

Ethical Bond Fund

Period:

For the six months ended 28 February 2013
www.fandc.com



Fund Manager:
 Rebecca Seabrook

Investment Objective

The Fund aims to maximise returns through investment primarily in fixed interest securities of an ethically screened and diversified list of companies. The Fund may also invest in warrants, collective investment schemes, money market instruments and derivatives.

Fund Facts

Lead Fund Manager	Rebecca Seabrook	
Deputy Fund Manager	Andrew Brown	
Sector	UK Corporate Bond	
Benchmark	Markit iBoxx Sterling Non-Gilts Index	
Launch date	1 October 2007	
Fund size	at 31 Aug 2012	£240.0m
	at 28 Feb 2013	£208.2m
	£1,000 lump sum,	
	£50 per month	
Minimum Investments	£50 per month	
Historic Yield	3.60%	
Share type	Income	
Number of stocks	222	
Initial charge	5.00%	
Annual charge	1.00%	
Ongoing charge	0.85%	
Account dates (interim)	28 February	
	(annual)	31 August
Distribution dates	31 Oct, 30 Apr	

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 President Obama won a second term and the fiscal cliff crisis was averted at the eleventh hour. This was backed-up by some more positive economic data from the US, while markets shrugged off some weaker data releases from within Europe. The star performers were the more market-sensitive areas such as subordinated financials and high yield, while issues from the peripheral countries of Europe continued to outperform. The rally continued into 2013 with a particularly strong January but then markets paused in February. The outcome of the Italian election served to disappoint as it meant uncertainty for the near term. Subsequently, high yield and investment grade spreads widened as focus shifted back to instability in Italy, as well as negative news flow from Spain.

Fund activity

Buys over the period included Nestle. This was a good quality long-dated sterling-denominated issue. The company rarely issues debt in sterling. We also purchased a Standard Life sterling-denominated subordinated debt new issue. This bond has a 30-year maturity and is callable in ten years. Standard Life is one of our favoured names in the subordinated insurance sector due to its improving credit fundamentals including a strengthening balance sheet, cutting of costs and ongoing revenue generation. We also purchased a new issue from Marks & Spencer which looked attractively priced versus the consumer sector. At the end of 2012 there was also a change in policy from the Committee of Reference regarding pharmaceuticals, so we added GlaxoSmithKline to the portfolio. We participated in a new senior issue from Standard Chartered, selling our existing euro-denominated holding of the name to fund the position. Towards the end of the period we reduced some of our overweight in housing associations by selling Circle Anglia, Affinity Sutton and Notting Hill Housing Association. We also reduced exposure to cyclical companies, for example Chorus and BHP, as well as some consumer names such as Danone, Kellogg and Tate & Lyle.

Outlook

Despite the rally in credit during the second half of 2012, we continue to see value in corporate bonds given the continued improvement in credit fundamentals, particularly in the banks sector. However, despite our positive view on valuations and a particularly strong technical backdrop, we remain wary of the wider macro environment as economic growth is likely to remain subdued as fiscal tightening and low credit growth continue to weigh on the economies of the western world. While we expect this growth to remain challenged, we believe central banks will keep rates at historically low levels helping to keep corporate default rates from rising materially, which will lend further support to credit fundamentals.

Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2013	1 Income (Net)	116.9	114.5	1.6815
2013	2 Income (Gross)	117.5	115.2	2.3975
2013	C Income (Net)	51.90	50.85	0.7780

Net Asset Value Record

Share Class	Share Type	Net Asset Value as at 31 August 2012 (pence)	Net Asset Value as at 28 February 2013 (pence)
1	Income (Net)	112.5	114.1
2	Income (Gross)	112.5	114.1
C	Income (Net)	-	50.64

Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Income (Net)	1.6815	Interim	30/04/2013
2 Income (Gross)	2.3975	Interim	30/04/2013
C Income (Net)	0.7780	Interim	30/04/2013

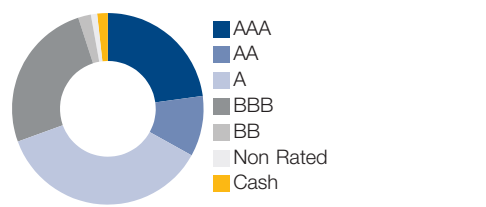
Top Ten Holdings

As at 31 August 2012	%
Kreditanstalt fur Wiederaufbau 6% 2028	4.44
European Investment Bank 6% 2028	2.37
European Investment Bank 4.75% 2018	2.05
European Investment Bank 3.875% 2037	1.30
National Grid 6.5% 2028	1.29
Bank of America 7% 2028	1.04
Virgin Media Secured Finance 5.5% 2021	1.00
European Investment Bank 8.75% 2017	0.99
Danone 3% 2022	0.98
International Bank for Reconstruction & Development 5.75% 2032	0.98
Total	16.44

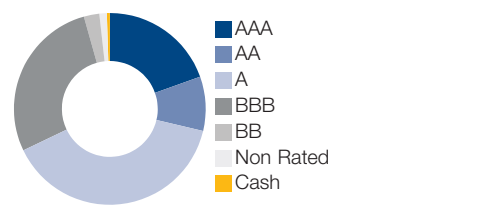
As at 28 February 2013	%
Kreditanstalt fur Wiederaufbau 6% 2028	3.22
European Investment Bank 4.75% 2018	1.83
European Investment Bank 3.875% 2037	1.59
European Investment Bank 5% 2039	1.16
Anglian Water Services Financing 5.837% 2022	0.98
BUPA Finance 7.5% 2016	0.97
National Grid Electricity Transmission 6.5% 2028	0.94
Southern Water Services Finance 6.192% 2029	0.92
HSBC 7% 2038	0.88
Network Rail Infrastructure 4.75% 2035	0.88
Total	13.37

Portfolio Breakdown

As at 31 August 2012

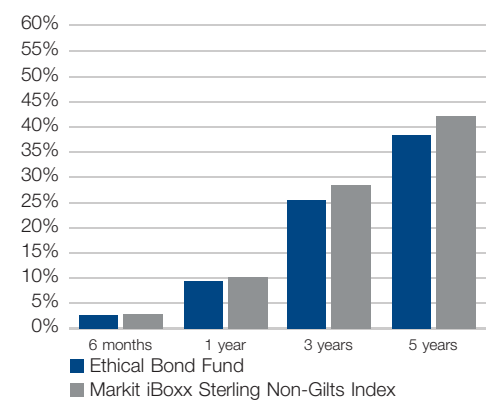


As at 28 February 2013

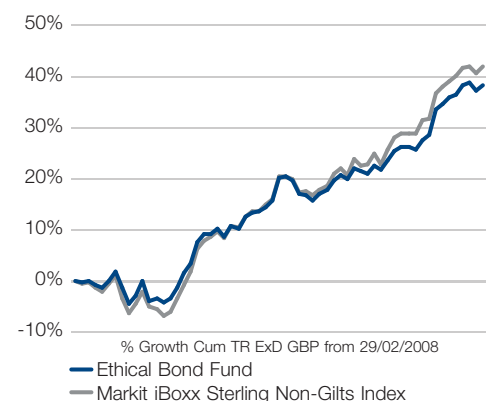


Fund Performance

As at 28 February 2013



As at 28 February 2013



Standardised Performance

29 Feb 2008 to 28 Feb 2009	28 Feb 2009 to 28 Feb 2010	28 Feb 2010 to 28 Feb 2011	28 Feb 2011 to 29 Feb 2012	29 Feb 2012 to 28 Feb 2013
-3.46%	14.23%	6.20%	7.96%	9.42%

Past Performance is not a guide to future performance.
Source: Lipper. Share Class 1 income shares. For past performance data for the full range of F&C Funds visit www.fandc.com

Risk Profile

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

Ethical Screening Risk: the screening out of sectors or companies on ethical grounds may mean the Fund is more sensitive to price swings than an equivalent unscreened fund.

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

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 085 2752

Regulated by the Financial Services Authority.

Investment Advisor

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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 Ethical Bond 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 Services Authority (FSA). Registered Office; Exchange House, London EC2A 2NY. Registered in England No. 2170242. A registered company, limited by shares. A copy of the Key Investor Document is available from www.fandc.com

Ethical Bond 04/13

