF) recently upped its 2014 UK growth forecast from 1.9% to 2.4% – the fastest expansion rate in Europe. But while the recovery has been impressive, most commentators agree that the UK economy could ill-afford an increase in interest rates at this early stage. Wage growth has stagnated for five years (although it is starting to recover), while corporate spending remains stubbornly below pre-crisis levels. Finally, the much-hoped-for rebound in workers' productivity – viewed as essential if economic growth is to gain momentum – remains frustratingly absent.

Over the reporting period, the top ten performing companies in the FTSE 100 Index were Hargreaves Lansdown, International Consolidated Airlines, Easyjet, Ashtead Group, Sports Direct International, ITV, Persimmon, GKN, Lloyds Banking Group and Associated British Foods. The bottom ten performing companies in the index were Fresnillo, Tullow Oil, Randgold Resources, Petrofac, RSA Insurance, Standard Chartered, Antofagasta, Anglo American, Glencore International and Xstrata.

In terms of activity and composition, the Fund continued to mirror the FTSE 100 Index. We therefore periodically rebalanced its holdings in accordance with the changes that index provider FTSE made at its quarterly reviews. In March, Kazakhmys and Intu Properties were demoted to the FTSE 250 Index and were replaced in the FTSE 100 Index by Easyjet and the London Stock Exchange. In June, Evraz and Polymetal International were ousted, while Persimmon and Travis Perkins were promoted.

September's additions were Coca-Cola HBC AG, Sports Direct International and Mondi. Meanwhile, Wood Group (John), Eurasian Natural Resources Corporation and Serco Group were relegated. Finally, December saw the arrival of Royal Mail and Ashtead, while Croda International and Vedanta Resources were downgraded.

After several false starts, the UK economy is finally gathering momentum, with growth in 2014 expected to reach a seven-year high. So far, however, the recovery has been narrowly focused on the consumer sector and housing market. We therefore hope to see a broadening out of activity as the year progresses.

Distribution

XD dates:

Interim – 31 July

Final – 31 January

Payment dates:

Interim – 30 September

Final – 31 March

Ongoing charges figure

	31/01/14 %	31/01/13 %
Share Class A	0.50	0.50
Share Class B	1.00	1.00
Share Class C	1.00	1.35
Share Class D	1.00	1.34
Share Class F	1.00	1.16
Share Class I†	0.00	0.00

The ongoing charges figure (OCF) 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.

Fund performance

Net Asset Value

	NAV per share 31/01/14 (p)	NAV per share 31/01/13 (p)	NAV percentage change %
Share Class A	82.93	80.77	2.67
Share Class B	31.21	29.61	5.40
Share Class C	45.78	43.45	5.36
Share Class D	39.55	37.52	5.41
Share Class F	30.03	28.50	5.37
Share Class I	82.94	80.79	2.66

Classification of investments

	Fund value % 31/01/14	Fund value % 31/01/13
Financials	20.96	21.33
Oil & Gas	16.28	18.26
Consumer Goods	13.99	14.94
Consumer Services	9.86	8.33
Health Care	8.81	7.86
Basic Materials	8.65	10.83
Telecommunications	8.20	6.42
Industrials	7.94	6.74
Utilities	4.00	4.08
Technology	1.07	1.00
Derivatives	(0.01)	0.10
Net other assets	0.25	0.11
Total net assets	100.00	100.00

Distribution

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 B, C, D and F 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.

	31/03/14 (p)	30/09/13 (p)
Share Class A	1.0987	1.5531
Share Class B	0.3283	0.4929
Share Class C	0.4807	0.7234
Share Class D	0.4162	0.6247
Share Class F	0.3152	0.4745
Share Class I	1.3162	1.7623

Performance record

	01/02/13 to 31/01/14 %	01/02/12 to 31/01/13 %	01/02/11 to 31/01/12 %	01/02/10 to 31/01/11 %	01/02/09 to 31/01/10 %
FTSE 100 Index Tracking Fund	6.90	14.91	1.55	16.79	29.74
FTSE 100 Index	7.55	14.79	0.38	16.78	30.40

Source: Financial Express for FTSE 100 Index Tracking Fund and FTSE 100 Index after 1 February 2013, Morningstar between 1 February 2012 and 31 January 2013 and Lipper for previous periods.

Basis: For FTSE 100 Index Tracking Fund, percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Basis: For FTSE 100 Index, revenue reinvested and gross of expenses at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major holdings

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

Holding	Fund value % 31/01/14		Fund value % 31/01/13
HSBC	6.94	HSBC	8.19
Vodafone	6.43	BP	5.60
BP	5.25	Vodafone	5.24
Royal Dutch Shell 'A' Shares	4.88	Royal Dutch Shell 'A' Shares	5.21
GlaxoSmithKline	4.49	GlaxoSmithKline	4.41

Please note: negative figures are shown in brackets.

UK FTSE All-Share Index Tracking Fund Short Report

for the year ended 31 January 2014

Investment objective and policy

The investment objective of the UK FTSE All-Share Index Tracking Fund is to aim to match as closely as possible, subject to the effect of charges and regulations in force from time to time, the capital performance and net income yield of the FTSE All-Share Index.

The investment policy is to invest partially in companies comprising the FTSE All-Share Index. Index futures may be used for efficient portfolio management purposes only.

Risk profile

The UK FTSE All-Share Index Tracking Fund is a Cautious-Medium risk fund. It benefits from the significant diversification of investing in a representative selection of the stocks comprising the FTSE All-Share Index.

Tracking Error

Tracking Error measures the standard deviation of the relative returns. It is the annualised standard deviation of the returns of a fund minus those of its benchmark (relative returns) and not the standard deviation of each fund's unique returns. The lower the tracking error of a fund, the more the fund resembles its benchmark or the market regarding risk and return characteristics.

The tracking error at the end of the trailing 36 month period ended 31 January 2014 was 0.07%.

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 January 2014 and there have been no changes to this ranking to date.

Fund manager's comments

UK equity markets had a strong 12 months. Traders were encouraged into riskier assets by the extraordinary policy actions of the world's central banks and the gradually improving economic climate. At a sector level, telecoms and consumer services were among the best performers over the 12 months. In contrast, basic materials and oil & gas lagged behind. The Fund made a net return of 8.05% (9.67% on a gross basis). The Fund's benchmark, the FTSE All-Share Index, had a gross return of 10.10%.

Just after the end of the reporting period, the Bank of England chose to abandon its six month-old "forward guidance" policy. The move was prompted by an unexpected fall in the unemployment rate over the three months to end-November. Having reached 7.1%, the rate was very close to 7%, the level at which the Bank had previously indicated it may consider raising interest rates. Instead, however, Governor Mark Carney has stated that policy will not be guided by unemployment alone.

In January, Mr Carney commented that the British economy was in a "different place" from last summer. Indeed, the strength of its recovery has surprised nearly everyone. The International Monetary Fund (IMF) recently upped its 2014 UK growth forecast from 1.9% to 2.4% – the fastest expansion rate in Europe. But while the recovery has been impressive, most commentators agree that the UK economy could ill-afford an increase in interest rates at this early stage. Wage growth has stagnated for five years (although it is starting to recover), while corporate spending remains stubbornly below pre-crisis levels. Finally, the much-hoped-for rebound in workers' productivity – viewed as essential if economic growth is to gain momentum – remains frustratingly absent.

At a stock level, the top ten performing companies in the FTSE All-Share Index over the year were Ocado, Xaar, Thomas Cook, Topps Tiles, Supergroup, Greencore, Darty, JD Sports Fashion, Gleeson (MJ) and Hargreaves Lansdown. The bottom ten performing companies in the index were New World Resources, Petropavlovsk, Talvivaara Mining, Kazakhmys, Evraz, Imagination Technologies, Carclo, Hochschild Mining, Essar and Fresnillo.

In terms of activity, the Fund continued to track the FTSE All-Share Index. We therefore periodically rebalanced its holdings in accordance with the changes made by index provider FTSE at its quarterly reviews. Firms that exited the index included: Aegis, Avocet Mining, Breedon Aggregates, Camellia, CPP, Electric General Investment, Eurasion Natural, Fiberweb, Fortune Oil, Genel Energy, Goldenport, iEnergizer, Invensys, ISIS Property, Lonrho, Mecom, Promethean World, and Southern Cross Healthcare.

In their place came: Al Noor Hospitals, Biotech Growth, Carcal Energy, Carphone Warehouse, Crest Nicholson, Countrywide, CVC Credit Partners, Entertainment One, Esure, Foxtons, Games Workshop, Grafton, HellermannTyton, Lupus Capital, Merlin Entertainment, Partnership Assurance, Renewables Infrastructure and Innovation.

After several false starts, the UK economy is finally gathering momentum, with growth in 2014 expected to reach a seven-year high. So far, however, the recovery has been narrowly focused on the consumer sector and housing market. We therefore hope to see a broadening out of activity as the year progresses.

Distribution

XD dates:

Interim – 31 July

Final – 31 January

Payment dates:

Interim – 30 September

Final – 31 March

Ongoing charges figure

	31/01/14 %	31/01/13 %
Share Class A	0.50	0.50
Share Class C	1.00	1.36
Share Class F	1.00	1.17
Share Class G	1.00	1.00
Share Class I†	0.00	0.00

The ongoing charges figure (OCF) 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.

Fund performance

Net Asset Value

	NAV per share 31/01/14 (p)	NAV per share 31/01/13 (p)	NAV percentage change %
Share Class A	58.69	55.60	5.56
Share Class C	51.56	47.67	8.16
Share Class F	31.82	29.43	8.12
Share Class G	32.15	29.73	8.14
Share Class I	58.74	55.65	5.55

Classification of investments

	Fund value % 31/01/14	Fund value % 31/01/13
Financials	25.06	23.42
Oil & Gas	14.10	16.39
Consumer Goods	12.68	13.67
Consumer Services	10.62	9.61*
Industrials	10.41	9.00*
Basic Materials	8.02	10.00
Health Care	7.63	7.15
Telecommunications	7.25	5.77
Utilities	3.55	3.80
Technology	1.55	1.77
Derivatives	(0.01)	0.03
Net other liabilities	(0.86)	(0.61)
Total net assets	100.00	100.00

* Prior year comparative has been restated due to a change in sector classifications.

Distribution

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 and G 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.

	31/03/14 (p)	30/09/13 (p)
Share Class A	0.7297	1.0227
Share Class C	0.5059	0.7595
Share Class F	0.3106	0.4662
Share Class G	0.3137	0.4710
Share Class I	0.8793	1.1640

Performance record

	01/02/13 to 31/01/14 %	01/02/12 to 31/01/13 %	01/02/11 to 31/01/12 %	01/02/10 to 31/01/11 %	01/02/09 to 31/01/10 %
FTSE All Share Index Tracking Fund	9.67	16.69	0.56	17.83	31.33
FTSE All-Share Index	10.10	16.30	(0.31)	18.13	33.24

Source: Financial Express for UK FTSE All Share Index Tracking Fund and FTSE All-Share Index after 1 February 2013, Morningstar between 1 February 2012 and 31 January 2013 and Lipper for previous periods.

Basis: For UK FTSE All Share Index Tracking Fund, percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Basis: For FTSE All-Share Index, revenue reinvested and gross of expenses at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major holdings

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

Holding	Fund value % 31/01/14		Fund value % 31/01/13
HSBC	5.70	HSBC	6.86
Vodafone	5.33	BP	4.92
BP	4.31	Vodafone	4.50
Royal Dutch Shell 'A' Shares	4.01	Royal Dutch Shell 'A' Shares	4.34
GlaxoSmithKline	3.69	GlaxoSmithKline	3.87

Please note: negative figures are shown in brackets.

UK Growth Fund Short Report

for the year ended 31 January 2014

Investment objective and policy

The investment objective of the UK Growth Fund is to achieve long term capital growth by investing mainly in UK 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 UK Growth Fund is a Cautious-Medium risk fund. The Fund is likely to be a core holding in any portfolio where investment in the UK's larger capitalisation stocks is required.

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 January 2014 and there have been no changes to this ranking to date.

Fund manager's comments

UK equity markets had a strong 12 months. Traders were encouraged into riskier assets by the extraordinary policy actions of the world's central banks and the gradually improving economic climate. In the former camp, the US Federal Reserve (The Fed) has been particularly active, buying $85 billion-a-month of government bonds and other securities. This has flooded the market with liquidity and helped lift stock markets. The Fed, though, has since reduced, or "tapered", this programme. This, plus a slowdown in China, was credited for renewed turbulence in global markets in January. Emerging markets were hit particularly hard.

Meanwhile, the UK economy is finally gathering momentum. Unemployment continues to fall, while inflation hit the Bank of England's target of 2% in December (currently 1.9%). Thus far, the recovery has been narrowly focused on the consumer sector and housing market. However, we have recently started to see a pick-up in business investment, while the construction sector enjoyed its best month in January for six and a half years. This culminated in the National Institute of Social and Economic Research forecasting the UK will grow by 2.5% this year – the fastest pace of expansion in Europe.

Overall, the FTSE All-Share Index returned 10.10% over the 12-month review period. In contrast, the Fund returned 10.45% (gross of tax and charges).

Turning to the portfolio, an overweight position in the media company ITV boosted returns. The free-to-air broadcaster's shares hit a record high after it delivered an upbeat outlook statement, with the ongoing rebound in TV advertising helping to drive returns. ITV scored particularly well according to our "financial strength" metrics. In addition, our holding in Next did well. The company, which performed particularly well over the Christmas period, announced it will return surplus cash to shareholders through special dividends and buybacks. Next scored highly on our measure of "value plus quality", which identifies cheap companies that make efficient use of their capital.

On the downside, we lost on an overweight position in the utility firm Centrica which was a disappointment. The stock declined 7% over the period, in part due to unfavourable news-flow over energy tariffs.

Over the period, we added Bank of Georgia, DCC Plc, Esure Group, Countrywide, Crest Nicholson Holdings, International Ferro Metals, Foxtons Group, Grafton Group, Greencoat UK Wind Plc, Partnership Assurance Group, Rank Group, Synthomer Plc, The Innovation Group, and The Unite Group. These were partly funded from the proceeds of the sale of Thames River, Xstrata, Promethean, SIG Plc, Sportingbet, Marstons, Mecom, Pearson, LXB Retail Properties, Fidessa, Fortune Oil, G4S and Goldenport.

Looking ahead, the outlook for the UK economy is certainly encouraging, with hopes the country is finally back on track. This, however, has left Bank of England Governor Mark Carney in something of a bind. He had promised to hold interest rates until unemployment reached 7%. This was thought to occur around 2016. However, the jobless rate came in at 7.1 at end-November. At the time of writing, though, the reading surprisingly ticked-up to 7.2%. This should put the prospect of any immediate rate-rise to bed for now.

As for markets, following the recent rally equities no longer look compellingly cheap relative to their longer-term history. That said, after three years of disappointments, hopes are building that 2014 could be the year that these positive earnings surprises finally arrive.

Distribution

XD dates:

Interim – 31 July	
Final – 31 January	

Payment dates:

Interim – 30 September	
Final – 31 March	

Ongoing charges figure

	31/01/14 %	31/01/13 %
Share Class A	0.50	0.50
Share Class B	0.50	0.51
Share Class C	1.50	1.51
Share Class F	1.25	1.25
Share Class G	1.00	1.00
Share Class I†	0.00	0.00
Share Class SW1	1.05	1.05

The ongoing charges figure (OCF) 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.

Fund performance

Net Asset Value

	NAV per share 31/01/14 (p)	NAV per share 31/01/13 (p)	NAV percentage change %
Share Class A	252.35	236.34	6.77
Share Class B	70.32	63.93	10.00
Share Class C	60.22	55.29	8.92
Share Class F	31.77	29.10	9.18
Share Class G	32.21	29.43	9.45
Share Class I	252.32	236.40	6.73
Share Class SW1	100.27	91.66	9.39

Classification of investments

	Fund value % 31/01/14	Fund value % 31/01/13
Financials	26.09	24.36
Oil & Gas	14.94	16.73
Consumer Goods	12.57	12.49
Industrials	10.62	9.27
Consumer Services	10.56	10.03
Basic Materials	7.51	10.25
Health Care	7.32	7.75
Telecommunications	6.99	5.80
Utilities	2.80	2.48
Technology	1.50	1.63
Corporate Bonds	0.01	0.01
Derivatives	(0.13)	0.09
Net other liabilities	(0.78)	(0.89)
Total net assets	100.00	100.00

Distribution

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 B, 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.

	31/03/14 (p)	30/09/13 (p)
Share Class A	3.0992	4.5096
Share Class B	0.8523	1.2208
Share Class C	0.4297	0.7729
Share Class F	0.2648	0.4422
Share Class G	0.3091	0.4853
Share Class I	3.7403	5.1141
Share Class SW1	0.9367	1.4871

Performance record

	01/02/13 to 31/01/14 %	01/02/12 to 31/01/13 %	01/02/11 to 31/01/12 %	01/02/10 to 31/01/11 %	01/02/09 to 31/01/10 %
UK Growth Fund	10.45	16.41	0.47	18.57	33.02
FTSE All-Share Index	10.10	16.30	(0.31)	18.13	33.24

Source: Financial Express for UK Growth Fund and FTSE All-Share Index after 1 February 2013, Morningstar between 1 February 2012 and 31 January 2013 and Lipper for previous periods.

Basis: For UK Growth Fund, percentage growth, total return Share Class C (gross of tax and charges) at 12.00pm.

Basis: For FTSE All-Share Index, revenue reinvested and gross of expenses at close of business.

Past performance is not a guide to future performance. The value of an investment and the revenue from it may go up and down and you may get back less than invested.

Portfolio information

Major holdings

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

Holding	Fund value % 31/01/14		Fund value % 31/01/13
HSBC	5.36	HSBC	7.02
Vodafone	5.03	BP	5.39
BP	4.74	Royal Dutch Shell 'A' Shares	4.92
Royal Dutch Shell 'A' Shares	4.01	Vodafone	4.49
Royal Dutch Shell 'B' Shares	3.33	GlaxoSmithKline	3.58

Please note: negative figures are shown in brackets.

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.