

Sovereign Ethical Fund

Interim Short Report for the period ended 31 August 2013

Fund Investment Objective and Policy

The objective of the Scheme is to achieve primarily capital growth. Investments are held with the aim of tracking the combined performance of 75% UK FTSE4Good Index and 25% FTSE Environmental Opportunities UK Index.

To be included in the UK FTSE4Good Index, companies need to demonstrate that they are working towards environmental management, climate change mitigation and adaptation, countering bribery, upholding human and labour rights, supply chain labour standards and that they are not tobacco producers, involved in manufacturing either whole, strategic parts, or platforms for nuclear weapon systems or that they manufacture whole weapons systems.

To be included in the FTSE Environmental Opportunities UK Index companies must have significant (at least 20% of their business) involvement in environmental markets including renewable & alternative energy, energy efficiency, water infrastructure & technologies, pollution control, waste management & technologies or environmental support services.

Risk Profile and Attitude to Risk

You are willing to take a higher level of risk. You accept that fluctuations in the value of your investment will be commonplace and that you need to remain flexible about when to cash in your plan. You understand that you have a greater chance of losing money than with a Low Risk or Medium Risk investment.

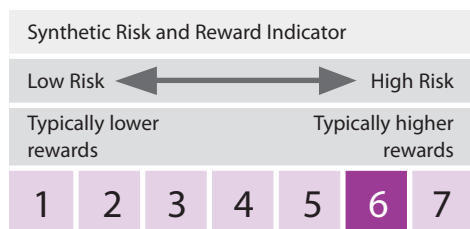
The Sovereign Ethical Fund is classified as Higher Risk. Teachers Assurance will categorise its own investment funds as Higher Risk where the fund typically invests: Between 90-100% in equity markets (company shares) and property with the remainder in cash.

You understand that our Higher Risk funds may carry specialist investment risk.

You understand that our Higher Risk funds may carry significant currency risk.

Synthetic Risk and Reward Indicator

- This indicator shows major risks associated with the Fund and is based on historical data of the preceding 5 years. It may not be a reliable indication to the future risk profile of the Fund.
- The risk category shown is not guaranteed and may change over time.
- The lowest category does not mean a risk free investment.



- The risk indicator for this Fund is set a 6 because the Fund is categorised with the risk of high volatility.
- Please note that this new rating does not change where the Fund appears in our own Risk & Reward scale.

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

Authorised date: 17th April 1989.

Accounting and Distribution Dates

	Fund accounting dates	Payment dates
Annual	28/29 February	30 April
Interim	31 August	31 October

Performance Record

Percentage change to 31 August 2013			
1 Year	3 Years	5 Years	10 Years
31.08.12 to 31.08.13	31.08.10 to 31.08.13	31.08.08 to 31.08.13	31.08.03 to 31.08.13
21.85%	48.97%	43.89%	52.83%

Figures are on a bid 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.

Fund Charges

	31.08.13	28.02.13
Ongoing Charges	1.85%*	1.79%

*Charges have been annualised.

The Ongoing Charges figure, which has replaced the Total Expense Ratio, is based on expenses for the 6 month period ended on the dates shown. This figure may vary from year to year. It excludes:

- Portfolio transaction costs, except in the case of an entry/exit charge paid by the UCITS when buying or selling units in another collective investment undertaking.

- Stamp Duty Reserve Tax of up to 0.5% payable on the purchase of UK equity assets and the transfer of units between investors.

The entry charge included in the price of units sold is 3%. This charge is reflected in the difference between the buying and selling price of units in the Fund.

Price Record

Year	Highest offer price per unit p	Lowest bid price per unit p
2008 (from 01.09.08)	103.40	64.32
2009	96.79	62.28
2010	112.60	88.31
2011	117.50	91.40
2012	121.10	100.90
2013 (to 31.08.13)	140.60	118.10

Distribution Record

Year	Net income per unit distributed		Net distribution per £1,000 invested on 01.09.08	
	final p	interim p	final £	interim £
2009	0.3998	0.7490	3.91	7.32
2010	0.1662	1.1320	1.62	11.07
2011	0.4834	1.2393	4.73	12.11
2012	0.7325	1.6565	7.16	16.19
2013	0.5443	1.7638	5.32	17.24

The distribution for the period ended 31 August 2013 is 1.7638p per unit net which will be automatically reinvested at the ruling offer price on 17 October 2013. A reinvestment statement and tax voucher are enclosed unless you are an Individual Savings Account (ISA) investor. ISA investors receive half-yearly statements in March and September which display all transactions effected during the period.

Net Asset Values

Date	Total net assets £	Units in issue	Net asset value per unit p
28.02.11	23,190,228	21,360,954	108.56
29.02.12	22,193,577	20,236,240	109.67
28.02.13	24,079,120	19,186,880	125.50
31.08.13	24,535,443	18,761,924	130.77

Distribution Table for the period ended 31 August 2013

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

Group 1 Units purchased prior to 1 March 2013

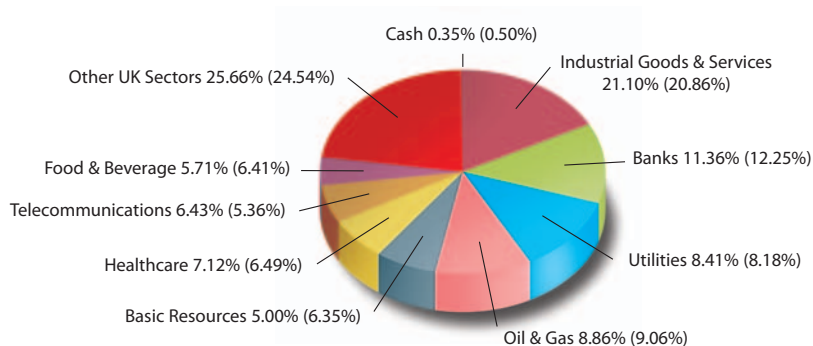
Group 2 Units purchased from 1 March 2013 to 31 August 2013

	Net income	Equalisation	Dividend distribution payable	
			31.10.13	30.04.13
Group 1	1.7638	0.0000	1.7638	0.5443
Group 2	1.1203	0.6435	1.7638	0.5443

Top Ten Holdings

	%
HSBC Holdings	6.27
Vodafone Group	5.00
GlaxoSmithKline	4.03
Royal Dutch Shell A	3.90
Johnson Matthey	2.89
Royal Dutch Shell B	2.78
Diageo	2.48
United Utilities Group	2.24
BG Group	2.08
Intertek Group	2.01

Portfolio Information



All sectors are represented by UK companies.

The figures in brackets are the percentage holdings at 28 February 2013.

Fund Manager's Comments

Economic and Market Review

The Sovereign Ethical Fund seeks to invest in a portfolio of UK stocks which have met ethical criteria, and has been managed on a passive basis since July 2005.

The broad based rally in most risk asset classes continued into the second half of the current year, albeit at a more moderate pace. However, there was significant dispersion between developed and emerging equity markets over this period. For example, US equities rose by 7% in GBP terms, whereas emerging market equities suffered, falling by 12% in GBP terms.

In fixed income, nominal yields rose, with the 10-year UK rate increasing from 2.0% to 2.8%. This followed the announcement made by the Federal Reserve (Fed) in May 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 2.3% while UK corporates were flat over the six month period. In currency markets, the main theme was the weakness in emerging currencies such as the Brazilian Real and Indian Rupee which fell over 15% against developed currencies. Sterling was stronger against the US dollar, rising by 2%.

A key influence on asset prices in this period 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. In Europe, the bias in monetary policy in the UK and the Euro area is still towards additional easing as is the case to a much stronger extent in Japan. This low level of central bank rates has continued to anchor bond yields at historically low yields despite the more recent increase, and hence has supported an ongoing shift into higher yielding fixed income assets and to some extent also into equities.

The global macro background has started to improve as we enter the second half of the year. Global economic growth remains 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, which is now showing signs of meaningfully reversing but the amplitude of these fluctuations remains moderate - particularly in relation to the more dramatic shifts in 2008 - 2010. On a regional basis, the Euro area has moved out of recession and the UK, in particular has rebounded significantly. US economic activity held up despite the material tightening in fiscal policy and the Japanese economy remained robust despite growing at a slightly slower rate than what we saw at the start of the year. 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 FTSE4Good UK Index includes companies taken from the FTSE UK All-Share Index. The socially responsible investment (SRI) benchmark aims to contribute to the development of responsible business practice by evolving the company selection criteria to encourage companies to strive to meet them. Criteria are based on internationally respected codes and principles, with new criteria subjected to widespread consultation and approved by an independent oversight committee.

During the period under review, the FTSE 4 Good UK Index was up 5.08% compared to the increase of 5.07% in the asset allocation of the Fund. There were two index reviews during this period. The first one occurred on the close of business 22 March 2013, where there were four additions and no deletions. The additions were Vectura Group, Belfair Group, Devro, and Cobham. The total turnover from additions and deletions was approximately 4.2%. The second index rebalance occurred on the close of business 21 June 2013. There were two deletions, RM and Mecom, and no additions. The total turnover from additions and deletions was approximately 0.3%.

The FTSE Environmental Opportunities UK Index includes companies taken from the FTSE UK All-Share Index, with business activities over a specified threshold covered in the FTSE Environmental Markets Classification System, which includes the six environmental sectors below:

Renewable & Alternative Energy

Energy Efficiency

Water Infrastructure & Technologies

Pollution Control

Waste Management & Technologies

Environmental Support Services

During the period under review, the FTSE Environmental Opportunities UK Index was up 11.34% compared to the increase of 11.39% in the asset allocation of the Fund. There were two index reviews during this period. The first one occurred on the close of business 22 March 2013, where there were no additions or deletions. The total turnover from additions and deletions was approximately 7.7%, which was driven by large weight changes in United Utilities Group and Intertek Group. The second index rebalance occurred on the close of business 21 June 2013. There was one deletion, Torotrak, and no additions. The total turnover from additions and deletions was approximately 8%.

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 loose, providing support for risk assets. Credit spreads are in general appropriately priced, and equity valuations have normalised, 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.

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Information for Investors

This document is an unaudited interim short report of the Sovereign Ethical Fund for the period ended 31 August 2013. Copies of the Long Report and Accounts are available free of charge from the Manager on request.

Additional Information Included in the Report

The Sovereign Ethical Fund is a UCITS fund. This means it is a fund that can be marketed in all countries in the European Union. UCITS stands for Undertaking of Collective Investments in Transferable Securities. Due to some regulatory changes and in accordance with the Collective Investment Scheme Sourcebook we are now required to include two new sections in the fund reports;

- 1) Ongoing Charges figure. This replaces the Total Expense Ratio provided previously.
- 2) Synthetic Risk and Reward Indicator. Please note that this new rating does not change where the fund appears in our own Risk & Reward scale.

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.

Teachers Assurance is a trading name of Teachers Provident Society Limited (TPS), an incorporated friendly society No. 372F. Authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority.

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