

Bond Income Fund

half-yearly short report for the period
1 January 2010 to 30 June 2010

Terms in *italics* are explained in the glossary at the end of this document.

fund objective

The Bond Income Fund aims to provide investors with income whilst seeking to maximise total return.

investment policy

The Bond Income Fund will comprise a well-diversified global portfolio primarily of debt *securities* (including *bonds* issued by corporations, governments, *supranational entities*; asset backed and mortgage backed *securities*), currencies and preference shares. Investment will be through *collective investment schemes* ("funds"), either funds managed or operated by the Authorised Corporate Director (ACD) or its associates, or via funds not managed or operated by the ACD or its associates. Subject to the above policy, *derivatives* for efficient portfolio management may be used.

risk profile

This Fund aims to maximise total return and therefore the level of income will fluctuate. It invests partly in high yielding corporate *bonds*. A high yield is the reward for lending money to companies that present a higher risk of default than those issuing lower yielding *bonds*. Defaulting can adversely affect the capital and income return from this Fund. This Fund includes some exposure to emerging markets, which tend to be less well regulated and more volatile than more established stock markets, so increasing the potential risk to investors.

Where the Fund invests in *securities* designated in a different currency to the Fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.

fund manager's report

Global *bond* markets posted positive returns for the first half of the year, with the Barclays Global Aggregate Bond

(Sterling Hedged) Index returning 4.1% in Sterling terms. The major government *bond* markets performed well, enjoying a strong rally during the second half of the period as debt problems in southern Europe led to a marked decline in investors' appetite for risk. Expectations that interest rates would remain low for the foreseeable future also provided support. The Bank of England, US Federal Reserve and European Central Bank all kept interest rates unchanged at record low levels during the period. In the UK, the FTSE British Government All Stocks Index returned 5.7% over the six months as a whole.

Corporate *bonds* initially continued to outperform government *bonds*, supported by the improving economic and corporate backdrop, but later came under pressure as the debt problems in Europe deepened. The riskier, high yield segment of the market and the financial sector were particularly affected. Nonetheless, corporate *bond* markets posted gains for the period and the Iboxx Sterling Corporates All Maturities Index returned 5.7% in Sterling terms.

The Bond Income Fund continued to perform well during the period, posting a positive return and finishing slightly ahead of the IMA Sterling Strategic Bond sector. All the holdings recorded gains over the six months, with the Old Mutual Corporate Bond Fund the main driver of performance. Manager Stephen Snowden has taken a very active approach, adding risk to the portfolio during bouts of market weakness and reducing risk as the market has recovered. Royal London's Corporate Bond mandate and Fidelity's MoneyBuilder Income Fund also performed very well. The Threadneedle High Yield Bond Fund was replaced with the Nordea 1 European High Yield Bond Fund towards the end of the period. The latter is run by an excellent, highly experienced team and has a slightly broader investment remit.

The mention of any particular stock should not be taken as a recommendation to buy or sell investments.

fund facts

The Fund offers income shares only.

Share Class	Fund accounting dates (ex-dividend dates)	Fund payment dates
Retail and Institutional	31 December	28 February
Retail and Institutional	31 March	31 May
Retail and Institutional	30 June	31 August
Retail and Institutional	30 September	30 November

The table below shows the net revenue per share in pence distributed for the calendar years indicated below. The Bond Income Fund was launched on 22 August 2003.

Calendar year	Pence per share
2005 - Retail	1.7888 pence
2005 - Institutional	1.9852 pence
2006 - Retail	1.7231 pence
2006 - Institutional	1.8312 pence
2007 - Retail	2.0219 pence
2007 - Institutional	2.1684 pence
2008 - Retail	2.0241 pence
2008 - Institutional	2.2297 pence
2009 - Retail	2.3690 pence
2009 - Institutional	2.4017 pence
2010 - Retail*	1.3992 pence
2010 - Institutional*	1.5287 pence

*include ex-dividend date of 30 June (payable on 31 August)

total expense ratio (TER)

The Total Expense Ratio is a figure representing all operating charges and expenses as a percentage of a fund's value. It includes the Annual Management Charge as well as all the regular administrative costs incurred by a fund.

Share class	TER as at 30 June 2010	TER as at 31 December 2009
Retail	2.02%	2.05%
Institutional	1.76%	1.82%

share price performance

The table below shows the highest and lowest share prices per share in pence for the calendar years indicated below.

Calendar year	Highest price	Lowest price
2005 - Retail	52.97 pence	50.84 pence
2005 - Institutional	53.15 pence	50.98 pence
2006 - Retail	53.18 pence	50.81 pence
2006 - Institutional	53.33 pence	50.94 pence
2007 - Retail	51.72 pence	48.99 pence
2007 - Institutional	51.85 pence	49.17 pence
2008 - Retail	49.21 pence	37.52 pence
2008 - Institutional	49.31 pence	37.62 pence
2009 - Retail	48.27 pence	36.61 pence
2009 - Institutional	48.44 pence	36.69 pence
2010 - Retail*	49.82 pence	46.67 pence
2010 - Institutional*	49.92 pence	46.76 pence

*to 30 June 2010

fund performance

Share class	Net asset value per share as at 30 June 2010	Net asset value per share as at 31 December 2009	% change
Retail	48.15 pence	47.06 pence	2.32 %
Institutional	48.26 pence	47.22 pence	2.20 %

Date	Net asset value of Fund	Shares in issue	Net asset value per share
31 December 2007:	£85,329,900		
Retail shares	£83,484,647	170,706,999	48.91 pence
Institutional shares	£ 1,845,253	3,765,575	49.00 pence
31 December 2008:	£59,357,200		
Retail shares	£58,226,327	151,512,200	38.43 pence
Institutional shares	£ 1,130,873	2,935,936	38.52 pence
31 December 2009:	£65,198,993		
Retail shares	£63,893,927	135,783,226	47.06 pence
Institutional shares	£ 1,305,066	2,763,864	47.22 pence
30 June 2010:	£60,913,542		
Retail shares	£59,686,159	123,964,100	48.15 pence
Institutional shares	£ 1,227,383	2,543,336	48.26 pence

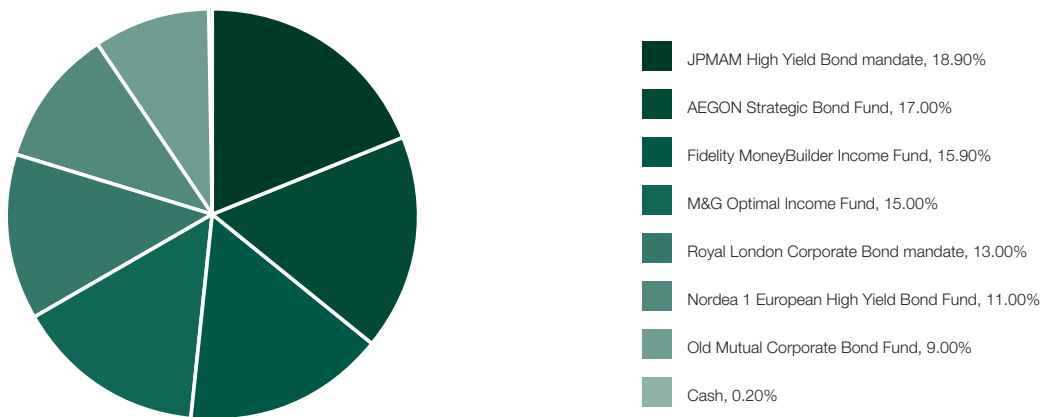
Percentage change to 30 June 2010	6 months	1 year	2 years	3 years	4 years	5 years	Since launch*
Fund performance - retail	4.36%	19.87%	13.48%	9.84%	11.60%	12.25%	23.35%

*from 22 August 2003

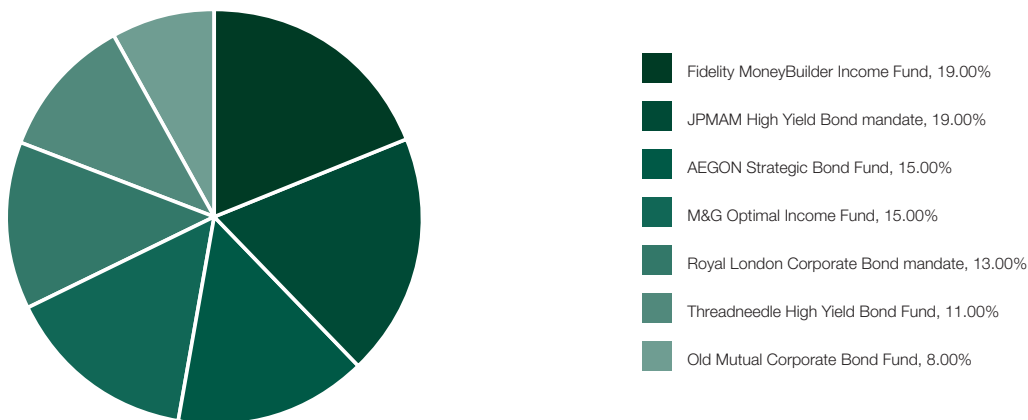
Source: Financial Express. Figures are calculated on a total return and single price basis, with net income reinvested in Sterling terms.

You should not view past performance as an indication of future performance. The value of investments and any income from them may fall as well as rise and you may not get back the amount you invested. Where a fund invests in securities designated in a different currency to the Fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.

target manager allocation as at 30 June 2010



target manager allocation as at 31 December 2009



major holdings

The table below shows the top ten holdings of the Fund. All holdings will be shown if there are less than ten holdings.

As at 30 June 2010	%	As at 31 December 2009	%
Skandia - High Yield Bond Fund mandate managed by JP Morgan	18.91	Skandia - High Yield Bond Fund mandate managed by JP Morgan	19.12
AEGON Strategic Bond Fund	17.03	Fidelity MoneyBuilder Income Fund	19.03
Fidelity MoneyBuilder Income Fund	16.05	AEGON Global Bond Fund	15.13
M&G Optima Income Fund	15.02	M&G Optima Income Sterling Bond Fund	15.11
Skandia - Corporate Bond Fund mandate managed by Royal London	12.99	Skandia - Corporate Bond Fund mandate managed by Royal London	12.91
Nordea 1 European High Yield Bond Fund	10.76	Threadneedle High Yield Bond Fund	11.11
Old Mutual Corporate Bond Fund	8.92	Old Mutual Corporate Bond Fund	7.91

glossary

Bonds – a type of fixed income investment. Can be issued by corporations (known as *Corporate bonds*) and governments (known as *Gilts*).

Collective investment schemes – are investments, such as OEICS or Unit Trusts, in which money from investors is pooled into a professionally managed fund.

Derivatives – *derivatives* are contracts between two or more parties whose value is derived from a related asset. The most common related assets include shares, fixed interest securities, commodities, currencies, interest rates and market indices. *Derivatives* can be used for speculative purposes but in investment funds they are generally used to reduce risk.

Securities – any investments that can be assigned a value and traded, such as *bonds* or shares, where there is a right to receive interest or dividends from the investment.

Supranational entity – beyond the borders or scope of any one nation. European Union which is a union of sovereign member states is an example of *supranational entity*.

report and accounts

Copies of the annual and half-yearly Long Form Report and Accounts are available on request. To contact us, please call 0844 892 0996* or write to:

Skandia Investment Management Limited
PO Box 23486
12 Blenheim Place
Edinburgh
EH7 5YB

depository

The independent Depository is the Royal Bank of Scotland plc, whose registered address is:

Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
United Kingdom
EH2 2YB

The Depository is authorised and regulated by the Financial Services Authority, whose address is:

Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

auditors

The Fund's independent auditors are KPMG Audit plc, whose registered address is:

KPMG Audit plc
8 Salisbury Square
London
EC4Y 8BB

Authorised Corporate Director (ACD)

The Bond Income Fund is managed by Skandia Investment Management Limited, which is the Authorised Corporate Director (ACD) of the Fund. Its registered address is:

Skandia Investment Management Limited
Skandia House
Portland Terrace
Southampton
SO14 7EJ

Skandia Investment Management Limited is a company limited by shares, incorporated in England and Wales and authorised and regulated by the Financial Services Authority.

how to contact us

If you have any questions please contact us or call your financial adviser. Our offices are open on business days between 8.30am and 5.30pm.

To contact us, please call 0844 892 0966* or write to:

Skandia Investment Management Limited
PO Box 23486
12 Blenheim Place
Edinburgh
EH7 5YB

If you would like general information on the funds or on Skandia Investment Management Limited, you can visit our website:

www.skandiainvestmentmanagement.com

**Calls are charged at a rate of 3p per minute from a BT land line. Customers who have telephone services with other providers may have different call charges. Calls from the mobiles or internet services may be considerably higher.*

Financial Express and Skandia Investment Management Limited have done all they reasonably can to ensure information contained in this report is accurate. However, neither can accept any responsibility for decisions made by investors nor for any loss investors may suffer as a result of those decisions.

www.skandiainvestmentmanagement.com

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Skandia Investment Management Limited is registered in England & Wales under number 4227837. Registered Office: Skandia House, Portland Terrace, Southampton, SO14 7EJ, United Kingdom. Authorised and regulated by the Financial Services Authority. FSA Register number 208543. VAT number 386 1301 59.

SK5484/EF//August 2010

0000N