

## Period:

For the six months ended 30 June 2013  
[www.fandc.com](http://www.fandc.com)



### Joint Fund Managers:

Keith Patton and  
 Rebecca Seabrook

## Investment Objective

The fund aims to produce a high income by investing in corporate bonds and other fixed interest securities. It may also invest in fixed interest securities issued by Governments and derivative contracts.

## Fund Facts

Joint Fund managers	Keith Patton and Rebecca Seabrook	
Sector	£ Strategic Bond	
Benchmark	IMA £ Strategic Bond Sector	
Launch date	08 February 2000	
Fund size	at 31 Dec 2012	£220.67m
	at 30 June 2013	£212.90m
Minimum Investments	£1,000 lump sum, £50 per month	
	4.7% (1 Acc), 4.7% (1 Inc), 5.2% (2 Acc), 5.1% (2 Inc), 5.8% (4 Acc), 5.9% (4 Inc), 5.3% (C Acc), 5.2% (C Inc)	
Distribution Yield	1.00%	
Share type	Accumulation/Distribution	
Number of stocks	212	
Initial charge	5.00%	
Annual charge	1.00%	
	1.12% (1 Acc), 1.18% (1 Inc), 0.57% (2 Acc), 1.07% (2 Inc), 0.06% (4 Acc), 0.08% (4 Inc), 0.91% (C Acc), 0.97% (C Inc)	
Ongoing charge		
Account dates	(Interim)	30 June
	(annual)	31 Dec
Distribution dates	Last working day of each month	

## Market Review

The first half of the period was dominated by generally poor news flow from Europe, which triggered volatility across the investment markets. However, this was set against some positive macro-economic trends in the US and a number of other countries. The sterling credit market saw yield spreads tighten but this masked volatility in January and February. New issuance continued to be met by strong investor demand. However, UK corporate bonds posted negative total returns over the second quarter as risk assets reacted nervously to the Federal Reserve Chairman Bernanke's suggestion that the quantitative easing initiative may begin to be tapered. Towards the end of June the market appeared to find some stability and risk asset valuations, including credit, improved somewhat. The market was also lent some support by relatively low default rates.

## Fund Strategy

In the first half of the six months we moved to lessen the Fund's exposure to European high yield, which included reducing the position in Fiat Finance. We participated in new issues of bonds from telecommunications infrastructure provider Arqiva Financing and global reinsurer Swiss Re. In the latter half of the period we purchased Scottish Widows and sold down further amounts of European cable company Ziggo. May was a busy month for new issues in the high yield market, and we participated in Gestamp, Wepa Hygiene, IDH Finance and William Hill.

## Market Outlook

We remain cautiously optimistic about corporate bonds for the remainder of 2013 as although the economic backdrop remains challenging, with below average growth and marginally weakening fundamentals, this continues to be a positive environment for corporate bonds. Added to this is the technical support that has been the overriding driver of the spread tightening in recent months as investors continue to put cash into the market. Hence, we expect that the current market falls will prove no more than a healthy shakeout after an extended rally and view the weakness as an opportunity to add selectively to the asset class.

Given concern about the scaling back of quantitative easing in the US and a possible credit crunch in China, investment markets have been sensitive to fluctuations in sentiment. From a spread valuation perspective high yield bonds continue to look attractive with the appeal lying mainly in the income they generate and their relatively low interest rate sensitivity. We believe austerity policies will continue to dampen economic growth and central banks, including the ECB, will be obliged to provide ongoing support to markets for as long as necessary. This suggests that interest rates will remain low for some time, thus supporting demand for credit generally.

Overall we believe there are positives in the outlooks for both the investment grade and high yield markets. Thus as a credit portfolio with the flexibility to selectively take advantage of the opportunities across both markets, we are optimistic about the outlook for the Fund.

## Summary Fund Performance

Year	Share Class	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2013	1 Accumulation	187.0	181.6	3.9683
2013	1 Income	112.2	107.0	2.3022
2013	2 Accumulation	174.4	169.4	-
2013	2 Income	111.9	106.8	2.3443
2013	4 Accumulation	206.0	200.2	5.3802
2013	4 Income	113.1	108.0	2.8044
2013	C Accumulation	56.53	54.91	1.2014
2013	C Income	55.27	52.74	1.1644

## Net Asset Value Record

Share Class	Share Type	Net Asset Value as at 31 December 2012 (pence)	Net Asset Value as at 30 June 2013 (pence)
1	Accumulation	182.8	181.0
1	Income	109.8	106.4
2	Accumulation	170.2	168.9
2	Income	109.5	106.1
4	Accumulation	200.7	199.6
4	Income	110.7	107.3
C	Accumulation	55.27	54.75
C	Income	54.06	52.42

## Distributions for the period

Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Accumulation	0.6292	Interim	31/07/2013
1 Income	0.3318	Interim	31/07/2013
2 Income	0.3383	Interim	31/07/2013
4 Accumulation	0.9879	Interim	31/07/2013
4 Income	0.4094	Interim	31/07/2013
C Accumulation	0.1800	Interim	31/07/2013
C Income	0.1693	Interim	31/07/2013
1 Accumulation	0.6914	Interim	30/06/2013
1 Income	0.4048	Interim	30/06/2013
2 Income	0.4119	Interim	30/06/2013
4 Accumulation	0.9101	Interim	30/06/2013
4 Income	0.4920	Interim	30/06/2013
C Accumulation	0.2214	Interim	30/06/2013
C Income	0.2118	Interim	30/06/2013

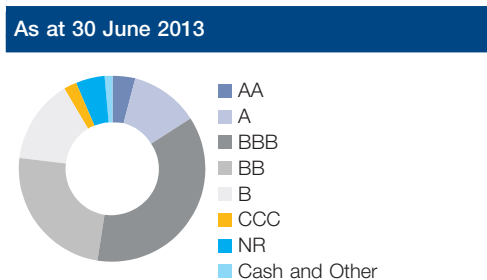
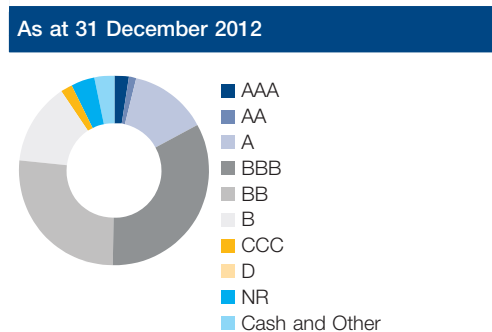
Share Class (Income/Accumulation)	Distribution paid / payable	Distribution period	Distribution Date
1 Accumulation	0.5575	Interim	31/05/2013
1 Income	0.3258	Interim	31/05/2013
2 Income	0.3282	Interim	31/05/2013
4 Accumulation	0.7721	Interim	31/05/2013
4 Income	0.4185	Interim	31/05/2013
C Accumulation	0.1854	Interim	31/05/2013
C Income	0.1784	Interim	31/05/2013
1 Accumulation	0.4750	Interim	30/04/2013
1 Income	0.2792	Interim	30/04/2013
2 Income	0.2872	Interim	30/04/2013
4 Accumulation	0.6563	Interim	30/04/2013
4 Income	0.3571	Interim	30/04/2013
C Accumulation	0.1542	Interim	30/04/2013
C Income	0.1485	Interim	30/04/2013
1 Accumulation	0.7247	Interim	31/03/2013
1 Income	0.4296	Interim	31/03/2013
2 Income	0.4388	Interim	31/03/2013
4 Accumulation	0.9306	Interim	31/03/2013
4 Income	0.5092	Interim	31/03/2013
C Accumulation	0.1821	Interim	31/03/2013
C Income	0.1827	Interim	31/03/2013
1 Accumulation	0.8905	Interim	28/02/2013
1 Income	0.5310	Interim	28/02/2013
2 Income	0.5399	Interim	28/02/2013
4 Accumulation	1.1232	Interim	28/02/2013
4 Income	0.6182	Interim	28/02/2013
C Accumulation	0.2783	Interim	28/02/2013
C Income	0.2737	Interim	28/02/2013

## Top Ten Holdings

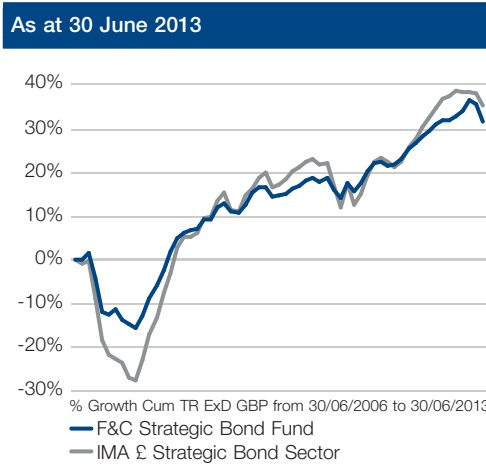
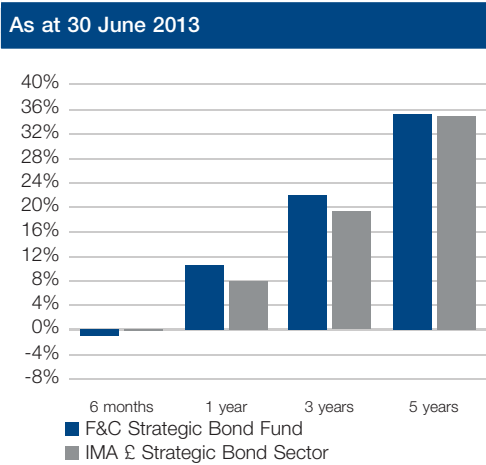
As at 31 December 2012	%
Tesco Property Finance '2' 6.0517% 2039	1.61
Paragon 3.729% 2017	1.54
Southern Gas Network (FRN) 0.81938% 2015	1.31
Rexam 6.75% 2067	1.25
RSA Insurance 9.375% 2039	1.25
BUPA Finance 6.125% Perpetual	1.12
ABN AMRO Bank 4.875% 2019	1.12
BNP Paribas 5.945% Perpetual	1.08
Provident Financial 8% 2019	1.08
Premiertel 6.175% 2032	1.07
<b>Total</b>	<b>12.43</b>

As at 30 June 2013	%
UK Treasury 3.75% 2020	2.72
Paragon 3.729% 2017	2.01
Tesco Property Finance '2' 6.0517% 2039	1.61
Southern Gas Network (FRN) 0.79438% 2015	1.41
RSA Insurance 9.375% 2039	1.25
Corsair Jersey (FRN) 5.094% 2017	1.21
BNP Paribas 5.945% Perpetual	1.18
Provident Financial 8% 2019	1.14
ABN AMRO Bank 4.875% 2019	1.13
GMAC International Finance 7.5% 2015	1.12
<b>Total</b>	<b>14.78</b>

## Portfolio Breakdown



Fund Performance



Standardised Performance

30 June 2008 to 30 June 2009	30 June 2009 to 30 June 2010	30 June 2010 to 30 June 2011	30 June 2011 to 30 June 2012	30 June 2012 to 30 June 2013
-13.09%	27.79%	9.80%	0.40%	10.59%

Past Performance is not a guide to future performance.

Source: Lipper, percentage growth total return (UK net tax), mid to mid, with no initial charges. Share Class 1 accumulation shares. For past performance data for the full range of F&C Funds visit [www.fandc.com](http://www.fandc.com)

Risk Profile

- Credit Risk:** receiving income due from debt instruments is dependant upon the provider's ability to pay.
- 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 III, which include this fund are available free of charge on request to the ACD or can be downloaded from our website [www.fandc.com](http://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 Conduct Authority.

### Investment Advisor

F&C Managers Limited, Exchange House, Primrose Street, London EC2A 2NY

### Depository

State Street Trustees Limited, 20 Churchill Place, London E14 5HJ

### Administrator and Registrar

International Financial Data Services (UK) Limited, IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS

### 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 Strategic Bond Fund is a sub-fund of the F&C Investment Funds ICVC III (IC105). 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 Conduct Authority (FCA). Registered Office; Exchange House, London EC2A 2NY. Registered in England No. 2170242. A registered company, limited by shares. A copy of the Key Investor Information Document is available from [www.fandc.com](http://www.fandc.com).

Strategic Bond 08/13

