

Teachers Cautious Investment Fund

Annual Short Report for the year ended 30 June 2013

Fund Investment Objective and Policy

The objective of the Fund is to achieve a high level of income along with an element of capital growth. The Manager's policy to achieve this objective is to invest directly, or indirectly through investment in a range of collective investment schemes, so as to gain exposure to a diversified portfolio of fixed interest securities and equities.

Risk Profile and Attitude to Risk

You are only willing to take low levels of risk. You are prepared to accept the potential for only a small amount of capital growth for the greater security of your money. You understand that you could still lose money on a Low Risk investment.

You understand that Teachers Assurance will categorise its own investment funds as Low Risk where the fund typically invests: Up to 20% in equity markets (company shares) and the remainder in Gilts, Corporate Bonds and Cash.

Manager

Sovereign Unit Trust Managers Limited

Registered Office: Tringham House, Deansleigh Road, Bournemouth, BH7 7DT.

Authorised and regulated by the Financial Conduct Authority.

Entered on the Financial Services register, registration number 121998.

Registered in England and Wales number 2072297

Telephone 01202 435000

Investment Adviser

BlackRock Fund Managers Limited

12 Throgmorton Avenue, London EC2N 2DL

Authorised and regulated by the Financial Conduct Authority

Fund Facts

Launch Date: 10th February 2006

Accounting and distribution dates

	Fund accounting dates	Payment dates
Annual	30 June	31 August
Interim	31 December	28/29 February

Performance Record

Percentage change to 30 June 2013				
1 Year	3 Years	5 Years	10 Years	Since Launch
30.06.12 to 30.06.13	30.06.10 to 30.06.13	30.06.08 to 30.06.13	30.06.03 to 30.06.13	10.02.06 to 30.06.13
3.55%	18.23%	29.89%	n/a	28.20%

Figures are on a single pricing basis with net income reinvested or accumulated (Source: Teachers Assurance).

Past performance is not a guide to future performance. The value of units and the income generated can go down as well as up.

Total Expense Ratio

Expense Type	12 months to 30 June	
	2013	2012
Manager's Charge	1.25%	1.25%
Other Expenses	0.19%	0.21%
Total Expense Ratio	1.44%	1.46%

The total expense ratio is the ratio of the Fund's total operating costs, excluding custody transaction costs, to its average net assets.

The initial charge of the price of units purchased is 3%.

Price Record

Year	Highest single price per unit p	Lowest single price per unit p
2008 (from 01.07.08)	48.17	42.52
2009	50.08	41.47
2010	52.82	48.28
2011	54.51	50.90
2012	56.43	53.90
2013 (to 30.06.13)	59.40	55.83

Distribution Record

Year	Net income per unit distributed		Net distribution per £1,000 invested on 01.07.08	
	interim p	final p	interim £	final £
2009	0.5612	0.5147	12.02	11.03
2010	0.5469	0.4467	11.72	9.57
2011	0.4561	0.4605	9.77	9.87
2012	0.5033	0.4457	10.78	9.55
2013	0.0000	0.0000	0.00	0.00

Net Asset Values

Date	Total net assets £	Units in issue	Net asset value per unit p
30.06.11	53,910,097	103,567,407	52.05
30.06.12	68,310,298	125,259,933	54.53
30.06.13	64,461,756	113,930,899	56.58

Distribution Table for the period ended 30 June 2013

The distribution is made up as follows in pence per unit:

Group 1 Units purchased prior to 1 January 2013

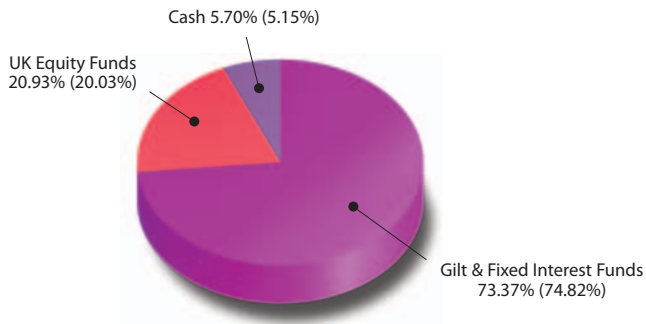
Group 2 Units purchased from 1 January 2013 to 30 June 2013

	Gross income	Tax deducted at 20%	Net income	Equalisation	Interest distribution payable	
					31.08.13	28.02.13
Group 1	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Group 2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Major Holdings

	%
BlackRock UK Gilts All Stocks Tracker Fund	27.42
BlackRock UK Equity Tracker Fund	20.93
BlackRock Corporate Bond Tracker Fund	17.14
BlackRock Overseas Corporate Bond Tracker Fund	16.62
BlackRock Index Linked Gilt Tracker Fund	12.19
BlackRock Institutional Sterling Liquidity Fund	5.49

Portfolio Information



The figures in brackets are the percentage holdings at 30 June 2012.

Fund Manager's Comments

Market Review

The rally in most risk asset classes which emerged in the second half of 2012 continued in the first half of the current year. However, there was significant dispersion across regional equity markets. Japanese equities rose by 25% in GBP terms, reflecting the more reflationary bias implemented by the Bank of Japan whereas emerging market equities declined, falling by 3%.

In fixed income, nominal yields rose, with the 10-year UK rate increasing from 1.8% to 2.4%. This followed the announcement made by the Federal Reserve (Fed) in the US indicating that it was likely that they would taper asset purchases later this year before ceasing altogether in 2014, which impacted global bond yields. Spreads over government bonds, including investment grade credit and high yield, also increased mildly. Overall, UK gilts declined by 3% while UK corporate bonds fell by 1.3% over the first half. In currency markets, the main theme was the weakness in emerging currencies and the Japanese Yen against other developed currencies. Sterling was weaker against the US dollar, declining by 7%.

A key influence on asset prices in the first half of 2013 was the policy background. The Fed announced that the downside risks to the economy had declined, and that it was likely that they would taper asset purchases later in the year before ceasing altogether in 2014. However, the first rate increase is still not expected to be implemented by the Fed until 2015. Elsewhere, the full extent of the policy easing in Japan became clearer and more credible. This explains the relative strength in Japanese equities and the weakness in the yen. The additional reflationary bias in what is still a relatively large economy may also have spilled over into other markets. In Europe, the bias in monetary policy in the UK and the Euro area is still towards additional easing. This low level of rates has continued to anchor bond yields at low levels, and hence has supported an ongoing shift into higher yielding fixed income assets and to some extent also into equities.

The global macro background did not change markedly in the first half of 2013. Indeed, there has not been a material shift in global growth since the middle of 2012. Global economic growth remains very subdued, but more recently around the same underlying trend. There was a slight slowdown in growth towards the end of the first quarter, which continued into the second quarter; this is now showing signs of reversing but the amplitude of these fluctuations remain very moderate - particularly in relation to the more dramatic shifts in 2008 - 2010. On a regional basis, the Euro area remained in recession but showed signs of improvement while UK growth was mildly positive. US economic activity held up despite the material tightening in fiscal policy and the Japanese economy continued to surprise on the upside with surveys suggesting on-going strength in hard-data. Emerging economies were the exception, as a weakening growth outlook across some key countries such as Brazil and China as well as idiosyncratic issues weighed on the region.

Fund Activity

The Teachers Cautious Investment Fund portfolio returned 1.28% over the six months ended 30 June 2013 versus a 1.22% return for the benchmark. However, the small outperformance is attributable to differences in the time of pricing for the Fund (midday) and the benchmark (close). The exposure to UK gilts and UK corporate bonds fell slightly whereas the exposure to overseas corporate bonds and UK equities increased over the period.

Investment Outlook

The market environment has so far remained consistent with BlackRock's economic roadmap. BlackRock expect global economic growth to remain subdued in the face of private sector deleveraging and restrictive fiscal policy. However, inflationary pressures remain subdued and therefore they expect monetary policy to remain very loose, providing support for risk assets. Credit spreads are in general appropriately priced, and equity valuations have normalized, representing fair value. The general theme is that risk premia on growth assets have declined on the market rally since the middle of 2012. However, there is little or no sign of "irrational exuberance" in market pricing across a wide range of assets.

Information for Investors

This document is an annual short report of the Teachers Cautious Investment Fund for the year ended 30 June 2013.

The Trustee (National Westminster Bank Plc) and Auditor (Mazars LLP Chartered Accountants) have completed their annual report to unitholders, which is contained in the Long Report. Copies of the Long Report and Accounts are available free of charge from the Manager on request.

The full Prospectus for each of the Sovereign and Teachers Funds and copies of the most recent Manager's Reports are available free of charge from the Manager on request.