

**SCOTTISH WIDOWS**

*official pensions and investment provider*



# Scottish Widows UK and Income Investment Funds ICVC

Annual Long Report  
for the year ended  
28 February 2012

# Scottish Widows UK and Income Investment Funds ICVC

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## The Company

Scottish Widows UK and Income Investment Funds ICVC  
15 Dalkeith Road  
Edinburgh  
EH16 5WL

Incorporated in Great Britain under registered number IC000165.  
Authorised and regulated by the Financial Services Authority.

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## Authorised Corporate Director (ACD), Authorised Fund Manager and Registrar

Scottish Widows Unit Trust Managers Limited

### *Registered Office:*

Charlton Place  
Andover  
SP10 1RE

### *Head Office:*

15 Dalkeith Road  
Edinburgh  
EH16 5WL

Authorised and regulated by the Financial Services Authority and a member of the Investment Management Association.

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## Investment Adviser

Scottish Widows Investment Partnership Limited

### *Registered Office:*

33 Old Broad Street  
London  
EC2N 1HZ

### *Business Address:*

Edinburgh One  
60 Morrison Street  
Edinburgh  
EH3 8BE

Authorised and regulated by the Financial Services Authority and a member of the Investment Management Association.

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## Depository

State Street Trustees Limited

### *Registered Office:*

20 Churchill Place  
London  
E14 5HJ

### *Head Office:*

525 Ferry Road  
Edinburgh  
EH5 2AW

Authorised and regulated by the Financial Services Authority.

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## Independent Auditors

PricewaterhouseCoopers LLP

Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

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\*Collectively, these comprise the Authorised Corporate Director's Report.

SafetyPlus® is a registered trademark of Scottish Widows plc.

## About the Company

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Welcome to the Annual Long Report for the Scottish Widows UK and Income Investment Funds ICVC (the "Company") covering the year ended 28 February 2012 (the "Report"). The Authorised Corporate Director (the "ACD") and Authorised Fund Manager of the Company is Scottish Widows Unit Trust Managers Limited, a private company limited by shares which was incorporated in England and Wales on 19 April 1982. Its ultimate holding company is Lloyds Banking Group plc ("Lloyds"), which is incorporated in Scotland.

The Company is an Open-Ended Investment Company ("OEIC") with variable capital, incorporated in Great Britain under registration number IC000165 and is authorised and regulated by the Financial Services Authority (the "FSA") under regulation 12 of the Open-Ended Investment Companies Regulations 2001 (SI2001/1228) ("the OEIC Regulations"), with effect from 15 March 2002.

Shareholders are not liable for the debts of the Company.

The Company is a UCITS scheme which complies with Chapter 5 of the Financial Services Authority Collective Investment Schemes sourcebook (the "COLL sourcebook").

The Company is structured as an umbrella fund, in that the scheme property of the Company is currently divided among 11 sub-funds, each with different investment objectives. The investment objective and policies and a review of the investment activities during the year are disclosed in the Financial Statements of the individual sub-funds. New sub-funds may be established from time to time by the ACD with the approval of the FSA and Depositary.

Each sub-fund would, if it were a separate investment company with variable capital, also be a UCITS scheme which complies with Chapter 5 of the COLL sourcebook.

Each sub-fund will have a specific portfolio of securities to which that sub-fund's assets and liabilities are attributable. So far as investors are concerned each sub-fund will generally be treated as a separate entity. However, creditors of the Company may look to all assets of the Company for payment regardless of the sub-fund in respect of which that creditor's debt has arisen. Individual sub-funds are not "ring-fenced" and, in the event of a sub-fund being unable to meet its liabilities, assets may be re-allocated to and from other sub-funds if it is necessary to do so to satisfy any creditor proceeding against the Company. In the event that any assets are re-allocated, the ACD will advise shareholders in the next succeeding annual or interim report to shareholders.

The Financial Statements have been prepared on an aggregate basis including the 11 sub-funds in existence during the year covered by this Annual Long Report, as permitted by the OEIC Regulations and the COLL sourcebook.

As required by the OEIC Regulations and the COLL sourcebook, information for each of the 11 sub-funds has also been included.

The Report of the Authorised Corporate Director is defined as those items highlighted in the contents page in accordance with paragraph 4.5.9 of the COLL sourcebook.

During the year there have been a number of changes to the Company. These changes are detailed in the section Prospectus changes below.

### Prospectus changes

During the year and up to the date of this report, the following changes were made to the Company and therefore the following changes were reflected in the Prospectus of Scottish Widows UK and Income Investment Funds ICVC:

- With effect from 26 April 2011, Scottish Widows Investment Partnership Limited ("SWIP") took over the management of the high yield bond assets for the High Income Bond Fund in accordance with the Fund's investment objective and policy. Management of this part of the Fund was previously delegated to Mackay Shields LLC. The change means that from this date SWIP manages all of the cash and investments of the High Income Bond Fund;
- The wording in the Prospectus has been updated in accordance with regulations and the FSA Rules in the sections relating to Conflicts of Duty or Interests, Best Execution and Client Order Handling and details of the Fund Accountant have been inserted;
- The Prospectus was updated on 1 November 2011 to show a reduction in the rate of depositary's fee from 0.008% to 0.0072%; and
- The Prospectus was updated on 1 November 2011 to show the current rates of custody charges and auditors fees applicable to each fund and the dilution adjustment dates and figures have been updated.

A copy of the Prospectus is available on request.

### Important Information

Amendments to the UK Regulations governing Open-Ended Investment Companies and the FSA's Collective Investment Schemes sourcebook which require limitation of liability between sub-funds of the Company came into effect on 21 December 2011. The new segregated liability regime is mandatory and it is our intention to apply to the FSA within the transitional period for approval to amend the Company's Prospectus and Instrument of Incorporation which will provide for this change. The transitional implementation period is open until 20 December 2013.

## Statement of the Authorised Corporate Director's Responsibilities

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The Financial Services Authority Collective Investment Schemes sourcebook (the "COLL sourcebook") requires the Authorised Corporate Director ("ACD") to prepare Financial Statements for each accounting period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the financial affairs of the Company and of its net revenue and the net capital losses for the year.

In preparing the Financial Statements the ACD is required to:

- comply with the Prospectus, the Statement of Recommended Practice (IMA SORP) for Financial Statements of Authorised Funds issued in October 2010, the Instrument of Incorporation, United Kingdom Generally Accepted Accounting Practice and applicable accounting standards;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records and to manage the Company in accordance with the COLL sourcebook, the Instrument of Incorporation and the Prospectus. The ACD is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The ACD is responsible for ensuring that, to the best of their knowledge and belief, there is no relevant audit information of which the auditors are unaware. It is the responsibility of the ACD to take all necessary steps as a director to familiarise themselves with any relevant audit information and to establish that the auditors are aware of that information.

The ACD is also responsible for the maintenance and integrity of the website on which the financial statements and auditors' report are published and distributed electronically. Please note that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Report of the Authorised Corporate Director

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In accordance with the requirements of the COLL sourcebook as issued and amended by the Financial Services Authority, we hereby certify the Report on behalf of Scottish Widows Unit Trust Managers Limited, the Authorised Corporate Director.

**N. Machray**  
**Director**  
25 April 2012

# Statement of Depositary's Responsibilities in respect of the Scheme and Report of the Depositary to the Shareholders of the Scottish Widows UK and Income Investment Funds ICVC

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for the year ended 28 February 2012

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Scheme Sourcebook ("the COLL sourcebook"), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) ("the OEIC Regulations") and the Company's Instrument of Incorporation, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and borrowing powers of the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's revenue in accordance with the COLL sourcebook and, where applicable, the OEIC Regulations and the Instrument of Incorporation of the Company; and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

**State Street Trustees Limited**

27 April 2012

# Independent Auditors' Report to the Shareholders of

## Scottish Widows UK and Income Investment Funds ICVC ("the Company")

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for the year ended 28 February 2012

We have audited the Financial Statements of Scottish Widows UK and Income Investment Funds ICVC for the year ended 28 February 2012 which comprise the Aggregated Statement of Total Return, the Aggregated Statement of Change in Net Assets Attributable to Shareholders, the Aggregated Balance Sheet and Related Notes and for each of the Company's sub-funds, the Statement of Total Return, the Statement of Change in Net Assets Attributable to Shareholders, the Balance Sheet, the Related Notes and, the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

### Respective responsibilities of the Authorised Corporate Director and Auditors

As explained more fully in the Authorised Corporate Director's Responsibilities Statement the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds at 28 February 2012 and of the net revenue / (expenses) and the net gains/(losses) of the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

### Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP  
Chartered Accountants & Statutory Auditors  
Edinburgh  
21 May 2012

The Financial Statements are published on [www.scottishwidows.co.uk](http://www.scottishwidows.co.uk) which is a website maintained by Scottish Widows plc on behalf of Scottish Widows Unit Trust Managers Limited. The maintenance and integrity of the website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the presentation and dissemination of the Financial Statements may differ from legislation in their jurisdiction.

## Aggregated Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(63,018)		474,663
Revenue	3	322,793		302,863	
Expenses	4	(84,594)		(81,992)	
Finance costs: Interest	6	(23)		(137)	
Net revenue before taxation		238,176		220,734	
Taxation	5	(187)		(106)	
Net revenue after taxation			237,989		220,628
<b>Total return before distributions</b>			<b>174,971</b>		<b>695,291</b>
Finance costs: Distributions	6		(253,789)		(237,554)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(78,818)</b>		<b>457,737</b>

## Aggregated Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>7,207,351</b>		<b>6,577,148</b>
Amounts receivable on creation of shares	1,075,666		776,513	
Less: Amounts payable on cancellation of shares	(688,942)		(750,371)	
		386,724		26,142
Dilution levy charged		2,193		2,076
Stamp duty reserve tax		(451)		(799)
Change in net assets attributable to shareholders from investment activities		(78,818)		457,737
Retained distribution on accumulation shares		163,978		144,688
Unclaimed distributions		254		359
<b>Closing net assets attributable to shareholders</b>		<b>7,681,231</b>		<b>7,207,351</b>

*Notes to the Aggregated Financial Statements are on pages 8 to 14.*



## Aggregated Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		<u>7,370,572</u>	<u>7,044,006</u>
Debtors	8	173,945	224,815
Cash and bank balances		<u>216,111</u>	<u>55,463</u>
<b>Total other assets</b>		<u>390,056</u>	<u>280,278</u>
<b>Total assets</b>		<u>7,760,628</u>	<u>7,324,284</u>
<b>Liabilities</b>			
Derivative liabilities		<u>(4,556)</u>	<u>(3,786)</u>
Creditors	9	(57,628)	(95,407)
Bank overdrafts		-	(615)
Distribution payable on income shares		<u>(17,213)</u>	<u>(17,125)</u>
<b>Total other liabilities</b>		<u>(74,841)</u>	<u>(113,147)</u>
<b>Total liabilities</b>		<u>(79,397)</u>	<u>(116,933)</u>
<b>Net assets attributable to shareholders</b>		<u>7,681,231</u>	<u>7,207,351</u>

*Notes to the Aggregated Financial Statements are on pages 8 to 14.*

# Notes to the Aggregated Financial Statements

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as at 28 February 2012

## 1. Accounting basis and policies

### (a) Basis of accounting

The Financial Statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the Investment Management Association (IMA) in October 2010 (the IMA SORP (2010)), and United Kingdom Generally Accepted Accounting Practice.

### (b) Aggregation

The Aggregated Financial Statements represent the sum of the individual sub-funds within the umbrella company. Further analysis of the distribution and the net asset position can be found within the Financial Statements of the individual sub-funds.

### (c) Revenue

Dividends on equities and preference stocks are recognised when the securities are quoted ex-dividend. Dividends from Real Estate Investment Trusts ('REITs') are recognised as distributable revenue when the securities are quoted ex-dividend.

Dividends received from UK REITs are split into PID (Property Income Distributions) and Non-PID components for tax purposes. Revenue arising from UK REITs tax-exempt rental business is colloquially known as PID revenue and is taxable in the hands of the Fund. A UK REIT may also carry out activities that give rise to taxable profits and gains. It is from these that the REIT will make a Non-PID distribution. These are treated for tax purposes in the same way as dividends from normal UK companies.

Interest on deposits and fixed interest securities are recognised as earned. Revenue from debt securities is accounted for on an effective yield basis.

Revenue from other authorised collective investment schemes are recognised when the investments are quoted ex-dividend.

Where accumulation units or shares are held in another authorised collective investment scheme, the accumulation of revenue relating to the holding is recognised in the revenue account including any withholding taxes but excluding tax credits.

Equalisation on distributions received is deducted from the cost of the investment.

Underwriting commission is recognised when the issue takes place. Where the sub-fund is required to take up some or all of the shares underwritten, an appropriate proportion of the commission earned is deducted from the cost of those shares.

Special dividends may be treated as repayments of capital or as revenue depending on the facts of the particular case.

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue and where applicable, is included in the distribution. In the case of enhanced scrip dividends, the value of the enhancement is treated as capital.

Revenue is allocated when earned in the proportion of the Net Asset Value of each share class to the total Net Asset Value of the sub-fund.

In the current period currency gains or losses arising from the repatriation of foreign dividends or tax reclaims are still treated as taxable and therefore the Overseas Taxable Revenue line in the Revenue note may be negative.

### (d) Expenses

The underlying sub-funds may currently have up to four share classes; Class A, Class B, Class C and Class X. Each share class suffers a different Authorised Corporate Director ("ACD") fee. Consequently the level of expenses attributable to each share class will differ.

All expenses other than those relating to the purchase and sale of investments are included in expenses in the Statement of Total Return.

Stamp duty reserve tax, where payable, is deducted as an expense from the capital of the sub-fund.

The ACD's annual fee is charged to the revenue property of the respective sub-funds, with the exception of High Income Bond, High Reserve, UK Equity Income and Strategic Income where all or part of the ACD can be charged to capital. Rebates are applied where ACD fees are incurred by the underlying investments. Internal management fee rebates (rebates from Lloyds Banking Group companies) are offset against the ACD periodic charge, meaning in some circumstances the accrued ACD fee will be negative due to rebates received.

Expenses incurred in respect of, or attributable to, the sub-funds as a whole are allocated when incurred in the proportion of the Net Asset Value of each share class to the total Net Asset Value of the sub-fund.

### (e) Distribution policy

The revenue from the sub-fund's investments accumulates during each accounting period. If revenue exceeds expenses during the period, the net revenue of the sub-funds is available for distribution (or re-investment) at share class level to the shareholders in accordance with the OEIC Regulations. If expenses exceed revenue during the period, the net revenue shortfall may be funded from capital.

It is the policy of the following sub-funds to make interest distributions:

Corporate Bond Fund, Gilt Fund, High Income Bond Fund and Strategic Income Fund.

All other sub-funds make dividend distributions.

## (f) Taxation

Provision is made for corporation tax at the current rate on the excess of taxable income over allowable expenses. UK dividend revenue is disclosed net of any related tax credit. Overseas dividends continue to be disclosed gross of any foreign tax suffered, the tax element being separately disclosed in the taxation note.

Deferred taxation is provided on all timing differences that have originated but not reversed by the Balance Sheet date other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Deferred tax assets are only recognised to the extent that it is regarded more likely than not that there will be taxable profits against which the reversal of underlying timing differences can be offset.

## (g) Valuation of investments

The listed investments of the Company have been valued at market value on 28 February 2012, excluding any accrued interest in the case of fixed interest securities, at the following times (GMT) 8:00am for Corporate Bond Fund, Environmental Investor Fund, Ethical Fund, Gilt Fund, High Reserve Fund, SafetyPlus® Fund, Strategic Income Fund, UK Equity Income Fund, UK Growth Fund, UK Select Growth Fund and 2:00pm for High Income Bond Fund. Market value is defined by the SORP as fair value, which generally is the bid value of each security. Where applicable, illiquid, unlisted, delisted, unapproved or suspended securities are based on the ACD's assessment of their net realisable value.

Open forward currency contracts are shown in the Portfolio Statement and are valued using contracted forward rates. The net gains/(losses) are reflected in "Forward foreign exchange currency contracts" in Net capital gains.

Open Options Contracts are shown in the Portfolio Statement and are valued using broker prices. The net gains/(losses) are reflected in "Option Contracts" in Net capital gains.

Investment asset prices are reviewed regularly by the ACD to identify those assets where the price has not moved since the previous review period. This review provides an initial indication that the market for each identified asset may be inactive. These assets are then reviewed by an internal committee who may identify an alternative price source for them. On conclusion that a particular asset is illiquid, the ACD will identify an alternative pricing method. The ACD will first identify if an appropriate price can be obtained from a recognised independent broker. Where this is the case, the broker will be approved as a price source for the asset.

For debt security investments where no independent price is readily available, an internal model price methodology is used. Credit spreads are often used as inputs into fair value modelling.

A review of all illiquid assets and prices obtained or calculated is conducted by the Investment Adviser on a monthly basis.

### Unquoted debt securities

In order to ensure that a fair value is recognised for unquoted or illiquid debt securities, there are primary, secondary and tertiary price sources in the first instance and an independent broker will be used if necessary. The primary, secondary and tertiary price sources are regularly compared with one another to ensure accuracy. A formal review is then carried out by the ACD which challenges the external valuation and includes consideration of the impact of any relevant movements in underlying variables such as:

- underlying movements in the relevant markets, for example credit spreads;
- how current transactions are being priced in the market;
- how the security is structured; and
- any supporting quantitative analysis as appropriate, for example with reference to Bloomberg or internal models.

## (h) Exchange rates

All transactions in foreign currencies are translated into Sterling at the rate of exchange ruling on the date of such transactions. Foreign currency assets and liabilities at the end of the accounting year are translated at the exchange rates applicable at the end of the accounting year at the appropriate valuation point.

## (i) Dilution adjustment

In certain circumstances (as detailed in the Prospectus) the ACD may charge a dilution adjustment on the creation or cancellation of shares, which is paid into the capital of the relevant sub-fund on an accruals basis. The adjustment is intended to cover certain dealing charges not included in the mid-market value of the sub-fund used in calculating the share price, which could have a diluting effect on the sub-fund.

## (j) Equalisation

Equalisation only applies to shares purchased during the distribution period (group 2 shares). It is the average amount of revenue included in the purchase price of all group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of the shares for capital gains tax purposes.

**(k) Derivatives**

Some of the sub-funds may enter into permitted transactions such as derivative contracts or forward foreign currency transactions. Where these transactions are used to protect or enhance revenue, the revenue and expenses are included within net revenue in the Statement of Total Return.

Where the transactions are used to protect or enhance investments, the gains/losses are treated as capital and included within gains/losses on investments in the Statement of Total Return. Any open positions in these types of transactions at the year end are included in the Balance Sheet at their mark to market value.

**(l) Stocklending**

Any income arising from stocklending is treated as revenue on an accruals basis and is disclosed in the notes to the accounts net of directly attributable fees. The value of the collateral must always exceed the value of the stock on loan. The accepted collateral include cash, equities, certain types of bonds and money market instruments as agreed with the Depositary.

# Notes to the Aggregated Financial Statements

(continued)

for the year ended 28 February 2012

## 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(47,267)	446,500
Option contracts	(11,501)	14,560
Forward foreign exchange currency contracts	(4,317)	14,017
Currency gains/(losses)	132	(382)
Handling charges	(65)	(32)
Net capital (losses)/gains	(63,018)	474,663

## 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	104,381	93,798
Overseas taxable revenue	(4)	(41)
Overseas non-taxable revenue	9,133	6,328
Property revenue from UK REITs - PID	102	181
Property revenue from UK REITs - Non PID	16	86
Distributions from Regulated Collective Investment Schemes:		
Franked investment income	35	184
Interest distributions	-	51
Bank interest	498	308
Interest on debt securities	203,932	195,197
Interest on short term deposits	2,531	2,057
Stocklending revenue	918	347
UK scrip dividends	1,249	3,203
Underwriting commission	-	1,164
ACD's periodic charge rebate	2	-
Total revenue	322,793	302,863

## 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	76,174	74,027
Registration fees	7,277	6,875
	83,451	80,902
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	675	647
Safe custody fees	358	336
	1,033	983
<b>Other expenses:</b>		
Audit fee	110	107
Total expenses	84,594	81,992

Expenses include irrecoverable VAT where applicable.

# Notes to the Aggregated Financial Statements

(continued)

for the year ended 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>(a) Analysis of charge in year:</b>		
Corporation tax	-	53
Irrecoverable overseas tax	187	50
Adjustments in respect of prior years	-	3
Total current tax (note 5b)	187	106
<b>(b) Factors affecting current tax charge for the year:</b>		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	238,176	220,734
Corporation tax of 20% (2011: 20%)	47,635	44,147
<b>Effects of:</b>		
UK dividends*	(20,883)	(18,798)
Non-taxable scrip dividends	(250)	(641)
Overseas non-taxable revenue**	(1,827)	(1,267)
Movement in excess management expenses	7,430	7,829
Irrecoverable overseas tax	187	50
Tax deductible interest distributions	(31,836)	(30,831)
Adjustments in respect of prior years	-	3
Property revenue from UK REITs - Non PID	(3)	(17)
Relief for indexation on UK Gilts	(266)	(369)
Current tax charge for year (note 5a)	187	106

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

Details of the provision for deferred taxation are disclosed within the individual sub-funds' Financial Statements.

## (d) Factors that may affect future tax charges:

Details of factors that may affect future tax charges are disclosed within the individual sub-funds' Financial Statements.

# Notes to the Aggregated Financial Statements

(continued)

for the year ended 28 February 2012

## 6. Finance costs

### Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	10,308	11,082
Second interim	8,590	9,542
Third interim	17,963	16,353
Fourth interim	9,885	10,764
Fifth interim	9,701	9,509
Sixth interim	33,930	31,904
Seventh interim	10,480	9,507
Eighth interim	10,412	9,332
Ninth interim	15,972	15,199
Tenth interim	10,557	10,122
Eleventh interim	11,193	10,391
Final	72,690	62,362
Income tax withheld	31,836	30,831
	253,517	236,898
Add: Revenue deducted on cancellation of shares	3,947	4,850
Deduct: Revenue received on creation of shares	(3,675)	(4,194)
Net distributions for the year	253,789	237,554
Bank interest	23	137
Total finance costs	253,812	237,691

*Details of the distributions per share are set out in the Distribution Tables in the individual sub-funds' Financial Statements.*

## 7. Movement between net revenue and net distributions

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	237,989	220,628
Share class A shortfall funded from capital	7	308
ACD's periodic charge taken to capital	16,758	17,833
Tax relief on ACD's periodic charge	(965)	(1,215)
Net distributions for the year	253,789	237,554

## 8. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	44,194	111,448
Amounts receivable for issue of shares	12,572	8,295
Accrued revenue	116,777	104,940
ACD expenses recoverable	1	-
Dilution levy receivable	81	12
Income tax recoverable	-	9
Overseas tax recoverable	320	111
Total debtors	173,945	224,815

## Notes to the Aggregated Financial Statements

(continued)

for the year ended 28 February 2012

### 9. Creditors

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	32,221	71,990
Amounts payable for cancellation of shares	7,466	6,328
Accrued expenses	6,946	6,741
Corporation tax payable	-	13
Income tax payable	10,995	10,335
Total creditors	57,628	95,407

### 10. Related party transactions

Related party transactions are disclosed within the individual sub-funds' Financial Statements.

Shares held by associates of the ACD are disclosed within the individual sub-funds' Financial Statements.

### 11. Share classes

Annual ACD charges are disclosed within the individual sub-funds' Financial Statements.

### 12. Capital commitments and contingent liabilities

Capital commitments and contingent liabilities are disclosed within the individual sub-funds' Financial Statements.

### 13. Securities on loan

Securities on loan and collateral held are disclosed within the individual sub-fund's Financial Statements.

The gross and net earnings for the year are disclosed within the individual sub-fund's Financial Statements.

### 14. Derivatives and other financial instruments

Derivatives and other financial instruments are disclosed within the individual sub-funds' Financial Statements.

The aggregate sub-funds net cash holding of £216.111m (28/02/11: £54.848m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

### 15. Portfolio transaction costs

Analysis of total trade costs are disclosed within the individual sub-funds' Financial Statements.



# Corporate Bond Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide an attractive level of income, whilst having regard to capital value, through investments denominated in the currency of the United Kingdom, predominantly corporate bonds and other fixed interest securities issued principally by companies operating in the United Kingdom or Europe.

The Fund will invest in a diversified portfolio of securities which may include, directly or indirectly, secured and unsecured loan stock, government and other public securities, other bonds, convertible securities, preference shares and shares, however the Fund may invest in other types of investment at the discretion of the ACD.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
Corporate Bond Fund A Accumulation	6.36	5.44	27.26	(13.94)	(5.91)	(0.45)
£ Corporate Bond Sector Average Return	6.91	5.56	22.28	(10.99)	(4.23)	(0.86)
Composite*	8.92	7.77	25.40	(13.82)	(4.45)	1.17

*Source: Lipper for Corporate Bond Fund and £ Corporate Bond Sector Average Return (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), triple BBB minus or above corporate bond securities (as measured by Standard & Poor's or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs)).*

*Basis: Mid to Mid, net revenue reinvested and net of expenses.*

*\*Source: Deutsche Bank for the Composite total return index. This consists of 80% iBoxx Non Gilt ex Sov. 5-15 years Index, 10% iBoxx Non Gilt ex Sov. <5 years Index, and 10% iBoxx Non Gilt ex Sov. > 15 years Index.*

*Basis: Gross revenue reinvested and gross of expenses.*

*Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.*

The 12 months under review brought mixed returns for different sections of the fixed income market. Early on, corporate bond markets rallied with a narrowing of the spread between the yield provided by government and corporate bonds. The magnitude of this spread in yield – known as the “credit spread” – is often used to gauge the performance of corporate bonds against their government counterparts. However, this was short lived as concerns about Greece’s economy grew and evidence that the global economic recovery was under threat led risk assets to sell off. As the European sovereign debt crisis continued to unfold, a growing number of eurozone states came under the spotlight. While Italy and Spain, two of the currency union’s largest economies, experienced soaring borrowing costs, the reputation of US Treasuries, German Bunds and UK Gilts as “safe havens” meant they benefited from the turmoil. Accordingly, government bond prices in “core” markets rose, and yields fell.

In the circumstances, corporate bond investors endured a challenging environment in 2011. Credit spreads over UK Gilts moved wider over the year, indicating an increase in risk aversion. The European financial sector suffered some particularly heavy losses amid concerns about the amount of peripheral sovereign debt held by the region’s banks. The rise in risk aversion meant high-yield bonds also lost considerable ground. However, total returns were still positive over the twelve months for corporate bonds, due to the continued fall in UK Gilt yields and interest received from holding the asset class. It is worth noting that since the beginning of 2012 credit has enjoyed a strong rally. Credit spreads tightened against a relatively flat path of government yields, translating into strong price performance.

The Corporate Bond Fund returned 6.36% in the 12 months to 28 February, underperforming its composite benchmark. Portfolio returns were boosted in the first months of the review period by holdings in the financials sector. High yield bonds also performed well at first, but moving into the summer, these holdings had a detrimental effect on returns. However, we had reduced holdings in Spanish banks, such as BBVA and Santander, which went on to perform particularly poorly. The fact we had sold these positions boosted performance relative to benchmark.

Fears of slowing economic growth and euro weakness left UK, German and US government bonds as so-called “safe havens”. Throughout the review period we have held positions in government bonds from these countries, and this has benefited the fund.

The Fund lost some ground in both September and October due to security selection within financials. Underperformers included positions in securities such as Royal Bank of Scotland, Merrill Lynch and NatWest. In October we took profits in several asset-backed securities, and purchased some long-dated Gilts to increase the portfolio’s price sensitivity to interest rate changes.

In November we sold some Gilts, using the proceeds to purchase bonds issued by utilities including Centrica and Scottish & Southern. From December onwards, the market for new issues showed some improvement, and we participated in a number of new issues. These included supermarket group Morrison and Spanish oil and gas company Repsol. We added to utilities, subscribing to new issues by Northumbrian Water and Denmark’s DONG Energy. We also bought debt issued by French insurer CBP. In February this year, we were overweight in financials and insurance, but reduced insurance exposure through the sale of Zurich. A number of high-yield bonds – Lafarge, Pirelli, Kabel and Thames Water – were sold.

## Authorised Fund Manager's Report

(continued)

Corporate bonds in the financial sector continue to trade at considerably wider spreads than non-financials, although they have outperformed during the first months of 2012. It is understandable that financials should trade at higher yields, given the great and immediate interaction of current sovereign risks with the financial system. The risk of significant shocks to the financial system has not been completely eradicated despite the actions of the European Central Bank in flooding the market with liquidity by lending money to cash-strapped commercial banks. Elsewhere, the pressure to reduce borrowings continues to weigh on disposable income; accordingly, we do not favour discretionary retail. Insurance is currently trading at attractive valuations, while technology, media and telecoms is supported by low issuance and strong cash flow.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Corporate Bond Fund

## Portfolio Statement

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>CORPORATE BONDS (85.07%*)</b>		<b>2,764,458</b>	<b>85.23</b>
ABN Amro Bank 4.875% 16/01/2019	GBP15,000,000	15,323	0.47
America Movil SAB de CV 5.75% 28/06/2030	GBP8,350,000	9,819	0.30
American Express Credit 5.375% 01/10/2014	GBP3,200,000	3,410	0.11
American International 6.765% 15/11/2017	GBP2,500,000	2,582	0.08
Amgen 5.5% 07/12/2026	GBP17,362,000	19,326	0.60
Amlin (FRN) 6.5% 19/12/2026	GBP6,463,000	5,334	0.16
Anglian Water Services Financing 5.837% 30/07/2022	GBP7,868,000	9,179	0.28
Annington Finance No 4 (FRN) 6.5676% 10/01/2023	GBP16,920,000	18,168	0.56
Annington Finance No 4 0% 07/12/2022	GBP14,200,000	9,177	0.28
Arkle Master Issuer (FRN) 2.83633% 17/05/2060 †	GBP10,000,000	10,050	0.31
Arkle Master Issuer 3.986% 17/05/2060 †	GBP13,300,000	13,612	0.42
Arkle Master Issuer 4.681% 17/05/2060 †	GBP8,470,000	8,968	0.28
ASIF III Jersey 5.375% 14/10/2016	GBP30,012,000	30,545	0.94
AT&T 5.5% 15/03/2027	GBP13,400,000	15,375	0.47
AT&T 7% 30/04/2040	GBP6,500,000	8,883	0.27
Australia & New Zealand Banking (FRN) 6.54% Perpetual	GBP10,000,000	9,910	0.31
Aviva (FRN) 6.625% 03/06/2041	GBP3,500,000	3,038	0.09
Aviva (FRN) 6.875% 20/05/2058	GBP16,200,000	12,995	0.40
Aviva (FRN) 5.9021% Perpetual	GBP8,109,000	5,708	0.18
Aviva (FRN) 6.125% Perpetual	GBP11,850,000	8,369	0.26
AXA (FRN) 6.6666% Perpetual	GBP23,594,000	19,082	0.59
AXA (FRN) 6.772% Perpetual	GBP20,500,000	15,613	0.48
BAA Funding 7.125% 14/02/2024	GBP11,000,000	11,498	0.35
BAA Funding 5.225% 15/02/2025	GBP27,898,000	29,404	0.91
BAA Funding 6.75% 03/12/2026	GBP3,250,000	3,882	0.12
BAA Funding 5.875% 13/05/2041	GBP9,000,000	9,472	0.29
Bank of America 7% 31/07/2028	GBP13,950,000	14,511	0.45
Bank of Scotland 11% 17/01/2014 †	GBP11,400,000	12,351	0.38
Bank of Scotland 9.375% 15/05/2021 †	GBP23,710,000	23,527	0.73
Barclays Bank 10% 21/05/2021	GBP39,560,000	44,950	1.39
Barclays Bank 5.75% 17/08/2021	GBP8,150,000	8,744	0.27
Barclays Bank 6.75% 16/01/2023	GBP11,364,000	10,725	0.33
Barclays Bank 14% Perpetual	GBP21,168,000	25,845	0.80
Barclays SLCSM Funding (FRN) 6.14% Perpetual	GBP23,434,000	21,101	0.65
BAT International Finance 6.375% 12/12/2019	GBP4,000,000	4,895	0.15
BAT International Finance 6% 29/06/2022	GBP20,000,000	23,775	0.73
BBVA Subordinated Capital Unipersonal (FRN) 5.75% 11/03/2018	GBP6,150,000	4,873	0.15
BG Energy Capital 5.125% 01/12/2025	GBP11,280,000	12,860	0.40
BMW Finance 3.375% 14/12/2018	GBP9,530,000	9,747	0.30
BNP Paribas (FRN) 7.436% Perpetual	GBP16,550,000	12,104	0.37
Bouygues 5.5% 06/10/2026	GBP17,650,000	19,438	0.60
BP Capital Markets 4.325% 10/12/2018	GBP18,350,000	20,168	0.62
British American Tobacco 5.5% 15/09/2016	GBP6,638,000	7,524	0.23
British Telecommunications 8.625% 26/03/2020	GBP17,389,000	22,960	0.71
British Telecommunications 6.375% 23/06/2037	GBP12,222,000	14,168	0.44
BUPA Finance 7.5% 04/07/2016	GBP3,000,000	3,387	0.10
Canary Wharf Finance II 6.455% 22/10/2033	GBP11,258,166	13,052	0.40
Centrica 6.375% 10/03/2022	GBP9,500,000	11,404	0.35
Citigroup 7.625% 03/04/2018	GBP14,600,000	17,088	0.53
Citigroup 5.15% 21/05/2026	GBP935,000	918	0.03
Citigroup 4.5% 03/03/2031	GBP25,000,000	18,595	0.57
Citigroup 6.8% 25/06/2038	GBP15,071,000	17,045	0.53
CNP Assurances 7.375% 30/09/2041	GBP14,000,000	11,235	0.35

# Corporate Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Co-operative 5.875% 18/12/2013	GBP19,000,000	19,637	0.61
Co-operative Bank 5.125% 20/09/2017	GBP11,500,000	11,665	0.36
Co-operative Bank 5.625% 08/07/2020	GBP9,350,000	9,068	0.28
Credit Suisse (FRN) 6.75% 16/01/2023	GBP5,400,000	5,620	0.17
Credit Suisse International (FRN) 10.25% Perpetual	GBP10,080,000	10,483	0.32
Deutsche Telekom International Finance 7.375% 04/12/2019	GBP13,602,000	17,225	0.53
Deutsche Telekom International Finance 6.5% 08/04/2022	GBP7,320,000	8,789	0.27
Dexia Funding Netherlands (FRN) 1.77706% 09/02/2017	GBP17,560,000	9,247	0.29
DNB NOR Bank 4.25% 27/01/2020	GBP16,000,000	16,171	0.50
DONG Energy 4.875% 12/01/2032	GBP9,188,000	9,486	0.29
DONG Energy 5.75% 09/04/2040	GBP5,750,000	6,629	0.20
Dubai Holding Commercial Operations 6% 01/02/2017	GBP4,600,000	3,634	0.11
E.ON International Finance 6% 30/10/2019	GBP13,100,000	15,757	0.49
Eastern Power Networks 5.75% 08/03/2024	GBP23,624,000	26,815	0.83
EDF 6.25% 30/05/2028	GBP10,000,000	11,640	0.36
EDF 6.125% 02/06/2034	GBP9,900,000	11,144	0.34
EDF 5.5% 17/10/2041	GBP12,100,000	12,561	0.39
Electricity North West 8.875% 25/03/2026	GBP9,500,000	13,770	0.42
Enel 6.25% 20/06/2019	GBP15,511,000	16,219	0.50
ESB Finance 6.5% 05/03/2020	GBP7,000,000	6,467	0.20
Finmeccanica Finance 8% 16/12/2019	GBP12,248,000	11,812	0.36
Finning International 5.625% 30/05/2013	GBP4,568,000	4,671	0.14
FirstGroup 8.75% 08/04/2021	GBP22,550,000	28,148	0.87
Fosse Master Issuer 4.635% 18/10/2054	GBP4,000,000	4,197	0.13
France Telecom 8% 20/12/2017	GBP10,982,000	13,995	0.43
France Telecom 5.25% 05/12/2025	GBP6,566,000	7,161	0.22
France Telecom 5.375% 22/11/2050	GBP13,350,000	13,906	0.43
Friends Life 8.25% 21/04/2022	GBP10,400,000	9,530	0.29
G4S 7.75% 13/05/2019	GBP8,600,000	10,544	0.33
Gatwick Funding 6.125% 02/03/2026	GBP5,500,000	6,059	0.19
Gatwick Funding 6.5% 02/03/2041	GBP12,700,000	13,836	0.43
Gazprom 6.58% 31/10/2013	GBP5,958,000	6,253	0.19
GDF Suez 6.125% 11/02/2021	GBP20,650,000	24,257	0.75
GE Capital 5.625% 25/04/2019	GBP17,400,000	19,112	0.59
GE Capital UK Funding 4.375% 31/07/2019	GBP10,800,000	11,098	0.34
GE Capital UK Funding 5.125% 24/05/2023	GBP28,613,000	29,846	0.92
General Electric Capital 6.25% 15/12/2017	GBP5,000,000	5,751	0.18
General Electric Capital 5.5% 07/06/2021	GBP5,670,000	6,085	0.19
General Electric Capital 6.5% 15/09/2067	GBP23,378,000	22,450	0.69
Glencore Finance 6.5% 27/02/2019	GBP11,650,000	13,154	0.41
Goldman Sachs 5.25% 15/12/2015	GBP9,936,000	10,322	0.32
Goldman Sachs 7.125% 07/08/2025	GBP8,750,000	9,503	0.29
Goldman Sachs 7.25% 10/04/2028	GBP7,850,000	8,491	0.26
Great Rolling Stock 6.5% 05/04/2031	GBP11,500,000	12,933	0.40
Highbury Finance 7.017% 20/03/2023	GBP10,862,597	12,274	0.38
Holcim 8.75% 24/04/2017	GBP8,000,000	9,846	0.30
HSBC 6.5% 20/05/2024	GBP16,650,000	19,454	0.60
HSBC 6% 29/03/2040	GBP19,885,000	19,304	0.60
HSBC 4.75% 24/03/2046	GBP13,305,000	10,613	0.33
HSBC (FRN) 5.75% 27/06/2017	GBP10,000,000	9,956	0.31
HSBC (FRN) 4.75% 29/09/2020	GBP11,231,000	11,058	0.34
Hutchison Whampoa Finance 5.625% 24/11/2017	GBP13,100,000	14,679	0.45
Hutchison Whampoa Finance 5.625% 24/11/2026	GBP3,300,000	3,713	0.11

# Corporate Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Imperial Tobacco Finance 7.75% 24/06/2019	GBP15,965,000	20,166	0.62
Imperial Tobacco Finance 9% 17/02/2022	GBP37,465,000	51,497	1.59
ING 5.375% 15/04/2021	GBP15,500,000	16,219	0.50
ING Bank (FRN) 6.875% 29/05/2023	GBP24,399,000	24,179	0.75
Intercontinental Hotels 6% 09/12/2016	GBP15,620,000	17,167	0.53
Koninklijke KPN 5% 18/11/2026	GBP8,515,000	8,527	0.26
Legal & General (FRN) 6.385% Perpetual	GBP9,400,000	7,867	0.24
Linde Finance (FRN) 8.125% 14/07/2066	GBP5,500,000	6,116	0.19
Lloyds TSB Bank (FRN) 6.9625% 29/05/2020 †	GBP24,214,000	19,853	0.61
Lloyds TSB Bank (FRN) 5.75% 09/07/2025 †	GBP11,779,000	9,125	0.28
Lloyds TSB Bank 6.5% 17/09/2040 †	GBP29,020,000	27,788	0.86
London Power Networks 5.375% 11/11/2016	GBP7,170,000	8,007	0.25
London Power Networks 5.125% 31/03/2023	GBP8,500,000	9,341	0.29
Lunar Funding I 7.42% 04/10/2031	GBP11,794,920	16,017	0.49
Marks & Spencer 6.125% 02/12/2019	GBP20,562,000	22,451	0.69
Mellon Capital III 6.369% 05/09/2066	GBP9,900,000	8,814	0.27
Merrill Lynch 7.75% 30/04/2018	GBP24,700,000	26,425	0.81
MetLife 5.25% 29/06/2020	GBP14,262,000	15,401	0.47
Mitchells & Butlers Finance 5.574% 15/12/2030	GBP5,310,371	5,571	0.17
Motability Operations 4.375% 08/02/2027	GBP7,200,000	7,265	0.22
Motability Operations 5.625% 29/11/2030	GBP5,377,000	6,120	0.19
National Australia Bank 3.625% 08/11/2017	GBP10,000,000	10,106	0.31
National Australia Bank (FRN) 7.125% 12/06/2023	GBP9,150,000	9,873	0.30
National Express 6.25% 13/01/2017	GBP7,070,000	7,775	0.24
National Grid Electricity Transmission 5.875% 02/02/2024	GBP1,500,000	1,766	0.05
National Grid Electricity Transmission 6.5% 27/07/2028	GBP10,310,000	13,049	0.40
National Grid Gas 6% 07/06/2017	GBP8,626,000	10,122	0.31
National Grid Gas 6.375% 03/03/2020	GBP10,750,000	13,058	0.40
National Westminster Bank 7.875% 09/09/2015	GBP22,740,000	23,650	0.73
Nationwide Building Society 5.625% 09/09/2019	GBP14,538,000	15,515	0.48
Nelson Finance Two 4.955% 20/09/2015	GBP10,000,000	5,676	0.18
Next 5.375% 26/10/2021	GBP24,581,000	25,857	0.80
Nordea Bank (FRN) 6.25% Perpetual	GBP13,329,000	13,199	0.41
Northern Gas Networks Finance 5.875% 08/07/2019	GBP3,330,000	3,853	0.12
Northumbrian Water Finance 5.625% 29/04/2033	GBP12,000,000	13,357	0.41
Northumbrian Water Finance 5.125% 23/01/2042	GBP14,100,000	14,658	0.45
Places for People Homes 5.875% 23/05/2031	GBP23,486,000	25,382	0.78
Prudential 6.125% 19/12/2031	GBP12,565,000	12,529	0.39
Prudential 11.375% 29/05/2039	GBP10,750,000	14,009	0.43
Punch Taverns Finance 7.274% 15/04/2022	GBP7,230,000	6,453	0.20
QBE Capital Funding II 7.5% 24/05/2041	GBP20,801,000	18,170	0.56
RMPA Services 5.337% 30/09/2038	GBP14,307,106	14,847	0.46
Royal Bank of Scotland 6.375% 29/04/2014	GBP8,967,000	9,500	0.29
Royal Bank of Scotland 6.625% 17/09/2018	GBP7,500,000	8,169	0.25
Royal Bank of Scotland 7.5% 29/04/2024	GBP23,441,000	26,061	0.80
Royal Bank of Scotland 6.875% 17/05/2025	GBP9,957,000	10,465	0.32
Royal Bank of Scotland 2.29825% 21/12/2033	GBP10,000,000	6,000	0.18
RSA Insurance 9.375% 20/05/2039	GBP8,450,000	9,868	0.30
RSA Insurance 8.5% Perpetual	GBP13,000,000	13,483	0.42
RWE Finance 6.5% 20/04/2021	GBP14,224,000	17,141	0.53
RWE Finance 5.5% 06/07/2022	GBP16,450,000	18,620	0.57
RWE Finance 6.25% 03/06/2030	GBP8,500,000	10,240	0.32
RWE Finance 4.75% 31/01/2034	GBP5,100,000	5,174	0.16
Santander (FRN) 7.5% Perpetual	GBP21,949,000	18,656	0.58

# Corporate Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Scotland Gas Networks 4.75% 21/02/2017	GBP8,900,000	9,623	0.30
Scottish & Southern Energy 4.25% 14/09/2021	GBP15,000,000	15,566	0.48
Scottish & Southern Energy 5.453% Perpetual	GBP15,580,000	15,356	0.47
Scottish Power 8.375% 20/02/2017	GBP20,143,000	25,165	0.78
Scottish Widows (FRN) 5.125% Perpetual †	GBP12,762,000	9,578	0.30
Severn Trent Utilities Finance 6.125% 26/02/2024	GBP10,000,000	11,918	0.37
Severn Trent Utilities Finance 4.875% 24/01/2042	GBP18,600,000	18,736	0.58
Skandinaviska Enskilda Banken 6.625% 09/07/2014	GBP4,659,000	5,089	0.16
SLM Student Loan Trust 2003-12 5.45% 15/03/2038	GBP30,301,000	24,349	0.75
Societe Generale (FRN) 8.875% Perpetual	GBP22,893,000	17,708	0.55
Society of Lloyd's (FRN) 6.875% 17/11/2025	GBP5,000,000	5,040	0.16
Society of Lloyd's 7.421% Perpetual	GBP19,893,000	17,139	0.53
South East Water Finance 5.6577% 30/09/2019	GBP7,200,000	8,078	0.25
Southern Gas Networks 5.125% 02/11/2018	GBP5,210,000	5,747	0.18
Southern Water Services Finance 6.125% 31/03/2019	GBP6,178,000	7,139	0.22
Southern Water Services Finance 7.869% 31/03/2038	GBP14,586,000	15,536	0.48
SSE 8.375% 20/11/2028	GBP6,450,000	9,299	0.29
Standard Chartered 6% 25/01/2018	GBP15,500,000	15,288	0.47
Standard Chartered 7.75% 03/04/2018	GBP3,750,000	4,272	0.13
Standard Chartered (FRN) 5.375% Perpetual	GBP6,387,000	5,522	0.17
Standard Chartered 7.75% Perpetual	GBP8,250,000	8,417	0.26
Standard Life (FRN) 6.75% Perpetual	GBP8,168,000	7,080	0.22
Svenska Handelsbanken 4% 18/01/2019	GBP15,000,000	15,383	0.47
Svenska Handelsbanken 5.375% Perpetual	GBP12,231,000	12,172	0.38
Swiss Reinsurance 6.3024% Perpetual	GBP22,900,000	19,765	0.61
TDC 5.625% 23/02/2023	GBP3,800,000	4,295	0.13
Telecom Italia 7.375% 15/12/2017	GBP20,950,000	21,439	0.66
Telecom Italia 6.375% 24/06/2019	GBP28,169,000	26,882	0.83
Telefonica Emisiones 5.375% 02/02/2018	GBP2,954,000	3,010	0.09
Telefonica Emisiones 5.289% 09/12/2022	GBP5,600,000	5,296	0.16
Telefonica Emisiones 5.445% 08/10/2029	GBP15,000,000	13,519	0.42
Telereal Securitisation 4.9741% 10/12/2033	GBP5,363,853	5,677	0.18
Telereal Securitisation (FRN) 5.372% 10/12/2033	GBP5,500,000	5,418	0.17
Tesco 6.125% 24/02/2022	GBP5,932,000	6,883	0.21
Tesco 4% Index Linked 08/09/2016	GBP5,659,000	9,372	0.29
Tesco Property Finance 7.6227% 13/07/2039	GBP8,460,518	10,760	0.33
Tesco Property Finance 5.8006% 13/10/2040	GBP18,351,240	19,032	0.59
THFC Funding No.3 5.2% 11/10/2043	GBP5,000,000	5,115	0.16
Time Warner Cable 5.75% 02/06/2031	GBP13,000,000	14,313	0.44
Total Capital 3.875% 14/12/2018	GBP10,445,000	11,293	0.35
UBS 6.375% 20/07/2016	GBP13,599,000	15,212	0.47
UBS 6.625% 11/04/2018	GBP15,000,000	17,224	0.53
UniCredit Italiano (FRN) 6.375% 16/10/2018	GBP1,741,000	1,440	0.04
Unique Pub Finance 6.542% 30/03/2021	GBP3,000,000	2,415	0.07
Vattenfall 6.875% 15/04/2039	GBP4,068,000	5,523	0.17
Wales & West Utilities Finance 5.125% 02/12/2016	GBP16,110,000	17,826	0.55
Wessex Water Services Finance 4% 24/09/2021	GBP5,200,000	5,292	0.16
Wessex Water Services Finance 5.375% 10/03/2028	GBP19,000,000	21,138	0.65
Western Power Distribution 5.25% 17/01/2023	GBP9,900,000	11,026	0.34
Western Power Distribution West Midlands 6% 09/05/2025	GBP16,405,000	19,249	0.59
Wm Morrison Supermarkets 4.625% 08/12/2023	GBP8,100,000	8,641	0.27
WPP 6% 04/04/2017	GBP900,000	1,006	0.03
WPP Finance SAS 6.375% 06/11/2020	GBP7,128,000	8,201	0.25
Xstrata Canada Financial 7.375% 27/05/2020	GBP15,387,000	18,852	0.58

# Corporate Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Yorkshire Water Services Bradford Finance 6% 24/04/2025	GBP6,679,000	7,268	0.22
Yorkshire Water Services Odsal Finance 6.5876% 21/02/2023	GBP748,000	929	0.03
<b>GOVERNMENT BONDS (7.86%*)</b>		<b>183,156</b>	<b>5.64</b>
UK Treasury 4% 07/09/2016	GBP1,223,000	1,397	0.04
UK Treasury 4.5% 07/03/2019	GBP11,314,000	13,657	0.42
UK Treasury 3.75% 07/09/2021	GBP28,118,000	32,319	1.00
UK Treasury 4% 07/03/2022	GBP7,302,000	8,551	0.26
UK Treasury 5% 07/03/2025	GBP16,288,000	20,956	0.65
UK Treasury 2.5% Inflation Linked 16/08/2013	GBP4,253,000	12,039	0.37
UK Treasury 2.5% Inflation Linked 16/04/2020	GBP8,150,000	29,905	0.92
UK Treasury 1.875% Inflation Linked 22/11/2022	GBP17,940,000	26,611	0.82
UK Treasury 2.5% Inflation Linked 17/07/2024	GBP7,442,000	24,602	0.76
UK Treasury 0.125% Inflation Linked 22/03/2029	GBP12,500,000	13,119	0.40
<b>MORTGAGE-BACKED SECURITIES (3.86%*)</b>		<b>131,099</b>	<b>4.05</b>
BAA Funding 6.45% 10/12/2031	GBP5,000,000	5,692	0.18
BBC Pacific Quay Finance (FRN) 5.5653% 25/07/2034	GBP4,951,113	5,338	0.16
BL Superstores Finance 5.27% 04/10/2030	GBP22,255,000	23,888	0.74
Canary Wharf Finance II 6.8% 22/10/2033	GBP6,596,312	7,791	0.24
Dignity Finance 6.31% 31/12/2023	GBP7,942,395	9,522	0.29
Dignity Finance 8.151% 31/12/2031	GBP13,845,000	18,749	0.58
Holmes Master Issuer (FRN) 2.53956% 15/10/2054	GBP9,600,000	9,533	0.29
Juturna (European Loan Conduit 16) 5.0636% 10/08/2033	GBP1,313,158	1,345	0.04
Meadowhall Finance 4.988% 12/07/2037	GBP14,888,595	15,442	0.48
Permanent Master Issuer 4.805% 15/07/2042 †	GBP12,090,000	12,841	0.40
Silverstone Master Issuer 5.063% 21/01/2055	GBP5,350,000	5,777	0.18
Telereal Securitisation (FRN) 5.3887% 10/12/2033	GBP4,194,660	4,580	0.14
Telereal Securitisation 6.1645% 10/12/2033	GBP6,031,000	6,376	0.20
Tesco Property Finance 2 6.0517% 13/10/2039	GBP3,846,625	4,225	0.13
<b>Portfolio of investments</b>		<b>3,078,713</b>	<b>94.92</b>
<b>Net other assets</b>		<b>164,715</b>	<b>5.08</b>
<b>Total net assets</b>		<b>3,243,428</b>	<b>100.00</b>

Stocks shown as FRNs represent Floating Rate Notes - debt instruments that pay a floating rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

\* Comparative figures shown in brackets relate to 28 February 2011.

† This investment is a related party (see note 9).

# Corporate Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Market Value £000	Total Net Assets %
<b>Summary of portfolio by credit ratings</b>		
<b>Rating block</b>		
AAA	248,134	7.65
AA+	87,909	2.71
AA	25,699	0.80
AA-	74,193	2.28
A+	250,994	7.74
A	299,621	9.24
A-	693,615	21.38
BBB+	478,415	14.75
BBB	550,743	16.98
BBB-	176,639	5.44
NR	192,751	5.95
<b>Total bonds</b>	<b>3,078,713</b>	<b>94.92</b>
<b>Other</b>	<b>164,715</b>	<b>5.08</b>
<b>Total net assets</b>	<b>3,243,428</b>	<b>100.00</b>

The credit ratings used in the above table have been supplied by Standard & Poor's.



# Corporate Bond Fund

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>2,188,695</u></b>	<b>Total sales for the year</b>	<b><u>1,730,148</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
UK Treasury 5% 07/03/2025	287,932	UK Treasury 5% 07/03/2025	282,459
UK Treasury 3.75% 07/09/2021	230,385	UK Treasury 3.75% 07/09/2021	202,612
UK Treasury 4.25% 07/06/2032	80,571	UK Treasury 4.25% 07/06/2032	104,813
UK Treasury 2.5% Inflation Linked 26/07/2016	73,046	UK Treasury 4% 07/03/2022	97,436
UK Treasury 4% 07/09/2016	54,670	UK Treasury 2.5% Inflation Linked 26/07/2016	75,821
UK Treasury 4.5% 07/09/2034	42,370	UK Treasury 3.75% 07/09/2019	68,094
UK Treasury 3.75% 07/09/2019	38,881	UK Treasury 4% 07/09/2016	59,247
UK Treasury 4% 07/03/2022	38,360	UK Treasury 4.25% 07/12/2040	58,414
UK Treasury 4.5% 07/03/2019	33,113	UK Treasury 4.5% 07/09/2034	42,704
UK Treasury 5% 07/09/2014	30,224	UK Treasury 5% 07/09/2014	30,239
UK Treasury 2.5% Inflation Linked 16/04/2020	29,576	UK Treasury 5% 07/03/2018	25,129
UK Treasury 1.875% Inflation Linked 22/11/2022	26,112	UK Treasury 4.125% Inflation Linked 22/07/2030	24,493
Next 5.375% 26/10/2021	25,058	European Investment Bank 5.375% 07/06/2021	22,835
UK Treasury 5% 07/03/2018	24,902	UK Treasury 4.5% 07/03/2013	20,805
Imperial Tobacco Finance 9% 17/02/2022	24,551	UK Treasury 4.5% 07/03/2019	19,708
UK Treasury 2.5% Inflation Linked 17/07/2024	24,462	EGG Banking 6.875% 29/12/2021	19,119
Places for People Homes 5.875% 23/05/2031	24,023	UK Treasury 4.75% 07/03/2020	18,340
UK Treasury 4.125% Inflation Linked 22/07/2030	23,775	Thames Water Utilities 4.9% 30/06/2015	18,188
European Investment Bank 5.375% 07/06/2021	22,748	Akzo Nobel 8% 06/04/2016	17,228
Imperial Tobacco Finance 7.75% 24/06/2019	19,724	UK Treasury 4.25% 07/12/2055	16,804

# Corporate Bond Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	1,758,667,941	859,729,147	204.56	1.12
Accumulation 28/02/11	2,005,552,882	927,781,147	216.17	1.13
Accumulation 28/02/12	2,640,630,019	1,150,872,147	229.45	1.12
Share Class A				
Income 28/02/10	453,870,488	430,611,332	105.40	1.12
Income 28/02/11	462,056,912	431,725,032	107.03	1.13
Income 28/02/12	441,622,170	402,997,232	109.58	1.12
Share Class B				
Accumulation 28/02/10	76,357,211	36,846,803	207.23	0.87
Accumulation 28/02/11	73,021,826	33,278,003	219.43	0.87
Accumulation 28/02/12	70,817,124	30,344,603	233.38	0.87
Share Class B				
Income 28/02/10	104,083,577	98,838,082	105.31	0.87
Income 28/02/11	96,300,465	90,059,082	106.93	0.87
Income 28/02/12	90,358,282	82,529,182	109.49	0.87

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	200.10	191.70	7.2310
Accumulation 2008	197.70	167.10	8.0624
Accumulation 2009	203.10	153.60	8.4254
Accumulation 2010	224.50	200.30	8.5886
Accumulation 2011	228.10	213.00	8.0522
Accumulation 2012*	231.20	222.70	1.2839
Share Class A			
Income 2007	117.50	110.00	4.1944
Income 2008	112.30	91.63	4.4914
Income 2009	106.10	82.82	4.4773
Income 2010	113.00	103.90	4.3727
Income 2011	111.30	104.70	3.9444
Income 2012*	110.70	107.00	0.6157
Share Class B			
Accumulation 2007	201.50	193.20	7.6693
Accumulation 2008	199.40	168.90	8.4941
Accumulation 2009	205.60	155.30	8.8858
Accumulation 2010	227.70	202.80	9.1400
Accumulation 2011	231.70	216.10	8.6254
Accumulation 2012*	235.10	226.40	1.3806
Share Class B			
Income 2007	117.40	109.90	4.4096
Income 2008	112.30	91.55	4.6855
Income 2009	106.00	82.76	4.6641
Income 2010	112.90	103.80	4.5862
Income 2011	111.20	104.60	4.1564
Income 2012*	110.60	106.90	0.6507

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

## Corporate Bond Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Net capital gains	2		72,912		35,741
Revenue	3	160,651		149,876	
Expenses	4	(31,574)		(27,109)	
Finance costs: Interest	6	-		(17)	
Net revenue before taxation		129,077		122,750	
Taxation	5	-		(5)	
Net revenue after taxation			129,077		122,745
<b>Total return before distributions</b>			<b>201,989</b>		<b>158,486</b>
Finance costs: Distributions	6		(129,077)		(122,745)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>72,912</b>		<b>35,741</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>2,636,932</b>		<b>2,392,979</b>
Amounts receivable on creation of shares	679,101		417,601	
Less: Amounts payable on cancellation of shares	(231,086)		(285,634)	
		448,015		131,967
Dilution levy charged		1,251		997
Stamp duty reserve tax		(22)		(135)
Change in net assets attributable to shareholders from investment activities		72,912		35,741
Retained distribution on accumulation shares		84,259		75,262
Unclaimed distributions		81		121
<b>Closing net assets attributable to shareholders</b>		<b>3,243,428</b>		<b>2,636,932</b>

Notes to the Financial Statements are on pages 27 to 31.

# Corporate Bond Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		3,078,713	2,552,166
Debtors	7	113,435	91,043
Cash and bank balances		67,391	26,342
<b>Total other assets</b>		<b>180,826</b>	<b>117,385</b>
<b>Total assets</b>		<b>3,259,539</b>	<b>2,669,551</b>
<b>Liabilities</b>			
Creditors	8	(13,090)	(29,112)
Distribution payable on income shares		(3,021)	(3,507)
<b>Total liabilities</b>		<b>(16,111)</b>	<b>(32,619)</b>
<b>Net assets attributable to shareholders</b>		<b>3,243,428</b>	<b>2,636,932</b>

*Notes to the Financial Statements are on pages 27 to 31.*

# Corporate Bond Fund

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital gains

The net capital gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	72,919	35,647
Forward foreign exchange currency contracts	-	(37)
Currency (losses)/gains	(3)	134
Handling charges	(4)	(3)
Net capital gains	72,912	35,741

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Bank interest	165	78
Interest on debt securities	160,279	149,752
Stocklending revenue	207	46
Total revenue	160,651	149,876

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	28,187	24,179
Registration fees	2,860	2,463
	31,047	26,642

#### **Payable to the Depositary, associates of the Depositary, and agents of either of them:**

Depositary's fees	265	232
Safe custody fees	250	224
	515	456

#### **Other expenses:**

Audit fee	12	11
Total expenses	31,574	27,109

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) <b>Analysis of charge in year:</b>		
Adjustments in respect of prior years	-	5
(b) <b>Factors affecting current tax charge for the year:</b>		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	129,077	122,750
Corporation tax of 20% (2011: 20%)	25,815	24,550
<b>Effects of:</b>		
Movement in excess management expenses	71	(1)
Tax deductible interest distributions	(25,815)	(24,549)
Adjustments in respect of prior years	-	5
Relief for indexation on UK Gilts	(71)	-
Current tax charge for year (note 5a)	-	5

*OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.*

(c) **Deferred taxation:**

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

(d) **Factors that may affect future tax charges:**

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £70,793 (28/02/11: £nil) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**6. Finance costs****Distributions and interest**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	8,615	9,057
Second interim	7,216	7,856
Third interim	9,075	7,367
Fourth interim	8,309	8,860
Fifth interim	8,220	7,883
Sixth interim	9,094	8,356
Seventh interim	8,657	7,892
Eighth interim	8,787	7,728
Ninth interim	8,963	8,681
Tenth interim	8,908	8,418
Eleventh interim	9,482	8,771
Final	8,477	7,501
Income tax withheld	25,815	24,549
	<hr/>	<hr/>
	129,618	122,919
Add: Revenue deducted on cancellation of shares	388	582
Deduct: Revenue received on creation of shares	(929)	(756)
	<hr/>	<hr/>
Net distributions for the year	129,077	122,745
	<hr/>	<hr/>
Bank interest	-	17
	<hr/>	<hr/>
Total finance costs	129,077	122,762

*Details of the distributions per share are set out in the Distribution Tables on pages 32 to 33.*

**7. Debtors**

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	20,931	13,563
Amounts receivable for issue of shares	9,241	4,401
Accrued revenue	83,193	73,079
Dilution levy receivable	70	-
	<hr/>	<hr/>
Total debtors	113,435	91,043

**8. Creditors**

	28/02/12 £000	28/02/11 £000
Purchases awaiting settlement	-	18,004
Amounts payable for cancellation of shares	1,396	561
Accrued expenses	2,792	2,272
Income tax payable	8,902	8,275
	<hr/>	<hr/>
Total creditors	13,090	29,112

as at 28 February 2012

**9. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £2,676,140 (28/02/11: £2,164,602) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

Revenue disclosed in note 3 includes amounts received from Lloyds related investments. The total revenue received amounts to £3,551,162 (28/02/11: £2,894,199).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	65.94	60.39

**10. Share classes**

The Fund has two share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.00
Share Class A - Income:	1.00
Share Class B - Accumulation:	0.75
Share Class B - Income:	0.75

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 24.

The distributions per share class are given in the Distribution Tables on pages 32 to 33.

All share classes have the same rights on winding up.

**11. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**12. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £187,071,428 (28/02/11: £50,816,458). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £190,619,736 (28/02/11: £52,901,376). This collateral is in the form of bonds £86,932,122 and cash £103,687,614 (28/02/11: bonds £52,901,376).

The gross earnings and fees paid for the year are £295,914 (28/02/11: £64,075) and £89,179 (28/02/11: £17,963).

**13. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 15. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling, however the Fund receives a small portion of revenue in foreign currency. As a result, movements in exchange rates may affect the revenue of the portfolio.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets			Net foreign currency assets		
	28/02/12			28/02/11		
Currency	Monetary exposures	Non-monetary exposures	Total	Monetary exposures	Non-monetary exposures	Total
	£000	£000	£000	£000	£000	£000
US dollar	-	-	-	127	-	127



## Notes to the Financial Statements

(continued)

as at 28 February 2012

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in fixed interest investments. Given that the Fund's objective is to provide an attractive level of income whilst not neglecting capital growth, these cashflows are considered to be of primary importance and are actively managed.

The interest rate risk profile of the company's financial assets and liabilities at 28 February was:

Currency	Floating rate financial assets £000	Fixed rate financial assets £000	Fixed rate financial assets weighted average interest rate %	Fixed rate financial assets weighted average period for which rate is fixed Years	Financial assets not carrying interest £000	Total £000
<b>28/02/12</b>						
Sterling	86,974	3,039,222	4.87	14.25	117,232	3,243,428
<b>28/02/11</b>						
Sterling	490,030	2,088,351	5.39	14.04	58,424	2,636,805
US dollar	127	-			-	127
Total	490,157	2,088,351			58,424	2,636,932

The Fund's net cash holding of £67.391m (28/02/11: holding £26.342m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

The majority of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in fixed interest securities. Certain fixed interest securities are liable to default risk whereby the nominal capital is not or is unlikely to be returned to investors. The value of fixed interest stocks is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual fixed interest stock or be caused by a general market factor (such as government policy or the health of the underlying economy) which can affect the entire portfolio.

Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. Changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of securities held. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**14. Portfolio transaction costs**

There were no transactions costs incurred during the year to 28 February 2012 (28/2/11: £nil).

# Corporate Bond Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

- Group 1 Seventh interim Shares purchased prior to 1 September 2011  
 Eighth interim Shares purchased prior to 1 October 2011  
 Ninth interim Shares purchased prior to 1 November 2011  
 Tenth interim Shares purchased prior to 1 December 2011  
 Eleventh interim Shares purchased prior to 1 January 2012  
 Final Shares purchased prior to 1 February 2012
- Group 2 Seventh interim Shares purchased between 1 September 2011 and 30 September 2011  
 Eighth interim Shares purchased between 1 October 2011 and 31 October 2011  
 Ninth interim Shares purchased between 1 November 2011 and 30 November 2011  
 Tenth interim Shares purchased between 1 December 2011 and 31 December 2011  
 Eleventh interim Shares purchased between 1 January 2012 and 31 January 2012  
 Final Shares purchased between 1 February 2012 and 28 February 2012

### Share Class A - Accumulation

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.8479	0.1696	0.6783	-	0.6783	0.7070
Eighth interim	0.8380	0.1676	0.6704	-	0.6704	0.6877
Ninth interim	0.8455	0.1691	0.6764	-	0.6764	0.7530
Tenth interim	0.8299	0.1660	0.6639	-	0.6639	0.7202
Eleventh interim	0.8578	0.1716	0.6862	-	0.6862	0.7248
Final	0.7471	0.1494	0.5977	-	0.5977	0.6124
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.3628	0.0726	0.2902	0.3881	0.6783	0.7070
Eighth interim	0.4406	0.0881	0.3525	0.3179	0.6704	0.6877
Ninth interim	0.5744	0.1149	0.4595	0.2169	0.6764	0.7530
Tenth interim	0.5618	0.1124	0.4494	0.2145	0.6639	0.7202
Eleventh interim	0.3359	0.0672	0.2687	0.4175	0.6862	0.7248
Final	0.4895	0.0979	0.3916	0.2061	0.5977	0.6124

### Share Class A - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.4115	0.0823	0.3292	-	0.3292	0.3568
Eighth interim	0.4064	0.0813	0.3251	-	0.3251	0.3460
Ninth interim	0.4084	0.0817	0.3267	-	0.3267	0.3775
Tenth interim	0.3996	0.0799	0.3197	-	0.3197	0.3600
Eleventh interim	0.4119	0.0824	0.3295	-	0.3295	0.3609
Final	0.3578	0.0716	0.2862	-	0.2862	0.3040
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.1649	0.0330	0.1319	0.1973	0.3292	0.3568
Eighth interim	0.2268	0.0454	0.1814	0.1437	0.3251	0.3460
Ninth interim	0.1665	0.0333	0.1332	0.1935	0.3267	0.3775
Tenth interim	0.2274	0.0455	0.1819	0.1378	0.3197	0.3600
Eleventh interim	0.1263	0.0253	0.1010	0.2285	0.3295	0.3609
Final	0.2378	0.0476	0.1902	0.0960	0.2862	0.3040

# Corporate Bond Fund

## Distribution Tables

(continued)

for the year ended 28 February 2012

### Share Class B - Accumulation

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.9074	0.1815	0.7259	-	0.7259	0.7538
Eighth interim	0.8980	0.1796	0.7184	-	0.7184	0.7335
Ninth interim	0.9056	0.1811	0.7245	-	0.7245	0.8026
Tenth interim	0.8896	0.1779	0.7117	-	0.7117	0.7674
Eleventh interim	0.9216	0.1843	0.7373	-	0.7373	0.7722
Final	0.8041	0.1608	0.6433	-	0.6433	0.6549
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.4850	0.0970	0.3880	0.3379	0.7259	0.7538
Eighth interim	0.5536	0.1107	0.4429	0.2755	0.7184	0.7335
Ninth interim	0.5610	0.1122	0.4488	0.2757	0.7245	0.8026
Tenth interim	0.4980	0.0996	0.3984	0.3133	0.7117	0.7674
Eleventh interim	0.4966	0.0993	0.3973	0.3400	0.7373	0.7722
Final	0.4529	0.0906	0.3623	0.2810	0.6433	0.6549

### Share Class B - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.4339	0.0868	0.3471	-	0.3471	0.3749
Eighth interim	0.4278	0.0856	0.3422	-	0.3422	0.3635
Ninth interim	0.4301	0.0860	0.3441	-	0.3441	0.3965
Tenth interim	0.4211	0.0842	0.3369	-	0.3369	0.3778
Eleventh interim	0.4350	0.0870	0.3480	-	0.3480	0.3787
Final	0.3784	0.0757	0.3027	-	0.3027	0.3202
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.2320	0.0464	0.1856	0.1615	0.3471	0.3749
Eighth interim	0.3126	0.0625	0.2501	0.0921	0.3422	0.3635
Ninth interim	0.3051	0.0610	0.2441	0.1000	0.3441	0.3965
Tenth interim	0.2890	0.0578	0.2312	0.1057	0.3369	0.3778
Eleventh interim	0.3036	0.0607	0.2429	0.1051	0.3480	0.3787
Final	0.1596	0.0319	0.1277	0.1750	0.3027	0.3202

# Environmental Investor Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide long-term capital growth through investment in primarily UK companies that demonstrate a positive commitment to the protection and preservation of the natural environment.

The Fund will invest in primarily United Kingdom companies that demonstrate a positive commitment to the protection and preservation of the natural environment and may include, directly or indirectly, shares, equity backed depository receipts, convertible securities and listed warrants, however the Fund may invest in other types of investment at the discretion of the ACD. The Fund's investment universe is drawn from companies benchmarked against a broad range of environmental criteria. Such criteria are agreed with the Fund's independent advisory body from time to time, which is made up of leading environmentalists.

### Criteria

These criteria are agreed from time to time with the Fund's independent advisory body which is made up of leading environmentalists. Negative and positive criteria are followed. For example, investment in companies which operate nuclear power stations, produce ozone depleting chemicals or practice intensive farming would be excluded from the Fund, whereas the Fund would look positively on companies employing environmental technology, waste management or those involved in healthcare and public transport. The Fund would also favour companies which, for example, exhibit high quality environmental reporting, develop energy from renewable resources, utilise managed and certified forests in wood products, avoid GM products or those active within the community.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
Environmental Investor Fund A Accumulation	(8.08)	15.02	42.08	(43.78)	(16.41)	16.42
Customised Benchmark*	(0.40)	18.05	49.44	(36.30)	N/A	N/A
FTSE All-Share Index	N/A	N/A	N/A	N/A	(1.30)	11.63

Source: Lipper for Environmental Investor Fund. Basis: Mid to Mid, net revenue reinvested and net of expenses.

\*Benchmark is calculated by removing a select group of stocks from the FTSE All-Share Benchmark, which for ethical reasons the fund cannot invest. The remaining stocks are then rebased to 100% on a daily basis and applied to the stock returns. Basis: Revenue reinvested and gross of expenses.

The benchmark index was amended for the year ended 28/02/2009. The new benchmark is a more accurate reflection of the investment available to this sub-fund. From 1 January 2010 the benchmark weights were capped at 10% and will drift until reset on 1 January each year.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The UK stock market made limited progress over the year under review. In total-return terms (i.e. including dividends) the FTSE All-Share index rose by a modest 1.5%. In capital only terms (i.e. excluding dividend payments) the FTSE All-Share Index actually fell, ending the year 2.0% lower. Over the same period, the Fund fell by 8.08%, underperforming its custom benchmark, which fell by 0.40%.

Reflecting investors' gloomy assessment of the prospects for the UK and global economies, the strongest performing areas of the market were defensive sectors such as tobacco, beverages and pharmaceuticals, whose fortunes are considered to be relatively immune to swings in the economic cycle. The Fund's screening criteria debarred it from investing in the tobacco sector, which investors prized for their perceived defensive qualities.

On a more stock-specific basis, the largest contributors to the Fund's negative return included a number of holdings that demonstrate a positive commitment to the protection and preservation of the natural environment. These included holdings in Trading Emissions (which invests in carbon credits and in projects that reduce greenhouse gases), Greenko (which owns and operates "green" energy assets in India) and Low Carbon Accelerator (a low-carbon investment company) along with Pursuit Dynamics (pump technologies). The escalation of the European debt crisis in late 2011 had a heavy impact on many renewable energy businesses. The S&P Global Clean Energy Index fell by over 40% over the reporting period. In some cases, this was due to the withdrawal of government subsidies. In the case of Trading Emissions, the share price was hit by a collapse in the carbon credit market.

During the year we established new holdings in Nandan Cleantec, DS Smith, Ashtead, Senior, RSA Insurance, Spirax Sarco Engineering and Pennon. Pennon is one of the UK's most successful utility companies and has a large waste-to-energy business. Spirax Sarco Engineering is one of the UK's most successful industrial businesses and is a leading provider of steam management systems that help industrial customers to reduce their carbon footprints. We sold holdings in Experian, Royal Bank of Scotland, Standard Chartered and Trading Emissions.

## Authorised Fund Manager's Report

(continued)

Looking forward, stock market volatility will likely persist for as long as the debate over the future of the global economy rages. Recent developments in the Middle East, which have sent the price of crude higher, have added to the uncertainty. That said, a sharp rally in the first two months of 2012 seemed to reflect an emerging consensus that shares offer good value relative to other types of investment such as government bonds. But while stock market valuations are still attractive, we are aware that considerable room for disappointment remains. Careful navigation of these difficult waters is essential. We will continue to seek out attractively valued companies that meet the Fund's environmental remit.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Environmental Investor Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (0.67%*)</b>		<b>1,723</b>	<b>1.10</b>
<b>Forestry &amp; Paper</b>			
Cambium Global Timberland	3,050,085	1,723	1.10
<b>CONSUMER GOODS (5.52%*)</b>		<b>19,647</b>	<b>12.48</b>
<b>Beverages</b>			
Diageo	699,585	10,497	6.67
SABMiller	212,284	5,465	3.47
<b>Household Goods &amp; Home Construction</b>			
Berkeley	267,625	3,685	2.34
<b>CONSUMER SERVICES (12.09%*)</b>		<b>20,064</b>	<b>12.75</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	1,791,924	5,698	3.62
<b>Media</b>			
ITE	1,334,027	3,095	1.97
Reed Elsevier	1,375,537	7,586	4.82
WPP	463,484	3,685	2.34
<b>FINANCIALS (40.29%*)</b>		<b>32,275</b>	<b>20.51</b>
<b>Banks</b>			
Barclays	829,159	2,022	1.28
HSBC	1,560,561	8,638	5.49
Lloyds Banking †	7,189,540	2,509	1.59
Standard Chartered	114,038	1,838	1.17
<b>Equity Investment Instruments</b>			
Infrastructure India	405,405	261	0.17
Low Carbon Accelerator	2,900,000	210	0.13
<b>Financial Services</b>			
Impax Asian Environmental Markets	1,000,000	865	0.55
Impax Asian Environmental Markets Subscription Shares	200,000	16	0.01
Impax Environmental Markets	836,290	865	0.55
<b>Life Insurance</b>			
Aviva	512,414	1,907	1.21
Prudential	456,219	3,282	2.09
Resolution	2,182,425	5,783	3.68
<b>Nonlife Insurance</b>			
RSA Insurance	2,030,888	2,216	1.41
<b>Real Estate Investment &amp; Services</b>			
Savills	517,371	1,863	1.18
<b>HEALTH CARE (10.38%*)</b>		<b>24,608</b>	<b>15.64</b>
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	353,218	10,033	6.38
GlaxoSmithKline	1,039,233	14,575	9.26
<b>INDUSTRIALS (11.22%*)</b>		<b>26,168</b>	<b>16.63</b>
<b>General Industrials</b>			
DS Smith	2,700,524	4,618	2.93
Smiths	357,568	3,880	2.47

# Environmental Investor Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>Industrial Engineering</b>			
Halma	929,200	3,594	2.28
Pursuit Dynamics	1,227,798	1,034	0.66
Pursuit Dynamics Rights 09/03/2012	153,474	2	-
Senior	2,117,158	4,137	2.63
Spirax Sarco Engineering	101,461	2,108	1.34
Zenergy Power	3,268,812	261	0.17
<b>Support Services</b>			
Ashtead	1,668,499	4,110	2.61
Michael Page International	534,202	2,424	1.54
<b>OIL &amp; GAS (0.00%*)</b>		<b>2,810</b>	<b>1.79</b>
<b>Oil Equipment, Services &amp; Distribution</b>			
Nandan Cleantec	3,305,523	2,810	1.79
<b>TECHNOLOGY (1.89%*)</b>		<b>1,597</b>	<b>1.01</b>
<b>Software &amp; Computer Services</b>			
Fidessa	96,347	1,597	1.01
<b>TELECOMMUNICATIONS (8.79%*)</b>		<b>14,723</b>	<b>9.36</b>
<b>Mobile Telecommunications</b>			
Vodafone	8,560,006	14,723	9.36
<b>UTILITIES (6.92%*)</b>		<b>11,683</b>	<b>7.43</b>
<b>Electricity</b>			
Greenko	4,018,266	4,541	2.89
Scottish & Southern Energy	383,299	4,918	3.13
<b>Gas, Water &amp; Multiutilities</b>			
Pennon	317,046	2,224	1.41
<b>Portfolio of investments</b>		<b>155,298</b>	<b>98.70</b>
<b>Net other assets</b>		<b>2,046</b>	<b>1.30</b>
<b>Total net assets</b>		<b>157,344</b>	<b>100.00</b>

All holdings are equities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

\* Comparative figures shown in brackets relate to 28 February 2011.

† This investment is a related party (see note 9).

# Environmental Investor Fund

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>66,676</u></b>	<b>Total sales for the year</b>	<b><u>66,408</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Prudential	4,348	Standard Chartered	7,658
Ashtead	4,124	Barclays	7,077
Smiths	3,968	HSBC	5,307
Senior	3,699	Prudential	5,204
Reed Elsevier	3,659	Experian	4,173
Spirent Communications	3,642	Shaftesbury	4,023
Lloyds Banking †	3,599	Schroders	3,761
Diageo	3,582	Petrofac	3,377
Petrofac	3,542	Bunzl	3,067
Standard Chartered	3,230	Spirent Communications	3,030
AstraZeneca	3,169	Lloyds Banking †	2,651
DS Smith	2,507	ITE	2,224
RSA Insurance	2,224	Fidessa	1,970
Barclays	2,202	WPP	1,571
Pennon	2,175	Smiths	1,535
DS Smith Fully Paid Rights	2,148	Trading Emissions	1,444
Nandan Cleantec	1,983	Royal Bank of Scotland	1,281
SABMiller	1,856	Compass	1,171
Spirax Sarco Engineering	1,848	Savills	1,073
Tesco	1,834	Greenko	1,063

† This investment is a related party (see note 9).



# Environmental Investor Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	69,549,849	42,722,751	162.79	1.62
Accumulation 28/02/11	72,311,374	38,672,751	186.98	1.63
Accumulation 28/02/12	60,615,358	35,235,751	172.03	1.62
Share Class X				
Accumulation 28/02/10	91,696,988	50,253,589	182.47	0.12
Accumulation 28/02/11	104,634,264	49,179,589	212.76	0.12
Accumulation 28/02/12	96,728,099	48,679,789	198.70	0.12

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	255.40	210.50	2.4045
Accumulation 2008	219.50	115.90	4.0676
Accumulation 2009	167.60	102.60	5.1054
Accumulation 2010	188.10	155.30	2.8013
Accumulation 2011	194.70	153.40	2.6433
Accumulation 2012*	172.90	163.40	4.1425
Share Class X			
Accumulation 2007	274.20	228.10	6.0770
Accumulation 2008	238.40	128.10	8.1119
Accumulation 2009	181.70	113.90	8.2254
Accumulation 2010	213.40	174.70	5.5795
Accumulation 2011	222.40	175.70	5.9677
Accumulation 2012*	199.60	188.30	7.7508

(†) Allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.

# Environmental Investor Fund

## Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(17,872)		20,811
Revenue	3	6,494		5,334	
Expenses	4	(1,160)		(1,272)	
Finance costs: Interest	6	-		(1)	
Net revenue before taxation		5,334		4,061	
Taxation	5	-		-	
Net revenue after taxation			5,334		4,061
<b>Total return before distribution</b>			<b>(12,538)</b>		<b>24,872</b>
Finance costs: Distribution	6		(5,334)		(4,061)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(17,872)</b>		<b>20,811</b>

## Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>176,946</b>		<b>161,247</b>
Amounts receivable on creation of shares	4,212		7,691	
Less: Amounts payable on cancellation of shares	(11,188)		(16,835)	
		(6,976)		(9,144)
Dilution levy charged		34		99
Stamp duty reserve tax		(21)		(24)
Change in net assets attributable to shareholders from investment activities		(17,872)		20,811
Retained distribution on accumulation shares		5,233		3,957
<b>Closing net assets attributable to shareholders</b>		<b>157,344</b>		<b>176,946</b>

Notes to the Financial Statements are on pages 42 to 45.

# Environmental Investor Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		155,298	173,003
Debtors	7	851	2,941
Cash and bank balances		1,432	6,345
<b>Total other assets</b>		<b>2,283</b>	<b>9,286</b>
<b>Total assets</b>		<b>157,581</b>	<b>182,289</b>
<b>Liabilities</b>			
Creditors	8	(237)	(5,343)
<b>Total liabilities</b>		<b>(237)</b>	<b>(5,343)</b>
<b>Net assets attributable to shareholders</b>		<b>157,344</b>	<b>176,946</b>

*Notes to the Financial Statements are on pages 42 to 45.*

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(17,871)	20,800
Currency gains	-	12
Handling charges	(1)	(1)
Net capital (losses)/gains	(17,872)	20,811

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	5,388	4,280
Overseas taxable revenue	-	(5)
Overseas non-taxable revenue	944	573
Property revenue from UK REITs - PID	46	81
Bank interest	18	11
Stocklending revenue	14	22
UK scrip dividends	84	338
Underwriting commission	-	34
Total revenue	6,494	5,334

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	969	1,072
Registration fees	163	171
	1,132	1,243
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	15	16
Safe custody fees	3	3
	18	19
<b>Other expenses:</b>		
Audit fee	10	10
Total expenses	1,160	1,272

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
There is no corporation tax charge in the current year or prior year.		
(b) Factors affecting current tax charge for the year:		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	5,334	4,061
Corporation tax of 20% (2011: 20%)	1,067	812
Effects of:		
UK dividends*	(1,077)	(856)
Non-taxable scrip dividends	(17)	(68)
Overseas non-taxable revenue**	(189)	(114)
Movement in excess management expenses	216	226
Current tax charge for year	-	-

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £3,993,879 (28/02/11: £3,777,596) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distribution and interest

The distribution takes account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Final	5,233	3,957
Add: Revenue deducted on cancellation of shares	177	214
Deduct: Revenue received on creation of shares	(76)	(110)
Net distribution for the year	5,334	4,061
Bank interest	-	1
Total finance costs	5,334	4,062

Details of the distribution per share is set out in the Distribution Tables on page 46.

## 7. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	52	2,291
Amounts receivable for issue of shares	-	29
Accrued revenue	799	618
Dilution levy receivable	-	1
Income tax recoverable	-	2
Total debtors	851	2,941

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**8. Creditors**

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	-	4,964
Amounts payable for cancellation of shares	143	269
Accrued expenses	94	110
Total creditors	237	5,343

**9. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £81,920 (28/02/11: £97,781) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	61.47	58.92

**10. Share classes**

The Fund has two share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.50
Share Class X - Accumulation:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 39.

The distribution per share class is given in the Distribution Tables on page 46.

All share classes have the same rights on winding up.

**11. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**12. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £21,447,648 (28/02/11: £476,060). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £22,530,381 (28/02/11: £499,863). This collateral is in the form of bonds £3,527,162; equities £258,230 and cash £18,744,989 (28/02/11: equities £499,863).

The gross earnings and fees paid for the year are £20,590 (28/02/11: £35,156) and £6,364 (28/02/11: £13,008).

**13. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 34. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling, however the Fund receives a small portion of revenue in foreign currency. As a result, movements in exchange rates may affect the revenue of the portfolio.

as at 28 February 2012

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities and fixed interest investments. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cashflows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £1.432m (28/02/11: holding £6.345m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in equities. The value of equities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**14. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	66,308	57,596	66,483	64,568
Trades in the year before transaction costs	66,308	57,596	66,483	64,568
Commissions	83	77	(75)	(76)
Taxes	285	213	-	-
Total costs	368	290	(75)	(76)
<b>Total net trades in the year after transaction costs</b>	<b>66,676</b>	<b>57,886</b>	<b>66,408</b>	<b>64,492</b>

# Environmental Investor Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 March 2011

Group 2 Final Shares purchased between 1 March 2011 and 28 February 2012

### Share Class A - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	4.1425	-	4.1425	2.6433
Group 2	(p)	(p)	(p)	(p)
Final	1.7932	2.3493	4.1425	2.6433

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

### Share Class X - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	7.7508	-	7.7508	5.9677
Group 2	(p)	(p)	(p)	(p)
Final	3.8434	3.9074	7.7508	5.9677

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.



## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide long-term capital growth through investment in primarily UK companies with positive ethical attributes and practices.

The Fund will invest in primarily UK companies that demonstrate positive ethical attributes and practices and may include, directly or indirectly, shares, equity backed depository receipts, convertible securities and listed warrants. However, the Fund may invest in other types of investment at the discretion of the ACD. The Fund's investment universe is drawn from companies benchmarked against a broad range of ethical criteria. Such criteria are agreed with the Fund's advisory body from time to time.

### Criteria

The ethical criteria of the Fund are agreed from time to time with the Fund's advisory body. Negative and positive criteria are followed. For example, investment in companies which produce alcohol or tobacco, generate turnover from gambling, publish or distribute pornography, provide animal testing services, test cosmetics on animals, own or operate nuclear power stations or sell fur products would be excluded from the Fund, whereas the Fund would look positively on companies with a high proportion of their turnover coming from safety equipment, healthcare or environmental technology. The Fund would also favour companies which, for example, have good records on health and safety, equal opportunities or are active in the community.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
Ethical Fund A Accumulation	(10.19)	12.19	40.58	(42.82)	(15.39)	15.74
Customised Benchmark*	(1.82)	18.38	44.18	(35.68)	N/A	N/A
FTSE All-Share Index	N/A	N/A	N/A	N/A	(1.30)	11.63

Source: Lipper for Ethical Fund. Basis: Mid to Mid, net revenue reinvested and net of expenses.

\*Benchmark is calculated by removing a select group of stocks from the FTSE All-Share Benchmark, which for ethical reasons the fund cannot invest. The remaining stocks are then rebased to 100% on a daily basis and applied to the stock returns. Basis: Revenue reinvested and gross of expenses.

The benchmark index was amended for the year ended 28/02/2009. The new benchmark is a more accurate reflection of the investment available to this sub-fund. From 1 January 2010 the benchmark weights were capped at 10% and will drift until reset on 1 January each year.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The UK stock market made limited progress over the year under review. In total-return terms (i.e. including dividends) the FTSE All-Share Index rose by a modest 1.5%. In capital only terms (i.e. excluding dividend payments) the FTSE All-Share Index actually fell, ending the year 2.0% lower. Over the same period, the Fund fell by 10.19%, underperforming its customised benchmark, which fell by 1.82%.

Reflecting investors' gloomy assessment of the prospects for the UK and global economies, the strongest performing areas of the market were defensive sectors. The Fund's screening criteria debarred it from investing in one of these sectors: tobacco, which investors prized for its perceived defensive qualities. On a more stock-specific basis, the largest contributors to the Fund's negative return included a number of holdings that demonstrate a positive commitment to the protection and preservation of the natural environment. These included positions in Trading Emissions (which invests in carbon credits and in projects that reduce greenhouse gases) and Greenko (which owns and operates "green" energy assets in India) along with Pursuit Dynamics (pump technologies). The escalation of the European debt crisis in late 2011 had a heavy impact on many renewable energy businesses. The S&P Global Clean Energy Index fell by over 40% over the reporting period. In some cases, this was due to the withdrawal of government subsidies. In the case of Trading Emissions, the share price was hit by a collapse in the carbon credit market.

During the year we established new holdings in Ashtead, Senior, RSA Insurance, Spirax Sarco Engineering and Pennon. Pennon is one of the UK's most successful utility companies and has a large waste-to-energy business. Spirax Sarco Engineering is one of the UK's most successful industrial businesses and is a leading provider of steam management systems that help industrial customers to reduce their carbon footprints. We sold holdings in Experian, Royal Bank of Scotland and Standard Chartered. We also disposed of the Fund's holdings in Trading Emissions and Thomas Cook in the wake of significant losses and profit warnings.

## Authorised Fund Manager's Report

(continued)

Looking forward, stock market volatility will likely persist for as long as the debate over the future of the global economy rages. Recent developments in the Middle East, which have sent the price of crude higher, have only added to the uncertainty. That said, a sharp rally in the first two months of 2012 seemed to reflect an emerging consensus that shares offer good value relative to other types of investment such as government bonds. But while stock market valuations are still attractive, we are aware that considerable room for disappointment remains. Careful navigation of these difficult waters will remain essential. We will also continue to seek out attractively valued companies that meet the Fund's ethical investment remit.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Ethical Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (6.36%*)</b>		<b>2,204</b>	<b>3.15</b>
<b>Chemicals</b>			
Johnson Matthey	58,031	1,357	1.94
<b>Mining</b>			
Xstrata	70,368	847	1.21
<b>CONSUMER GOODS (1.04%*)</b>		<b>1,597</b>	<b>2.28</b>
<b>Household Goods &amp; Home Construction</b>			
Berkeley	115,951	1,597	2.28
<b>CONSUMER SERVICES (11.26%*)</b>		<b>8,640</b>	<b>12.33</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	670,798	2,134	3.04
<b>Media</b>			
ITE	581,483	1,349	1.93
Reed Elsevier	593,192	3,271	4.67
WPP	237,289	1,886	2.69
<b>FINANCIALS (31.44%*)</b>		<b>14,163</b>	<b>20.22</b>
<b>Banks</b>			
HSBC	925,160	5,121	7.31
Lloyds Banking †	3,115,294	1,087	1.55
<b>Life Insurance</b>			
Aviva	223,606	832	1.19
Prudential	200,244	1,440	2.06
Resolution	1,033,456	2,739	3.91
<b>Nonlife Insurance</b>			
RSA Insurance	1,163,161	1,269	1.81
<b>Real Estate Investment &amp; Services</b>			
Savills	233,063	839	1.20
<b>Real Estate Investment Trusts</b>			
Shaftesbury	170,776	836	1.19
<b>HEALTH CARE (11.19%*)</b>		<b>11,010</b>	<b>15.71</b>
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	165,489	4,701	6.71
GlaxoSmithKline	449,873	6,309	9.00
<b>INDUSTRIALS (9.92%*)</b>		<b>9,304</b>	<b>13.29</b>
<b>Industrial Engineering</b>			
Halma	448,894	1,736	2.48
Pursuit Dynamics	533,235	449	0.64
Pursuit Dynamics Rights 09/03/2012	66,654	1	-
Senior	889,468	1,738	2.48
Spirax Sarco Engineering	47,408	985	1.41
Zenergy Power	485,500	39	0.06
<b>Support Services</b>			
Ashtead	730,250	1,799	2.57
Bunzl	158,861	1,512	2.16
Michael Page International	230,207	1,045	1.49

# Ethical Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>OIL &amp; GAS (8.09%*)</b>		<b>5,751</b>	<b>8.20</b>
<b>Oil &amp; Gas Producers</b>			
BG	211,005	3,251	4.64
Great Eastern Energy GDR	406,217	1,279	1.82
Indus Gas	130,546	1,221	1.74
<b>TECHNOLOGY (1.99%*)</b>		<b>832</b>	<b>1.19</b>
<b>Software &amp; Computer Services</b>			
Fidessa	50,183	832	1.19
<b>TELECOMMUNICATIONS (8.86%*)</b>		<b>6,244</b>	<b>8.91</b>
<b>Mobile Telecommunications</b>			
Vodafone	3,630,399	6,244	8.91
<b>UTILITIES (8.02%*)</b>		<b>7,131</b>	<b>10.18</b>
<b>Electricity</b>			
Greenko	1,755,387	1,984	2.83
Scottish & Southern Energy	130,425	1,673	2.39
<b>Gas, Water &amp; Multiutilities</b>			
Centrica	717,120	2,132	3.04
Pennon	191,303	1,342	1.92
<b>Portfolio of investments</b>		<b>66,876</b>	<b>95.46</b>
<b>Net other assets</b>		<b>3,182</b>	<b>4.54</b>
<b>Total net assets</b>		<b>70,058</b>	<b>100.00</b>

All holdings are equities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

\* Comparative figures shown in brackets relate to 28 February 2011.

Stocks shown as GDR's represent Global Depositary Receipts.

† This investment is a related party (see note 9).

# Ethical Fund

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>23,544</u></b>	<b>Total sales for the year</b>	<b><u>21,828</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Ashtead	1,805	Xstrata	3,075
Prudential	1,708	Standard Chartered	2,780
Senior	1,551	Prudential	2,515
Reed Elsevier	1,439	Experian	1,999
Bunzl	1,322	BG	1,296
Pennon	1,320	Bunzl	1,280
AstraZeneca	1,301	Hardy Oil & Gas	975
Xstrata	1,289	Vodafone	855
RSA Insurance	1,283	Fidessa	787
Hardy Oil & Gas	1,184	ITE	671
GlaxoSmithKline	1,173	Lloyds Banking †	663
Lloyds Banking †	1,170	Royal Bank of Scotland	563
Indus Gas	950	Compass	529
Tesco	873	Trading Emissions	516
Spirax Sarco Engineering	867	Shaftesbury	501
Centrica	827	Greenko	466
ITE	721	Johnson Matthey	457
Berkeley	690	AstraZeneca	378
Johnson Matthey	569	Pursuit Dynamics	333
Vodafone	528	GlaxoSmithKline	332

† This investment is a related party (see note 9).

# Ethical Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	2,257,447	2,406,107	93.82	1.63
Accumulation 28/02/11	2,412,336	2,268,807	106.33	1.63
Accumulation 28/02/12	2,025,396	2,118,207	95.62	1.62
Share Class B				
Accumulation 28/02/10	3,554,010	3,713,719	95.70	1.38
Accumulation 28/02/11	3,626,872	3,335,719	108.73	1.38
Accumulation 28/02/12	3,093,570	3,155,919	98.02	1.37
Share Class X				
Accumulation 28/02/10	61,820,518	59,052,900	104.69	0.13
Accumulation 28/02/11	69,795,508	57,949,700	120.44	0.12
Accumulation 28/02/12	64,938,903	59,062,200	109.95	0.12

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	146.70	123.50	1.4500
Accumulation 2008	128.30	67.33	2.3006
Accumulation 2009	97.87	61.36	2.9843
Accumulation 2010	106.90	88.55	1.5200
Accumulation 2011	110.60	86.81	1.3495
Accumulation 2012*	96.32	90.91	2.2392
Share Class B			
Accumulation 2007	148.60	125.30	1.7838
Accumulation 2008	130.20	68.46	2.6653
Accumulation 2009	99.74	62.44	3.2688
Accumulation 2010	109.30	90.40	1.7664
Accumulation 2011	113.20	88.87	1.6340
Accumulation 2012*	98.74	93.17	2.5448
Share Class X			
Accumulation 2007	155.90	132.30	3.5389
Accumulation 2008	138.60	73.72	4.6064
Accumulation 2009	108.60	67.48	4.7762
Accumulation 2010	120.80	99.31	3.1017
Accumulation 2011	125.80	98.99	3.2074
Accumulation 2012*	110.70	104.30	4.2398

(†) Allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.

## Ethical Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(9,269)		8,094
Revenue	3	2,766		2,156	
Expenses	4	(161)		(168)	
Finance costs: Interest	6	-		(1)	
Net revenue before taxation		2,605		1,987	
Taxation	5	(8)		(3)	
Net revenue after taxation			2,597		1,984
<b>Total return before distribution</b>			<b>(6,672)</b>		<b>10,078</b>
Finance costs: Distribution	6		(2,597)		(1,984)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(9,269)</b>		<b>8,094</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>75,835</b>		<b>67,632</b>
Amounts receivable on creation of shares	5,051		3,604	
Less: Amounts payable on cancellation of shares	(4,178)		(5,435)	
		873		(1,831)
Dilution levy charged		1		10
Stamp duty reserve tax		(14)		(14)
Change in net assets attributable to shareholders from investment activities		(9,269)		8,094
Retained distribution on accumulation shares		2,632		1,944
<b>Closing net assets attributable to shareholders</b>		<b>70,058</b>		<b>75,835</b>

Notes to the Financial Statements are on pages 55 to 58.

# Ethical Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		66,876	74,450
Debtors	7	498	1,475
Cash and bank balances		2,717	92
<b>Total other assets</b>		<b>3,215</b>	<b>1,567</b>
<b>Total assets</b>		<b>70,091</b>	<b>76,017</b>
<b>Liabilities</b>			
Creditors	8	(33)	(118)
Bank overdrafts		-	(64)
<b>Total liabilities</b>		<b>(33)</b>	<b>(182)</b>
<b>Net assets attributable to shareholders</b>		<b>70,058</b>	<b>75,835</b>

*Notes to the Financial Statements are on pages 55 to 58.*



## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(9,268)	8,088
Currency gains	-	7
Handling charges	(1)	(1)
Net capital (losses)/gains	(9,269)	8,094

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	2,303	1,762
Overseas taxable revenue	-	(2)
Overseas non-taxable revenue	395	207
Property revenue from UK REITs - PID	25	24
Bank interest	10	4
Stocklending revenue	4	2
UK scrip dividends	29	147
Underwriting commission	-	12
Total revenue	2,766	2,156

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	74	79
Registration fees	71	73
	145	152
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	7	7
Safe custody fees	1	1
	8	8
<b>Other expenses:</b>		
Audit fee	8	8
Total expenses	161	168

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
Irrecoverable overseas tax	8	3
(b) Factors affecting current tax charge for the year:		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	2,605	1,987
Corporation tax of 20% (2011: 20%)	521	397
Effects of:		
UK dividends*	(460)	(353)
Non-taxable scrip dividends	(6)	(29)
Overseas non-taxable revenue**	(79)	(41)
Movement in excess management expenses	24	26
Irrecoverable overseas tax	8	3
Current tax charge for year (note 5a)	8	3

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £624,920 (28/02/11: £600,471) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distribution and interest

The distribution takes account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Final	2,632	1,944
Add: Revenue deducted on cancellation of shares	82	95
Deduct: Revenue received on creation of shares	(117)	(55)
Net distribution for the year	2,597	1,984
Bank interest	-	1
Total finance costs	2,597	1,985

Details of the distribution per share is set out in the Distribution Tables on pages 59 to 60.

## 7. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	22	1,035
Amounts receivable for issue of shares	116	178
Accrued revenue	347	257
Income tax recoverable	-	1
Overseas tax recoverable	13	4
Total debtors	498	1,475

# Notes to the Financial Statements

(continued)

as at 28 February 2012

## 8. Creditors

	28/02/12	28/02/11
	£000	£000
Amounts payable for cancellation of shares	13	97
Accrued expenses	20	21
Total creditors	33	118

## 9. Related party transactions

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £10,575 (28/02/11: £12,157) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	58.11	54.64

## 10. Share classes

The Fund has three share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.50
Share Class B - Accumulation:	1.25
Share Class X - Accumulation:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 52.

The distribution per share class is given in the Distribution Tables on pages 59 to 60.

All share classes have the same rights on winding up.

## 11. Capital commitments and contingent liabilities

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

## 12. Securities on loan

The aggregate value of securities on loan at 28 February 2012 is £7,757,420 (28/02/11: £94,630). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £8,182,875 (28/02/11: £96,484). This collateral is in the form of bonds £3,788; equities £545,279 and cash £7,633,808 (28/02/11: cash £96,484).

The gross earnings and fees paid for the year are £6,127 (28/02/11: £3,544) and £1,927 (28/02/11: £1,311).

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**13. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 47. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling, however the Fund receives a small portion of revenue in foreign currency. As a result, movements in exchange rates may affect the revenue of the portfolio.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets			Net foreign currency liabilities		
	28/02/12			28/02/11		
	Monetary exposures	Non-monetary exposures	Total	Monetary exposures	Non-monetary exposures	Total
Currency	£000	£000	£000	£000	£000	£000
US dollar	13	-	13	(63)	-	(63)

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cashflows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £2.717m (28/02/11: holding £0.028m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in equities. The value of equities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**14. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	23,407	21,155	21,851	22,236
Trades in the year before transaction costs	23,407	21,155	21,851	22,236
Commissions	34	26	(23)	(28)
Taxes	103	65	-	-
Total costs	137	91	(23)	(28)
<b>Total net trades in the year after transaction costs</b>	<b>23,544</b>	<b>21,246</b>	<b>21,828</b>	<b>22,208</b>

# Ethical Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 March 2011

Group 2 Final Shares purchased between 1 March 2011 and 28 February 2012

#### Share Class A - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	2.2392	-	2.2392	1.3495
Group 2	(p)	(p)	(p)	(p)
Final	1.0023	1.2369	2.2392	1.3495

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

#### Share Class B - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	2.5448	-	2.5448	1.6340
Group 2	(p)	(p)	(p)	(p)
Final	1.2311	1.3137	2.5448	1.6340

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Distribution Tables

(continued)

for the year ended 28 February 2012

### Share Class X - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	4.2398	-	4.2398	3.2074
Group 2	(p)	(p)	(p)	(p)
Final	1.7198	2.5200	4.2398	3.2074

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

# Gilt Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide an income, whilst having regard to capital value, through investment primarily in UK Government Securities.

The Fund will invest primarily in a portfolio of UK Government and other fixed interest securities. However, the Fund may invest in other types of investment at the discretion of the ACD. These investments may include loan stock, overseas and non-UK government bonds.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
Gilt Fund A Accumulation	14.31	4.85	3.12	8.77	1.42	(1.69)
UK Gilt Sector Average Return	16.29	4.68	0.77	7.91	2.12	(1.53)
FTA British Government All Stocks Index	16.31	5.59	2.46	9.55	4.59	(0.18)

*Source: Lipper for Gilt Fund and UK Gilt Sector Average Return (funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated, government backed securities, with at least 80% invested in UK government securities (Gilts)).*

*Basis: Mid to Mid, net revenue reinvested and net of expenses.*

*Source: Datastream for the FTA British Government All Stocks Index. Basis: Gross revenue reinvested and gross of expenses.*

*Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.*

UK government bond prices have risen, and the benchmark ten-year yield has continued to fall, practically throughout the 12 months to 28 February 2012. Investor risk aversion was been fuelled during 2011 by a catalogue of natural disasters and geopolitical events. These have ranged from the Japanese tsunami and turmoil in the Arab world and the peripheral Eurozone debt crisis, through to looming anxiety over the possibility of a double-dip recession.

For the first two months of the review period, gilts traded within a fairly narrow range, but thereafter, prices rose and yields fell fairly steadily. This was largely due to a "flight to quality" from investors who were unnerved by the Eurozone sovereign debt crisis. After a short hiatus in late June when conditions were agreed, for an EU Greek bailout. Gilt yields resumed their downward trajectory, spurred by renewed anxiety over Greece and worries over Italian and Spanish finances.

The remainder of the year represented a continuation of these uncertainties. European politicians and legislators unveiled a series of initiatives aimed at resolving the eurozone sovereign debt crisis, but a meaningful resolution has proven elusive. Accordingly, the flight to quality trend has remained intact, providing continued support for UK Gilts.

The Gilt Fund returned 14.31% in the twelve months to 28 February. This compares unfavourably with the FTA British Government All Stocks index, which returned 16.31%. We maintained a short duration position for most of the first half of the review period. (That is, the portfolio was composed of bonds that were less sensitive to changes in yields. Accordingly, if yields rose, the value of a fund positioned with a short duration would fall less sharply than one with a neutral duration.) As yields in fact fell, this position generally detracted from returns. However, this was countered to an extent by an overweight allocation to inflation-linked bonds, which outperformed conventional bonds.

A long duration position in bonds with longer maturities boosted performance between September and the end of December, as yields fell towards record lows. A short duration at two years was also beneficial, as yields fell at a lesser rate at the shorter end of the curve.

We maintained an overweight position in corporate bonds in the latter part of the review period. Between September and December this detracted from performance as yield spreads widened, but much of this ground was reclaimed as corporate bonds started 2012 very strongly, outperforming government bonds. An allocation to index-linked bonds was also helpful, as these have consistently outperformed nominal government bonds.

Looking ahead, the global economy looks to be regaining momentum. There remain risks from euro area uncertainties and Iran-related threats to energy supplies, but the European Central Bank's two massive three-year financing operations have improved confidence in the euro area. If economic activity strengthens as we expect, some change of course is likely in the foreseeable future. We expect first interest rate rises in the UK in the second half of 2013, and a more sustained uptrend over the next couple of years as markets anticipate a gradual move of interest rates back up to more normal levels.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Gilt Fund

## Portfolio Statement

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>AUSTRALIAN DOLLAR DENOMINATED BONDS (1.88%*)</b>		<b>5,878</b>	<b>1.21</b>
<b>Corporate Bonds</b>			
Rabobank Nederland 2.805% 28/08/2020	AUD3,300,000	2,382	0.49
<b>Government Bonds</b>			
New South Wales Treasury 2.5% 20/11/2035	AUD4,677,000	3,496	0.72
<b>STERLING DENOMINATED BONDS (94.70%*)</b>		<b>457,826</b>	<b>94.53</b>
<b>Corporate Bonds</b>			
Tesco 4% Index-Linked 08/09/2016	GBP1,169,000	1,936	0.40
<b>Government Bonds</b>			
UK Treasury 5.25% 07/06/2012	GBP71,696,000	72,650	15.00
UK Treasury 4.5% 07/03/2013	GBP54,259,000	56,522	11.67
UK Treasury 4% 07/09/2016	GBP3,966,000	4,531	0.94
UK Treasury 4.5% 07/03/2019	GBP6,958,000	8,399	1.73
UK Treasury 3.75% 07/09/2020	GBP500	1	-
UK Treasury 3.75% 07/09/2021	GBP40,324,000	46,348	9.57
UK Treasury 5% 07/03/2025	GBP37,961,000	48,841	10.08
UK Treasury 4.75% 07/12/2030	GBP6,822,000	8,633	1.78
UK Treasury 4.25% 07/06/2032	GBP22,599,000	26,895	5.55
UK Treasury 4.5% 07/09/2034	GBP5,586,000	6,874	1.42
UK Treasury 4.25% 07/03/2036	GBP15,620,000	18,625	3.85
UK Treasury 4.75% 07/12/2038	GBP9,522,000	12,280	2.54
UK Treasury 4.25% 07/09/2039	GBP42,510,000	50,829	10.49
UK Treasury 4.25% 07/12/2040	GBP2,618,000	3,135	0.65
UK Treasury 4.25% 07/12/2046	GBP2,894,000	3,524	0.73
UK Treasury 3.75% 22/07/2052	GBP27,064,000	30,222	6.24
UK Treasury 2.5% Index-Linked 16/08/2013	GBP3,420,000	9,681	2.00
UK Treasury 2.5% Index-Linked 26/07/2016	GBP4,739,000	16,303	3.37
UK Treasury 2.5% Index-Linked 16/04/2020	GBP6,403,000	23,495	4.85
UK Treasury 2.5% Index-Linked 17/07/2024	GBP1,875,000	6,198	1.28
UK Treasury 4.125% Index-Linked 22/07/2030	GBP606,000	1,904	0.39
<b>US DOLLAR DENOMINATED BONDS (0.97%*)</b>		-	-
<b>DERIVATIVES (-0.07%*)</b>		<b>(6)</b>	<b>-</b>
<b>Forward Currency Contracts</b>			
<b>Australian Dollar</b>			
Sold AUD2,113,000 for GBP1,423,835 Settlement 21/03/2012		(8)	-
Sold AUD1,002,208 for GBP674,597 Settlement 21/03/2012		(5)	-
Sold AUD5,780,714 for GBP3,925,382 Settlement 21/03/2012		7	-
<b>Portfolio of investments<sup>^</sup></b>		<b>463,698</b>	<b>95.74</b>
<b>Net other assets</b>		<b>20,620</b>	<b>4.26</b>
<b>Total net assets</b>		<b>484,318</b>	<b>100.00</b>

Forward Currency Contracts are Over the Counter (OTC) derivatives.

\* Comparative figures shown in brackets relate to 28 February 2011.

<sup>^</sup> Including derivative liabilities.



## Portfolio Statement

(continued)

as at 28 February 2012

	Market Value £000	Total Net Assets %
Summary of portfolio by credit ratings		
Rating block		
AAA	459,386	94.85
AA	2,382	0.49
NR	1,936	0.40
Total bonds	463,704	95.74
Other	20,614	4.26
Total net assets	484,318	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's.

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>1,454,969</u></b>	<b>Total sales for the year</b>	<b><u>1,416,338</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
UK Treasury 5% 07/03/2025	140,075	UK Treasury 5% 07/03/2012	188,854
UK Treasury 5% 07/03/2012	134,169	UK Treasury 2% 22/01/2016	121,305
UK Treasury 5.25% 07/06/2012	93,777	UK Treasury 3.75% 07/09/2020	114,602
UK Treasury 2.5% Index-Linked 26/07/2016	89,332	UK Treasury 4.5% 07/09/2034	111,437
UK Treasury 2% 22/01/2016	65,458	UK Treasury 3.25% 07/12/2011	102,985
UK Treasury 4.25% 07/12/2040	61,890	UK Treasury 3.75% 07/09/2021	102,746
UK Treasury 2.5% Index-Linked 16/04/2020	60,958	UK Treasury 4.25% 07/12/2040	99,952
UK Treasury 4.5% 07/09/2034	58,698	UK Treasury 5% 07/03/2025	98,911
UK Treasury 4.5% 07/03/2013	56,576	UK Treasury 2.5% Index-Linked 26/07/2016	83,044
UK Treasury 3.75% 07/09/2020	53,103	UK Treasury 4% 22/01/2060	51,165
UK Treasury 3.25% 07/12/2011	52,935	UK Treasury 2.5% Index-Linked 16/04/2020	38,005
UK Treasury 4.25% 07/09/2039	49,759	UK Treasury 4.25% 07/12/2055	36,540
UK Treasury 3.75% 22/07/2052	34,406	UK Treasury 4% 07/03/2022	29,571
UK Treasury 4.25% 07/06/2032	33,537	UK Treasury 4.25% 07/03/2036	26,530
UK Treasury 4% 22/01/2060	32,978	UK Treasury 4.25% 07/12/2049	25,678
UK Treasury 4% 07/03/2022	28,768	UK Treasury 1.875% Index Linked 22/11/2022	25,483
UK Treasury 4.25% 07/03/2036	27,534	UK Treasury 5.25% 07/06/2012	20,679
UK Treasury 4.25% 07/12/2055	26,345	UK Treasury 4% 07/09/2016	17,518
UK Treasury 4.75% 07/12/2038	25,158	UK Treasury 4.75% 07/12/2038	13,742
UK Treasury 1.875% Index Linked 22/11/2022	24,079	Bundesrepublik Deutschland 3.25% 04/07/2042	13,310
UK Treasury 4% 07/09/2016	21,760	UK Treasury 4.125% Index-Linked 22/07/2030	12,609
UK Treasury 4.125% Index-Linked 22/07/2030	14,018	UK Treasury 0.375% Index-Linked 22/03/2062	10,922
UK Treasury 4.25% 07/12/2049	13,823	UK Treasury 4.75% 07/03/2020	10,323
Bundesrepublik Deutschland 3.25% 04/07/2042	12,685	UK Treasury 1.25% 22/11/2032	9,530
UK Treasury 4.75% 07/03/2020	10,004	Australian Government Bond 4.5% 15/04/2020	7,971
UK Treasury 2.5% Index-Linked 16/08/2013	9,724	Bundesobligation 2% 26/02/2016	7,893
UK Treasury 2.5% Index-Linked 17/07/2024	9,644		
UK Treasury 4.25% 07/12/2046	9,536		
UK Treasury 0.375% Index-Linked 22/03/2062	9,524		
UK Treasury 1.25% 22/11/2032	9,160		
UK Treasury 4.75% 07/12/2030	8,694		
UK Treasury 4.5% 07/03/2019	8,147		
Bundesobligation 2% 26/02/2016	7,849		

# Gilt Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	119,142,583	62,010,900	192.13	1.12
Accumulation 28/02/11	195,402,073	97,133,800	201.17	1.12
Accumulation 28/02/12	310,843,518	135,176,000	229.95	1.11
Share Class A				
Income 28/02/10	173,386,620	111,183,400	155.95	1.12
Income 28/02/11	187,236,188	116,153,300	161.20	1.12
Income 28/02/12	171,483,282	93,943,000	182.54	1.11
Share Class B				
Income 28/02/10	2,125,681	1,363,140	155.94	0.87
Income 28/02/11	1,838,598	1,140,640	161.19	0.87
Income 28/02/12	1,991,140	1,090,840	182.53	0.86

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	173.10	161.20	4.7962
Accumulation 2008	191.70	165.60	5.1204
Accumulation 2009	196.70	180.90	3.8502
Accumulation 2010	209.10	189.50	2.7727
Accumulation 2011	232.50	197.70	2.2789
Accumulation 2012*	233.40	226.00	0.3977
Share Class A			
Income 2007	149.20	140.10	4.1806
Income 2008	159.50	139.80	4.3369
Income 2009	162.20	150.30	3.1659
Income 2010	168.80	154.50	2.2450
Income 2011	184.90	158.90	1.8207
Income 2012*	185.60	179.70	0.3154
Share Class B			
Income 2007	149.30	140.10	4.3647
Income 2008	159.50	139.80	4.6317
Income 2009	162.20	150.30	3.4755
Income 2010	168.80	154.60	2.5671
Income 2011	184.90	159.00	2.1575
Income 2012*	185.70	179.80	0.4057

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

## Gilt Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital gains	2		55,591		10,054
Revenue	3	10,194		9,194	
Expenses	4	(4,927)		(3,760)	
Finance costs: Interest	6	(1)		-	
Net revenue before taxation		5,266		5,434	
Taxation	5	-		(5)	
Net revenue after taxation			5,266		5,429
<b>Total return before distributions</b>			<b>60,857</b>		<b>15,483</b>
Finance costs: Distributions	6		(5,266)		(5,429)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>55,591</b>		<b>10,054</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>384,477</b>		<b>294,655</b>
Amounts receivable on creation of shares	126,388		106,424	
Less: Amounts payable on cancellation of shares	(84,661)		(28,671)	
		41,727		77,753
Dilution levy charged		7		40
Change in net assets attributable to shareholders from investment activities		55,591		10,054
Retained distribution on accumulation shares		2,515		1,974
Unclaimed distributions		1		1
<b>Closing net assets attributable to shareholders</b>		<b>484,318</b>		<b>384,477</b>

Notes to the Financial Statements are on pages 68 to 72.

# Gilt Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		463,711	375,058
Debtors	7	20,950	6,961
Cash and bank balances		17,391	4,090
<b>Total other assets</b>		<b>38,341</b>	<b>11,051</b>
<b>Total assets</b>		<b>502,052</b>	<b>386,109</b>
<b>Liabilities</b>			
Derivative liabilities		(13)	(263)
Creditors	8	(17,420)	(786)
Distribution payable on income shares		(301)	(583)
<b>Total other liabilities</b>		<b>(17,721)</b>	<b>(1,369)</b>
<b>Total liabilities</b>		<b>(17,734)</b>	<b>(1,632)</b>
<b>Net assets attributable to shareholders</b>		<b>484,318</b>	<b>384,477</b>

*Notes to the Financial Statements are on pages 68 to 72.*

## Notes to the Financial Statements

as at 28 February 2012

**1. Accounting basis and policies**

Please see pages 8 to 10 for accounting basis and policies.

**2. Net capital gains**

The net capital gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	56,152	10,208
Forward foreign exchange currency contracts	(429)	(316)
Currency (losses)/gains	(129)	165
Handling charges	(3)	(3)
Net capital gains	55,591	10,054

**3. Revenue**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Distributions from Regulated Collective Investment Schemes:		
Interest distributions	-	40
Bank interest	42	26
Interest on debt securities	9,954	9,035
Stocklending revenue	198	93
Total revenue	10,194	9,194

**4. Expenses**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	4,425	3,374
Registration fees	443	339
	4,868	3,713
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	41	32
Safe custody fees	10	7
	51	39
<b>Other expenses:</b>		
Audit fee	8	8
Total expenses	4,927	3,760

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) <b>Analysis of charge in year:</b>		
Adjustments in respect of prior years	-	5
(b) <b>Factors affecting current tax charge for the year:</b>		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	5,266	5,434
Corporation tax of 20% (2011: 20%)	1,053	1,087
<b>Effects of:</b>		
Movement in excess management expenses	158	303
Tax deductible interest distributions	(1,053)	(1,086)
Adjustments in respect of prior years	-	5
Relief for indexation on UK Gilts	(158)	(304)
Current tax charge for year (note 5a)	-	5

*OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.*

(c) **Deferred taxation:**

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

(d) **Factors that may affect future tax charges:**

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £595,342 (28/02/11: £437,836) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

**Distributions and interest**

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	1,427	1,276
Second interim	1,080	1,094
Third interim	917	886
Final	838	1,183
Income tax withheld	1,053	1,086
	5,315	5,525
Add: Revenue deducted on cancellation of shares	131	74
Deduct: Revenue received on creation of shares	(180)	(170)
Net distributions for the year	5,266	5,429
Bank interest	1	-
Total finance costs	5,267	5,429

*Details of the distributions per share are set out in the Distribution Tables on page 73.*

## 7. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	11,749	-
Amounts receivable for issue of shares	3,042	2,132
Accrued revenue	6,159	4,829
Total debtors	20,950	6,961

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**8. Creditors**

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	16,528	-
Amounts payable for cancellation of shares	49	12
Accrued expenses	410	330
Income tax payable	433	444
Total creditors	17,420	786

**9. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £395,334 (28/02/11: £315,710) due at the year end.

Distributions from Regulated Collective Investment Schemes disclosed in note 3 includes amounts earned from funds where Scottish Widows Investment Partnership Limited act as Authorised Corporate Director. The total revenue earned amounts to £nil (28/02/11: £40,541).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	96.13	95.06

**10. Share classes**

The Fund has two share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.00
Share Class A - Income:	1.00
Share Class B - Income:	0.75

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 65.

The distributions per share class are given in the Distribution Tables on page 73.

All share classes have the same rights on winding up.

**11. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**12. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £226,747,463 (28/02/11: £99,988,057). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £239,287,718 (28/02/11: £104,247,502). This collateral is in the form of bonds £204,993,482; equities £3,849,758 and cash £30,444,478 (28/02/11: bonds £104,247,502).

The gross earnings and fees paid for the year are £267,727 (28/02/11: £128,624) and £69,787 (28/02/11: £36,024).



## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 13. Derivatives and other financial instruments

A statement of the Fund's objective and the policy for achieving it has been included on page 61. The risks inherent in the Fund's investment portfolio are as follows:

(a) *Currency risk*

A portion of the Fund's financial assets and liabilities are invested overseas. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash and investment purchases and sales.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency liabilities 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures £000	Non-monetary exposures £000	Total £000	Monetary exposures £000	Non-monetary exposures £000	Total £000
Currency						
Australian dollar	(8,122)	5,878	(2,244)	(7,094)	7,239	145
US dollar	10	-	10	(3,720)	3,716	(4)
	(8,112)	5,878	(2,234)	(10,814)	10,955	141

The ACD seeks to manage the portfolio exposure to currency movements by using forward currency contracts. The forward currency contracts are shown in the portfolio statement.

(b) *Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in fixed interest investments. Given that the Fund's objective is to provide an income whilst not neglecting capital growth, these cashflows are considered to be of primary importance and are actively managed.

The interest rate risk profile of the company's financial assets and liabilities at 28 February was:

	Floating rate financial assets £000	Fixed rate financial assets £000	Fixed rate financial assets weighted average interest rate %	Fixed rate financial assets weighted average period for which rate is fixed Years	Financial assets not carrying interest £000	Total £000
<b>Currency</b>						
<b>28/02/12</b>						
Sterling	17,362	457,826	1.73	13.35	11,364	486,552
Australian dollar	6	5,878	2.77	17.44	(8,128)	(2,244)
US dollar	10	-			-	10
Total	17,378	463,704			3,236	484,318
<b>28/02/11</b>						
Sterling	4,049	364,103	2.96	14.24	16,184	384,336
Australian dollar	41	7,239	5.56	9.13	(7,135)	145
US dollar	-	3,716	4.65	29.48	(3,720)	(4)
Total	4,090	375,058			5,329	384,477

The value of financial assets/liabilities not carrying interest includes amounts payable and receivable on forward contracts held at the year end.

The Fund's net cash holding of £17.391m (28/02/11: holding £4.09m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The ACD seeks to manage the portfolio exposure to currency movements by using forward currency contracts.

The Fund did not have any long term financial liabilities.

as at 28 February 2012

(c) *Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

(d) *Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in fixed interest securities. Certain fixed interest securities are liable to default risk whereby the nominal capital is not or is unlikely to be returned to investors. The value of fixed interest stocks is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual fixed interest stock or be caused by a general market factor (such as government policy or the health of the underlying economy) which can affect the entire portfolio.

Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. Changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of securities held. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investments in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

(e) *Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**14. Portfolio transaction costs**

There were no transactions costs incurred during the year to 28 February 2012 (28/2/11: £nil).

# Gilt Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Third interim Shares purchased prior to 1 September 2011

Final Shares purchased prior to 1 December 2011

Group 2 Third interim Shares purchased between 1 September 2011 and 30 November 2011

Final Shares purchased between 1 December 2011 and 28 February 2012

### Share Class A - Accumulation

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid/payable to 30/04/2012	Distributions paid to 30/04/2011
Group 1	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.5734	0.1147	0.4587	-	0.4587	0.4997
Final	0.4971	0.0994	0.3977	-	0.3977	0.6188
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.2489	0.0498	0.1991	0.2596	0.4587	0.4997
Final	0.0788	0.0158	0.0630	0.3347	0.3977	0.6188

### Share Class A - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid/payable to 30/04/2012	Distributions paid to 30/04/2011
Group 1	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.4558	0.0912	0.3646	-	0.3646	0.4017
Final	0.3943	0.0789	0.3154	-	0.3154	0.4964
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.1159	0.0232	0.0927	0.2719	0.3646	0.4017
Final	0.2619	0.0524	0.2095	0.1059	0.3154	0.4964

### Share Class B - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid/payable to 30/04/2012	Distributions paid to 30/04/2011
Group 1	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.5679	0.1136	0.4543	-	0.4543	0.4842
Final	0.5071	0.1014	0.4057	-	0.4057	0.5760
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Third interim	0.4983	0.0997	0.3986	0.0557	0.4543	0.4842
Final	0.4541	0.0908	0.3633	0.0424	0.4057	0.5760

# High Income Bond Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide a high level of income through investments denominated in euros or any currency of the United Kingdom or the United States of America, predominantly corporate bonds, government bonds, other public securities and other fixed interest securities issued principally by companies operating in the United States of America, the United Kingdom or Europe.

The Fund will invest in a portfolio of investments in which a UCITS scheme equivalent to a securities scheme (see note below) is authorised to invest including secured and unsecured loan stock, government and other public securities, other bonds, convertible securities, preference shares, shares and other instruments creating or acknowledging indebtedness. The ACD, at its discretion, may invest in non-investment grade investments. In addition, the ACD reserves the right to exercise full powers of the Fund in relation to borrowing and efficient portfolio management as and when it considers that the circumstances which then exist make it appropriate to do so. In particular, currency may be hedged into sterling.

Note: Being a scheme which is dedicated to investment in transferable securities and which can invest not more than 10% in value of the scheme property in unapproved securities, not more than 5% in warrants and not more than 10% in other collective investment schemes. The use of derivatives for this scheme type is restricted to efficient portfolio management.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
High Income Bond Fund A Accumulation	8.84	8.76	24.85	(11.62)	(1.46)	3.73
£ High Yield Sector Average Return	0.08	12.20	44.69	(19.83)	(6.18)	3.69
Composite*	10.56	12.84	32.64	(9.54)	1.13	7.17

Source: Lipper for High Income Bond Fund and £ High Yield Sector Average Return (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities and at least 50% of their assets in below BBB minus fixed interest securities (as measured by Standard & Poor's or an equivalent external rating agency), including convertibles, preference shares and permanent interest bearing shares (PIBs)).

Basis: Mid to Mid, net revenue reinvested and net of expenses.

\* Source: Credit Suisse/Datastream for the Composite total return index. This consists of 35% FTA All Stocks, 65% Barclays US\$ High Yield 2% Capped on 01/09/2011.

Basis: Gross revenue reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The two asset classes in which the High Income Bond Fund invests have experienced significant differences in performance in the 12 months to 28 February.

Government bond prices rose and yields fell for almost all of the review period. Investors became increasingly chary of holding any kind of risky investment following a catalogue of natural disasters and disruptive political events. These ranged from the Japanese tsunami and turmoil in the Arab world to the possibility of a double-dip recession. Latterly, the peripheral eurozone debt crisis has become the dominant influence. Government bond markets in core economies such as the US, the UK and Germany have benefited from the resultant "flight to quality".

Meanwhile, disappointing economic data and concerns that the global economic recovery was under threat resulted in a sharp widening of the spread between the yields provided by government bonds and high yield corporate bonds for much of 2011. (The magnitude of this spread in yield is often used to gauge the performance of corporate bonds against their government counterparts.) As an asset class, high yield benefited from strong demand from yield-hungry investors in the second half of 2011, but was negatively affected by bouts of severe risk aversion. However, in January and February 2012, high yield bonds enjoyed very strong performances as formerly bearish investors turned more bullish.

Despite a challenging environment for the high yield market, the Fund produced a positive return during the period under review. Much of this has been due to the sharp rally from the beginning of 2012. The Fund returned 8.84%, while the composite benchmark return was 10.56%.

In the early months of the review period, gilts traded within a fairly narrow range, but thereafter, prices rose and yields fell steadily. In December, the ten-year Gilt yield fell below 2% a record low. The primary cause was the continuing turmoil in the eurozone, leading investors to plump for Gilts as a safe haven.

We had anticipated a rise in yields and the portfolio was positioned accordingly. As a result, the fall in gilt yields had a negative impact on performance. However, this was countered to an extent by our holdings in inflation-linked bonds. These have been among the market's best performers, as the prices of most goods and services have continued to rise, adding to inflationary pressures.

### Authorised Fund Manager's Report

(continued)

Within the high yield portion of the portfolio, we retained a large number of good quality bonds where the issuer has relatively reliable profits. This helped protect the portfolio from some of the market's losses. Trading was focused on reducing the relatively high cash position and investing in both new issue high yield bonds and secondary issues. Purchases focused on bonds that offered higher coupons with longer maturities and lower credit ratings. Additions to the portfolio included Level 3, General Motors Financial, Cinemark USA and Puget Energy. Sales focused on smaller holdings that we felt to have limited further potential. These included Dish DBS and Harley Davidson.

Latterly, positioning within the high yield portfolio has progressed to a higher risk profile. The Fund is overweight high yield bonds versus gilts, taking advantage of the higher yields compared with Gilts. This also provides some defensive positioning in the event that Gilt yields rise from their current relatively low levels. In the second half of the review period, purchases were made in both the primary (i.e. new issue) and secondary markets. These included Sprint, Clear Channel, Rural Metro, Virgin Media, Linn Energy and Range Resources. Profits were taken on Radio Shack, AMC Networks, Goodyear Tire, and Lender Processing Services.

Looking ahead, we are likely to continue with our current theme of taking profits in certain stocks as the corporate bond market rallies. Our outlook remains positive for economic growth and corporate earnings in the US, and overall, we remain comfortable with the positioning of the portfolio given the prevailing economic environment.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# High Income Bond Fund

## Portfolio Statement

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>STERLING DENOMINATED BONDS (27.36%*)</b>		<b>83,506</b>	<b>30.58</b>
<b>Corporate Bonds</b>			
National Grid Electricity Transmission 2.983% 08/07/2018	GBP96,000	155	0.06
National Grid Electricity Transmission 3.806% 27/07/2020	GBP93,000	160	0.06
Tesco 4% Index-Linked 08/09/2016	GBP247,000	409	0.15
<b>Government Bonds</b>			
UK Treasury 5.25% 07/06/2012	GBP22,199,000	22,488	8.23
UK Treasury 4.5% 07/03/2013	GBP3,042,000	3,168	1.16
UK Treasury 4% 07/09/2016	GBP737,000	842	0.31
UK Treasury 4.5% 07/03/2019	GBP1,282,000	1,548	0.57
UK Treasury 3.75% 07/09/2021	GBP2,929,000	3,372	1.23
UK Treasury 4% 07/03/2022	GBP1,779,000	2,086	0.76
UK Treasury 5% 07/03/2025	GBP7,328,000	9,440	3.45
UK Treasury 4.75% 07/12/2030	GBP1,244,000	1,580	0.58
UK Treasury 4.25% 07/06/2032	GBP216,000	258	0.09
UK Treasury 4.5% 07/09/2034	GBP3,549,000	4,388	1.61
UK Treasury 4.25% 07/03/2036	GBP4,032,000	4,833	1.77
UK Treasury 4.75% 07/12/2038	GBP1,973,000	2,558	0.94
UK Treasury 4.25% 07/09/2039	GBP6,946,000	8,355	3.06
UK Treasury 4.25% 07/12/2040	GBP2,000	2	-
UK Treasury 4.25% 07/12/2046	GBP531,000	651	0.24
UK Treasury 4.25% 07/12/2049	GBP255,000	315	0.12
UK Treasury 3.75% 22/07/2052	GBP5,269,000	5,929	2.17
UK Treasury 2.5% Index-Linked 16/08/2013	GBP631,000	1,786	0.65
UK Treasury 2.5% Index-Linked 26/07/2016	GBP942,000	3,241	1.19
UK Treasury 2.5% Index-Linked 16/04/2020	GBP1,213,000	4,455	1.63
UK Treasury 2.5% Index-Linked 17/07/2024	GBP344,000	1,138	0.42
UK Treasury 4.125% Index-Linked 22/07/2030	GBP111,000	349	0.13
<b>US DOLLAR DENOMINATED BONDS (63.60%*)</b>		<b>185,511</b>	<b>67.85</b>
<b>Corporate Bonds</b>			
Academy Finance 9.25% 01/08/2019	USD552,000	352	0.13
Actuant 6.875% 15/06/2017	USD1,162,000	764	0.28
Affinia 9% 30/11/2014	USD1,160,000	744	0.27
AGCO 5.875% 01/12/2021	USD2,166,000	1,451	0.53
Alcatel-Lucent USA 6.5% 15/01/2028	USD1,505,000	721	0.26
Allegheny Ludlum 6.95% 15/12/2025	USD695,000	499	0.18
Alliance HealthCare Services 8% 01/12/2016	USD1,110,000	499	0.18
Alliant Techsystems 6.875% 15/09/2020	USD1,392,000	924	0.34
Alpha Natural Resources 6% 01/06/2019	USD641,000	398	0.15
American Airlines 2011-2 Class A Pass Through Trust 8.625% 15/04/2023	USD228,000	152	0.06
American Axle & Manufacturing 7.75% 15/11/2019	USD225,000	151	0.06
American Standard Americas 10.75% 15/01/2016	USD390,000	176	0.06
American Stores 8% 01/06/2026	USD1,035,000	549	0.20
AmeriGas Partners 6.25% 20/08/2019	USD1,160,000	732	0.27
AmeriGas Partners 6.5% 20/05/2021	USD1,490,000	944	0.35
APERAM 7.375% 01/04/2016	USD485,000	291	0.11
APERAM 7.75% 01/04/2018	USD240,000	142	0.05
Arch Coal 7.25% 15/06/2021	USD3,441,000	2,165	0.78
ARD Finance 11.125% 01/06/2018	USD370,000	219	0.08
Ardagh Packaging Finance 9.125% 15/10/2020	USD201,000	130	0.05
Asbury Automotive 7.625% 15/03/2017	USD1,780,000	1,162	0.43
At Home 4.75% 15/12/2006 **	USD4,329,882	-	-
Atlantic Power 9% 15/11/2018	USD250,000	161	0.06

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
AutoNation 6.75% 15/04/2018	USD1,010,000	694	0.25
B&G Foods 7.625% 15/01/2018	USD948,000	647	0.24
Ball 5% 15/03/2022	USD173,000	109	0.04
BE Aerospace 8.5% 01/07/2018	USD600,000	420	0.15
BE Aerospace 6.875% 01/10/2020	USD525,000	368	0.12
Belden 7% 15/03/2017	USD2,584,000	1,681	0.62
Berry Petroleum 10.25% 01/06/2014	USD1,050,000	755	0.28
Biomet 10% 15/10/2017	USD965,000	662	0.24
Bio-Rad Laboratories 8% 15/09/2016	USD325,000	228	0.08
Bombardier 7.75% 15/03/2020	USD1,163,000	847	0.31
Bon-Ton Department Stores 10.25% 15/03/2014	USD542,000	218	0.08
Boyd Gaming 9.125% 01/12/2018	USD449,000	292	0.11
BreitBurn Finance 8.625% 15/10/2020	USD257,000	175	0.06
BreitBurn Finance 7.875% 15/04/2022	USD103,000	68	0.01
Briggs & Stratton 6.875% 15/12/2020	USD1,170,000	780	0.29
Building Materials Corp of America 6.875% 15/08/2018	USD1,015,000	686	0.25
Building Materials Corp of America 7% 15/02/2020	USD1,163,000	792	0.29
Building Materials Corp of America 6.75% 01/05/2021	USD242,000	166	0.06
Caesars Entertainment Operating 11.25% 01/06/2017	USD1,135,000	779	0.28
Caesars Entertainment Operating 10% 15/12/2018	USD1,354,000	641	0.23
Calpine 7.25% 15/10/2017	USD1,505,000	1,006	0.37
Capella Healthcare 9.25% 01/07/2017	USD575,000	376	0.14
Carrizo Oil & Gas 8.625% 15/10/2018	USD273,000	178	0.07
Case New Holland 7.875% 01/12/2017	USD1,055,000	780	0.29
Catalent Pharma Solutions 9.5% 15/04/2015	USD1,532,073	995	0.36
CCO 7% 15/01/2019	USD750,000	510	0.19
CCO 7.375% 01/06/2020	USD217,000	151	0.05
CCO 6.5% 30/04/2021	USD845,000	566	0.21
Celanese US 5.875% 15/06/2021	USD121,000	83	0.03
CF Industries 6.875% 01/05/2018	USD465,000	345	0.13
Chaparral Energy 8.875% 01/02/2017	USD342,000	225	0.08
Chaparral Energy 9.875% 01/10/2020	USD909,000	648	0.24
Chesapeake Energy 6.775% 15/03/2019	USD2,100,000	1,331	0.49
Chesapeake Midstream Partners 6.125% 15/07/2022	USD150,000	97	0.04
Chester Downs & Marina 9.25% 01/02/2020	USD278,000	183	0.07
Chrysler 8% 15/06/2019	USD484,000	306	0.11
Chrysler 8.25% 15/06/2021	USD242,000	153	0.06
Cincinnati Bell 8.25% 15/10/2017	USD1,412,000	917	0.34
Cinemark USA 7.375% 15/06/2021	USD946,000	638	0.23
CIT 5.5% 15/02/2019	USD6,000,000	3,865	1.41
Clean Harbors 7.625% 15/08/2016	USD776,000	519	0.19
CNH Capital 6.25% 01/11/2016	USD225,000	153	0.06
Collins & Aikman Products 12.875% 15/08/2012 **	USD2,690,000	-	-
Community Health Systems 8.875% 15/07/2015	USD1,268,000	837	0.31
Complete Production Services 8% 15/12/2016	USD900,000	591	0.22
Comstock Resources 7.75% 01/04/2019	USD848,000	492	0.18
Concho Resources 8.625% 01/10/2017	USD945,000	668	0.24
Concho Resources 7% 15/01/2021	USD235,000	166	0.06
Concho Resources 6.5% 15/01/2022	USD484,000	340	0.12
Consol Energy 8% 01/04/2017	USD1,355,000	929	0.34
Continental Resources 8.25% 01/10/2019	USD797,000	564	0.21
Continental Resources 7.375% 01/10/2020	USD2,255,000	1,582	0.58
Copano Energy 7.125% 01/04/2021	USD785,000	525	0.19
Corrections Corporation of America 7.75% 01/06/2017	USD800,000	553	0.20

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Cott Beverages 8.375% 15/11/2017	USD1,490,000	1,029	0.38
Cott Beverages 8.125% 01/09/2018	USD450,000	312	0.11
Cricket Communications 7.75% 15/10/2020	USD4,203,000	2,624	0.96
Crown Castle International 7.125% 01/11/2019	USD280,000	193	0.07
Cumulus Media 7.75% 01/05/2019	USD873,000	534	0.19
Dana 6.5% 15/02/2019	USD1,245,000	842	0.31
Dana 6.75% 15/02/2021	USD240,000	162	0.06
Dave & Buster's 11% 01/06/2018	USD855,000	572	0.21
DaVita 6.375% 01/11/2018	USD1,015,000	677	0.25
DaVita 6.625% 01/11/2020	USD640,000	433	0.16
Delphi 6.125% 15/05/2021	USD241,000	162	0.06
Delta Air Lines 12.25% 15/03/2015	USD479,000	326	0.12
Denbury Resources 8.25% 15/02/2020	USD1,081,000	779	0.29
DineEquity 9.5% 30/10/2018	USD464,000	321	0.12
DISH DBS 6.75% 01/06/2021	USD3,205,000	2,251	0.82
DJO Finance 10.875% 15/11/2014	USD3,025,000	1,932	0.71
Downstream Development Oklahoma 10.5% 01/07/2019	USD1,178,000	756	0.28
DPL 6.5% 15/10/2016	USD2,278,000	1,563	0.57
Dynegy 8.375% 01/05/2016 **	USD882,000	366	0.13
Eileme 2 AB 11.625% 31/01/2020	USD402,000	267	0.10
El Paso Natural Gas 8.625% 15/01/2022	USD182,000	143	0.05
El Paso Natural Gas 7.5% 15/11/2026	USD890,000	666	0.24
Emergency Medical Services 8.125% 01/06/2019	USD1,289,000	856	0.31
Energy Future Intermediate 10% 01/12/2020	USD2,711,000	1,857	0.68
Energy Future Intermediate 11.75% 01/03/2022	USD993,000	636	0.23
Epicor Software 8.625% 01/05/2019	USD597,000	389	0.14
Equinix 7% 15/07/2021	USD931,000	647	0.24
Fairfax Financial 8.3% 15/04/2026	USD310,000	206	0.08
FGI Operating 10.25% 01/08/2015	USD1,021,000	691	0.25
First Data 11.25% 31/03/2016	USD853,000	510	0.19
First Data 8.25% 15/01/2021	USD3,253,000	1,990	0.73
First Data 12.625% 15/01/2021	USD2,534,000	1,666	0.61
Florida East Coast Railway 8.125% 01/02/2017	USD1,449,000	923	0.34
FMG Resources August 2006 6.875% 01/02/2018	USD2,349,000	1,563	0.57
FMG Resources August 2006 8.25% 01/11/2019	USD1,106,000	771	0.28
Ford Motor 6.5% 01/08/2018	USD2,015,000	1,396	0.51
Ford Motor Credit 8% 15/12/2016	USD370,000	277	0.10
Freescale Semiconductor 10.75% 01/08/2020	USD1,814,000	1,264	0.46
Fresenius Medical Care US Finance II 5.625% 31/07/2019	USD402,000	269	0.10
Fresenius Medical Care US Finance II 5.875% 31/01/2022	USD402,000	266	0.10
Frontier Communications Corp 8.5% 15/04/2020	USD926,000	626	0.23
Frontier Oil 8.5% 15/09/2016	USD1,505,000	1,018	0.37
FTI Consulting 7.75% 01/10/2016	USD945,000	621	0.23
GCI 8.625% 15/11/2019	USD575,000	395	0.14
General Motors Financial 6.75% 01/06/2018	USD1,178,000	805	0.29
Georgia-Pacific 7.375% 01/12/2025	USD1,300,000	1,030	0.38
Georgia-Pacific 7.75% 15/11/2029	USD692,000	558	0.20
Georgia-Pacific 8.875% 15/05/2031	USD1,875,000	1,650	0.60
GMAC 8% 01/11/2031	USD4,288,000	2,953	1.08
Goodyear Tire & Rubber 7% 15/05/2022	USD175,000	112	0.04
Greektown Superholdings 13% 01/07/2015	USD1,340,000	928	0.34
Greif 6.75% 01/02/2017	USD1,065,000	719	0.26
Greif 7.75% 01/08/2019	USD710,000	503	0.18
Hanesbrands 8% 15/12/2016	USD700,000	490	0.18



# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Hanger Orthopedic 7.125% 15/11/2018	USD910,000	606	0.22
HCA 8% 01/10/2018	USD2,276,000	1,583	0.58
Health Management Associates 7.375% 15/01/2020	USD213,000	140	0.05
Healthsouth 8.125% 15/02/2020	USD90,000	62	0.02
Healthsouth 7.75% 15/09/2022	USD105,000	71	0.03
Host Hotels & Resorts 6.75% 01/06/2016	USD2,000,000	1,299	0.48
Hughes Satellite Systems 6.5% 15/06/2019	USD725,000	464	0.17
Huntsman International 5.5% 30/06/2016	USD970,000	610	0.22
Icahn Enterprises 8% 15/01/2018	USD1,138,000	754	0.28
Ineos 8.5% 15/02/2016	USD457,000	260	0.10
Intelsat Jackson 11.25% 15/06/2016	USD679,000	453	0.17
Intelsat Jackson 7.25% 01/04/2019	USD1,927,000	1,279	0.47
Intelsat Jackson 7.5% 01/04/2021	USD2,265,000	1,514	0.55
International Lease Finance 5.65% 01/06/2014	USD839,000	539	0.20
International Lease Finance 5.75% 15/05/2016	USD1,623,000	1,035	0.38
International Lease Finance 6.25% 15/05/2019	USD1,075,000	686	0.25
Iron Mountain 7.75% 01/10/2019	USD240,000	167	0.06
Jacobs Entertainment 9.75% 15/06/2014	USD1,695,000	1,032	0.38
Janus Capital 6.7% 15/06/2017	USD1,035,000	706	0.26
Jarden 7.5% 01/05/2017	USD1,002,000	697	0.26
Jarden 6.125% 15/11/2022	USD245,000	163	0.06
JBS USA Finance 8.25% 01/02/2020	USD954,000	620	0.23
JC Penney 7.125% 15/11/2023	USD1,739,000	1,152	0.42
Kansas City Southern de Mexico 6.125% 15/06/2021	USD241,000	166	0.06
Knowledge Learning 7.75% 01/02/2015	USD1,955,000	1,122	0.41
Kodiak Oil & Gas 8.125% 01/12/2019	USD328,000	221	0.08
Lamar Media 9.75% 01/04/2014	USD390,000	280	0.10
Lamar Media 6.625% 15/08/2015	USD219,000	141	0.05
Lamar Media 5.875% 01/02/2022	USD927,000	604	0.22
Leucadia National 8.125% 15/09/2015	USD925,000	644	0.24
Level 3 Financing 8.125% 01/07/2019	USD951,000	624	0.23
Level 3 Financing 8.625% 15/07/2020	USD617,000	413	0.15
Linn Energy Finance 6.5% 15/05/2019	USD1,111,000	729	0.27
Linn Energy Finance 8.625% 15/04/2020	USD867,000	615	0.23
Limited Brands 6.625% 01/04/2021	USD910,000	630	0.23
Lyondell Chemical 8% 01/11/2017	USD776,000	549	0.20
LyondellBasell Industries 6% 15/11/2021	USD562,000	390	0.14
Majestic Star Casino 12.5% 01/12/2016	USD147,546	91	0.03
MarkWest Energy Partners 6.75% 01/11/2020	USD1,475,000	1,016	0.37
Masonite International 8.25% 15/04/2021	USD605,000	409	0.15
MasTec 7.625% 01/02/2017	USD911,000	596	0.22
MetroPCS Wireless 7.875% 01/09/2018	USD590,000	402	0.15
MetroPCS Wireless 6.625% 15/11/2020	USD1,947,000	1,268	0.46
MGM Mirage 13% 15/11/2013	USD330,000	242	0.09
MGM Resorts 10% 01/11/2016	USD2,503,000	1,739	0.64
Michaels Stores 13% 01/11/2016	USD1,386,000	930	0.34
Midwest Finance 11.625% 15/04/2016	USD1,132,000	791	0.29
Mohegan Tribal Gaming Authority 6.125% 15/02/2013	USD768,000	403	0.15
Mueller Water Products 7.375% 01/06/2017	USD835,000	515	0.19
Nara Cable Funding 8.875% 01/12/2018	USD740,000	453	0.17
Nationstar Capital 10.875% 01/04/2015	USD797,000	523	0.19
Neiman Marcus 10.375% 15/10/2015	USD464,000	305	0.11
Newfield Exploration 6.625% 01/09/2014	USD375,000	240	0.09
Newfield Exploration 6.625% 15/04/2016	USD765,000	495	0.18

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Newfield Exploration 7.125% 15/05/2018	USD555,000	373	0.14
Nextel Communications 5.95% 15/03/2014	USD300,000	189	0.07
Nextel Communications 7.375% 01/08/2015	USD120,000	75	0.03
Nielsen Finance 7.75% 15/10/2018	USD1,337,000	939	0.34
NII Capital 7.625% 01/04/2021	USD985,000	640	0.23
Novelis 8.375% 15/12/2017	USD825,000	568	0.21
Novelis 8.75% 15/12/2020	USD500,000	352	0.13
NPC International A & B 10.5% 15/01/2020	USD1,068,000	711	0.26
NRG Energy 7.375% 15/01/2017	USD795,000	520	0.19
NRG Energy 7.625% 15/05/2019	USD482,000	297	0.11
Number Merger Sub 11% 15/12/2019	USD100,000	67	0.02
Oil States International 6.5% 01/06/2019	USD587,000	398	0.15
Omnova Solutions 7.875% 01/11/2018	USD890,000	522	0.19
Oshkosh 8.25% 01/03/2017	USD1,057,000	720	0.26
Owens-Illinois 7.8% 15/05/2018	USD845,000	602	0.22
Peabody Energy 6% 15/11/2018	USD441,000	293	0.11
Peabody Energy 6.25% 15/11/2021	USD441,000	293	0.11
Peabody Energy 7.875% 01/11/2026	USD2,551,000	1,734	0.63
Peninsula Gaming 8.375% 15/08/2015	USD370,000	250	0.09
Peninsula Gaming 10.75% 15/08/2017	USD745,000	515	0.19
Penn Virginia 10.375% 15/06/2016	USD1,355,000	848	0.31
Penske Auto 7.75% 15/12/2016	USD1,320,000	868	0.32
Petrohawk Energy 7.25% 15/08/2018	USD880,000	638	0.23
Petroquest Energy 10% 01/09/2017	USD1,690,000	1,093	0.40
PHH 9.25% 01/03/2016	USD885,000	557	0.20
Phillips-Van Heusen 7.375% 15/05/2020	USD550,000	385	0.14
Pinnacle Entertainment 7.5% 15/06/2015	USD1,240,000	801	0.29
Pioneer Drilling 9.875% 15/03/2018	USD775,000	523	0.19
Pioneer Drilling 'Private Placement' 9.875% 15/03/2018	USD216,000	146	0.05
Plains Exploration & Production 6.75% 01/02/2022	USD500,000	347	0.13
Plastipak 10.625% 15/08/2019	USD700,000	498	0.18
PNM Resources 9.25% 15/05/2015	USD489,000	342	0.13
PolyOne 7.375% 15/09/2020	USD585,000	396	0.14
Post 7.375% 15/02/2022	USD277,000	185	0.07
Precision Drilling 6.5% 15/12/2021	USD178,000	119	0.04
Production Resource 8.875% 01/05/2019	USD900,000	497	0.18
Public Service Company of New Mexico 7.95% 15/05/2018	USD1,480,000	1,122	0.41
Puget Energy 6% 01/09/2021	USD1,190,000	803	0.29
Quebecor Media 7.75% 15/03/2016	USD2,490,000	1,618	0.59
Quebecor Media 9.75% 15/01/2049 ***	USD1,540,000	51	0.02
Quicksilver 6.875% 15/04/2015	USD482,000	304	0.11
Range Resources 8% 15/05/2019	USD625,000	440	0.16
Range Resources 5% 15/08/2022	USD259,000	163	0.06
RBS Capital Trust III 5.512% Perpetual	USD818,000	310	0.11
RBS Global 8.5% 01/05/2018	USD813,000	551	0.20
Realogy 7.625% 15/01/2020	USD370,000	239	0.09
Realogy 9% 15/01/2020	USD370,000	232	0.08
Regency Energy 6.5% 15/07/2021	USD544,000	371	0.14
Reliant Energy Mid-Atlantic Power 9.681% 02/07/2026	USD1,345,000	791	0.29
Rent-A-Center 6.625% 15/11/2020	USD456,000	299	0.11
Reynolds Issuer 7.125% 15/04/2019	USD464,000	308	0.11
Reynolds Issuer 7.875% 15/08/2019	USD224,000	154	0.06
Reynolds Issuer 9.875% 15/08/2019 2011 Issue	USD364,000	235	0.09
Reynolds Issuer 9.875% 15/08/2019 2012 Issue	USD462,000	299	0.11

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Rite Aid 8.625% 01/03/2015	USD707,000	457	0.17
ROC Finance 1 12.125% 01/09/2018	USD343,000	238	0.09
Royal Bank of Scotland 7.64% Perpetual	USD800,000	337	0.12
RRI Energy 7.875% 15/06/2017	USD2,807,000	1,620	0.59
RSC III 8.25% 01/02/2021	USD2,263,000	1,509	0.55
Rural/Metro 10.125% 15/07/2019	USD707,000	408	0.15
Ryerson 12% 01/11/2015	USD865,000	559	0.20
Sable International Finance 8.75% 01/02/2020	USD375,000	251	0.09
Sally Capital 6.875% 15/11/2019	USD225,000	152	0.05
Sanmina-SCI 7% 15/05/2019	USD473,000	306	0.11
Seagate HDD Cayman 6.875% 01/05/2020	USD2,630,000	1,808	0.66
Sealed Air 8.125% 15/09/2019	USD464,000	329	0.12
Sealed Air 8.375% 15/09/2021	USD232,000	168	0.06
Select Medical 7.625% 01/02/2015	USD1,750,000	1,104	0.40
Shea Homes Funding 8.625% 15/05/2019	USD603,000	382	0.14
Shingle Springs Tribal Gaming Authority 9.375% 15/06/2015	USD444,000	194	0.07
Silgan 7.25% 15/08/2016	USD620,000	422	0.15
SLM 8.45% 15/06/2018	USD1,000,000	703	0.26
SLM 8% 25/03/2020	USD260,000	179	0.07
Smurfit Kappa Treasury Funding 7.5% 20/11/2025	USD3,751,000	2,301	0.84
Sophia Finance 9.75% 15/01/2019	USD532,000	358	0.13
Spectrum Brands 9.5% 15/06/2018	USD1,145,000	821	0.30
Spectrum Brands 'Private Placement' 9.5% 15/06/2018	USD57,000	41	0.02
Sprint Capital 6.875% 15/11/2028	USD1,350,000	664	0.24
Sprint Nextel 9% 15/11/2018	USD225,000	157	0.06
SPX 7.625% 15/12/2014	USD360,000	254	0.09
Starwood Hotels & Resorts Worldwide 6.75% 15/05/2018	USD985,000	725	0.26
Stone Energy 8.625% 01/02/2017	USD617,000	407	0.15
Summit Materials Finance 10.5% 31/01/2020	USD592,000	387	0.14
Susser 8.5% 15/05/2016	USD340,000	235	0.09
Taminco Global Chemical 9.75% 31/03/2020	USD99,000	64	0.02
Tenet Healthcare 8% 01/08/2020	USD226,000	150	0.05
Tenneco 8.125% 15/11/2015	USD890,000	585	0.21
Titan International 7.875% 01/10/2017	USD565,000	379	0.14
Toll Brothers Finance 5.875% 15/02/2022	USD741,000	487	0.18
Tutor Perini 7.625% 01/11/2018	USD765,000	486	0.18
Tyson Foods 10.5% 01/03/2014	USD400,000	293	0.11
Unifi 11.5% 15/05/2014	USD1,397,000	898	0.33
United Rentals North America 8.375% 15/09/2020	USD3,530,000	2,299	0.84
UPCB Finance V 7.25% 15/11/2021	USD150,000	100	0.04
USG 8.375% 15/10/2018	USD690,000	443	0.16
Valassis Communications 6.625% 01/02/2021	USD1,451,000	931	0.34
Valeant Pharmaceuticals International 7% 01/10/2020	USD1,471,000	946	0.35
Videotron 9.125% 15/04/2018	USD883,000	617	0.23
Virgin Media Finance 9.5% 15/08/2016	USD1,025,000	729	0.27
Virgin Media Finance 8.375% 15/10/2019	USD255,000	181	0.07
Westlake Chemical 6.625% 15/01/2016	USD2,345,000	1,516	0.55
Whiting Petroleum 6.5% 01/10/2018	USD1,599,000	1,087	0.40
Windstream 7.5% 01/06/2022	USD662,000	444	0.16
WPX Energy 6% 15/01/2022	USD1,103,000	715	0.26
Wynn Las Vegas 7.75% 15/08/2020	USD1,407,000	998	0.36
Xinergy 9.25% 15/05/2019	USD1,700,000	828	0.30
Yonkers Racing 11.375% 15/07/2016	USD449,000	307	0.11
Ziff Davis Media 1% 15/07/2011 **	USD304,783	-	-

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings or Nominal Values	Market Value £000	Total Net Assets %
<b>Asset-Backed Securities</b>			
Delta Air Lines 2002-1 Class G-1 Pass Through Trust 6.718% 02/07/2024	USD973,420	645	0.24
United Artists Theatre Circuit 9.3% 01/07/2015	USD51,287	23	0.01
US Airways 2011-1 Class A Pass Through Trust 7.125% 22/04/2025	USD1,178,000	754	0.28
<b>UNITED STATES EQUITIES (0.09%*)</b>		-	-
Ziff Davis Media **	2,470	-	-
<b>UNITED STATES WARRANTS (0.00%*)</b>		-	-
Neon Redeemable Preference Warrants 31/12/10 (Strike Price \$0.000)	199,730	-	-
<b>DERIVATIVES (3.69%*)</b>		(1,384)	(0.52)
<b>Forward Currency Contracts</b>			
<b>US Dollar</b>			
Bought USD300,000 for GBP189,183 Settlement 21/03/2012		-	-
Sold USD150,070,000 for GBP95,005,065 Settlement 21/03/2012		337	0.12
Sold USD7,000,000 for GBP4,454,995 Settlement 14/03/2012		39	0.01
Sold USD3,165,740 for GBP2,000,000 Settlement 21/03/2012		3	-
Sold USD19,866,000 for GBP12,459,391 Settlement 13/06/2012		(81)	(0.03)
Sold USD50,000,000 for GBP31,331,265 Settlement 14/03/2012		(208)	(0.08)
Sold USD73,183,000 for GBP44,689,179 Settlement 14/03/2012		(1,474)	(0.54)
<b>Portfolio of investments^</b>		<b>267,633</b>	<b>97.91</b>
<b>Net other assets</b>		<b>5,700</b>	<b>2.09</b>
<b>Total net assets</b>		<b>273,333</b>	<b>100.00</b>

Forward Currency Contracts are Over the Counter (OTC) derivatives.

\* Comparative figures shown in brackets relate to 28 February 2011.

\*\* Defaulted bonds / Suspended securities.

\*\*\* Escrow bond. Bond held by a neutral third party, the escrow agent, under a contract agreement the terms of which determine when any payments will be made.

^ Including derivative liabilities.

# High Income Bond Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Market Value £000	Total Net Assets %
<b>Summary of portfolio by credit ratings</b>		
<b>Rating block</b>		
AAA	82,782	30.31
A-	3,553	1.30
BBB+	638	0.23
BBB	754	0.28
BBB-	11,792	4.32
BB+	32,085	11.74
BB	13,138	4.80
BB-	22,468	8.23
B+	22,895	8.36
B	30,044	10.99
B-	24,862	9.11
CCC+	14,389	5.25
CCC	3,519	1.29
CCC-	232	0.08
CC	1,039	0.38
C	647	0.23
D	366	0.13
NR	3,814	1.40
<b>Total bonds</b>	<b>269,017</b>	<b>98.43</b>
<b>Other</b>	<b>4,316</b>	<b>1.57</b>
<b>Total net assets</b>	<b>273,333</b>	<b>100.00</b>

The credit ratings used in the above table have been supplied by Standard & Poor's.

# High Income Bond Fund

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>367,811</u></b>	<b>Total sales for the year</b>	<b><u>363,775</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
UK Treasury 5.25% 07/06/2012	26,445	UK Treasury 5% 07/03/2012	29,370
UK Treasury 3.75% 07/09/2021	24,036	UK Treasury 2% 22/01/2016	22,746
UK Treasury 5% 07/03/2025	19,668	UK Treasury 3.25% 07/12/2011	21,900
UK Treasury 5% 07/03/2012	18,359	UK Treasury 3.75% 07/09/2021	21,291
UK Treasury 2.5% Index-Linked 26/07/2016	16,420	UK Treasury 3.75% 07/09/2020	20,243
UK Treasury 3.25% 07/12/2011	12,109	UK Treasury 4.5% 07/09/2034	18,343
UK Treasury 2.5% Index-Linked 16/04/2020	11,620	UK Treasury 2.5% Index-Linked 26/07/2016	15,272
UK Treasury 2% 22/01/2016	11,044	UK Treasury 4.25% 07/12/2040	12,788
UK Treasury 4.5% 07/09/2034	8,484	UK Treasury 5% 07/03/2025	11,381
UK Treasury 4.25% 07/09/2039	8,119	UK Treasury 4% 22/01/2060	9,752
UK Treasury 4.25% 07/12/2040	6,738	UK Treasury 2.5% Index-Linked 16/04/2020	7,269
UK Treasury 3.75% 07/09/2020	6,618	UK Treasury 4.25% 07/12/2055	6,695
UK Treasury 4.25% 07/03/2036	6,461	UK Treasury 4.25% 07/03/2036	4,922
UK Treasury 3.75% 22/07/2052	6,275	UK Treasury 1.875% Index-Linked 22/11/2022	4,173
UK Treasury 4% 22/01/2060	6,023	UK Treasury 4.25% 07/12/2049	4,060
UK Treasury 4.25% 07/12/2055	4,683	CIT 7% 01/05/2017	3,854
UK Treasury 4.75% 07/12/2038	4,550	UK Treasury 5.25% 07/06/2012	3,752
UK Treasury 4% 07/03/2022	4,193	UK Treasury 4% 07/09/2016	3,158
UK Treasury 4% 07/09/2016	3,948	UK Treasury 4% 07/03/2022	2,669
UK Treasury 1.875% Index-Linked 22/11/2022	3,936	ANR Pipeline 9.625% 01/11/2021	2,468

# High Income Bond Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	78,601,841	47,968,677	163.86	1.62
Accumulation 28/02/11	81,953,392	45,972,177	178.27	1.63
Accumulation 28/02/12	85,441,245	44,182,527	193.38	1.63
Share Class A				
Income 28/02/10	192,354,987	214,823,442	89.54	1.62
Income 28/02/11	191,502,238	205,274,142	93.29	1.63
Income 28/02/12	187,891,298	193,658,642	97.02	1.63

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	151.00	146.20	7.0054
Accumulation 2008	151.30	123.60	9.0356
Accumulation 2009	163.20	128.80	7.6525
Accumulation 2010	177.80	161.60	7.7169
Accumulation 2011	188.30	175.50	7.5393
Accumulation 2012*	193.30	188.20	1.3455
Share Class A			
Income 2007	97.31	92.34	4.4421
Income 2008	93.51	72.28	5.4423
Income 2009	90.31	74.32	4.3310
Income 2010	94.32	88.70	4.1639
Income 2011	95.47	90.56	3.8954
Income 2012*	97.30	95.07	0.6788

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

## High Income Bond Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital gains	2		13,100		13,776
Revenue	3	15,938		16,669	
Expenses	4	(4,366)		(4,467)	
Finance costs: Interest	6	(10)		(43)	
Net revenue before taxation		11,562		12,159	
Taxation	5	-		(6)	
Net revenue after taxation			11,562		12,153
<b>Total return before distributions</b>			<b>24,662</b>		<b>25,929</b>
Finance costs: Distributions	6		(14,234)		(14,889)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>10,428</b>		<b>11,040</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>273,456</b>		<b>270,957</b>
Amounts receivable on creation of shares	7,356		7,483	
Less: Amounts payable on cancellation of shares	(21,490)		(19,668)	
		(14,134)		(12,185)
Dilution levy charged		62		111
Change in net assets attributable to shareholders from investment activities		10,428		11,040
Retained distribution on accumulation shares		3,478		3,487
Unclaimed distributions		43		46
<b>Closing net assets attributable to shareholders</b>		<b>273,333</b>		<b>273,456</b>

Notes to the Financial Statements are on pages 88 to 93.



# High Income Bond Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		269,396	259,616
Debtors	8	7,993	4,474
Cash and bank balances		3,605	12,707
<b>Total other assets</b>		<b>11,598</b>	<b>17,181</b>
<b>Total assets</b>		<b>280,994</b>	<b>276,797</b>
<b>Liabilities</b>			
Derivative liabilities		(1,763)	(545)
Creditors	9	(4,581)	(1,567)
Distribution payable on income shares		(1,317)	(1,229)
<b>Total other liabilities</b>		<b>(5,898)</b>	<b>(2,796)</b>
<b>Total liabilities</b>		<b>(7,661)</b>	<b>(3,341)</b>
<b>Net assets attributable to shareholders</b>		<b>273,333</b>	<b>273,456</b>

*Notes to the Financial Statements are on pages 88 to 93.*

# High Income Bond Fund

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital gains

The net capital gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	16,791	3,004
Forward foreign exchange currency contracts	(3,930)	11,519
Currency gains/(losses)	258	(740)
Handling charges	(19)	(7)
Net capital gains	13,100	13,776

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Distributions from Regulated Collective Investment Schemes:		
Interest distributions	-	11
Bank interest	4	67
Interest on debt securities	15,873	16,550
Stocklending revenue	61	41
Total revenue	15,938	16,669

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	4,048	4,141
Registration fees	270	277
	4,318	4,418
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	25	26
Safe custody fees	10	11
	35	37
<b>Other expenses:</b>		
Audit fee	13	12
Total expenses	4,366	4,467

Expenses include irrecoverable VAT where applicable.

# Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) <b>Analysis of charge in year:</b>		
Adjustments in respect of prior years	-	6
(b) <b>Factors affecting current tax charge for the year:</b>		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	11,562	12,159
Corporation tax of 20% (2011: 20%)	2,312	2,432
<b>Effects of:</b>		
Movement in excess management expenses	567	611
Tax deductible interest distributions	(2,847)	(2,978)
Adjustments in respect of prior years	-	6
Relief for indexation on UK Gilts	(32)	(65)
Current tax charge for year (note 5a)	-	6

*OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.*

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £7,896,429 (28/02/11: £7,329,540) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

# Notes to the Financial Statements

(continued)

as at 28 February 2012

## 6. Finance costs

### Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	950	1,175
Second interim	740	1,042
Third interim	1,101	1,148
Fourth interim	831	1,110
Fifth interim	813	874
Sixth interim	976	1,050
Seventh interim	1,124	863
Eighth interim	909	887
Ninth interim	1,009	1,054
Tenth interim	996	933
Eleventh interim	994	879
Final	919	872
Income tax withheld	2,847	2,978
	<hr/>	<hr/>
	14,209	14,865
Add: Revenue deducted on cancellation of shares	40	38
Deduct: Revenue received on creation of shares	(15)	(14)
	<hr/>	<hr/>
Net distributions for the year	14,234	14,889
	<hr/>	<hr/>
Bank interest	10	43
	<hr/>	<hr/>
Total finance costs	14,244	14,932

*Details of the distributions per share are set out in the Distribution Tables on page 94.*

## 7. Movement between net revenue and net distributions

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	11,562	12,153
ACD's periodic charge taken to capital	2,672	2,736
	<hr/>	<hr/>
Net distributions for the year	14,234	14,889

## 8. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	3,167	-
Amounts receivable for issue of shares	96	49
Accrued revenue	4,730	4,423
Dilution levy receivable	-	2
	<hr/>	<hr/>
Total debtors	7,993	4,474

## 9. Creditors

	28/02/12 £000	28/02/11 £000
Purchases awaiting settlement	2,913	-
Amounts payable for cancellation of shares	334	335
Accrued expenses	355	355
Income tax payable	979	877
	<hr/>	<hr/>
Total creditors	4,581	1,567

as at 28 February 2012

# 10. Related party transactions

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £333,735 (28/02/11: £336,212) due at the year end.

Distributions from Regulated Collective Investment Schemes disclosed in note 3 includes amounts earned from funds where Scottish Widows Investment Partnership Limited act as Authorised Corporate Director. The total revenue earned amounts to £nil (28/02/11: £10,725).

## *Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	23.23	22.04

# 11. Share classes

The Fund has one share class in issue.

The ACD's periodic charge on the share class is as follows:

	%
Share Class A - Accumulation:	1.50
Share Class A - Income:	1.50

The net asset value of this share class, the net asset value per share and the number of shares in this class is given in the Performance Record on page 85.

The distributions per share class are given in the Distribution Tables on page 94.

All share classes have the same rights on winding up.

# 12. Capital commitments and contingent liabilities

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

# 13. Securities on loan

The aggregate value of securities on loan at 28 February 2012 is £93,599,552 (28/02/11: £33,124,816). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £97,352,418 (28/02/11: £34,216,768). This collateral is in the form of bonds £48,403,567; equities £1,582,451 and cash £47,366,400 (28/02/11: bonds £21,489,063 and cash £12,727,705).

The gross earnings and fees paid for the year are £85,059 (28/02/11: £59,182) and £23,957 (28/02/11: £18,629).

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 14. Derivatives and other financial instruments

A statement of the Fund's objective and the policy for achieving it has been included on page 74. The risks inherent in the Fund's investment portfolio are as follows:

(a) *Currency risk*

A significant proportion of the Fund's financial assets and liabilities are invested overseas. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash and investment purchases and sales.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency liabilities 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures £000	Non-monetary exposures £000	Total £000	Monetary exposures £000	Non-monetary exposures £000	Total £000
Currency						
Euro	(152)	-	(152)	-	-	-
US dollar	(188,602)	185,511	(3,091)	(171,975)	174,093	2,118
	<u>(188,754)</u>	<u>185,511</u>	<u>(3,243)</u>	<u>(171,975)</u>	<u>174,093</u>	<u>2,118</u>

The ACD seeks to manage the portfolio exposure to currency movements by using forward currency contracts. The forward currency contracts are shown in the portfolio statement.

(b) *Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in fixed interest investments. Given that the Fund's objective is to provide high income, these cashflows are considered to be of primary importance and are actively managed.

The interest rate risk profile of the company's financial assets and liabilities at 28 February was:

	Floating rate financial assets £000	Fixed rate financial assets £000	Fixed rate financial assets weighted average interest rate %	Fixed rate financial assets weighted average period for which rate is fixed Years	Financial assets not carrying interest £000	Total £000
<b>Currency</b>						
<b>28/02/12</b>						
Sterling	1,017	83,506	1.66	13.08	192,053	276,576
Euro	-	-			(152)	(152)
US dollar	2,586	185,297	7.38	7.06	(190,974)	(3,091)
Total	<u>3,603</u>	<u>268,803</u>			<u>927</u>	<u>273,333</u>
<b>28/02/11</b>						
Sterling	9,854	74,880	2.90	13.92	186,604	271,338
US dollar	3,862	172,845	6.48	6.94	(174,589)	2,118
Total	<u>13,716</u>	<u>247,725</u>			<u>12,015</u>	<u>273,456</u>

The value of financial assets/liabilities not carrying interest includes amounts payable and receivable on forward contracts held at the year end.

The Fund's net cash holding of £3.605m (28/02/11: holding £12.707m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

(c) *Liquidity risk*

Given the nature of high yield investments (non-investment grade securities) some of the Fund assets may not be readily realisable within the ordinary course of business (e.g. within seven days). The ACD monitors and regulates the level of Fund assets where investments are held in thinly traded securities of issuers who have experienced financial difficulties (e.g. failed to make coupon payments when due or are otherwise in default).

as at 28 February 2012

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in fixed interest securities. Certain fixed interest securities are liable to default risk whereby the nominal capital is not or is unlikely to be returned to investors. The value of fixed interest stocks is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual fixed interest stock or be caused by a general market factor (such as government policy or the health of the underlying economy) which can affect the entire portfolio.

Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. In addition changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of securities held. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**15. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	367,811	303,186	363,775	322,279
Trades in the year before transaction costs	367,811	303,186	363,775	322,279
Taxes	-	-	-	(1)
Total costs	-	-	-	(1)
<b>Total net trades in the year after transaction costs</b>	<b>367,811</b>	<b>303,186</b>	<b>363,775</b>	<b>322,278</b>

# High Income Bond Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

- Group 1 Seventh interim Shares purchased prior to 1 September 2011  
 Eighth interim Shares purchased prior to 1 October 2011  
 Ninth interim Shares purchased prior to 1 November 2011  
 Tenth interim Shares purchased prior to 1 December 2011  
 Eleventh interim Shares purchased prior to 1 January 2012  
 Final Shares purchased prior to 1 February 2012
- Group 2 Seventh interim Shares purchased between 1 September 2011 and 30 September 2011  
 Eighth interim Shares purchased between 1 October 2011 and 31 October 2011  
 Ninth interim Shares purchased between 1 November 2011 and 30 November 2011  
 Tenth interim Shares purchased between 1 December 2011 and 31 December 2011  
 Eleventh interim Shares purchased between 1 January 2012 and 31 January 2012  
 Final Shares purchased between 1 February 2012 and 28 February 2012

### Share Class A - Accumulation

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.9628	0.1926	0.7702	-	0.7702	0.5464
Eighth interim	0.7860	0.1572	0.6288	-	0.6288	0.5627
Ninth interim	0.8809	0.1762	0.7047	-	0.7047	0.6703
Tenth interim	0.8730	0.1746	0.6984	-	0.6984	0.5990
Eleventh interim	0.8715	0.1743	0.6972	-	0.6972	0.5680
Final	0.8104	0.1621	0.6483	-	0.6483	0.5669
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.3770	0.0754	0.3016	0.4686	0.7702	0.5464
Eighth interim	0.5330	0.1066	0.4264	0.2024	0.6288	0.5627
Ninth interim	0.6300	0.1260	0.5040	0.2007	0.7047	0.6703
Tenth interim	0.2483	0.0497	0.1986	0.4998	0.6984	0.5990
Eleventh interim	0.2768	0.0554	0.2214	0.4758	0.6972	0.5680
Final	0.4360	0.0872	0.3488	0.2995	0.6483	0.5669

### Share Class A - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.4939	0.0988	0.3951	-	0.3951	0.2917
Eighth interim	0.4015	0.0803	0.3212	-	0.3212	0.2994
Ninth interim	0.4485	0.0897	0.3588	-	0.3588	0.3555
Tenth interim	0.4424	0.0885	0.3539	-	0.3539	0.3166
Eleventh interim	0.4405	0.0881	0.3524	-	0.3524	0.2991
Final	0.4080	0.0816	0.3264	-	0.3264	0.2977
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.2346	0.0469	0.1877	0.2074	0.3951	0.2917
Eighth interim	0.2031	0.0406	0.1625	0.1587	0.3212	0.2994
Ninth interim	0.1998	0.0400	0.1598	0.1990	0.3588	0.3555
Tenth interim	0.1608	0.0322	0.1286	0.2253	0.3539	0.3166
Eleventh interim	0.1566	0.0313	0.1253	0.2271	0.3524	0.2991
Final	0.2048	0.0410	0.1638	0.1626	0.3264	0.2977



# High Reserve Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide a high and regular income whilst providing some potential for capital growth over the medium to long term through investment predominantly in the United Kingdom but also in Europe.

The Fund will invest in a diversified portfolio of UK and European securities which may include, directly or indirectly, high yielding equities, Gilt-edged securities, corporate bonds, convertible stocks, preference shares and warrants, however the Fund may invest in other types of investment at the discretion of the ACD.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
High Reserve Fund A Accumulation	(0.57)	13.33	29.87	(27.78)	(11.62)	9.45
UK Equity & Bond Income Sector Average Return	3.63	12.72	30.62	(26.06)	(4.28)	7.14

*Source: Lipper for High Reserve Fund and UK Equity & Bond Income Sector Average Return (funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All-Share Index).*

*Basis: Mid to Mid, net revenue reinvested and net of expenses.*

*Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.*

The UK stock market made limited progress over the year under review. In total-return terms (i.e. including dividends) the FTSE All-Share index produced a modest positive return. In capital only terms, however, it fell. Reflecting investors' gloomy assessment of the prospects for the UK and global economies, the strongest performing areas of the market were "defensive" sectors such as tobacco, beverages and pharmaceuticals, whose fortunes are considered to be relatively immune to swings in the economic cycle.

Caution was also the dominant mood in bond markets. Total returns from corporate bonds over the period were positive. That, however, largely reflected a rise in the price of government bonds, which set the tone for the rest of the bond market. The premium that corporate borrowers must pay to borrow relative to the government actually increased, as nervous investors favoured safe havens such as US Treasuries, German Bunds and UK Gilts over riskier assets. This rise in risk aversion meant high-yield bonds also lost ground.

Over the review period, the Fund produced a negative return. Two stock-specific issues weighed on returns from the equity element of the portfolio. Essar Energy struggled due to delays to a number of its power projects, together with uncertainty over the timing of approval to begin development of its own coal mines. The holding in Thomas Cook also proved detrimental after the company issued a profit warning, citing ongoing political unrest in the Middle East and North Africa and tough trading conditions in its UK business. More positively, the holding in Berkeley aided performance. The London and southeast-focused housebuilder benefited from its announcement that it planned to return cash to its shareholders.

In the corporate-bond element of the portfolio, holdings in the financials sector and in high-yield bonds initially boosted returns. However, a sudden rise in risk aversion during the summer meant that these holdings had a detrimental effect. Underperformers included positions in bonds issued by the likes of Royal Bank of Scotland, Merrill Lynch and NatWest, which struggled in September and October. These negatives were partly offset, however, by holdings in off-benchmark positions in government bonds.

In the face of deteriorating economic data, we repositioned the equity part of the portfolio in August to reflect a changed outlook for the global economy. We reduced its exposure to the more economically sensitive areas of the market (particularly the banks and the mining stocks) in favour of companies with attractive dividends, strong balance sheets and resilient earnings. These included AstraZeneca, GlaxoSmithKline and Vodafone.

Looking forward, while volatility in the equity and corporate-bond markets seems likely to persist for as long as the debate over the future of the global economy rages, the corporate sector appears to be in reasonably good shape. A sharp rally in both corporate bonds and equities in the first two months of 2012 seemed to reflect a growing consensus that both asset classes continue to offer good value relative to government bonds.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# High Reserve Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (8.61%*)</b>		<b>28,680</b>	<b>6.68</b>
<b>Chemicals</b>			
Johnson Matthey	133,205	3,116	0.73
<b>Mining</b>			
Anglo American	51,361	1,374	0.32
BHP Billiton	139,666	2,918	0.68
Glencore International	1,673,719	7,255	1.69
Rio Tinto	262,699	9,725	2.26
Xstrata	356,778	4,292	1.00
<b>CONSUMER GOODS (9.36%*)</b>		<b>40,280</b>	<b>9.38</b>
<b>Beverages</b>			
SABMiller	214,539	5,522	1.29
<b>Food Producers</b>			
Tate & Lyle	330,698	2,345	0.55
<b>Household Goods &amp; Home Construction</b>			
Berkeley	527,490	7,264	1.69
<b>Tobacco</b>			
British American Tobacco	449,050	14,185	3.30
Imperial Tobacco	435,234	10,964	2.55
<b>CONSUMER SERVICES (8.17%*)</b>		<b>36,801</b>	<b>8.58</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	759,129	2,414	0.56
<b>General Retailers</b>			
WH Smith	555,439	2,972	0.69
<b>Media</b>			
British Sky Broadcasting	1,113,998	7,625	1.78
Reed Elsevier	1,706,461	9,411	2.19
WPP	667,857	5,309	1.24
<b>Travel &amp; Leisure</b>			
Compass	1,267,934	8,058	1.88
Ryanair	295,468	1,012	0.24
<b>FINANCIALS (16.69%*)</b>		<b>58,169</b>	<b>13.54</b>
<b>Banks</b>			
Barclays	2,198,737	5,359	1.25
HSBC	2,341,859	12,962	3.02
Lloyds Banking +	8,408,974	2,935	0.68
Standard Chartered	251,673	4,057	0.95
<b>Financial Services</b>			
Burford Capital	2,200,916	2,927	0.68
Close Brothers	643,994	4,766	1.11
Manchester & London Investment Trust	146,796	492	0.11
Tullett Prebon	1,547,311	5,105	1.19
<b>Life Insurance</b>			
Aviva	534,365	1,988	0.46
Prudential	883,653	6,358	1.48
Resolution	3,894,806	10,321	2.40
<b>Nonequity Investment Instruments</b>			
Better Capital	696,971	899	0.21

# High Reserve Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>HEALTH CARE (6.37%*)</b>		<b>36,661</b>	<b>8.54</b>
<b>Health Care Equipment &amp; Services</b>			
Smith & Nephew	523,486	3,272	0.76
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	490,580	13,935	3.25
GlaxoSmithKline	1,387,062	19,454	4.53
<b>INDUSTRIALS (2.76%*)</b>		<b>6,203</b>	<b>1.44</b>
<b>Aerospace &amp; Defence</b>			
BAE Systems	743,253	2,349	0.55
<b>General Industrials</b>			
DS Smith	1,088,496	1,861	0.43
<b>Industrial Engineering</b>			
Melrose	510,099	1,993	0.46
<b>OIL &amp; GAS (14.63%*)</b>		<b>77,249</b>	<b>17.98</b>
<b>Oil &amp; Gas Producers</b>			
BG	730,815	11,258	2.62
BP	5,343,343	26,802	6.24
Essar Energy	1,671,310	1,797	0.42
Genel Energy	261,336	2,157	0.50
Great Eastern Energy GDR	264,599	833	0.19
Indus Gas	796,004	7,443	1.73
Royal Dutch Shell 'B'	1,149,388	26,959	6.28
<b>TECHNOLOGY (0.00%*)</b>		<b>8,840</b>	<b>2.07</b>
<b>Software &amp; Computer Services</b>			
iEnergizer	678,704	2,341	0.55
Invensys	910,541	1,921	0.45
Sage	1,491,145	4,578	1.07
<b>TELECOMMUNICATIONS (4.38%*)</b>		<b>15,868</b>	<b>3.70</b>
<b>Mobile Telecommunications</b>			
Vodafone	9,225,635	15,868	3.70
<b>UTILITIES (6.50%*)</b>		<b>17,945</b>	<b>4.18</b>
<b>Electricity</b>			
APR Energy	197,160	1,922	0.45
KSK Power Ventur	666,292	3,798	0.88
<b>Gas, Water &amp; Multiutilities</b>			
Centrica	2,827,470	8,409	1.96
National Grid	590,734	3,816	0.89

# High Reserve Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>CORPORATE BONDS (19.28%*)</b>		<b>78,629</b>	<b>18.30</b>
Abbey National Treasury Services 5.5% 18/06/2014	GBP740,000	766	0.18
America Movil SAB de CV 5.75% 28/06/2030	GBP475,000	559	0.13
Amgen 5.5% 07/12/2026	GBP345,000	384	0.09
Amlin (FRN) 6.5% 19/12/2026	GBP185,000	153	0.04
Anglo American Capital 6.875% 01/05/2018	GBP205,000	243	0.06
ASIF III 5.375% 14/10/2016	GBP734,000	747	0.17
Aspire Defence Finance 4.674% 31/03/2040	GBP598,000	570	0.13
AT&T 5.5% 15/03/2027	GBP250,000	287	0.07
AT&T 7% 30/04/2040	GBP350,000	478	0.11
Aviva (FRN) 6.875% 20/05/2058	GBP300,000	241	0.06
Aviva (FRN) 6.125% Perpetual	GBP1,110,000	784	0.18
AXA 7.125% 15/12/2020	GBP450,000	457	0.11
AXA (FRN) 6.772% Perpetual	GBP550,000	419	0.10
BAA Funding 6.75% 03/12/2026	GBP1,000,000	1,195	0.28
Bank of Scotland 6.375% 16/08/2019 †	GBP2,000,000	1,748	0.41
Barclays Bank 10% 21/05/2021	GBP1,300,000	1,477	0.34
Barclays Bank 5.75% 17/08/2021	GBP675,000	724	0.17
Barclays Bank (FRN) 6.375% Perpetual	GBP720,000	617	0.14
BAT International Finance 6.375% 12/12/2019	GBP680,000	832	0.19
BAT International Finance 6% 29/06/2022	GBP350,000	416	0.10
Beazley (FRN) 7.25% 17/10/2026	GBP475,000	387	0.09
BG Energy Capital 5.125% 01/12/2025	GBP330,000	376	0.09
BNP Paribas 7.436% Perpetual	GBP650,000	475	0.11
BNP Paribas (FRN) 5.954% Perpetual	GBP1,050,000	764	0.18
Bouygues 5.5% 06/10/2026	GBP500,000	551	0.13
British Telecom 8.625% 26/03/2020	GBP525,000	693	0.16
British Telecom 6.375% 23/06/2037	GBP900,000	1,043	0.24
BUPA Finance 7.5% 04/07/2016	GBP200,000	226	0.05
Centrica 6.375% 10/03/2022	GBP760,000	912	0.21
Cie de Saint-Gobain 5.625% 15/12/2016	GBP450,000	497	0.12
Citigroup 5.15% 21/05/2026	GBP800,000	785	0.18
Citigroup 4.5% 03/03/2031	GBP915,000	681	0.16
Citigroup 6.8% 25/06/2038	GBP1,146,000	1,296	0.30
Close Brothers 6.5% 10/02/2017	GBP550,000	563	0.13
CNP Assurances 7.375% 30/09/2041	GBP600,000	481	0.11
Co-operative 5.625% 08/07/2020	GBP200,000	194	0.05
Danske Bank (FRN) 5.375% 29/09/2021	GBP639,000	531	0.12
Deutsche Telekom International Finance 6.5% 08/04/2022	GBP500,000	600	0.14
DnB NOR Bank (FRN) 6.17% 29/01/2018	GBP530,000	531	0.12
DONG Energy 4.875% 12/01/2032	GBP282,000	291	0.07
DONG Energy 5.75% 09/04/2040	GBP200,000	231	0.05
E.ON International Finance 6.375% 07/06/2032	GBP96,000	118	0.03
E.ON International Finance 5.875% 30/10/2037	GBP650,000	760	0.18
Eastern Power Networks 5.75% 08/03/2024	GBP1,150,000	1,305	0.30
EDF 6.25% 30/05/2028	GBP100,000	116	0.03
EDF 6.125% 02/06/2034	GBP1,150,000	1,294	0.30
EDF 5.5% 17/10/2041	GBP200,000	208	0.05
Enel 6.25% 20/06/2019	GBP400,000	418	0.10
ESB Finance 6.5% 05/03/2020	GBP350,000	323	0.08
Finmeccanica Finance 8% 16/12/2019	GBP487,000	470	0.11
FirstGroup 6.125% 18/01/2019	GBP650,000	706	0.16
France Telecom 5.375% 22/11/2050	GBP200,000	208	0.05
Friends Life 8.25% 21/04/2022	GBP300,000	275	0.06

# High Reserve Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
G4S 7.75% 13/05/2019	GBP270,000	331	0.08
Gaz Capital for Gazprom 6.58% 31/10/2013	GBP512,000	537	0.13
GE Capital UK Funding 5.125% 24/05/2023	GBP2,008,000	2,095	0.49
General Electric Capital (FRN) 5.5% 15/09/2066	GBP145,000	133	0.03
General Electric Capital (FRN) 6.5% 15/09/2067	GBP1,050,000	1,008	0.23
Glencore Finance 6.5% 27/02/2019	GBP350,000	395	0.09
Goldman Sachs 7.125% 07/08/2025	GBP350,000	380	0.09
Goldman Sachs 7.25% 10/04/2028	GBP600,000	649	0.15
Highbury Finance 7.017% 20/03/2023	GBP938,743	1,061	0.25
Holcim 8.75% 24/04/2017	GBP262,000	322	0.07
HSBC 6% 29/03/2040	GBP1,440,000	1,398	0.33
HSBC (FRN) 9.875% 08/04/2018	GBP500,000	534	0.12
HSBC (FRN) 4.75% 29/09/2020	GBP700,000	689	0.16
Hutchison Whampoa Finance 5.625% 24/11/2017	GBP300,000	336	0.08
Imperial Tobacco Finance 9% 17/02/2022	GBP580,000	797	0.19
Imperial Tobacco Finance 8.125% 15/03/2024	GBP333,000	440	0.10
ING Bank (FRN) 6.875% 29/05/2023	GBP790,000	783	0.18
Intercontinental Hotels 6% 09/12/2016	GBP510,000	561	0.13
Koninklijke KPN 5% 18/11/2026	GBP200,000	200	0.05
LBG Capital No.1 7.8673% 17/12/2019 †	GBP1,000,000	840	0.20
Lloyds Banking 6.5% 17/09/2040 †	GBP275,000	263	0.06
Marks & Spencer 6.125% 02/12/2019	GBP520,000	568	0.13
Marks & Spencer 6.125% 06/12/2021	GBP809,000	864	0.20
Merrill Lynch 7.75% 30/04/2018	GBP1,400,000	1,498	0.35
MetLife 5.25% 29/06/2020	GBP660,000	713	0.17
Motability Operations 4.375% 08/02/2027	GBP100,000	101	0.02
Motability Operations 5.625% 29/11/2030	GBP258,000	294	0.07
National Capital Trust I 5.62% Perpetual	GBP675,000	570	0.13
National Grid Electricity Transmission 7.375% 13/01/2031	GBP970,000	1,318	0.31
National Westminster Bank 6.5% 07/09/2021	GBP710,000	633	0.15
Next 5.375% 26/10/2021	GBP200,000	210	0.05
Nordea Bank Finland (FRN) 6.25% Perpetual	GBP479,000	474	0.11
Northumbrian Water Finance 5.125% 23/01/2042	GBP900,000	936	0.22
Places for People Homes 5.875% 23/05/2031	GBP500,000	540	0.13
Prudential (FRN) 11.375% 29/05/2039	GBP410,000	534	0.12
QBE Capital Funding II 7.5% 24/05/2041	GBP799,000	698	0.16
Rabobank Capital Funding Trust IV (FRN) 5.556% Perpetual	GBP456,000	390	0.09
Royal Bank of Scotland 6.375% 29/04/2014	GBP590,000	625	0.15
Royal Bank of Scotland 6.625% 17/09/2018	GBP650,000	708	0.16
Royal Bank of Scotland (FRN) 2.29825% 21/12/2033	GBP2,000,000	1,200	0.28
RSA Insurance (FRN) 8.5% Perpetual	GBP500,000	519	0.12
RWE Finance 6.25% 03/06/2030	GBP1,000,000	1,205	0.28
RWE Finance 4.75% 31/01/2034	GBP300,000	304	0.07
Santander UK (FRN) 7.5% Perpetual	GBP250,000	212	0.05
Scottish & Southern Energy (FRN) 5.453% Perpetual	GBP445,000	439	0.10
Scottish Widows (FRN) 5.125% Perpetual †	GBP415,000	311	0.07
Severn Trent Utilities Finance 6.25% 07/06/2029	GBP270,000	332	0.08
Severn Trent Utilities Finance 4.875% 24/01/2042	GBP400,000	403	0.09
Societe Generale (FRN) 8.875% Perpetual	GBP415,000	321	0.07
Society of Lloyd's (FRN) 7.421% Perpetual	GBP937,000	807	0.19
Southern Electric Power Distribution 5.5% 07/06/2032	GBP250,000	277	0.06
Southern Gas Networks 5.125% 02/11/2018	GBP500,000	552	0.13
Southern Water Services Finance 6.125% 31/03/2019	GBP763,000	882	0.21
Southern Water Services Finance (FRN) 7.869% 31/03/2038	GBP1,024,000	1,091	0.25

# High Reserve Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
SSE 4.25% 14/09/2021	GBP800,000	830	0.19
Standard Chartered 7.75% 03/04/2018	GBP250,000	285	0.07
Stirling Water Seafield Finance 5.822% 26/09/2026	GBP796,042	836	0.19
Svenska Handelsbanken 4% 18/01/2019	GBP500,000	513	0.12
TDC 5.625% 23/02/2023	GBP200,000	226	0.05
Telecom Italia 7.375% 15/12/2017	GBP900,000	921	0.21
Telecom Italia 6.375% 24/06/2019	GBP550,000	525	0.12
Telefonica Emisiones 5.375% 02/02/2018	GBP957,000	975	0.23
Tesco 6.125% 24/02/2022	GBP680,000	789	0.18
Tesco 4% Index-Linked 08/09/2016	GBP115,000	190	0.04
Time Warner Cable 5.75% 02/06/2031	GBP500,000	551	0.13
UBS 6.625% 11/04/2018	GBP400,000	459	0.11
United Utilities Water 5.625% 20/12/2027	GBP500,000	570	0.13
Vattenfall 6.875% 15/04/2039	GBP215,000	292	0.07
Wales & West Utilities Finance 5.125% 02/12/2016	GBP600,000	664	0.15
Wessex Water Services Finance 5.375% 10/03/2028	GBP650,000	723	0.17
Western Power Distribution East Midlands 5.25% 17/01/2023	GBP500,000	557	0.13
Western Power Distribution East Midlands 5.75% 16/04/2032	GBP750,000	844	0.20
Wm Morrison Supermarkets 4.625% 08/12/2023	GBP800,000	853	0.20
WPP 6% 04/04/2017	GBP360,000	402	0.09
Xstrata Canada Financial 7.375% 27/05/2020	GBP587,000	719	0.17
Yorkshire Water Services Bradford Finance (FRN) 6% 24/04/2025	GBP200,000	218	0.05
<b>GOVERNMENT BONDS (2.11%*)</b>		<b>9,438</b>	<b>2.19</b>
UK Treasury 4% 07/09/2016	GBP1,334,000	1,524	0.35
UK Treasury 5% 07/03/2025	GBP2,115,000	2,721	0.63
UK Treasury 4.25% 07/06/2032	GBP1,372,000	1,633	0.38
UK Treasury 4.25% 07/09/2039	GBP392,000	469	0.11
UK Treasury 4.25% 07/12/2040	GBP1,289,000	1,543	0.36
UK Treasury 2.5% Index-Linked 26/07/2016	GBP450,000	1,548	0.36
<b>MORTGAGE-BACKED SECURITIES (0.79%*)</b>		<b>5,464</b>	<b>1.28</b>
Arkle Master Issuer 4.681% 17/05/2060 †	GBP400,000	424	0.10
BAA Funding 6.45% 10/12/2031	GBP1,000,000	1,138	0.27
Dignity Finance 8.151% 31/12/2031	GBP900,000	1,219	0.28
Fosse Master Issuer 4.635% 18/10/2054	GBP350,000	367	0.09
Juturna (European Loan Conduit 16) 5.0636% 10/08/2033	GBP52,410	54	0.01
Permanent Master Issuer 4.805% 15/07/2042 †	GBP250,000	266	0.06
SLM Student Loan Trust 2003-12 5.45% 15/03/2038	GBP867,000	697	0.16
Tesco Property Finance 2 6.0517% 13/10/2039	GBP389,729	428	0.10
Tesco Property Finance 4 5.8006% 13/10/2040	GBP606,932	629	0.15
Unique Pub Finance 6.542% 30/03/2021	GBP300,000	242	0.06
<b>Portfolio of investments</b>		<b>420,227</b>	<b>97.86</b>
<b>Net other assets</b>		<b>9,183</b>	<b>2.14</b>
<b>Total net assets</b>		<b>429,410</b>	<b>100.00</b>

All holdings are equities or fixed interest securities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

Stocks shown as FRNs represent Floating Rate Notes - debt instruments that pay a floating rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

\* Comparative figures shown in brackets relate to 28 February 2011.

Stocks shown as GDR's represent Global Depositary Receipts.

† This investment is a related party (see note 10).

# High Reserve Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Market Value £000	Total Net Assets %
<b>Summary of portfolio by credit ratings</b>		
<b>Rating block</b>		
AAA	10,495	2.44
AA+	2,095	0.49
AA-	1,654	0.38
A+	5,331	1.24
A	5,258	1.23
A-	23,712	5.52
BBB+	15,386	3.59
BBB	16,425	3.81
BBB-	6,817	1.59
BB	840	0.20
NR	5,518	1.28
<b>Total bonds</b>	<b>93,531</b>	<b>21.77</b>
<b>Other</b>	<b>335,879</b>	<b>78.23</b>
<b>Total net assets</b>	<b>429,410</b>	<b>100.00</b>

The credit ratings used in the above table have been supplied by Standard & Poor's.

## High Reserve Fund

### Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>227,046</u></b>	<b>Total sales for the year</b>	<b><u>271,667</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Royal Dutch Shell 'B'	10,057	Vodafone	13,120
Glencore International	9,623	Diageo	10,500
Tesco	9,549	Tesco	9,164
Vodafone	8,241	National Grid	9,101
Aviva	7,776	Imperial Tobacco	8,605
British Sky Broadcasting	7,475	BG	8,109
Imperial Tobacco	6,295	SSE	7,617
UK Treasury 4% 07/09/2016	5,115	Smiths	7,159
UK Treasury 5% 07/03/2025	4,838	UK Treasury 4.5% 07/03/2013	6,998
SABMiller	4,784	Resolution	6,917
Indus Gas	4,499	Rio Tinto	6,907
UK Treasury 4.5% 07/03/2013	4,488	British American Tobacco	6,455
Prudential	4,450	Xstrata	6,264
Sage	4,200	UK Treasury 4% 07/09/2016	5,967
GlaxoSmithKline	4,165	RSA Insurance	5,624
AstraZeneca	4,092	Centrica	5,065
Lloyds Banking †	4,068	HSBC	4,985
Rio Tinto	4,003	AstraZeneca	4,732
BP	3,942	GlaxoSmithKline	4,343
Xstrata	3,733	British Sky Broadcasting	4,262

† This investment is a related party (see note 10).



# High Reserve Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	312,366,652	144,368,249	216.37	1.37
Accumulation 28/02/11	314,141,643	128,093,549	245.24	1.37
Accumulation 28/02/12	279,362,418	114,601,049	243.77	1.36
Share Class A				
Income 28/02/10	174,643,609	155,827,505	112.07	1.37
Income 28/02/11	172,634,962	141,285,005	122.19	1.37
Income 28/02/12	150,047,140	128,880,505	116.42	1.36

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	266.40	235.60	9.9060
Accumulation 2008	247.20	157.10	10.2397
Accumulation 2009	218.40	156.50	9.1369
Accumulation 2010	242.10	206.10	8.7778
Accumulation 2011	251.30	210.70	9.8890
Accumulation 2012*	243.90	231.20	1.8526
Share Class A			
Income 2007	159.40	137.80	5.8528
Income 2008	142.40	87.24	5.8017
Income 2009	114.10	84.81	4.9172
Income 2010	121.50	105.40	4.5183
Income 2011	125.20	103.70	4.8902
Income 2012*	117.40	111.30	0.8916

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

## High Reserve Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(18,522)		46,563
Revenue	3	19,989		20,366	
Expenses	4	(6,005)		(6,635)	
Finance costs: Interest	6	(1)		(7)	
Net revenue before taxation		13,983		13,724	
Taxation	5	(22)		(61)	
Net revenue after taxation			13,961		13,663
<b>Total return before distributions</b>			<b>(4,561)</b>		<b>60,226</b>
Finance costs: Distributions	6		(18,492)		(18,522)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(23,053)</b>		<b>41,704</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>486,777</b>		<b>487,010</b>
Amounts receivable on creation of shares	294		261	
Less: Amounts payable on cancellation of shares	(46,582)		(54,147)	
		(46,288)		(53,886)
Dilution levy charged		142		178
Stamp duty reserve tax		(12)		(14)
Change in net assets attributable to shareholders from investment activities		(23,053)		41,704
Retained distribution on accumulation shares		11,793		11,713
Unclaimed distributions		51		72
<b>Closing net assets attributable to shareholders</b>		<b>429,410</b>		<b>486,777</b>

*Notes to the Financial Statements are on pages 106 to 111.*

# High Reserve Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		420,227	485,072
Debtors	8	5,927	5,373
Cash and bank balances		6,907	-
<b>Total other assets</b>		<b>12,834</b>	<b>5,373</b>
<b>Total assets</b>		<b>433,061</b>	<b>490,445</b>
<b>Liabilities</b>			
Creditors	9	(2,502)	(1,782)
Bank overdrafts		-	(551)
Distribution payable on income shares		(1,149)	(1,335)
<b>Total liabilities</b>		<b>(3,651)</b>	<b>(3,668)</b>
<b>Net assets attributable to shareholders</b>		<b>429,410</b>	<b>486,777</b>

*Notes to the Financial Statements are on pages 106 to 111.*

# High Reserve Fund

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(18,513)	46,544
Currency gains	-	23
Handling charges	(9)	(4)
Net capital (losses)/gains	(18,522)	46,563

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	13,636	12,528
Overseas taxable revenue	-	(4)
Overseas non-taxable revenue	1,005	703
Property revenue from UK REITs - PID	2	20
Property revenue from UK REITs - Non PID	2	2
Bank interest	19	7
Interest on debt securities	5,259	6,730
Stocklending revenue	55	21
UK scrip dividends	11	223
Underwriting commission	-	136
Total revenue	19,989	20,366

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	5,496	6,074
Registration fees	442	486
	5,938	6,560
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	41	46
Safe custody fees	15	18
	56	64
<b>Other expenses:</b>		
Audit fee	11	11
Total expenses	6,005	6,635

Expenses include irrecoverable VAT where applicable.

# Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>(a) Analysis of charge in year:</b>		
Corporation tax	-	53
Irrecoverable overseas tax	22	10
Adjustments in respect of prior years	-	(2)
Total current tax (note 5b)	22	61
Total taxation	22	61

## (b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:

Net revenue before taxation	13,983	13,724
Corporation tax of 20% (2011: 20%)	2,797	2,745
<b>Effects of:</b>		
UK dividends*	(2,728)	(2,506)
Non-taxable scrip dividends	(2)	(45)
Overseas non-taxable revenue**	(201)	(141)
Movement in excess management expenses	138	-
Irrecoverable overseas tax	22	10
Adjustments in respect of prior years	-	(2)
Relief for indexation on UK Gilts	(4)	-
Current tax charge for year (note 5a)	22	61

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £137,923 (28/02/11: £nil) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

# Notes to the Financial Statements

(continued)

as at 28 February 2012

## 6. Finance costs

### Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	5,611	5,896
Second interim	4,981	4,786
Third interim	4,390	3,835
Final	3,272	3,746
	<hr/>	<hr/>
	18,254	18,263
Add: Revenue deducted on cancellation of shares	240	260
Deduct: Revenue received on creation of shares	(2)	(1)
	<hr/>	<hr/>
Net distributions for the year	18,492	18,522
	<hr/>	<hr/>
Bank interest	1	7
	<hr/>	<hr/>
Total finance costs	18,493	18,529
	<hr/>	<hr/>

*Details of the distributions per share are set out in the Distribution Tables on pages 112 to 113.*

## 7. Movement between net revenue and net distributions

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	13,961	13,663
ACD's periodic charge taken to capital	5,496	6,074
Tax relief on ACD's periodic charge	(965)	(1,215)
	<hr/>	<hr/>
Net distributions for the year	18,492	18,522
	<hr/>	<hr/>

## 8. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	1,579	274
Accrued revenue	4,311	5,082
Dilution levy receivable	3	3
Income tax recoverable	-	2
Overseas tax recoverable	34	12
	<hr/>	<hr/>
Total debtors	5,927	5,373
	<hr/>	<hr/>

## 9. Creditors

	28/02/12 £000	28/02/11 £000
Purchases awaiting settlement	1,261	172
Amounts payable for cancellation of shares	802	1,068
Accrued expenses	439	529
Corporation tax payable	-	13
	<hr/>	<hr/>
Total creditors	2,502	1,782
	<hr/>	<hr/>

as at 28 February 2012

# 10. Related party transactions

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £416,978 (28/02/11: £507,018) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

Revenue disclosed in note 3 includes amounts received from Lloyds related investments. The total revenue received amounts to £171,539 (28/02/11: £337,857).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	-	-

# 11. Share classes

The Fund has one share class in issue.

The ACD's periodic charge on the share class is as follows:

	%
Share Class A - Accumulation:	1.25
Share Class A - Income:	1.25

The net asset value of this share class, the net asset value per share and the number of shares in this class is given in the Performance Record on page 103.

The distributions per share class are given in the Distribution Tables on pages 112 to 113.

All share classes have the same rights on winding up.

# 12. Capital commitments and contingent liabilities

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

# 13. Securities on loan

The aggregate value of securities on loan at 28 February 2012 is £44,929,105 (28/02/11: £13,065,691). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £46,509,466 (28/02/11: £13,639,180). This collateral is in the form of bonds £7,026,925; equities £558,442 and cash £38,924,099 (28/02/11: bonds £13,326,199 and equities £312,981).

The gross earnings and fees paid for the year are £79,525 (28/02/11: £32,258) and £24,557 (28/02/11: £11,671).

as at 28 February 2012

**14. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 95. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

A small portion of the Fund's financial assets and liabilities are invested overseas. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash and investment purchases and sales.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures £000	Non-monetary exposures £000	Total £000	Monetary exposures £000	Non-monetary exposures £000	Total £000
Currency						
Euro	836	1,012	1,848	-	1,771	1,771
US dollar	608	-	608	471	-	471
	1,444	1,012	2,456	471	1,771	2,242

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities and fixed interest investments. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to provide a high and regular income whilst not neglecting capital growth, these cashflows are actively managed.

The interest rate risk profile of the company's financial assets and liabilities at 28 February was:

	Floating rate financial assets £000	Fixed rate financial assets £000	Fixed rate financial assets weighted average interest rate %	Fixed rate financial assets weighted average period for which rate is fixed Years	Financial assets not carrying interest £000	Total £000
Currency						
28/02/12						
Sterling	20,998	79,441	4.88	14.47	326,515	426,954
Euro	-	-			1,848	1,848
US dollar	-	-			608	608
Total	20,998	79,441			328,971	429,410
28/02/11						
Sterling	13,567	93,706	5.36	13.99	377,262	484,535
Euro	-	-			1,771	1,771
US dollar	-	-			471	471
Total	13,567	93,706			379,504	486,777

The Fund's net cash holding of £6.907m (28/02/11: overdraft £0.551m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

The majority of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.



as at 28 February 2012

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests in both equities and bonds. The value of equities and bonds are not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or fixed interest stock or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the Manager being unable to secure similar returns on the expiry of contracts or the sale of securities. Changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of securities held. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which include rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**15. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	226,205	193,808	271,875	231,590
Trades in the year before transaction costs	226,205	193,808	271,875	231,590
Commissions	150	142	(208)	(195)
Taxes	691	521	-	-
Total costs	841	663	(208)	(195)
<b>Total net trades in the year after transaction costs</b>	<b>227,046</b>	<b>194,471</b>	<b>271,667</b>	<b>231,395</b>

# High Reserve Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Third interim Shares purchased prior to 1 September 2011

Final Shares purchased prior to 1 December 2011

Group 2 Third interim Shares purchased between 1 September 2011 and 30 November 2011

Final Shares purchased between 1 December 2011 and 28 February 2012

### Share Class A - Accumulation

	Net revenue	Equalisation	Distributions paid/payable to 30/04/2012	Distributions paid to 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Third interim	2.4224	-	2.4224	1.8774
Final	1.8526	-	1.8526	1.8823
Group 2	(p)	(p)	(p)	(p)
Third interim	1.6577	0.7647	2.4224	1.8774
Final	1.2922	0.5604	1.8526	1.8823

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Third interim - 100.00% of the dividend together with the tax credit is received as franked investment income.

Third interim - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Third interim - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

# High Reserve Fund

## Distribution Tables

(continued)

for the year ended 28 February 2012

### Share Class A - Income

	Net revenue	Equalisation	Distributions paid/payable to 30/04/2012	Distributions paid to 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Third interim	1.1784	-	1.1784	0.9504
Final	0.8916	-	0.8916	0.9450
Group 2	(p)	(p)	(p)	(p)
Third interim	0.7610	0.4174	1.1784	0.9504
Final	0.5648	0.3268	0.8916	0.9450

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Third interim - 100.00% of the dividend together with the tax credit is received as franked investment income.

Third interim - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Third interim - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide low risk long term capital growth with the aim of providing a degree of downside protection.

Normally, the Fund will invest in a portfolio of UK securities being primarily shares or equity related products of companies included in the FTSE-100 Index (or such similar index as the ACD shall consider appropriate). With the aim of protecting against major falls in the UK stock market, the Fund may buy and sell options. This option overlay has the aim of providing a degree of downside protection.

The ACD may move away from the policy of being primarily invested in equities when market conditions indicate that an attractive return may be better achieved elsewhere. This would be achieved by being invested in cash, near cash and/or deposits and with or without options. In addition, however, the ACD reserves the right to exercise the full powers of the Fund in relation to borrowing and efficient portfolio management as and when it considers that the circumstances which then exist make it appropriate to do so.

The SafetyPlus® Fund provides protection against dramatic stockmarket falls through a special Safety Price. The Safety Price is set at the start of each 'Safety Period', which normally lasts 12 months, at 95% of the share price at that time. The Safety Price is the minimum share price of the Sub-Fund during each Safety Period. The Safety Price cannot be reduced during a Safety Period and at the end of the period will be reset at 95% of the share price at that time.

If at any time the share price of any class A share class rises 10% above the share price at the start of the Safety Period, the ACD will automatically raise the Safety Price and start a new Safety Period for all share classes.

The Safety Price and Safety Period end date will be published on the Scottish Widows website at [www.scottishwidows.co.uk](http://www.scottishwidows.co.uk) and in such other media that the ACD shall in its discretion decide in accordance with the FSA Rules. Prices are also available by telephoning the ACD on 0845 300 2244. Further details of where the prices are published are available from the ACD.

If the said Index is replaced by a successor index using (in the opinion of the ACD) the same or a substantially similar formula for (and method of) calculating the said Index then the ACD shall be entitled to determine (at its entire discretion) that such successor index will be from the date of such determination substituted for the FTSE-100 Index for the purposes of the investment objective and policy of the Fund.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
SafetyPlus® Fund A Accumulation	(3.91)	4.67	9.51	(3.24)	(1.67)	4.82
Protected Sector Average Return	(3.57)	4.27	4.53	(4.87)	(1.57)	5.78

*Source: Lipper for SafetyPlus® Fund and Protected Sector Average Return (funds, other than money market funds, which principally aim to provide a return of a set amount of capital back to the investor (either explicitly protected or via an investment strategy highly likely to achieve this objective) plus the potential for some investment return).*

*Basis: Mid to Mid, net revenue reinvested and net of expenses.*

*Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.*

An intensification of the European sovereign-debt crisis, an earthquake in Japan and periodic worries about a double-dip recession in the West conspired to make the year under review a volatile one for financial markets. By late 2011, however, intervention by the European Central Bank in the form of cheap, long-term loans and an improvement in economic data coming from the US had helped to settle the market's nerves. Overall, the FTSE 100 index rose by a modest 1.6% in total-return terms (i.e. including dividends). In capital only terms the index fell, ending the year 2.0% lower.

Over the reporting period, the SafetyPlus Fund continued to work within the guidelines of its mandate, operating on a "cash and call" basis. This strategy allows the Fund to hold at least 95% cash, with up to 5% available to invest in call options – a form of derivative. Over the review period, the Fund fell by 3.91%, while the safety price for A Class shares was lowered from 39.60 pence to 37.96 pence.

## Authorised Fund Manager's Report

(continued)

Looking ahead, it is likely that the economic themes that were prominent over the review period will continue to trigger volatility for some time. But relative to other asset classes such as government bonds and cash, UK equities continue to offer attractive value. The major positive for stock markets in the short term is the strength of corporate earnings and balance sheets. This, though, is weighed against wider economic uncertainties, with particular concerns about the financial instability of several European states. The Fund manager continues to seek suitable call option entry points that will benefit the fund over both the coming year and the longer term.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

## Portfolio Statement

as at 28 February 2012

	Holdings or Nominal Values	Market Value £000	Total Net Assets %
<b>SHORT TERM DEPOSIT (81.35%*)</b>		<b>273,970</b>	<b>98.63</b>
ABN Amro Bank 1.18% 09/03/2012	GBP14,000,000	14,000	5.04
Bank of Nova Scotia 0.8% 02/08/2012	GBP13,000,000	13,000	4.68
Bank of Tokyo Mitsubishi 0.98% 12/04/2012	GBP14,000,000	14,000	5.04
Barclays Bank 1.2% 27/03/2012	GBP13,000,000	13,000	4.68
BNP Paribas 1.29% 14/05/2012	GBP14,000,000	14,000	5.04
Calyon 0.55% 28/02/2012	GBP9,970,000	9,970	3.59
Credit Agricole 0.9% 06/03/2012	GBP13,000,000	13,000	4.68
Credit Suisse 0.9% 16/04/2012	GBP14,000,000	14,000	5.04
Den Norske Bank 0.95% 10/04/2012	GBP14,000,000	14,000	5.04
Deutsche Bank 1% 10/04/2012	GBP14,000,000	14,000	5.04
ING Bank 1.16% 05/03/2012	GBP10,000,000	10,000	3.60
Lloyds Banking 1.06% 08/05/2012 †	GBP13,000,000	13,000	4.68
National Australia Bank 1% 08/05/2012	GBP5,000,000	5,000	1.80
National Australia Bank 0.81% 23/08/2012	GBP8,000,000	8,000	2.88
Nationwide Building Society 1.04% 26/04/2012	GBP14,000,000	14,000	5.04
Nordea Bank Finland 1.01% 03/01/2012	GBP7,000,000	7,000	2.52
Overseas Chinese Banking 0.745% 16/05/2012	GBP13,000,000	13,000	4.68
Rabobank 1% 12/03/2012	GBP14,000,000	14,000	5.04
Royal Bank of Scotland 0.55% 13/03/2012	GBP13,000,000	13,000	4.68
Skandinaviska Enskilda Bank 1.04% 05/04/2012	GBP7,000,000	7,000	2.52
Societe Generale 0.76% 12/03/2012	GBP10,000,000	10,000	3.60
Standard Chartered Bank 1% 27/06/2012	GBP13,000,000	13,000	4.68
Svenska Handelsbanken 1.2% 13/07/2012	GBP14,000,000	14,000	5.04
<b>OPTIONS CONTRACTS (1.84%*)</b>		<b>3,867</b>	<b>1.38</b>
FTSE 100 Index December 2012 5700 Call	900	4,163	1.49
FTSE 100 Index June 2012 6100 Call	2,076	2,024	0.73
FTSE 100 Index December 2012 6200 Call (Written Option)	(900)	(1,832)	(0.66)
FTSE 100 Index June 2012 6400 Call (Written Option)	(2,076)	(488)	(0.18)
<b>Portfolio of investments^</b>		<b>277,837</b>	<b>100.01</b>
<b>Net other liabilities</b>		<b>(40)</b>	<b>(0.01)</b>
<b>Total net assets</b>		<b>277,797</b>	<b>100.00</b>

Any derivative contracts were traded on an eligible derivatives exchange.

\* Comparative figures shown in brackets relate to 28 February 2011.

^ Including derivative liabilities.

† This investment is a related party (see note 10).

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>5,740,681</u></b>	<b>Total sales for the year</b>	<b><u>5,700,859</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Dexia	2,175,747	Dexia	2,175,747
Lloyds Banking †	1,507,702	Lloyds Banking †	1,508,702
BNP Paribas	725,468	BNP Paribas	725,468
Calyon	254,761	Calyon	244,791
Bank of Tokyo Mitsubishi	104,000	Bank of Tokyo Mitsubishi	104,000
Credit Agricole	97,000	Credit Agricole	84,000
Societe Generale	71,945	Societe Generale	75,945
Royal Bank of Scotland	69,000	Credit Industerial Et Commercial	70,000
Credit Industerial Et Commercial	56,000	Unicredito Italiano	70,000
Unicredito Italiano	56,000	Royal Bank of Scotland	56,000
Bank of Nova Scotia	54,000	ING Bank	42,276
Overseas Chinese Banking	45,500	KBC Bank	42,000
ING Bank	42,276	Nordea Bank Finland	42,000
Svenska Handelsbanken	42,000	Svaenska Handelsbanken	41,000
Nordea Bank Finland	35,000	Bank of Nova Scotia	41,000
Nationwide Building Society	34,000	Danske Bank	34,000
Banco Bilbao Vizcaya	30,000	Nationwide Building Society	34,000
Fortis Bank	28,001	Overseas Chinese Banking	32,500
Clydesdale Bank	18,000	Clydesdale Bank	32,000
Credit Suisse	28,000	Banco Bilbao Vizcaya	30,000
KBC Bank	28,000	Commerzbank	28,000
Deutsche Bank	27,000	Fortis Bank	28,000
Den Norske Bank	24,000	Bank of America	27,000
Danske Bank	21,000	Skandinaviska Enskilda Banken	27,000
Skandinaviska Enskilda Banken	20,000	UBS	25,000
ABN Amro Bank	14,000	Credit Suisse	14,000
Commerzbank	14,000	Barclays Bank	13,000
Rabobank	14,000	Deutsche Bank	13,000
Bank of America	13,000	HSBC Bank	13,000
Barclays Bank	13,000	Den Norske Bank	10,000
HSBC Bank	13,000		
National Australia Bank	13,000		
Standard Chartered Bank	13,000		
UBS	12,000		

† This investment is a related party (see note 10).

All of the above are the cumulative value of rolling short term deposits.

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	76,614,663	192,320,954	39.84	1.12
Accumulation 28/02/11	73,590,897	176,472,154	41.70	1.12
Accumulation 28/02/12	64,547,886	161,070,554	40.07	1.11
Share Class X				
Accumulation 28/02/10	206,863,044	481,107,284	43.00	0.12
Accumulation 28/02/11	226,305,273	497,763,084	45.46	0.11
Accumulation 28/02/12	213,249,328	484,711,084	44.00	0.11

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	40.29	37.55	0.8398
Accumulation 2008	38.41	35.90	0.9306
Accumulation 2009	39.90	35.78	0.8799
Accumulation 2010	41.73	39.13	-
Accumulation 2011	42.04	39.99	-
Accumulation 2012*	40.11	40.00	-
Share Class X			
Accumulation 2007	42.47	39.38	1.2617
Accumulation 2008	40.86	38.07	1.3861
Accumulation 2009	42.99	38.24	1.3264
Accumulation 2010	45.40	42.38	0.2792
Accumulation 2011	45.91	43.87	0.2614
Accumulation 2012*	44.03	43.90	0.3105

(†) Allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.



## Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(11,489)		14,580
Revenue	3	2,535		2,059	
Expenses	4	(1,018)		(1,083)	
Finance costs: Interest	6	(1)		(1)	
Net revenue before taxation		1,516		975	
Taxation	5	10		6	
Net revenue after taxation			1,526		981
<b>Total return before distribution</b>			<b>(9,963)</b>		<b>15,561</b>
Finance costs: Distribution	6		(1,533)		(1,289)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(11,496)</b>		<b>14,272</b>

## Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>299,896</b>		<b>283,478</b>
Amounts receivable on creation of shares	10,785		17,657	
Less: Amounts payable on cancellation of shares	(22,832)		(16,812)	
		(12,047)		845
Stamp duty reserve tax		(61)		(1)
Change in net assets attributable to shareholders from investment activities		(11,496)		14,272
Retained distribution on accumulation shares		1,505		1,302
<b>Closing net assets attributable to shareholders</b>		<b>277,797</b>		<b>299,896</b>

*Notes to the Financial Statements are on pages 121 to 124.*

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		280,157	251,358
Debtors	8	526	74,325
Cash and bank balances		-	425
<b>Total other assets</b>		<b>526</b>	<b>74,750</b>
<b>Total assets</b>		<b>280,683</b>	<b>326,108</b>
<b>Liabilities</b>			
Derivative liabilities		(2,320)	(1,869)
Creditors	9	(566)	(24,343)
<b>Total other liabilities</b>		<b>(566)</b>	<b>(24,343)</b>
<b>Total liabilities</b>		<b>(2,886)</b>	<b>(26,212)</b>
<b>Net assets attributable to shareholders</b>		<b>277,797</b>	<b>299,896</b>

*Notes to the Financial Statements are on pages 121 to 124.*

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	12	20
Option contracts	(11,501)	14,560
Net capital (losses)/gains	(11,489)	14,580

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Overseas taxable revenue	3	1
Bank interest	1	1
Interest on short term deposits	2,531	2,057
Total revenue	2,535	2,059

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	690	751
Registration fees	290	293
	980	1,044
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	27	28
<b>Other expenses:</b>		
Audit fee	11	11
Total expenses	1,018	1,083

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
Irrecoverable overseas tax	(10)	-
Adjustments in respect of prior years	-	(6)
Total current tax (note 5b)	(10)	(6)
Total taxation	(10)	(6)

## (b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:

Net revenue before taxation	1,516	975
Corporation tax of 20% (2011: 20%)	303	195
Effects of:		
Movement in excess management expenses	(303)	(195)
Irrecoverable overseas tax	(10)	-
Adjustments in respect of prior years	-	(6)
Current tax charge for year (note 5a)	(10)	(6)

*OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.*

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £2,022,392 (28/02/11: £2,325,362) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distribution and interest

The distribution takes account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Final	1,505	1,302
Add: Revenue deducted on cancellation of shares	59	25
Deduct: Revenue received on creation of shares	(31)	(38)
Net distribution for the year	1,533	1,289
Bank interest	1	1
Total finance costs	1,534	1,290

*Details of the distribution per share is set out in the Distribution Table on page 125.*

## 7. Movement between net revenue and net distribution

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	1,526	981
Share class A shortfall funded from capital	7	308
Net distribution for the year	1,533	1,289

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**8. Debtors**

	28/02/12	28/02/11
	£000	£000
Sales awaiting settlement	-	73,843
Amounts receivable for issue of shares	67	189
Accrued revenue	459	293
Total debtors	526	74,325

**9. Creditors**

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	-	24,000
Amounts payable for cancellation of shares	481	250
Accrued expenses	85	93
Total creditors	566	24,343

**10. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £71,267 (28/02/11: £79,761) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	69.10	67.24

**11. Share classes**

The Fund has two share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.00
Share Class X - Accumulation:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 118.

The distribution per share class is given in the Distribution Table on page 125.

All share classes have the same rights on winding up.

**12. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**13. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 114. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling. As a result, the Fund does not have any exposure to currency movements.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in short term deposits. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cashflows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £nil (28/02/11: holding £0.425m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Derivatives and other financial instruments*

During the year, the ACD entered into derivative contracts on behalf of the Fund for the purpose of efficient portfolio management (EPM). EPM requires that the purpose of the derivative contract must be to achieve a reduction of the risk or a reduction of cost or the generation of additional capital or revenue for the Fund with an acceptably low level of risk. The ACD monitors the use of derivative contracts to ensure that the requirements of EPM are satisfied. All derivative contracts were traded on an eligible derivatives exchange.

Exposure to the various markets may be balanced through tactical asset allocation of futures contracts. Tactical asset allocation is a technique which allows the ACD to undertake a switch in the Fund's exposure by the use of derivatives rather than through the sale and purchase by the Fund of transferable securities.

Due to the use of derivatives, the percentage movements in the value of the Fund will be different from the percentage movements in the markets. However, the level and nature of derivatives held in the fund at the year end will not cause the significant movements in the fund value, therefore sensitivity analysis or value at risk disclosure is not required.

*(d) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(e) Market price risk and fair value of financial assets and liabilities*

The Fund holds short term deposits. They are not affected by market movements. The management of the Fund complies with the Financial Services Authority COLL sourcebook, which include rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(f) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**14. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	5,718,386	12,944,025	5,688,443	12,901,032
Option contracts*	22,281	10,678	12,430	12,162
Trades in the year before transaction costs	5,740,667	12,954,703	5,700,873	12,913,194
Commissions	14	-	(14)	-
Total costs	14	-	(14)	-
<b>Total net trades in the year after transaction costs</b>	<b>5,740,681</b>	<b>12,954,703</b>	<b>5,700,859</b>	<b>12,913,194</b>

\*Purchases and/or sales of derivatives contracts do not incur transaction costs.

## Distribution Table

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 March 2011

Group 2 Final Shares purchased between 1 March 2011 and 28 February 2012

### Share Class X - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	0.3105	-	0.3105	0.2614
Group 2	(p)	(p)	(p)	(p)
Final	0.1777	0.1328	0.3105	0.2614

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

# Strategic Income Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide an income through investment primarily in UK and European fixed income securities.

The Fund will invest in a portfolio of investment grade and non investment grade fixed income securities. The Fund may also invest in government and/or non European corporate bonds. Where securities are non sterling denominated, it is intended that they will be hedged back into sterling. Returns will mostly be derived from income whilst preserving capital with limited potential for capital gains.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
Strategic Income Fund A Accumulation	2.35	8.24	40.27	(23.78)	(8.78)	2.38
£ Strategic Bond Sector Average Return	5.31	6.43	27.91	(15.19)	(6.18)	3.69
Composite*	7.18	10.40	36.98	(17.76)	(6.20)	3.81

*Source: Lipper for Strategic Income Fund and £ Strategic Bond Sector Average Return (funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities. This includes convertibles, preference shares and permanent interest bearing shares (PIBs). At any point in time the asset allocation of these funds could theoretically place the fund in one of the other Fixed Interest sectors. The funds will remain in this sector on these occasions since it is the Manager's stated intention to retain the right to invest across the Sterling fixed interest credit risk spectrum).*

*Basis: Mid to Mid, net revenue reinvested and net of expenses.*

*\* Source: Deutsche Bank / Merrill Lynch for the Composite total return index. This consists of 70% iBoxx Non Gilt 5-15 Years ex Sov, 30% Barclays Pan Euro High Yield 2% capped excluding Financials (Hedged to GBP) on 01/09/2011. Basis: Gross revenue reinvested and gross of expenses.*

*Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.*

The 12 months under review brought mixed returns for different sections of the fixed income market. Early on, concerns about Greece's economy and evidence that the global economic recovery was under threat brought a sharp widening of the spread between the yields provided by government and corporate bonds. As the European sovereign debt crisis continued to unfold, a growing number of eurozone states came under the spotlight. While Italy and Spain, two of the currency union's largest economies, experienced soaring borrowing costs, the reputation of US Treasuries, German Bunds and UK Gilts as "safe havens" meant they benefited from the turmoil. Accordingly, government bond prices in "core" markets rose, and yields fell.

In the circumstances, corporate bond investors endured a challenging environment in 2011. Credit spreads over UK Gilts moved wider, indicating an increase in risk aversion. The European financial sector suffered some particularly heavy losses early on, amid concerns about the amount of peripheral sovereign debt held by the region's banks. The rise in risk aversion meant high-yield bonds also lost considerable ground. However, in the second half of the review period, returns were flat to slightly positive for corporate bonds, due to the continued fall in UK Gilt yields. And, from the beginning of 2012, credit enjoyed something of a rally. Credit spreads tightened against a relatively flat path of government yields, translating into strong price performance.

The Strategic Income Fund returned a disappointing 2.35% in the year to 28 February 2012, while its composite benchmark returned 7.18%. Within the portfolio, returns were boosted by holdings in the financials sector in the first months of the review period. High yield bonds also performed well at first. We took the opportunity presented by this rally and reduced our high yield holdings, resulting in the portfolio only holding a comparatively small position in this part of the market. This move proved well timed, as high yield bonds subsequently underperformed.

Fears of slowing economic growth and a collapse of the euro left UK, German and US government bonds as so-called "safe havens". We held positions in government bonds from these countries, and this has boosted performance.

During the second half of 2011, liquidity all but dried up, making trading in corporate bonds extremely difficult. Against this background, it was very difficult to make significant trades and there were no significant changes to asset allocation policy over the quarter. Where possible, the Fund manager attempted to concentrate sales among short-dated holdings across a variety of sectors. The manager invested the proceeds of these sales into government bonds and cash. While the market for new issues was erratic, it picked up during January and February, and the Fund manager took advantage of a number of new issues.



## Authorised Fund Manager's Report

(continued)

Corporate bonds in the financial sector remain cheaper than non-financials, although they have outperformed during the first months of 2012. It is understandable that financials should trade at higher yields, given the great and immediate interaction of current economic risks with the financial system. Event risk is heightened, and this is not likely to dissipate significantly in 2012. The European Banking Authority has set a June deadline for banks to meet a core Tier 1 ratio, against a backdrop of great uncertainty in respect of euro area government debt. Elsewhere, the pressure to reduce borrowings continues to weigh on disposable income; accordingly, we do not favour holdings in luxury goods. Insurance is currently trading at attractive valuations, while technology, media and telecoms is also strong.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# Strategic Income Fund

## Portfolio Statement

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>EURO DENOMINATED BONDS (26.37%*)</b>		<b>50,909</b>	<b>26.40</b>
<b>Corporate Bonds</b>			
Abengoa 8.5% 31/03/2016	EUR700,000	598	0.31
Allianz Finance II 5.75% 08/07/2041	EUR1,000,000	794	0.41
ARD Finance 11.125% 01/06/2018	EUR211,928	157	0.08
Ardagh Glass 7.125% 15/06/2017	EUR380,000	306	0.16
Ardagh Packaging Finance 7.375% 15/10/2017	EUR1,735,000	1,540	0.80
Aviva (FRN) 6.875% 22/05/2038	EUR660,000	508	0.26
Beverage Packaging Luxembourg II 9.5% 15/06/2017	EUR270,000	194	0.10
Boats Investments Netherlands 11% 31/03/2017	EUR1,109,648	715	0.37
Bombardier 6.125% 15/05/2021	EUR665,000	564	0.29
Carlson Wagonlit (FRN) 6.881% 01/05/2015	EUR658,000	527	0.27
CET 21 9% 01/11/2017	EUR423,000	360	0.19
Cirsa Funding Luxembourg Reg S 8.75% 15/05/2018	EUR1,138,000	902	0.47
Citigroup 7.375% 04/09/2019	EUR500,000	491	0.25
CNP Assurances (FRN) 4.75% Perpetual	EUR2,000,000	1,008	0.52
Conti-Gummi Finance 6.5% 15/01/2016	EUR300,000	264	0.14
Conti-Gummi Finance 7.5% 15/09/2017	EUR793,000	707	0.37
Conti-Gummi Finance 7.125% 15/10/2018	EUR1,000,000	888	0.46
CRH Finance 5% 25/01/2019	EUR600,000	541	0.28
EC Finance 9.75% 01/08/2017	EUR142,000	109	0.06
Edcon Proprietary (FRN) 4.676% 15/06/2014	EUR480,000	358	0.19
Eileme 2 11.75% 31/01/2020	EUR112,000	96	0.05
ERC Ireland Preferred Equity 8.057% 15/02/2017	EUR459,962	1	-
Europcar 9.375% 15/04/2018	EUR265,000	144	0.07
FGA Capital 4% 28/03/2013	EUR300,000	254	0.13
Fiat Finance & Trade 6.125% 08/07/2014	EUR1,300,000	1,106	0.57
Fiat Finance & Trade 7.375% 09/07/2018	EUR1,000,000	824	0.43
Fiat Industrial Finance Europe 5.25% 11/03/2015	EUR700,000	593	0.31
Fiat Industrial Finance Europe 6.25% 09/03/2018	EUR830,000	700	0.36
FMC Finance 5.25% 15/02/2021	EUR967,000	856	0.44
Global Switch 5.5% 18/04/2018	EUR950,000	828	0.43
GMAC International Finance 7.5% 21/04/2015	EUR850,000	736	0.38
Grohe 8.625% 01/10/2014	EUR600,000	508	0.26
HeidelbergCement 7.5% 31/10/2014	EUR1,177,000	1,082	0.56
HeidelbergCement 8% 31/01/2017	EUR1,169,000	1,105	0.57
HeidelbergCement 8.5% 31/10/2019	EUR586,000	551	0.29
HeidelbergCement 7.5% 03/04/2020	EUR250,000	224	0.12
Iesyl Hessen 8.125% 01/12/2017	EUR2,017,000	1,829	0.95
Ineos 7.875% 15/02/2016	EUR1,469,000	1,080	0.56
Ineos Finance 9.25% 15/05/2015	EUR350,000	313	0.16
International Personal Finance 11.5% 06/08/2015	EUR455,000	374	0.19
Iron Mountain 6.75% 15/10/2018	EUR777,000	649	0.34
ISS 8.875% 15/05/2016	EUR417,000	360	0.19
ISS Financing 11% 15/06/2014	EUR250,000	225	0.12
Jarden 7.5% 15/01/2020	EUR800,000	685	0.36
Kabel BW Erste Beteiligungs 7.5% 15/03/2019	EUR392,000	355	0.18
Kabel Deutschland Vertrieb und Service 6.5% 29/06/2018	EUR300,000	269	0.14
Kerling 10.625% 01/02/2017	EUR250,000	204	0.11
Lecta (FRN) 5.057% 15/02/2014	EUR146,000	118	0.06
Legal & General (FRN) 4% 08/06/2025	EUR581,000	435	0.23
Lottomatica (FRN) 8.25% 31/03/2066	EUR602,000	455	0.24
Matterhorn Mobile 8.25% 15/02/2020	EUR160,000	138	0.07
Muenchener Rueckversicherungs 6% 26/05/2041	EUR500,000	423	0.22

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Musketeer 9.5% 15/03/2021	EUR1,010,000	924	0.48
Nara Cable Funding 8.875% 01/12/2018	EUR872,000	697	0.36
National Westminster Bank (FRN) 3.483% Perpetual	EUR690,000	386	0.20
Nationwide Building Society 6.75% 22/07/2020	EUR700,000	549	0.28
New World Resources 7.875% 01/05/2018	EUR600,000	511	0.27
Nexans 5.75% 02/05/2017	EUR200,000	173	0.09
Norcell Sweden Holding 2 10.75% 29/09/2019	EUR390,000	337	0.17
Obrascon Huarte Lain 7.375% 28/04/2015	EUR700,000	601	0.31
Obrascon Huarte Lain 8.75% 15/03/2018	EUR150,000	132	0.07
OI European 6.875% 31/03/2017	EUR1,176,000	1,032	0.54
Ono Finance II 11.125% 15/07/2019	EUR178,000	137	0.07
Origin Energy Finance (FRN) 7.875% 16/06/2071	EUR300,000	248	0.13
OTE 5% 05/08/2013	EUR250,000	166	0.09
OTE 4.625% 20/05/2016	EUR850,000	472	0.24
PE Paper Escrow 11.75% 01/08/2014	EUR293,000	269	0.14
Refresco 7.375% 15/05/2018	EUR150,000	125	0.06
Repsol International Finance 4.875% 19/02/2019	EUR1,000,000	880	0.46
Rexam (FRN) 6.75% 29/06/2067	EUR1,025,000	838	0.43
Rexel 7% 17/12/2018	EUR225,000	200	0.10
Reynolds Group Issuer 8.75% 15/10/2016	EUR320,000	284	0.15
Rhodia 7% 15/05/2018	EUR620,000	581	0.30
Royal Bank of Scotland 4.875% 20/01/2017	EUR600,000	511	0.26
Santos Finance 8.25% 22/09/2070	EUR668,000	555	0.29
Scottish & Southern Energy 5.025% Perpetual	EUR638,000	526	0.27
SLM Student Loan Trust 2003-7 (FRN) 1.976% 15/12/2033	EUR683,000	468	0.24
Smurfit Kappa Funding 7.75% 01/04/2015	EUR900,000	772	0.40
Sunrise Communications 8.5% 31/12/2018	EUR200,000	179	0.09
Sunrise Communications International 7% 31/12/2017	EUR465,000	417	0.22
Teksid Aluminum Luxembourg 11.375% 15/07/2011 **	EUR4,349,000	-	-
Telenet Finance Luxembourg 6.375% 15/11/2020	EUR506,000	432	0.22
Travelport 10.875% 01/09/2016	EUR992,000	244	0.13
TUI (FRN) 8.625% Perpetual	EUR481,000	391	0.20
TVN Finance 10.75% 15/11/2017	EUR430,000	384	0.20
UBS (FRN) 4.28% Perpetual	EUR405,000	283	0.15
Unitymedia 9.625% 01/12/2019	EUR445,000	410	0.21
UPC 8.375% 15/08/2020	EUR943,000	815	0.42
UPCB Finance II 6.375% 01/07/2020	EUR706,000	589	0.31
Voto-Votorantim 5.25% 28/04/2017	EUR927,000	823	0.43
Wienerberger (FRN) 6.5% Perpetual	EUR770,000	542	0.28
Wind Acquisition Finance 11.75% 15/07/2017	EUR490,000	397	0.21
Wind Acquisition Finance 7.375% 15/02/2018	EUR1,246,000	998	0.52
Ziggo Bond 8% 15/05/2018	EUR1,670,000	1,490	0.77
Ziggo Finance 6.125% 15/11/2017	EUR300,000	263	0.14
Zinc Capital 8.875% 15/05/2018	EUR300,000	231	0.12
<b>Mortgage Backed Securities</b>			
Leek Finance (FRN) 1.858% 21/09/2038	EUR800,000	596	0.31

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
<b>STERLING DENOMINATED BONDS (67.55%*)</b>		<b>129,582</b>	<b>67.30</b>
<b>Corporate Bonds</b>			
Abbey National Treasury Services 5.5% 18/06/2014	GBP663,000	687	0.36
America Movil SAB de CV 5.75% 28/06/2030	GBP500,000	588	0.30
Amgen 5.5% 07/12/2026	GBP465,000	518	0.27
Amlin (FRN) 6.5% 19/12/2026	GBP500,000	413	0.21
Anglian Water Services Financing 5.837% 30/07/2022	GBP300,000	350	0.18
Annington Finance No 4 (FRN) 6.5676% 10/01/2023	GBP2,410,000	2,588	1.34
ASIF III Jersey 5.375% 14/10/2016	GBP1,000,000	1,018	0.53
AT&T 5.5% 15/03/2027	GBP650,000	746	0.39
Aviva (FRN) 6.875% 20/05/2058	GBP550,000	441	0.23
AXA (FRN) 6.6666% Perpetual	GBP2,589,000	2,094	1.09
BAA Funding 9.2% 29/03/2023	GBP1,500,000	2,011	1.04
BAA Funding 7.125% 14/02/2024	GBP1,000,000	1,045	0.54
BAA SH 7.125% 01/03/2017	GBP467,000	469	0.24
Bank of America 7% 31/07/2028	GBP550,000	572	0.30
Bank of Scotland (FRN) 7.281% Perpetual †	GBP843,000	608	0.32
Bank of Scotland (FRN) 7.286% Perpetual †	GBP206,000	150	0.08
Bank of Scotland 13.625% Perpetual †	GBP150,000	159	0.08
Barclays Bank 10% 21/05/2021	GBP2,226,000	2,529	1.31
Barclays Bank 5.75% 17/08/2021	GBP1,250,000	1,341	0.70
BAT International Finance 6% 29/06/2022	GBP1,250,000	1,486	0.77
Beazley 7.25% 17/10/2026	GBP500,000	407	0.21
BG Energy Capital 5.125% 01/12/2025	GBP550,000	627	0.33
Boparan Finance 9.875% 30/04/2018	GBP835,000	806	0.42
Bouygues 5.5% 06/10/2026	GBP1,150,000	1,267	0.66
British Telecommunications 5.75% 07/12/2028	GBP2,055,000	2,282	1.18
Canary Wharf Finance II 6.455% 22/10/2033	GBP553,390	642	0.33
Canary Wharf Finance II 5.952% 22/10/2037	GBP695,000	791	0.41
Care UK Health & Social Care 9.75% 01/08/2017	GBP550,000	556	0.29
Centrica 6.375% 10/03/2022	GBP1,040,000	1,248	0.65
Cie de St-Gobain 5.625% 15/11/2024	GBP1,250,000	1,340	0.70
Citigroup 4.5% 03/03/2031	GBP1,500,000	1,116	0.58
Citigroup 6.8% 25/06/2038	GBP870,000	984	0.51
Close Brothers 6.5% 10/02/2017	GBP750,000	767	0.40
Co-operative 5.625% 08/07/2020	GBP670,000	650	0.34
Co-operative Bank 5.125% 20/09/2017	GBP725,000	735	0.38
Co-operative Bank 9.25% 28/04/2021	GBP300,000	285	0.15
Crown Newco 3 7% 15/02/2018	GBP700,000	684	0.34
Dexia Funding Netherlands (FRN) 1.77706% 09/02/2017	GBP700,000	369	0.19
DONG Energy 4.875% 12/01/2032	GBP612,000	632	0.33
DONG Energy 5.75% 09/04/2040	GBP400,000	461	0.24
EDF 6.125% 02/06/2034	GBP800,000	900	0.47
ELM for Swiss Reinsurance 6.3024% Perpetual	GBP650,000	561	0.29
Enel 6.25% 20/06/2019	GBP1,236,000	1,292	0.67
ESB Finance 6.5% 05/03/2020	GBP475,000	439	0.23
Exova 10.5% 15/10/2018	GBP300,000	253	0.13
F&C Asset Management (FRN) 6.75% 20/12/2026	GBP650,000	422	0.22
FCE Bank 5.125% 16/11/2015	GBP450,000	461	0.24
Finmeccanica Finance 8% 16/12/2019	GBP500,000	482	0.25
FirstGroup 8.75% 08/04/2021	GBP750,000	936	0.49
First Hydro Finance 9% 31/07/2021	GBP1,200,000	1,389	0.72
France Telecom 7.25% 10/11/2020	GBP635,000	805	0.42

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
France Telecom 5.375% 22/11/2050	GBP250,000	260	0.13
Friends Life 8.25% 21/04/2022	GBP500,000	458	0.24
G4S 7.75% 13/05/2019	GBP150,000	184	0.10
Gatwick Funding 6.125% 02/03/2028	GBP500,000	551	0.29
Gaz Capital 6.58% 31/10/2013	GBP325,000	341	0.18
GE Capital UK Funding 4.375% 31/07/2019	GBP500,000	514	0.27
GE Capital UK Funding 5.125% 24/05/2023	GBP2,324,000	2,424	1.26
General Electric Capital (FRN) 5.5% 15/09/2066	GBP180,000	166	0.09
General Electric Capital (FRN) 6.5% 15/09/2067	GBP850,000	816	0.42
Glencore Finance Europe 6.5% 27/02/2019	GBP200,000	226	0.12
Goldman Sachs 7.125% 07/08/2025	GBP650,000	706	0.37
Goldman Sachs 7.25% 10/04/2028	GBP489,000	529	0.27
Great Rolling Stock 6.5% 05/04/2031	GBP600,000	675	0.35
Highbury Finance 7.017% 20/03/2023	GBP1,028,146	1,162	0.60
House of Fraser Funding 8.875% 15/08/2018	GBP300,000	267	0.14
HSBC 6% 29/03/2040	GBP1,750,000	1,699	0.88
HSBC Bank (FRN) 4.75% 29/09/2020	GBP450,000	443	0.23
Hutchison Whampoa Finance UK 5.625% 24/11/2017	GBP550,000	616	0.32
Imperial Tobacco Finance 7.75% 24/06/2019	GBP1,450,000	1,832	0.95
Infinis 9.125% 15/12/2014	GBP440,000	453	0.24
ING Bank (FRN) 6.875% 29/05/2023	GBP843,000	835	0.43
Intercontinental Hotels 6% 09/12/2016	GBP870,000	956	0.50
Intergen 9.5% 30/06/2017	GBP1,010,000	1,025	0.53
International Consolidated Airlines 8.75% 23/08/2016	GBP253,000	254	0.13
Iron Mountain 7.25% 15/04/2014	GBP500,000	500	0.26
Koninklijke KPN 5% 18/11/2026	GBP400,000	401	0.21
Ladbroke's Finance 7.625% 05/03/2017	GBP398,000	425	0.22
Lafarge 10% 30/05/2017	GBP500,000	569	0.29
Land Securities Capital Markets (FRN) 5.425% 31/03/2022	GBP1,500,000	1,703	0.88
Lloyds TSB Bank (FRN) 5.75% 09/07/2025 †	GBP2,500,000	1,937	1.01
Lloyds TSB Bank 6.5% 17/09/2040 †	GBP440,000	421	0.22
Lloyds TSB Bank (FRN) 13% Perpetual †	GBP2,310,000	2,818	1.46
Marks & Spencer 6.125% 02/12/2019	GBP700,000	764	0.40
Merrill Lynch 7.75% 30/04/2018	GBP1,000,000	1,070	0.56
Motability Operations 4.375% 08/02/2027	GBP200,000	202	0.10
Motability Operations 5.625% 29/11/2030	GBP321,000	365	0.19
Moto Finance 10.25% 15/03/2017	GBP300,000	260	0.13
National Australia Bank 5.125% 09/12/2021	GBP1,000,000	1,051	0.54
National Grid Gas 6% 07/06/2017	GBP800,000	939	0.49
National Westminster Bank (FRN) 5.9779% Perpetual	GBP850,000	631	0.33
Next 5.375% 26/10/2021	GBP350,000	368	0.19
Northumbrian Water Finance 6% 11/10/2017	GBP1,500,000	1,750	0.91
Odeon & UCI Finco 9% 01/08/2018	GBP648,000	635	0.33
Phones4u Finance 9.5% 01/04/2018	GBP497,000	430	0.22
Places for People Homes 5.875% 23/05/2031	GBP700,000	756	0.39
Provident Financial 8% 23/10/2019	GBP1,000,000	939	0.49
Prudential 11.375% 29/05/2039	GBP900,000	1,173	0.61
QBE Capital Funding II 7.5% 24/05/2041	GBP500,000	437	0.23
Royal Bank of Scotland 6.375% 29/04/2014	GBP2,266,000	2,401	1.25
Royal Bank of Scotland 6.625% 17/09/2018	GBP600,000	654	0.34
RWE Finance 6.5% 20/04/2021	GBP574,000	692	0.36
RWE Finance 4.75% 31/01/2034	GBP1,100,000	1,116	0.58
Santander (FRN) 7.5% Perpetual	GBP1,494,000	1,270	0.66
Scottish & Southern Energy 5.453% Perpetual	GBP399,000	393	0.20

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Nominal Values	Market Value £000	Total Net Assets %
Scottish Power UK 8.375% 20/02/2017	GBP1,768,000	2,209	1.15
Scottish Widows (FRN) 5.125% Perpetual †	GBP682,000	512	0.27
Siemens Financier (FRN) 6.125% 14/09/2066	GBP1,000,000	1,057	0.55
Societe Generale (FRN) 8.875% Perpetual	GBP1,000,000	774	0.40
Society of Lloyd's 7.421% Perpetual	GBP551,000	475	0.25
South East Water Finance 5.6577% 30/09/2019	GBP449,000	504	0.26
Southern Gas Networks 4.875% 21/12/2020	GBP1,800,000	1,930	1.00
Southern Water Greensands Financing 8.5% 15/04/2019	GBP806,000	766	0.40
Southern Water Services Finance 7.869% 31/03/2038	GBP1,520,000	1,619	0.84
Standard Life (FRN) 6.75% Perpetual	GBP1,335,000	1,157	0.60
Standard Life Funding (FRN) 6.14% Perpetual	GBP1,620,000	1,459	0.76
TDC 5.625% 23/02/2023	GBP250,000	283	0.15
Telecom Italia 6.375% 24/06/2019	GBP2,081,000	1,986	1.03
Telefonica Emisiones 5.375% 02/02/2018	GBP297,000	303	0.16
Telefonica Emisiones 5.445% 08/10/2029	GBP900,000	811	0.42
Telereal Securitization 4.9741% 10/12/2033	GBP755,688	800	0.42
Telereal Securitization (FRN) 5.372% 10/12/2033	GBP500,000	492	0.26
Tesco 6.125% 24/02/2022	GBP510,000	592	0.31
Tesco Index Linked 4% 08/09/2016	GBP180,000	298	0.15
Tesco Property Finance 5.8006% 13/10/2040	GBP1,064,619	1,104	0.57
Thames Water Kemble Finance 7.75% 01/04/2019	GBP618,000	616	0.32
Thomas Cook 7.75% 22/06/2017	GBP372,000	175	0.09
Towergate Finance 10.5% 15/02/2019	GBP480,000	408	0.21
TUI Travel 6% 05/10/2014	GBP100,000	97	0.05
UBS (FRN) 6.375% 19/11/2024	GBP977,000	944	0.49
Unique Pub Finance 6.542% 30/03/2021	GBP500,000	402	0.21
United Utilities Water 5.375% 14/05/2018	GBP900,000	1,026	0.53
Virgin Media Finance 8.875% 15/10/2019	GBP335,000	375	0.20
Wales & West Utilities Finance 4.625% 13/12/2023	GBP1,155,000	1,224	0.64
Western Power Distribution West Midlands 5.75% 16/04/2032	GBP700,000	787	0.41
William Hill 7.125% 11/11/2016	GBP270,000	288	0.15
Wm Morrison Supermarkets 4.625% 08/12/2023	GBP400,000	427	0.22
WPP Finance S 6.375% 06/11/2020	GBP374,000	430	0.22
Xstrata Canada Financial 7.375% 27/05/2020	GBP634,000	777	0.40
Yorkshire Electricity Distribution 9.25% 17/01/2020	GBP470,000	654	0.34
Yorkshire Water Services Bradford Finance 6% 24/04/2025	GBP250,000	272	0.14
Zurich Finance (FRN) 6.625% Perpetual	GBP918,000	872	0.45
<b>Government Bonds</b>			
UK Treasury 4% 07/09/2016	GBP95,000	109	0.06
UK Treasury 5% 07/03/2018	GBP485,000	594	0.31
UK Treasury 3.75% 07/09/2021	GBP1,402,000	1,611	0.84
UK Treasury 5% 07/03/2025	GBP1,883,000	2,423	1.26
UK Treasury 4.25% 07/12/2040	GBP626,000	750	0.39
UK Treasury Inflation Linked 0.125% 22/03/2029	GBP700,000	735	0.38
<b>Mortgage Backed Securities</b>			
BL Superstores Finance 5.27% 04/10/2030	GBP1,195,000	1,283	0.67
Dignity Finance 6.31% 31/12/2023	GBP558,014	669	0.35
Dignity Finance 8.151% 31/12/2031	GBP445,000	602	0.31
Holmes Master Issuer (FRN) 2.53956% 15/10/2054	GBP550,000	546	0.28
Permanent Master Issuer 4.805% 15/07/2042 †	GBP713,000	757	0.39
Punch Taverns Finance B 5.943% 30/12/2024	GBP1,500,000	1,043	0.54
SLM Student Loan Trust 2003-12 5.45% 15/03/2038	GBP860,000	691	0.36

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings or Nominal Values	Market Value £000	Total Net Assets %
<b>SWISS FRANC DENOMINATED BONDS (0.00%*)</b>		<b>535</b>	<b>0.28</b>
<b>Corporate Bonds</b>			
Matterhorn Mobile 6.75% 15/05/2019	CHF750,000	535	0.28
<b>US DOLLAR DENOMINATED BONDS (2.84%*)</b>		<b>4,634</b>	<b>2.40</b>
<b>Corporate Bonds</b>			
Barclays Bank (FRN) 0.74625% 23/03/2017	USD1,601,000	1,002	0.52
Fortis Bank (FRN) 0.7131% 22/05/2017	USD4,600,000	2,798	1.45
Hutchison Whampoa 6% Perpetual	USD851,000	547	0.28
Lloyds TSB Bank 5.8% 13/01/2020 †	USD447,000	287	0.15
<b>FINANCIALS (0.13%*)</b>		<b>258</b>	<b>0.13</b>
<b>Financial Services</b>			
Neuberger Berman Distressed Debt Investment Fund	400,000	258	0.13
<b>DERIVATIVES (-0.11%*)</b>		<b>632</b>	<b>0.30</b>
<b>Forward Currency Contracts</b>			
<b>Euro</b>			
Bought EUR748,000 for GBP619,987 Settlement 21/03/2012		14	0.01
Bought EUR452,000 for GBP375,232 Settlement 21/03/2012		8	-
Bought EUR538,000 for GBP450,414 Settlement 21/03/2012		6	-
Bought EUR270,000 for GBP223,592 Settlement 21/03/2012		5	-
Bought EUR232,000 for GBP192,869 Settlement 21/03/2012		4	-
Bought EUR166,000 for GBP137,602 Settlement 21/03/2012		3	-
Bought EUR233,000 for GBP195,347 Settlement 21/03/2012		2	-
Bought EUR240,000 for GBP201,578 Settlement 21/03/2012		2	-
Bought EUR190,000 for GBP159,235 Settlement 21/03/2012		2	-
Bought EUR83,000 for GBP68,927 Settlement 21/03/2012		1	-
Bought EUR87,000 for GBP72,320 Settlement 21/03/2012		1	-
Bought EUR193,000 for GBP163,039 Settlement 21/03/2012		1	-
Bought EUR82,000 for GBP69,037 Settlement 21/03/2012		-	-
Bought EUR48,000 for GBP40,219 Settlement 21/03/2012		-	-
Bought EUR84,000 for GBP71,198 Settlement 21/03/2012		-	-
Bought EUR32,000 for GBP27,795 Settlement 14/03/2012		(1)	-
Bought EUR79,000 for GBP68,740 Settlement 14/03/2012		(2)	-
Bought EUR152,000 for GBP132,134 Settlement 14/03/2012		(3)	-
Bought EUR166,000 for GBP146,734 Settlement 14/03/2012		(6)	-
Bought EUR385,000 for GBP335,893 Settlement 14/03/2012		(10)	(0.01)
Bought EUR385,000 for GBP335,893 Settlement 14/03/2012		(10)	(0.01)
Bought EUR849,000 for GBP740,056 Settlement 14/03/2012		(20)	(0.01)
Bought EUR1,137,000 for GBP985,063 Settlement 14/03/2012		(21)	(0.01)
Bought EUR1,473,000 for GBP1,278,446 Settlement 14/03/2012		(30)	(0.02)
Sold EUR30,044,000 for GBP26,414,234 Settlement 14/03/2012		949	0.49
Sold EUR1,804,000 for GBP1,578,229 Settlement 14/03/2012		49	0.03
Sold EUR381,000 for GBP332,114 Settlement 14/03/2012		9	-
Sold EUR279,000 for GBP243,352 Settlement 14/03/2012		7	-
Sold EUR204,000 for GBP178,410 Settlement 14/03/2012		6	-
Sold EUR177,000 for GBP153,827 Settlement 14/03/2012		4	-
Sold EUR71,000 for GBP62,376 Settlement 14/03/2012		2	-
Sold EUR86,000 for GBP75,081 Settlement 14/03/2012		2	-
Sold EUR7,000 for GBP6,051 Settlement 14/03/2012		-	-
Sold EUR228,000 for GBP190,248 Settlement 21/03/2012		(3)	-

# Strategic Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Market Value £000	Total Net Assets %
Sold EUR160,000 for GBP132,499 Settlement 21/03/2012	(3)	-
Sold EUR534,000 for GBP445,911 Settlement 21/03/2012	(6)	-
Sold EUR926,000 for GBP769,256 Settlement 21/03/2012	(16)	(0.01)
Sold EUR950,000 for GBP788,852 Settlement 21/03/2012	(16)	(0.01)
Sold EUR33,540,000 for GBP28,129,059 Settlement 21/03/2012	(301)	(0.16)
<b>Swiss Franc</b>		
Sold CHF200,000 for GBP137,441 Settlement 21/03/2012	(3)	-
Sold CHF556,000 for GBP382,659 Settlement 21/03/2012	(8)	-
<b>US Dollar</b>		
Bought USD92,000 for GBP58,717 Settlement 14/03/2012	(1)	-
Sold USD4,109,000 for GBP2,601,291 Settlement 21/03/2012	11	0.01
Sold USD3,691,000 for GBP2,331,045 Settlement 14/03/2012	4	-
<b>Portfolio of investments<sup>^</sup></b>	<b>186,550</b>	<b>96.81</b>
<b>Net other assets</b>	<b>6,141</b>	<b>3.19</b>
<b>Total net assets</b>	<b>192,691</b>	<b>100.00</b>

Stocks shown as FRNs represent Floating Rate Notes - debt instruments that pay a floating rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

Forward Currency Contracts are Over the Counter (OTC) derivatives.

\* Comparative figures shown in brackets relate to 28 February 2011.

\*\* Defaulted bonds.

^ Including derivative liabilities.

† This investment is a related party (see note 10).

### Summary of portfolio by credit ratings

#### Rating block

AAA	5,914	3.07
AA+	3,406	1.77
AA	2,503	1.30
AA-	2,033	1.05
A+	7,949	4.13
A	11,950	6.21
A-	30,210	15.68
BBB+	18,118	9.41
BBB	27,810	14.45
BBB-	7,509	3.91
BB+	9,527	4.94
BB	11,287	5.85
BB-	7,375	3.84
B+	10,509	5.47
B	6,970	3.63
B-	3,273	1.69
CCC+	1,405	0.71
CCC	1,832	0.95
CCC-	391	0.20
C	1	-
NR	15,688	8.12
<b>Total bonds</b>	<b>185,660</b>	<b>96.38</b>
<b>Other</b>	<b>7,031</b>	<b>3.62</b>
<b>Total net assets</b>	<b>192,691</b>	<b>100.00</b>

The credit ratings used in the above table have been supplied by Standard & Poor's.



## Strategic Income Fund

### Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b>117,911</b>	<b>Total sales for the year</b>	<b>125,968</b>
<b>Major purchases</b>		<b>Major sales</b>	
UK Treasury 5% 07/03/2025	14,791	UK Treasury 5% 07/03/2025	13,091
UK Treasury 4% 22/01/2060	5,192	UK Treasury 4% 07/09/2016	6,267
UK Treasury 3.75% 07/09/2021	4,754	UK Treasury 4.25% 07/12/2040	5,174
UK Treasury 4% 07/09/2016	4,202	UK Treasury 4% 22/01/2060	5,129
British Telecommunications 5.75% 07/12/2028	2,280	UK Treasury 4.25% 07/12/2055	4,670
UK Treasury 5% 07/03/2018	2,059	UK Treasury 3.75% 07/09/2021	3,141
BAA Funding 9.2% 29/03/2023	2,039	BAA Funding 5.85% 27/11/2015	3,025
Eksportfinans 0.97125% 12/12/2011	1,992	Scottish Widows (FRN) 5.125% Perpetual †	2,507
UK Treasury 5% 07/09/2014	1,809	British Telecommunications 6.625% 23/06/2017	2,200
Imperial Tobacco Finance 7.75% 24/06/2019	1,798	Eksportfinans 0.97125% 12/12/2011	2,000
UK Treasury Index Linked 2.5% 26/07/2016	1,355	UK Treasury 5% 07/09/2014	1,816
Cie de St-Gobain 5.625% 15/11/2024	1,343	Imperial Tobacco Finance 7.25% 15/09/2014	1,710
Bouygues 5.5% 06/10/2026	1,266	MetLife 5.25% 29/06/2020	1,606
UK Treasury 4.5% 07/03/2013	1,249	Morgan Stanley 5.75% 14/02/2017	1,518
Boparan Finance 9.875% 30/04/2018	1,242	Marstons Issuer 1.63956% 15/07/2020	1,508
Fiat Finance & Trade 6.125% 08/07/2014	1,176	UK Treasury 5% 07/03/2018	1,494
Wales & West Utilities Finance 4.625% 13/12/2023	1,149	UK Treasury 4.5% 07/03/2013	1,412
Unique Pub Finance 6.542% 30/03/2021	1,148	UK Treasury 4.25% 07/06/2032	1,400
Centrica 6.375% 10/03/2022	1,142	UK Treasury Index Linked 2.5% 26/07/2016	1,381
UK Treasury 2.25% 07/03/2014	1,140	Cie de St-Gobain 5.625% 15/12/2016	1,381

† This investment is a related party (see note 10).

Stocks shown as FRNs represent Floating Rate Notes - debt instruments that pay a floating rate of interest, usually based on an accepted market benchmark rate such as LIBOR.

# Strategic Income Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	156,833,703	120,481,778	130.17	1.38
Accumulation 28/02/11	159,544,160	113,872,878	140.11	1.38
Accumulation 28/02/12	153,682,245	106,704,878	144.03	1.38
Share Class A				
Income 28/02/10	45,311,965	52,172,147	86.85	1.38
Income 28/02/11	43,125,029	48,185,547	89.50	1.38
Income 28/02/12	39,009,436	44,274,447	88.11	1.38

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	133.20	127.80	5.9391
Accumulation 2008	130.10	97.25	6.5389
Accumulation 2009	127.40	87.38	6.1480
Accumulation 2010	142.60	126.30	5.9296
Accumulation 2011	143.90	131.80	6.0002
Accumulation 2012*	143.90	136.50	1.0102
Share Class A			
Income 2007	104.40	96.66	4.5721
Income 2008	97.85	69.63	4.8014
Income 2009	85.98	61.55	4.2544
Income 2010	92.73	84.87	3.9048
Income 2011	91.28	82.08	3.7846
Income 2012*	88.34	84.08	0.6214

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

## Strategic Income Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(2,567)		6,748
Revenue	3	12,573		13,141	
Expenses	4	(2,704)		(2,815)	
Finance costs: Interest	6	(1)		(6)	
Net revenue before taxation		9,868		10,320	
Taxation	5	-		-	
Net revenue after taxation			9,868		10,320
<b>Total return before distributions</b>			<b>7,301</b>		<b>17,068</b>
Finance costs: Distributions	6		(10,606)		(11,089)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(3,305)</b>		<b>5,979</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>202,669</b>		<b>202,146</b>
Amounts receivable on creation of shares	4,661		4,939	
Less: Amounts payable on cancellation of shares	(18,156)		(17,423)	
		(13,495)		(12,484)
Dilution levy charged		91		111
Stamp duty reserve tax		(1)		(4)
Change in net assets attributable to shareholders from investment activities		(3,305)		5,979
Retained distribution on accumulation shares		6,723		6,909
Unclaimed distributions		9		12
<b>Closing net assets attributable to shareholders</b>		<b>192,691</b>		<b>202,669</b>

*Notes to the Financial Statements are on pages 139 to 143.*

# Strategic Income Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		187,010	197,253
Debtors	8	5,797	5,828
Cash and bank balances		1,980	2,889
<b>Total other assets</b>		<b>7,777</b>	<b>8,717</b>
<b>Total assets</b>		<b>194,787</b>	<b>205,970</b>
<b>Liabilities</b>			
Derivative liabilities		(460)	(1,109)
Creditors	9	(1,360)	(1,892)
Distribution payable on income shares		(276)	(300)
<b>Total other liabilities</b>		<b>(1,636)</b>	<b>(2,192)</b>
<b>Total liabilities</b>		<b>(2,096)</b>	<b>(3,301)</b>
<b>Net assets attributable to shareholders</b>		<b>192,691</b>	<b>202,669</b>

*Notes to the Financial Statements are on pages 139 to 143.*

# Strategic Income Fund

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(2,569)	3,911
Forward foreign exchange currency contracts	42	2,851
Currency losses	(34)	(8)
Handling charges	(6)	(6)
Net capital (losses)/gains	(2,567)	6,748

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Bank interest	7	5
Interest on debt securities	12,475	13,130
Stocklending revenue	89	6
ACD's periodic charge rebate	2	-
Total revenue	12,573	13,141

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	2,459	2,561
Registration fees	197	205
	2,656	2,766
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	18	19
Safe custody fees	18	19
	36	38
<b>Other expenses:</b>		
Audit fee	12	11
Total expenses	2,704	2,815

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
--	---------------------------------	---------------------------------

## (a) Analysis of charge in year:

There is no corporation tax charge in the current year or prior year.

## (b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:

Net revenue before taxation	9,868	10,320
Corporation tax of 20% (2011: 20%)	1,974	2,064
<b>Effects of:</b>		
Movement in excess management expenses	148	154
Tax deductible interest distributions	(2,121)	(2,218)
Relief for indexation on UK Gilts	(1)	-
Current tax charge for year	-	-

*OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.*

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £1,614,750 (28/02/11: £1,466,799) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
First interim	743	850
Second interim	634	644
Third interim	749	666
Fourth interim	745	794
Fifth interim	668	752
Sixth interim	792	753
Seventh interim	699	752
Eighth interim	716	717
Ninth interim	693	743
Tenth interim	653	771
Eleventh interim	717	741
Final	650	663
Income tax withheld	2,121	2,218
	10,580	11,064
Add: Revenue deducted on cancellation of shares	33	35
Deduct: Revenue received on creation of shares	(7)	(10)
Net distributions for the year	10,606	11,089
Bank interest	1	6
Total finance costs	10,607	11,095

*Details of the distributions per share are set out in the Distribution Tables on page 144.*

as at 28 February 2012

**7. Movement between net revenue and net distributions**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	9,868	10,320
ACD's periodic charge taken to capital	738	769
Net distributions for the year	10,606	11,089

**8. Debtors**

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	995	658
Amounts receivable for issue of shares	-	349
Accrued revenue	4,799	4,821
ACD expenses recoverable	1	-
Dilution levy receivable	2	-
Total debtors	5,797	5,828

**9. Creditors**

	28/02/12 £000	28/02/11 £000
Purchases awaiting settlement	-	810
Amounts payable for cancellation of shares	459	116
Accrued expenses	220	227
Income tax payable	681	739
Total creditors	1,360	1,892

**10. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £200,055 (28/02/11: £207,378) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

Revenue disclosed in note 3 includes amounts received from Lloyds related investments. The total revenue received amounts to £367,594 (28/02/11: £485,055).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12 %	28/02/11 %
ACD and associates of the ACD	50.84	49.93

**11. Share classes**

The Fund has one share class in issue.

The ACD's periodic charge on the share class is as follows:

	%
Share Class A - Accumulation:	1.25
Share Class A - Income:	1.25

The net asset value of this share class, the net asset value per share and the number of shares in this class is given in the Performance Record on page 136.

The distributions per share class are given in the Distribution Tables on page 144.

All share classes have the same rights on winding up.

as at 28 February 2012

**12. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**13. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £49,310,812 (28/02/11: £6,956,086). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £49,706,695 (28/02/11: £7,243,886). This collateral is in the form of bonds £10,355,335; equities £222 and cash £39,351,138 (28/02/11: bonds £7,243,886).

The gross earnings and fees paid for the year are £130,758 (28/02/11: £8,188) and £41,355 (28/02/11: £2,323).

**14. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 126. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

A significant portion of the Fund's financial assets and liabilities are invested overseas. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash and investment purchases and sales. Forward foreign exchange contracts have been entered into to hedge against the currency movements in the investment portfolio. These contracts are disclosed on the portfolio statement.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures £000	Non-monetary exposures £000	Total £000	Monetary exposures £000	Non-monetary exposures £000	Total £000
Currency						
Euro	(50,330)	50,909	579	(51,783)	53,439	1,656
Swiss franc	(529)	535	6	-	-	-
US dollar	(4,925)	4,892	(33)	(6,006)	6,020	14
	(55,784)	56,336	552	(57,789)	59,459	1,670

The ACD seeks to manage the portfolio exposure to currency movements by using forward currency contracts.



## Notes to the Financial Statements

(continued)

as at 28 February 2012

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in fixed interest investments. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to provide an income, these cashflows are actively managed.

The interest rate risk profile of the company's financial assets and liabilities at 28 February was:

Currency	Floating rate financial assets £000	Fixed rate financial assets £000	Fixed rate financial assets weighted average interest rate %	Fixed rate financial assets weighted average period for which rate is fixed Years	Financial assets not carrying interest £000	Total £000
<b>28/02/12</b>						
Sterling	27,474	104,065	5.44	12.17	60,600	192,139
Euro	7,174	43,748	7.77	6.43	(50,343)	579
Swiss franc	1	535	6.46	7.21	(530)	6
US dollar	3,809	834	5.60	7.88	(4,676)	(33)
<b>Total</b>	<b>38,458</b>	<b>149,182</b>			<b>5,051</b>	<b>192,691</b>
<b>28/02/11</b>						
Sterling	34,503	105,240	5.53	14.07	61,256	200,999
Euro	4,758	48,709	6.93	8.42	(51,811)	1,656
US dollar	4,189	1,558	6.55	9.30	(5,733)	14
<b>Total</b>	<b>43,450</b>	<b>155,507</b>			<b>3,712</b>	<b>202,669</b>

The value of financial assets/liabilities not carrying interest includes amounts payable and receivable on forward contracts held at the year end.

The Fund's net cash holding of £1.98m (28/02/11: holding £2.889m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

The majority of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in fixed interest securities. Certain fixed interest securities are liable to default risk whereby the nominal capital is not or is unlikely to be returned to investors. The value of fixed interest stocks is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual fixed interest stock or be caused by a general market factor (such as government policy or the health of the underlying economy) which can affect the entire portfolio. Any change to the interest rates relevant for particular securities may result in either revenue increasing or decreasing, or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. Changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of securities held. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

**15. Portfolio transaction costs**

There were no transactions costs incurred during the year to 28 February 2012 (28/2/11: £nil).

# Strategic Income Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

- Group 1 Seventh interim Shares purchased prior to 1 September 2011  
 Eighth interim Shares purchased prior to 1 October 2011  
 Ninth interim Shares purchased prior to 1 November 2011  
 Tenth interim Shares purchased prior to 1 December 2011  
 Eleventh interim Shares purchased prior to 1 January 2012  
 Final Shares purchased prior to 1 February 2012
- Group 2 Seventh interim Shares purchased between 1 September 2011 and 30 September 2011  
 Eighth interim Shares purchased between 1 October 2011 and 31 October 2011  
 Ninth interim Shares purchased between 1 November 2011 and 30 November 2011  
 Tenth interim Shares purchased between 1 December 2011 and 31 December 2011  
 Eleventh interim Shares purchased between 1 January 2012 and 31 January 2012  
 Final Shares purchased between 1 February 2012 and 28 February 2012

### Share Class A - Accumulation

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.6241	0.1248	0.4993	-	0.4993	0.5107
Eighth interim	0.6446	0.1289	0.5157	-	0.5157	0.4877
Ninth interim	0.6299	0.1260	0.5039	-	0.5039	0.5076
Tenth interim	0.5959	0.1192	0.4767	-	0.4767	0.5294
Eleventh interim	0.6561	0.1312	0.5249	-	0.5249	0.5117
Final	0.6066	0.1213	0.4853	-	0.4853	0.4573
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.3460	0.0692	0.2768	0.2225	0.4993	0.5107
Eighth interim	0.3971	0.0794	0.3177	0.1980	0.5157	0.4877
Ninth interim	0.1855	0.0371	0.1484	0.3555	0.5039	0.5076
Tenth interim	0.1688	0.0338	0.1350	0.3417	0.4767	0.5294
Eleventh interim	0.3425	0.0685	0.2740	0.2509	0.5249	0.5117
Final	0.3745	0.0749	0.2996	0.1857	0.4853	0.4573

### Share Class A - Income

	Gross revenue	Income tax	Net revenue	Equalisation	Distributions paid to 15/04/2012	Distributions paid to 15/04/2011
	(p)	(p)	(p)	(p)	(p)	(p)
Group 1						
Seventh interim	0.3903	0.0781	0.3122	-	0.3122	0.3333
Eighth interim	0.4014	0.0803	0.3211	-	0.3211	0.3172
Ninth interim	0.3908	0.0782	0.3126	-	0.3126	0.3290
Tenth interim	0.3684	0.0737	0.2947	-	0.2947	0.3418
Eleventh interim	0.4044	0.0809	0.3235	-	0.3235	0.3291
Final	0.3724	0.0745	0.2979	-	0.2979	0.2931
Group 2	(p)	(p)	(p)	(p)	(p)	(p)
Seventh interim	0.2086	0.0417	0.1669	0.1453	0.3122	0.3333
Eighth interim	0.3209	0.0642	0.2567	0.0644	0.3211	0.3172
Ninth interim	0.2120	0.0424	0.1696	0.1430	0.3126	0.3290
Tenth interim	0.2416	0.0483	0.1933	0.1014	0.2947	0.3418
Eleventh interim	0.2966	0.0593	0.2373	0.0862	0.3235	0.3291
Final	0.3015	0.0603	0.2412	0.0567	0.2979	0.2931

# UK Equity Income Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide an above average income together with capital growth over the longer term. The Fund will invest primarily in a portfolio of UK securities. The Fund will invest primarily in a portfolio of UK securities which may include, directly or indirectly, equities, convertibles, preference shares, fixed interest stocks and warrants. However the Fund may invest in other types of investment at the discretion of the ACD. The ACD may, due to anticipated market volatility or because of the specialised nature of the Fund, move away from the policy of being fully invested.

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
UK Equity Income Fund A Accumulation	(2.85)	15.60	31.66	(33.59)	(12.89)	12.49
UK Equity Income Sector Average Return	2.48	16.18	37.25	(32.60)	(7.77)	11.46
FTSE All-Share Index	2.33	17.01	47.34	(33.90)	(1.30)	11.63

Source: Lipper for UK Equity Income Fund and UK Equity Income Sector Average Return (funds which invest at least 80% in UK equities and which intend to achieve a historic yield on the distributable income in excess of 110% of the FTSE All-Share yield at the fund's year end).

Basis: Mid to Mid, net revenue reinvested and net of expenses.

Source: Rimes for the FTSE All-Share Index. Basis: Revenue reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The FTSE All-Share Index made modest progress over the period, rising by 2.33% in local currency terms. This, however, masked a year of significant volatility. At its low point in early October, the index stood more than 17% below its level at the start of the reporting period. Driven, in part, by a positive reaction to the European Central Bank's (ECB's) long-term refinancing operation in late December, shares then rallied sharply in late 2011 and into early 2012. Against this challenging market backdrop, the Fund underperformed its benchmark, falling by 2.85%.

At the stock level, the largest detractor from performance was Essar Energy, a company we like for its exposure to India's growing power and energy markets. Its share price came under pressure as a result of delays to a number of power projects, together with uncertainty over the timing of approval to begin development of its own coalmines. This is part of a wider issue affecting a number of Indian companies, the outcome of which will be determined by discussions at ministerial level. The holding in holiday group Thomas Cook also fell sharply. The Arab spring hit bookings to Egypt, Tunisia and Morocco while the UK business faced tough trading conditions. Following further deterioration in trading, leading to the company discussing its lending facilities with its banks, we sold all of our holding. More positively, exposure to a number of the more defensive names (including Imperial Tobacco, British American Tobacco and GlaxoSmithKline) that outperformed strongly in the second half of the review period helped relative performance.

In terms of activity, a rapid deterioration in underlying data in both the US and Europe mid-way through 2011 led us to change our view outlook for the global economy. Accordingly, we repositioned the portfolio. The Fund began the period with limited exposure to the banking stocks, reducing this further early in the second half of 2011 by selling part of our position in HSBC. We also pared back the Fund's positions in mining stocks to reflect the rapid deterioration in the prospects for the global economy, gaining our primary exposure in the form of newly-listed Glencore. The proceeds of these sales were reinvested in companies with attractive dividend yields backed by strong balance sheets and resilient earnings streams. We continued to add to holdings in our existing high-conviction ideas (Reed Elsevier, Indus Gas and Resolution) and built positions in others including SABMiller, Berkeley, iEnergizer and KSK Power Ventur.

In the short term, our outlook remains cautious, reflecting the view that several of the more cyclical areas of the market now appear to be discounting a lot of good news flow. The macro economic and geopolitical backdrop also remains uncertain. The European sovereign debt crisis has much further to run. Bailout packages for several member states have deferred, rather than solved, the fundamental problems of indebtedness and a lack of growth. Escalating political tension in the Middle East also represents a potent threat to equity markets in the short term; the recent spike in the oil price may suppress growth. We remain nervous that the global economy faces significant challenges and believe the conditions which led us to reposition the fund continue to apply. In the coming year, we will continue to invest in companies that exhibit balance-sheet strength, good earnings visibility and a dividend yield.

Scottish Widows Investment Partnership Limited

March 2012

Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

# UK Equity Income Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (11.67%*)</b>		<b>63,100</b>	<b>8.67</b>
<b>Chemicals</b>			
Johnson Matthey	297,889	6,968	0.96
<b>Mining</b>			
Anglo American	111,772	2,990	0.41
BHP Billiton	291,143	6,082	0.84
Glencore International	3,745,761	16,236	2.23
Rio Tinto	590,107	21,846	3.00
Xstrata	746,324	8,978	1.23
<b>CONSUMER GOODS (12.33%*)</b>		<b>88,708</b>	<b>12.19</b>
<b>Beverages</b>			
SABMiller	465,232	11,975	1.65
<b>Food Producers</b>			
Tate & Lyle	700,293	4,965	0.68
<b>Household Goods &amp; Home Construction</b>			
Berkeley	1,179,951	16,248	2.23
<b>Tobacco</b>			
British American Tobacco	980,943	30,988	4.26
Imperial Tobacco	973,859	24,532	3.37
<b>CONSUMER SERVICES (11.21%*)</b>		<b>79,823</b>	<b>10.98</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	1,788,292	5,687	0.78
<b>General Retailers</b>			
WH Smith	1,060,338	5,673	0.78
<b>Media</b>			
British Sky Broadcasting	2,493,945	17,071	2.35
Reed Elsevier	3,602,402	19,867	2.73
WPP	1,427,063	11,345	1.56
<b>Travel &amp; Leisure</b>			
Compass	2,835,509	18,020	2.48
Ryanair	630,475	2,160	0.30
<b>FINANCIALS (19.86%*)</b>		<b>120,463</b>	<b>16.55</b>
<b>Banks</b>			
Barclays	4,703,195	11,464	1.58
HSBC	4,853,050	26,862	3.69
Lloyds Banking +	16,716,854	5,834	0.80
Standard Chartered	487,058	7,851	1.08
<b>Financial Services</b>			
Burford Capital	4,948,802	6,582	0.90
Close Brothers	1,471,875	10,892	1.50
Tullett Prebon	3,099,381	10,225	1.41
<b>Life Insurance</b>			
Aviva	1,152,156	4,287	0.59
Prudential	1,966,092	14,146	1.94
Resolution	7,698,979	20,402	2.80
<b>Nonequity Investment Instruments</b>			
Better Capital	1,486,786	1,918	0.26

# UK Equity Income Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>HEALTH CARE (8.30%*)</b>		<b>81,170</b>	<b>11.16</b>
<b>Health Care Equipment &amp; Services</b>			
Smith & Nephew	1,100,980	6,881	0.95
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	1,082,643	30,752	4.23
GlaxoSmithKline	3,104,226	43,537	5.98
<b>INDUSTRIALS (3.42%*)</b>		<b>13,664</b>	<b>1.87</b>
<b>Aerospace &amp; Defence</b>			
BAE Systems	1,665,435	5,263	0.72
<b>General Industrials</b>			
DS Smith	2,435,143	4,164	0.57
<b>Industrial Engineering</b>			
Melrose	1,084,203	4,237	0.58
<b>OIL &amp; GAS (19.10%*)</b>		<b>170,149</b>	<b>23.38</b>
<b>Oil &amp; Gas Producers</b>			
BG	1,584,967	24,416	3.35
BP	11,696,775	58,671	8.06
Essar Energy	3,575,006	3,843	0.53
Genel Energy	552,811	4,563	0.63
Great Eastern Energy GDR	578,797	1,823	0.25
Indus Gas	1,786,489	16,704	2.30
Royal Dutch Shell 'B'	2,563,595	60,129	8.26
<b>TECHNOLOGY (0.00%*)</b>		<b>18,653</b>	<b>2.56</b>
<b>Software &amp; Computer Services</b>			
iEnergizer	1,484,193	5,120	0.70
Invensys	2,058,092	4,343	0.60
Sage	2,993,382	9,190	1.26
<b>TELECOMMUNICATIONS (5.68%*)</b>		<b>35,513</b>	<b>4.88</b>
<b>Mobile Telecommunications</b>			
Vodafone	20,646,844	35,513	4.88
<b>UTILITIES (8.75%*)</b>		<b>41,750</b>	<b>5.73</b>
<b>Electricity</b>			
APR Energy	442,884	4,318	0.59
KSK Power Ventur	1,457,639	8,308	1.14
<b>Gas, Water &amp; Multiutilities</b>			
Centrica	6,575,170	19,555	2.69
National Grid	1,481,287	9,569	1.31
<b>Portfolio of investments</b>		<b>712,993</b>	<b>97.97</b>
<b>Net other assets</b>		<b>14,802</b>	<b>2.03</b>
<b>Total net assets</b>		<b>727,795</b>	<b>100.00</b>

All holdings are equities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

\* Comparative figures shown in brackets relate to 28 February 2011.

Stocks shown as GDR's represent Global Depositary Receipts.

† This investment is a related party (see note 10).

## UK Equity Income Fund

### Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>341,038</u></b>	<b>Total sales for the year</b>	<b><u>348,412</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Royal Dutch Shell 'B'	21,774	Vodafone	24,511
Glencore International	21,232	Diageo	20,559
Tesco	20,115	Tesco	19,334
Vodafone	18,023	Scottish & Southern Energy	17,148
British Sky Broadcasting	16,848	National Grid	15,777
Aviva	15,032	BG	15,536
Indus Gas	10,395	Xstrata	15,470
SABMiller	10,386	Smiths	14,198
AstraZeneca	10,087	Resolution	12,867
BP	9,997	RSA Insurance	11,828
Prudential	9,602	Rio Tinto	11,594
GlaxoSmithKline	9,350	Centrica	11,152
Sage	8,429	HSBC	9,982
Lloyds Banking †	8,087	Imperial Tobacco	9,335
Centrica	8,058	British American Tobacco	9,156
Reed Elsevier	8,052	Unilever	9,031
Rio Tinto	7,971	British Sky Broadcasting	8,778
Smiths	6,304	AstraZeneca	8,645
Smith & Nephew	6,282	BHP Billiton	8,377
Carin Energy	5,853	Charter International	7,731

† This investment is a related party (see note 10).

# UK Equity Income Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	237,492,394	8,307,726	2,858.69	1.36
Accumulation 28/02/11	261,023,243	7,920,526	3,295.53	1.37
Accumulation 28/02/12	246,071,116	7,686,776	3,201.23	1.36
Share Class A				
Income 28/02/10	369,174,068	59,218,710	623.41	1.36
Income 28/02/11	400,665,443	57,762,010	693.65	1.37
Income 28/02/12	376,943,513	58,341,010	646.10	1.36
Share Class B				
Income 28/02/10	5,304,999	830,716	638.61	1.11
Income 28/02/11	5,271,578	740,016	712.36	1.12
Income 28/02/12	4,640,933	697,666	665.21	1.11
Share Class C				
Income 28/02/10	2,276,587	344,615	660.62	0.61
Income 28/02/11	2,157,661	291,315	740.66	0.62
Income 28/02/12	1,891,593	272,115	695.14	0.61
Share Class X				
Accumulation 28/02/10	76,528,553	2,434,765	3,143.16	0.11
Accumulation 28/02/11	90,663,255	2,470,865	3,669.29	0.11
Accumulation 28/02/12	98,247,819	2,722,215	3,609.11	0.11

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

# UK Equity Income Fund

## Performance Record

(continued)

as at 28 February 2012

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(t) per share (p)
Share Class A			
Accumulation 2007	3,864.00	3,303.00	137.7739
Accumulation 2008	3,517.00	1,992.00	146.1302
Accumulation 2009	2,927.00	1,989.00	113.3306
Accumulation 2010	3,271.00	2,662.00	111.0452
Accumulation 2011	3,376.00	2,689.00	115.8890
Accumulation 2012*	3,213.00	3,038.00	52.2289
Share Class A			
Income 2007	979.60	810.40	34.6707
Income 2008	857.60	462.90	35.2793
Income 2009	649.10	452.00	26.0065
Income 2010	697.60	580.50	24.3933
Income 2011	713.00	565.60	24.5122
Income 2012*	659.30	623.40	10.7163
Share Class B			
Income 2007	995.60	825.30	33.2195
Income 2008	873.70	472.60	35.9648
Income 2009	664.70	461.80	26.5715
Income 2010	716.10	595.10	24.9903
Income 2011	732.20	581.80	25.1766
Income 2012*	678.80	641.60	11.0268
Share Class C			
Income 2007	1,015.00	844.10	35.9562
Income 2008	894.00	485.60	37.3894
Income 2009	687.00	475.40	27.3581
Income 2010	743.90	616.70	25.8570
Income 2011	761.10	606.30	26.1844
Income 2012*	709.30	669.90	11.5093
Share Class X			
Accumulation 2007	4,104.00	3,519.00	146.4806
Accumulation 2008	3,764.00	2,154.00	157.0160
Accumulation 2009	3,212.00	2,160.00	123.4242
Accumulation 2010	3,634.00	2,939.00	122.1649
Accumulation 2011	3,767.00	3,010.00	129.1259
Accumulation 2012*	3,623.00	3,419.00	58.7161

(t) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.



## UK Equity Income Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(38,935)		89,590
Revenue	3	29,745		26,835	
Expenses	4	(8,661)		(9,094)	
Finance costs: Interest	6	(3)		(8)	
Net revenue before taxation		21,081		17,733	
Taxation	5	(42)		(19)	
Net revenue after taxation			21,039		17,714
<b>Total return before distributions</b>			<b>(17,896)</b>		<b>107,304</b>
Finance costs: Distributions	6		(28,891)		(25,968)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(46,787)</b>		<b>81,336</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>759,781</b>		<b>690,777</b>
Amounts receivable on creation of shares	60,622		68,707	
Less: Amounts payable on cancellation of shares	(59,257)		(92,862)	
		1,365		(24,155)
Dilution levy charged		-		91
Stamp duty reserve tax		(72)		(72)
Change in net assets attributable to shareholders from investment activities		(46,787)		81,336
Retained distribution on accumulation shares		13,439		11,701
Unclaimed distributions		69		103
<b>Closing net assets attributable to shareholders</b>		<b>727,795</b>		<b>759,781</b>

Notes to the Financial Statements are on pages 153 to 157.

# UK Equity Income Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		712,993	762,186
Debtors	8	6,933	4,384
Cash and bank balances		18,371	292
<b>Total other assets</b>		<b>25,304</b>	<b>4,676</b>
<b>Total assets</b>		<b>738,297</b>	<b>766,862</b>
<b>Liabilities</b>			
Creditors	9	(4,142)	(1,688)
Distribution payable on income shares		(6,360)	(5,393)
<b>Total liabilities</b>		<b>(10,502)</b>	<b>(7,081)</b>
<b>Net assets attributable to shareholders</b>		<b>727,795</b>	<b>759,781</b>

*Notes to the Financial Statements are on pages 153 to 157.*

# UK Equity Income Fund

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(38,928)	89,581
Currency gains	1	11
Handling charges	(8)	(2)
Net capital (losses)/gains	(38,935)	89,590

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	27,464	25,055
Overseas taxable revenue	-	2
Overseas non-taxable revenue	2,044	1,372
Property revenue from UK REITs - PID	14	40
Property revenue from UK REITs - Non PID	14	14
Bank interest	53	21
Stocklending revenue	134	53
UK scrip dividends	22	-
Underwriting commission	-	278
Total revenue	29,745	26,835

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	7,852	8,254
Registration fees	720	747
	8,572	9,001
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	67	70
Safe custody fees	14	15
	81	85
<b>Other expenses:</b>		
Audit fee	8	8
Total expenses	8,661	9,094

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
Irrecoverable overseas tax	42	19
(b) Factors affecting current tax charge for the year:		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	21,081	17,733
Corporation tax of 20% (2011: 20%)	4,216	3,547
Effects of:		
UK dividends*	(5,493)	(5,011)
Non-taxable scrip dividends	(4)	-
Overseas non-taxable revenue**	(409)	(275)
Movement in excess management expenses	1,693	1,742
Irrecoverable overseas tax	42	19
Property revenue from UK REITs - Non PID	(3)	(3)
Current tax charge for year (note 5a)	42	19

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £24,268,283 (28/02/11: £22,576,184) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distributions and interest

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Interim	17,007	15,865
Final	11,973	9,977
	28,980	25,842
Add: Revenue deducted on cancellation of shares	576	881
Deduct: Revenue received on creation of shares	(665)	(755)
Net distributions for the year	28,891	25,968
Bank interest	3	8
Total finance costs	28,894	25,976

Details of the distribution per share is set out in the Distribution Tables on pages 158 to 160.

as at 28 February 2012

**7. Movement between net revenue and net distributions**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Net revenue after taxation	21,039	17,714
ACD's periodic charge taken to capital	7,852	8,254
Net distributions for the year	28,891	25,968

**8. Debtors**

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	3,242	584
Accrued revenue	3,617	3,769
Income tax recoverable	-	3
Overseas tax recoverable	74	28
Total debtors	6,933	4,384

**9. Creditors**

	28/02/12 £000	28/02/11 £000
Purchases awaiting settlement	2,846	348
Amounts payable for cancellation of shares	611	612
Accrued expenses	685	728
Total creditors	4,142	1,688

**10. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £664,958 (28/02/11: £707,848) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12 %	28/02/11 %
ACD and associates of the ACD	55.82	52.62

**11. Share classes**

The Fund has four share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.25
Share Class A - Income:	1.25
Share Class B - Income:	1.00
Share Class C - Income:	0.50
Share Class X - Accumulation:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 149.

The distributions per share class are given in the Distribution Tables on pages 158 to 160.

All share classes have the same rights on winding up.

as at 28 February 2012

**12. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**13. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £146,147,103 (28/02/11: £44,361,511). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £153,659,312 (28/02/11: £46,669,678). This collateral is in the form of bonds £54,799,369; equities £11,653,047 and cash £87,206,896 (28/02/11: bonds £32,440,514; equities £12,728,538 and cash £1,500,626).

The gross earnings and fees paid for the year are £191,450 (28/02/11: £84,011) and £57,931 (28/02/11: £31,083).

**14. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 145. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling, however the Fund receives a small portion of revenue in foreign currency. As a result, movements in exchange rates may affect the revenue of the portfolio.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures	Non-monetary exposures	Total	Monetary exposures	Non-monetary exposures	Total
Currency	£000	£000	£000	£000	£000	£000
Euro	3,085	2,160	5,245	-	5,383	5,383
US dollar	1,342	-	1,342	972	-	972
	4,427	2,160	6,587	972	5,383	6,355

The Fund manages the currency risk on the initial purchase of investments denominated in foreign currencies. The Fund does not hedge or otherwise seek to avoid movement risk on the subsequent gains/losses on the settling value.

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to provide an above average income together with capital growth, these cashflows are actively managed.

The Fund's net cash holding of £18.371m (28/02/11: holding £0.292m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in equities. The value of equities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 15. Portfolio transaction costs

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	339,317	287,789	348,799	306,662
Trades in the year before transaction costs	339,317	287,789	348,799	306,662
Commissions	308	288	(387)	(332)
Taxes	1,413	1,060	-	-
Total costs	1,721	1,348	(387)	(332)
<b>Total net trades in the year after transaction costs</b>	<b>341,038</b>	<b>289,137</b>	<b>348,412</b>	<b>306,330</b>

# UK Equity Income Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 September 2011

Group 2 Final Shares purchased between 1 September 2011 and 28 February 2012

### Share Class A - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	52.2289	-	52.2289	42.9830
Group 2	(p)	(p)	(p)	(p)
Final	22.1913	30.0376	52.2289	42.9830

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

### Share Class A - Income

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	10.7163	-	10.7163	9.1667
Group 2	(p)	(p)	(p)	(p)
Final	6.8333	3.8830	10.7163	9.1667

### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.



## Distribution Tables

(continued)

for the year ended 28 February 2012

## Share Class B - Income

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	11.0268	-	11.0268	9.4085
Group 2	(p)	(p)	(p)	(p)
Final	9.0849	1.9419	11.0268	9.4085

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Share Class C - Income

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	11.5093	-	11.5093	9.7711
Group 2	(p)	(p)	(p)	(p)
Final	11.4164	0.0929	11.5093	9.7711

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Distribution Tables

(continued)

for the year ended 28 February 2012

## Share Class X - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	58.7161	-	58.7161	47.7210
Group 2	(p)	(p)	(p)	(p)
Final	32.0187	26.6974	58.7161	47.7210

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## UK Growth Fund

### Authorised Fund Manager's Report

for the year ended 28 February 2012

#### Investment Objective and Policy

To provide long-term capital growth through an investment in a broad portfolio of primarily UK equities.

The Fund will invest in a diversified portfolio of primarily UK equities, however the Fund may invest in other types of investment at the discretion of the ACD. Due to anticipated market volatility, the ACD may move away from the policy of being fully invested.

#### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
UK Growth Fund A Accumulation	(3.17)	14.32	35.30	(34.44)	(5.20)	12.36
UK All Companies Sector Average Return	1.06	19.24	43.67	(35.56)	(3.65)	11.08
FTSE All-Share Index	2.33	17.01	47.34	(33.90)	(1.30)	11.63

Source: Lipper for UK Growth and UK All Companies Sector Average Return (funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth).

Basis: Mid to Mid, net revenue reinvested and net of expenses.

Source: Rimes for the FTSE All-Share Index. Basis: Revenue reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The past 12 months have been notable for a series of extraordinary macroeconomic issues and geopolitical events. European sovereign states in financial distress, Standard & Poor's downgrade of the US's credit rating and revolutions across North Africa made it a challenging year for equity investors. Although the FTSE All-Share Index made modest progress over the period, rising by 2.33% in local currency terms, this masked significant volatility. At its low point in early October, the index stood more than 17% below its level at the start of the reporting period. A strong rally in late 2011 and early 2012, driven in part by the market's positive reaction to the European Central Bank's (ECB's) long-term refinancing operation in late December, saw it reclaiming most of that lost ground. Against this challenging backdrop, the Fund underperformed the benchmark, falling by 3.17% on the period.

At the stock level, the largest detractor from performance was Essar Energy, a company we like for its exposure to India's growing power and energy markets. Its share price came under pressure as a result of delays to a number of power projects, together with uncertainty over the timing of approval to begin development of its own coalmines. This is part of a wider issue affecting a number of Indian companies, the outcome of which will be determined by discussions at ministerial level. The holding in holiday group Thomas Cook also fell sharply. The Arab spring hit bookings to Egypt, Tunisia and Morocco while the UK business faced tough trading conditions. Following further deterioration in trading, leading to the company discussing its lending facilities with its banks, we sold all of our holding. More positively, exposure to a number of the more defensive names (including Imperial Tobacco and GlaxoSmithKline) that outperformed strongly in the second half of the review period helped relative performance. Another positive contribution came from Berkeley, the London and south-east focused house builder which benefited from its announcement that it planned to return £13 in cash per share over the next ten years.

In terms of activity, the biggest change to the portfolio's composition came in mid-2011, at which point we had grown concerned by the scale and speed of deterioration in economic data in the US and Europe. We responded by repositioning the portfolio. We also pared back the Fund's positions in mining stocks to reflect the rapid deterioration in the prospects for the global economy, gaining our primary exposure in the form of newly-listed Glencore. The proceeds of these sales were reinvested in companies with attractive dividend yields backed by strong balance sheets and resilient earnings streams.

In the short term, our outlook remains cautious, reflecting our view that several of the more cyclical areas of the market now appear to be discounting a lot of good news flow while earnings forecasts remain broadly risked to the downside. The macro economic and geopolitical backdrop also remains uncertain. The European sovereign debt crisis has much further to run. Bailout packages for several member states have deferred, rather than solved, the fundamental problems of indebtedness and a lack of growth. Escalating political tension in the Middle East also represents a potent threat to equity markets in the short term; the recent spike in the oil price may suppress growth.

Scottish Widows Investment Partnership Limited

March 2012

*Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.*

# UK Growth Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (12.53%*)</b>		<b>137,716</b>	<b>9.56</b>
<b>Chemicals</b>			
Johnson Matthey	414,169	9,687	0.67
<b>Mining</b>			
Anglo American	550,543	14,727	1.02
Antofagasta	240,100	3,215	0.22
BHP Billiton	1,467,549	30,657	2.13
Glencore International	4,183,504	18,133	1.26
Petra Diamonds	2,221,028	3,387	0.24
Rio Tinto	984,038	36,430	2.53
Xstrata	1,785,540	21,480	1.49
<b>CONSUMER GOODS (10.82%*)</b>		<b>249,112</b>	<b>17.32</b>
<b>Automobiles &amp; Parts</b>			
GKN	6,372,648	14,804	1.03
<b>Beverages</b>			
Diageo	2,282,014	34,242	2.38
SABMiller	1,185,720	30,520	2.12
<b>Food Producers</b>			
Tate & Lyle	1,434,798	10,173	0.71
Unilever	1,032,330	21,183	1.47
<b>Household Goods &amp; Home Construction</b>			
Berkeley	113,364	1,561	0.11
Bovis Homes	1,387,083	7,067	0.49
Persimmon	253,357	1,587	0.11
Reckitt Benckiser	547,755	18,804	1.31
<b>Personal Goods</b>			
Burberry	720,252	10,019	0.70
<b>Tobacco</b>			
British American Tobacco	2,010,389	63,508	4.41
Imperial Tobacco	1,414,997	35,644	2.48
<b>CONSUMER SERVICES (10.59%*)</b>		<b>119,364</b>	<b>8.28</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	5,055,884	16,078	1.12
Wm Morrison Supermarkets	1,238,347	3,553	0.25
<b>General Retailers</b>			
WH Smith	1,277,153	6,833	0.46
<b>Media</b>			
British Sky Broadcasting	2,570,893	17,598	1.22
ITE	1,099,549	2,551	0.18
Reed Elsevier	4,413,334	24,340	1.69
WPP	1,658,148	13,182	0.92
<b>Travel &amp; Leisure</b>			
American Leisure **	3,000,000	-	-
Betfair	82,751	727	0.05
Compass	3,358,198	21,341	1.48
International Consolidated Airlines	3,040,703	4,953	0.34
Ryanair	2,395,613	8,208	0.57

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>FINANCIALS (19.00%*)</b>		<b>204,124</b>	<b>14.19</b>
<b>Banks</b>			
Barclays	8,176,977	19,931	1.38
HSBC	14,694,161	81,332	5.65
Lloyds Banking †	23,934,254	8,353	0.58
Standard Chartered	1,162,547	18,740	1.30
<b>Equity Investment Instruments</b>			
Candover Investments	76,357	373	0.03
<b>Financial Services</b>			
Close Brothers	465,026	3,442	0.24
Horizon Acquisition	67,728	660	0.05
ICAP	1,894,618	7,342	0.51
Ingenious Media Active Capital	8,714,269	1,133	0.08
Tullett Prebon	454,577	1,500	0.10
<b>Life Insurance</b>			
Aviva	1,003,597	3,734	0.26
Hansard Global	10,000	15	-
Legal & General	5,996,833	7,292	0.51
Prudential	2,692,512	19,373	1.35
Resolution	4,550,370	12,059	0.84
<b>Nonlife Insurance</b>			
RSA Insurance	9,959,006	10,865	0.75
<b>Real Estate Investment &amp; Services</b>			
Capital & Counties Properties	515,844	970	0.07
<b>Real Estate Investment Trusts</b>			
British Land	579,059	2,738	0.19
Land Securities	630,127	4,272	0.30
<b>HEALTH CARE (7.88%*)</b>		<b>134,892</b>	<b>9.36</b>
<b>Health Care Equipment &amp; Services</b>			
Smith & Nephew	388,018	2,425	0.17
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	1,725,014	48,999	3.40
GlaxoSmithKline	5,168,762	72,492	5.03
Shire	493,076	10,976	0.76
<b>INDUSTRIALS (6.32%*)</b>		<b>73,701</b>	<b>5.13</b>
<b>Aerospace &amp; Defence</b>			
Rolls-Royce	3,299,154	26,641	1.85
<b>General Industrials</b>			
DS Smith	401,847	687	0.05
Smiths	305,511	3,315	0.23
<b>Industrial Engineering</b>			
Melrose	320,369	1,251	0.09
Pursuit Dynamics	533,781	450	0.03
Pursuit Dynamics Rights 09/03/2012	66,722	1	-
<b>Support Services</b>			
Aggreko	431,562	9,611	0.67
Experian	2,103,787	19,818	1.38
G4S	2,936,434	8,442	0.59
Michael Page International	767,961	3,485	0.24

# UK Growth Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>OIL &amp; GAS (23.27%*)</b>		<b>291,420</b>	<b>20.24</b>
<b>Oil &amp; Gas Producers</b>			
BG	3,395,273	52,304	3.63
BP	20,172,740	101,187	7.03
Cairn Energy	1,872,169	6,661	0.46
Essar Energy	3,066,392	3,296	0.23
Great Eastern Energy GDR	906,886	2,857	0.20
Hardy Oil & Gas	569,555	871	0.06
Leed Petroleum	1,778,015	12	-
Royal Dutch Shell 'B'	5,008,536	117,475	8.16
Vallares	161,445	1,333	0.09
<b>Oil Equipment, Services &amp; Distribution</b>			
AMEC	485,595	5,424	0.38
<b>TECHNOLOGY (0.65%*)</b>		<b>21,393</b>	<b>1.49</b>
<b>Software &amp; Computer Services</b>			
Sage	6,050,627	18,575	1.29
<b>Technology Hardware &amp; Equipment</b>			
ARM	490,171	2,818	0.20
<b>TELECOMMUNICATIONS (6.21%*)</b>		<b>104,204</b>	<b>7.25</b>
<b>Fixed Line Telecommunications</b>			
BT	6,777,286	14,761	1.03
<b>Mobile Telecommunications</b>			
Vodafone	52,001,130	89,443	6.22
<b>UTILITIES (2.89%*)</b>		<b>46,812</b>	<b>3.26</b>
<b>Gas, Water &amp; Multiutilities</b>			
Centrica	7,429,556	22,095	1.54
National Grid	3,826,223	24,717	1.72
<b>Portfolio of investments</b>		<b>1,382,738</b>	<b>96.08</b>
<b>Net other assets</b>		<b>56,387</b>	<b>3.92</b>
<b>Total net assets</b>		<b>1,439,125</b>	<b>100.00</b>

All holdings are equities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

\* Comparative figures shown in brackets relate to 28 February 2011.

Stocks shown as GDR's represent Global Depositary Receipts.

\*\* Unlisted securities.

† This investment is a related party (see note 9).

## UK Growth Fund

### Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
<b>Total purchases for the year</b>	<b><u>587,341</u></b>	<b>Total sales for the year</b>	<b><u>731,851</u></b>
<b>Major purchases</b>		<b>Major sales</b>	
Vodafone	34,615	Rio Tinto	37,777
Glencore International	28,247	Vodafone	34,642
British American Tobacco	28,205	BG	29,818
Centrica	27,370	Anglo American	27,047
SABMiller	26,350	BP	26,031
Unilever	21,636	Xstrata	22,942
Tesco	20,535	Imperial Tobacco	20,365
Royal Dutch Shell 'B'	20,165	AstraZeneca	20,016
AstraZeneca	19,532	BHP Billiton	18,385
HSBC	19,504	Wm Morrison Supermarkets	18,004
Rio Tinto	19,047	Berkeley	17,933
Reckitt Benckiser	18,130	Aviva	17,780
Anglo American	17,740	Barclays	17,228
Xstrata	16,848	Smiths	16,039
Aviva	16,611	HSBC	15,637
Barclays	15,627	Resolution	15,361
Diageo	15,345	Centrica	14,993
BT	13,442	Diageo	14,314
National Grid	13,251	KSK Power Ventur	14,246
Weir	11,711	Unilever	13,782

# UK Growth Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	1,260,363,634	1,112,559,008	113.29	1.61
Accumulation 28/02/11	1,325,098,346	1,023,698,008	129.44	1.62
Accumulation 28/02/12	1,189,151,045	948,501,508	125.37	1.61
Share Class B				
Accumulation 28/02/10	117,201,550	99,660,644	117.60	1.12
Accumulation 28/02/11	123,128,719	91,171,644	135.05	1.12
Accumulation 28/02/12	109,426,474	83,239,644	131.46	1.11
Share Class C				
Income 28/02/10	38,185,687	38,827,400	98.35	0.61
Income 28/02/11	37,872,130	34,193,900	110.76	0.61
Income 28/02/12	26,686,448	25,366,400	105.20	0.61
Share Class X				
Income 28/02/10	77,184,122	78,874,600	97.86	0.11
Income 28/02/11	129,370,988	117,361,500	110.23	0.11
Income 28/02/12	113,860,631	108,738,078	104.71	0.11

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	142.70	124.30	1.5239
Accumulation 2008	132.00	76.00	2.2083
Accumulation 2009	116.30	76.61	3.4240
Accumulation 2010	129.00	104.30	2.4349
Accumulation 2011	131.90	104.30	1.9494
Accumulation 2012*	125.70	118.60	2.4507
Share Class B			
Accumulation 2007	146.10	127.60	2.1934
Accumulation 2008	135.60	78.38	2.9475
Accumulation 2009	120.70	79.16	4.0725
Accumulation 2010	134.50	108.40	3.0327
Accumulation 2011	137.80	109.10	2.6557
Accumulation 2012*	131.80	124.30	3.1994
Share Class C			
Income 2007	135.00	118.20	2.6599
Income 2008	125.60	70.91	3.3580
Income 2009	104.00	67.92	4.1729
Income 2010	112.90	90.83	3.0803
Income 2011	115.40	89.66	2.7521
Income 2012*	108.60	102.40	3.1530
Share Class X			
Income 2007	135.00	118.20	3.2536
Income 2008	125.70	70.87	3.9836
Income 2009	103.80	67.56	4.6572
Income 2010	112.80	90.54	3.5211
Income 2011	115.30	89.44	3.2692
Income 2012*	108.70	102.30	3.6683

(†) Distributed for income shares and allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.



## UK Growth Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(80,278)		185,768
Revenue	3	53,089		50,425	
Expenses	4	(20,906)		(22,455)	
Finance costs: Interest	6	(3)		(9)	
Net revenue before taxation		32,180		27,961	
Taxation	5	(107)		(38)	
Net revenue after taxation			32,073		27,923
<b>Total return before distribution</b>			<b>(48,205)</b>		<b>213,691</b>
Finance costs: Distribution	6		(32,073)		(27,923)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(80,278)</b>		<b>185,768</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>1,615,470</b>		<b>1,492,935</b>
Amounts receivable on creation of shares	40,589		95,001	
Less: Amounts payable on cancellation of shares	(162,682)		(180,534)	
		(122,093)		(85,533)
Dilution levy charged		325		387
Stamp duty reserve tax		(205)		(469)
Change in net assets attributable to shareholders from investment activities		(80,278)		185,768
Retained distribution on accumulation shares		25,906		22,378
Unclaimed distributions		-		4
<b>Closing net assets attributable to shareholders</b>		<b>1,439,125</b>		<b>1,615,470</b>

Notes to the Financial Statements are on pages 169 to 173.

# UK Growth Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		<u>1,382,738</u>	<u>1,618,005</u>
Debtors	7	7,539	26,285
Cash and bank balances		<u>63,372</u>	<u>292</u>
<b>Total other assets</b>		<u>70,911</u>	<u>26,577</u>
<b>Total assets</b>		<u>1,453,649</u>	<u>1,644,582</u>
<b>Liabilities</b>			
Creditors	8	(9,735)	(24,334)
Distribution payable on income shares		<u>(4,789)</u>	<u>(4,778)</u>
<b>Total liabilities</b>		<u>(14,524)</u>	<u>(29,112)</u>
<b>Net assets attributable to shareholders</b>		<u>1,439,125</u>	<u>1,615,470</u>

*Notes to the Financial Statements are on pages 169 to 173.*

## Notes to the Financial Statements

as at 28 February 2012

### 1. Accounting basis and policies

Please see pages 8 to 10 for accounting basis and policies.

### 2. Net capital (losses)/gains

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(80,276)	185,649
Currency gains	7	121
Handling charges	(9)	(2)
Net capital (losses)/gains	(80,278)	185,768

### 3. Revenue

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	49,037	44,370
Overseas taxable revenue	(3)	(29)
Overseas non-taxable revenue	2,883	3,022
Property revenue from UK REITs - PID	-	16
Property revenue from UK REITs - Non PID	-	70
Distributions from Regulated Collective Investment Schemes:		
Franked investment income	-	95
Bank interest	95	49
Stocklending revenue	112	54
UK scrip dividends	965	2,074
Underwriting commission	-	704
Total revenue	53,089	50,425

### 4. Expenses

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	19,269	20,705
Registration fees	1,462	1,562
	20,731	22,267
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	136	147
Safe custody fees	30	32
	166	179
<b>Other expenses:</b>		
Audit fee	9	9
Total expenses	20,906	22,455

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
Irrecoverable overseas tax	107	43
Adjustments in respect of prior years	-	(5)
Total current tax (note 5b)	107	38

## (b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:

Net revenue before taxation	32,180	27,961
Corporation tax of 20% (2011: 20%)	6,436	5,592
Effects of:		
UK dividends*	(9,807)	(8,893)
Non-taxable scrip dividends	(193)	(415)
Overseas non-taxable revenue**	(577)	(606)
Movement in excess management expenses	4,141	4,336
Irrecoverable overseas tax	107	43
Adjustments in respect of prior years	-	(5)
Property revenue from UK REITs - Non PID	-	(14)
Current tax charge for year (note 5a)	107	38

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £76,583,110 (28/02/11: £72,443,486) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distribution and interest

The distribution takes account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Final	30,696	27,156
Add: Revenue deducted on cancellation of shares	1,856	2,300
Deduct: Revenue received on creation of shares	(479)	(1,533)
Net distribution for the year	32,073	27,923
Bank interest	3	9
Total finance costs	32,076	27,932

Details of the distribution per share is set out in the Distribution Tables on pages 174 to 175.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**7. Debtors**

	28/02/12	28/02/11
	£000	£000
Sales awaiting settlement	537	19,200
Accrued revenue	6,827	7,023
Dilution levy receivable	6	6
Income tax recoverable	-	1
Overseas tax recoverable	169	55
Total debtors	7,539	26,285

**8. Creditors**

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	5,070	19,605
Amounts payable for cancellation of shares	3,065	2,920
Accrued expenses	1,600	1,809
Total creditors	9,735	24,334

**9. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £1,568,663 (28/02/11: £1,773,059) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

Distributions from Regulated Collective Investment Schemes disclosed in note 3 includes amounts earned from funds where Scottish Widows Unit Trust Managers Limited act as Authorised Corporate Director and Registrar. The total revenue earned amounts to £nil (28/02/11: £94,486).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	22.24	21.65

**9. Share classes**

The Fund has four share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.50
Share Class B - Accumulation:	1.00
Share Class C - Income:	0.50
Share Class X - Income:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 166.

The distribution per share class is given in the Distribution Tables on pages 174 to 175.

All share classes have the same rights on winding up.

**10. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

as at 28 February 2012

**11. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £12,820,192 (28/02/11: £3,952,142). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £13,472,220 (28/02/11: £4,150,954). This collateral is in the form of bonds £10,831,984; equities £650,190 and cash £1,990,046 (28/02/11: bonds £491,843 and equities £3,659,111).

The gross earnings and fees paid for the year are £170,250 (28/02/11: £85,766) and £58,072 (28/02/11: £31,734).

**12. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 161. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

The Fund's financial assets and liabilities are all denominated in sterling, however the Fund receives a small portion of revenue in foreign currency. As a result, movements in exchange rates may affect the revenue of the portfolio.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

	Net foreign currency assets 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures	Non-monetary exposures	Total	Monetary exposures	Non-monetary exposures	Total
Currency	£000	£000	£000	£000	£000	£000
Euro	-	8,208	8,208	-	6,167	6,167
US dollar	2,513	-	2,513	2,406	-	2,406
	2,513	8,208	10,721	2,406	6,167	8,573

The Fund manages the currency risk on the initial purchase denominated in foreign currencies. The Fund does not hedge or otherwise seek to avoid movement risk on the subsequent gains/losses on the settling value.

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cashflows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £63.372m (28/02/11: holding £0.292m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund invests principally in equities. The value of equities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 13. Portfolio transaction costs

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	584,017	899,596	732,527	957,387
Trades in the year before transaction costs	584,017	899,596	732,527	957,387
Commissions	570	945	(676)	(1,111)
Taxes	2,754	3,719	-	(1)
Total costs	3,324	4,664	(676)	(1,112)
<b>Total net trades in the year after transaction costs</b>	<b>587,341</b>	<b>904,260</b>	<b>731,851</b>	<b>956,275</b>

## UK Growth Fund

### Distribution Tables

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for the year ended 28 February 2012

#### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 March 2011

Group 2 Final Shares purchased between 1 March 2011 and 28 February 2012

#### Share Class A - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	2.4507	-	2.4507	1.9494
Group 2	(p)	(p)	(p)	(p)
Final	1.2952	1.1555	2.4507	1.9494

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

#### Share Class B - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	3.1994	-	3.1994	2.6557
Group 2	(p)	(p)	(p)	(p)
Final	1.6496	1.5498	3.1994	2.6557

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.



## Distribution Tables

(continued)

for the year ended 28 February 2012

## Share Class C - Income

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	3.1530	-	3.1530	2.7521
Group 2	(p)	(p)	(p)	(p)
Final	2.6698	0.4832	3.1530	2.7521

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Share Class X - Income

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	3.6683	-	3.6683	3.2692
Group 2	(p)	(p)	(p)	(p)
Final	2.2620	1.4063	3.6683	3.2692

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

# UK Select Growth Fund

## Authorised Fund Manager's Report

for the year ended 28 February 2012

### Investment Objective and Policy

To provide long term capital growth through investment in a select portfolio of primarily UK equities.

The Fund will invest in a select portfolio of primarily UK securities which will predominantly include shares and convertibles, however the Fund may invest in other types of investment at the discretion of the ACD. The Fund will focus on a limited number of holdings (typically between 30 and 50).

### Investment Review

Performance	01/03/11 to 28/02/12 %	01/03/10 to 28/02/11 %	01/03/09 to 28/02/10 %	29/02/08 to 28/02/09 %	01/03/07 to 28/02/08 %	01/03/06 to 28/02/07 %
UK Select Growth Fund A Accumulation	(6.74)	18.44	52.92	(36.65)	3.59	10.37
UK All Companies Sector Average Return	1.06	19.24	43.67	(35.56)	(3.65)	11.08
FTSE All-Share Index	2.33	17.01	47.34	(33.90)	(1.30)	11.63

Source: Lipper for UK Select Growth Fund and UK All Companies Sector Average Return (funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth).

Basis: Mid to Mid, net revenue reinvested and net of expenses.

Source: Rimes for the FTSE All-Share Index. Basis: Revenue reinvested and gross of expenses.

Past performance is not a reliable indicator of future results. The value of an investment and any revenue from it is not guaranteed and can go down as well as up depending on investment performance and currency exchange rates.

The past 12 months have been notable for a series of extraordinary macroeconomic issues and geopolitical events. European sovereign states in financial distress, Standard & Poor's downgrade of the US's credit rating and revolutions across North Africa made it a challenging year for equity investors. Although the FTSE All-Share Index made modest progress over the period, rising by 1.6% in local currency terms, this masked significant volatility. At its low point in early October, the index stood more than 17% below its level at the start of the reporting period. A strong rally in late 2011 and early 2012, driven in part by the market's positive reaction to the European Central Bank's (ECB's) long-term refinancing operation in late December, saw it reclaiming most of that lost ground. Against this challenging backdrop, the performance of the Fund was disappointing: it fell by 6.74%.

The Fund's underperformance was driven by stock specific issues, the two most important of which related to its holdings in Essar Energy and Lloyds Banking. Essar, the Indian-based energy group, suffered from a series of delays to the build out of its power project portfolio. These delays were the result of a government dispute over the award of coal blocks. Sourcing competitively priced domestic coal supplies is critical to the economics of the group's power business. The suspension of coal mining operations in India forced Essar to import much more expensive coal supplies from South Africa and Indonesia. The company remains confident that the dispute which centres round environmental issues will be resolved in the near future and we continue to hold the position. Although a strategy review from Lloyds Banking was initially well received, it was more than outweighed by the wider concerns over the financial sector. With earnings guidance reduced significantly we took the decision to sell the holding in August 2011.

On a more positive note, the Fund's holding in iEnergizer made a strong contribution to returns. Its maiden set of full-year results were better than the market expected. The business was able to deliver strong top-line growth whilst maintaining operating margins at over 30%. Another positive contribution came from Berkeley, the London and south-east focused house builder which benefited from its announcement that it planned to return £13 in cash per share over the next ten years.

In terms of activity, the biggest change to the portfolio's composition came in mid-2011, at which point we had grown concerned by the scale and speed of deterioration in economic data in the US and Europe. We responded by repositioning the portfolio. We sold all of the Fund's exposure to the banks and retained only very limited holdings in the mining sector. Proceeds were reinvested in companies with balance-sheet strength, earnings visibility and above average dividend yield (with strong coverage ratios). New positions included SABMiller, Centrica and Invensys.

In the short term, our outlook remains cautious, reflecting our view that several of the more cyclical areas of the market now appear to be discounting a lot of good news flow while earnings forecasts remain broadly risked to the downside. The macro economic and geopolitical backdrop also remains uncertain. The European sovereign debt crisis has much further to run. Bailout packages for several member states have deferred, rather than solved, the fundamental problems of indebtedness and a lack of growth. Escalating political tension in the Middle East also represents a potent threat to equity markets in the short term; the recent spike in the oil price may suppress growth.

Scottish Widows Investment Partnership Limited

March 2012

Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

# UK Select Growth Fund

## Portfolio Statement

as at 28 February 2012

	Holdings	Market Value £000	Total Net Assets %
<b>BASIC MATERIALS (8.62%*)</b>		<b>13,798</b>	<b>3.58</b>
<b>Mining</b>			
Glencore International	3,183,173	13,798	3.58
<b>CONSUMER GOODS (13.49%*)</b>		<b>47,754</b>	<b>12.37</b>
<b>Beverages</b>			
SABMiller	744,845	19,172	4.97
<b>Household Goods &amp; Home Construction</b>			
Berkeley	1,359,986	18,727	4.85
<b>Tobacco</b>			
Imperial Tobacco	391,232	9,855	2.55
<b>CONSUMER SERVICES (7.93%*)</b>		<b>35,501</b>	<b>9.20</b>
<b>Food &amp; Drug Retailers</b>			
Tesco	1,822,174	5,795	1.50
<b>Media</b>			
British Sky Broadcasting	1,400,985	9,590	2.49
Reed Elsevier	3,647,509	20,116	5.21
<b>FINANCIALS (19.35%*)</b>		<b>49,194</b>	<b>12.74</b>
<b>Banks</b>			
HSBC	998,790	5,528	1.43
<b>Collective Investment Schemes</b>			
Scottish Widows UK Smaller Companies Fund A Acc t	3,458,860	7,291	1.89
<b>Financial Services</b>			
Aurora Russia	4,968,312	1,664	0.43
Newfound **	8,641,949	74	0.02
Tullett Prebon	950,707	3,136	0.81
<b>Life Insurance</b>			
Resolution	7,954,103	21,078	5.46
<b>Real Estate Investment &amp; Services</b>			
Dolphin Capital Investors	19,181,981	3,980	1.03
<b>Real Estate Investment Trusts</b>			
British Land	401,768	1,900	0.49
LBX Retail Properties	4,130,306	4,543	1.18
<b>HEALTH CARE (5.53%*)</b>		<b>41,459</b>	<b>10.74</b>
<b>Pharmaceuticals &amp; Biotechnology</b>			
AstraZeneca	812,297	23,073	5.98
GlaxoSmithKline	1,310,935	18,386	4.76
<b>INDUSTRIALS (4.92%*)</b>		<b>13,283</b>	<b>3.44</b>
<b>Construction &amp; Materials</b>			
Breedon Aggregates	11,666,200	1,983	0.51
<b>General Industrials</b>			
DS Smith	6,608,207	11,300	2.93

# UK Select Growth Fund

## Portfolio Statement

(continued)

as at 28 February 2012

	Holdings or Nominal Values	Market Value £000	Total Net Assets %
<b>OIL &amp; GAS (28.43%*)</b>		<b>104,562</b>	<b>27.10</b>
<b>Oil &amp; Gas Producers</b>			
BG	523,554	8,065	2.09
BP	6,352,841	31,866	8.26
Cadogan Petroleum	9,441,038	2,832	0.74
Essar Energy	3,984,367	4,283	1.11
Genel Energy	721,332	5,955	1.54
Great Eastern Energy GDR	2,154,932	6,788	1.76
Hardy Oil & Gas	1,541,111	2,358	0.61
Indus Gas	2,661,733	24,887	6.45
Leed Petroleum	2,145,610	14	-
Petroceltic International	18,448,670	1,810	0.47
Resaca Exploitation (London Listing)	353,926	152	0.04
Royal Dutch Shell 'B'	663,051	15,552	4.03
<b>TECHNOLOGY (1.53%*)</b>		<b>12,450</b>	<b>3.23</b>
<b>Software &amp; Computer Services</b>			
iEnergizer	2,601,265	8,974	2.33
Invensys	1,647,157	3,476	0.90
<b>TELECOMMUNICATIONS (4.74%*)</b>		-	-
<b>UTILITIES (5.71%*)</b>		<b>34,062</b>	<b>8.82</b>
<b>Electricity</b>			
KSK Power Ventur	2,680,221	15,277	3.96
<b>Gas, Water &amp; Multiutilities</b>			
Centrica	4,987,001	14,832	3.84
National Grid	611,897	3,953	1.02
<b>US DOLLAR DENOMINATED BONDS (0.00%*)</b>		<b>1,390</b>	<b>0.36</b>
<b>Corporate Bond</b>			
Dolphin Capital Investors 7% 31/03/2016	USD2,250,000	1,390	0.36
<b>Portfolio of investments</b>		<b>353,453</b>	<b>91.58</b>
<b>Net other assets</b>		<b>32,479</b>	<b>8.42</b>
<b>Total net assets</b>		<b>385,932</b>	<b>100.00</b>

All holdings are equities or fixed interest securities and represent securities quoted on a Listed Securities Market, unless otherwise stated.

\* Comparative figures shown in brackets relate to 28 February 2011.

Stocks shown as GDR's represent Global Depositary Receipts.

\*\* Delisted securities

† This investment is a related party (see note 9).

## Summary of Material Portfolio Changes

for the year ended 28 February 2012

	Cost £000		Proceeds £000
Total purchases for the year	<u>450,952</u>	Total sales for the year	<u>364,138</u>
<b>Major purchases</b>		<b>Major sales</b>	
AstraZeneca	29,311	Xstrata	33,212
GlaxoSmithKline	28,505	Rio Tinto	29,239
Lloyds Banking †	27,226	HSBC	20,794
Xstrata	23,889	National Grid	20,377
Rio Tinto	23,402	AstraZeneca	19,209
SABMiller	21,838	GlaxoSmithKline	17,110
Royal Dutch Shell 'B'	20,234	Smiths	16,814
HSBC	19,524	Lloyds Banking †	16,273
Glencore International	18,763	Vodafone	13,486
Reed Elsevier	16,005	Imperial Tobacco	13,342
Centrica	15,136	RSA Insurance	11,810
National Grid	14,667	Tate & Lyle	10,898
BP	12,184	Legal & General	10,674
British Sky Broadcasting	11,757	Ryanair	10,416
Legal & General	11,614	Resolution	10,022
Smiths	10,579	BG	9,830
Anglo American	9,977	Diageo	8,924
Resolution	9,786	Cairn Energy	8,882
Essar Energy	9,403	Anglo American	7,383
Imperial Tobacco	9,111	Royal Dutch Shell 'B'	6,904
RSA Insurance	8,190	British Sky Broadcasting	6,310
Cairn Energy	8,181	Reed Elsevier	6,173
DS Smith	8,012	Barclays	6,088
Indus Gas	7,267		
Genel Energy	7,095		
Barclays	6,766		
KSK Power Ventur	6,694		

† This investment is a related party (see note 9).

# UK Select Growth Fund

## Performance Record

as at 28 February 2012

### Net Asset Value and Total Expense Ratio

	Net Asset Value of share class (£)	Shares in issue	Net Asset Value per share (p)	*Total Expense Ratio (%)
Share Class A				
Accumulation 28/02/10	152,893,257	10,567,795	1,446.78	1.62
Accumulation 28/02/11	169,460,040	9,882,745	1,714.71	1.62
Accumulation 28/02/12	156,506,929	9,768,695	1,602.13	1.61
Share Class B				
Accumulation 28/02/10	21,870,786	1,481,361	1,476.40	1.37
Accumulation 28/02/11	23,484,924	1,338,761	1,754.23	1.37
Accumulation 28/02/12	20,392,752	1,241,061	1,643.17	1.36
Share Class C				
Accumulation 28/02/10	14,622,319	973,139	1,502.59	1.12
Accumulation 28/02/11	15,871,280	886,739	1,789.85	1.12
Accumulation 28/02/12	13,994,330	832,639	1,680.72	1.11
Share Class X				
Accumulation 28/02/10	43,945,467	2,704,616	1,624.83	0.12
Accumulation 28/02/11	86,295,538	4,414,016	1,955.03	0.12
Accumulation 28/02/12	195,038,152	10,518,216	1,854.29	0.12

\*The Total Expense Ratio (TER) is the total expenses paid by each share class in the year against its average net asset value. The TER can fluctuate as underlying costs change.

### Share Price History and Revenue Record

Calendar year	Highest published share price (p)	Lowest published share price (p)	Net Revenue(†) per share (p)
Share Class A			
Accumulation 2007	1,600.00	1,379.00	19.0143
Accumulation 2008	1,544.00	914.40	26.3393
Accumulation 2009	1,480.00	890.30	34.1969
Accumulation 2010	1,655.00	1,363.00	10.6502
Accumulation 2011	1,776.00	1,378.00	16.2089
Accumulation 2012*	1,612.00	1,515.00	14.4871
Share Class B			
Accumulation 2007	1,622.00	1,398.00	22.5106
Accumulation 2008	1,568.00	930.00	30.4456
Accumulation 2009	1,509.00	906.30	37.8789
Accumulation 2010	1,693.00	1,392.00	14.1013
Accumulation 2011	1,818.00	1,411.00	20.4962
Accumulation 2012*	1,653.00	1,554.00	18.9319
Share Class C			
Accumulation 2007	1,640.00	1,414.00	26.0429
Accumulation 2008	1,589.00	943.40	34.7205
Accumulation 2009	1,536.00	920.10	41.5787
Accumulation 2010	1,726.00	1,417.00	17.6439
Accumulation 2011	1,856.00	1,442.00	24.8976
Accumulation 2012*	1,691.00	1,588.00	23.5261
Share Class X			
Accumulation 2007	1,724.00	1,488.00	40.7946
Accumulation 2008	1,688.00	1,007.00	53.4803
Accumulation 2009	1,658.00	985.30	57.7923
Accumulation 2010	1,882.00	1,537.00	33.2324
Accumulation 2011	2,030.00	1,582.00	44.4990
Accumulation 2012*	1,865.00	1,750.00	44.2028

(†) Allocated for accumulation shares.

\* To 28 February 2012.

Share class X is not published.

## UK Select Growth Fund

### Statement of Total Return

for the year ended 28 February 2012

	Notes	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
		£000	£000	£000	£000
Income					
Net capital (losses)/gains	2		(25,689)		42,938
Revenue	3	8,819		6,808	
Expenses	4	(3,112)		(3,134)	
Finance costs: Interest	6	(3)		(44)	
Net revenue before taxation		5,704		3,630	
Taxation	5	(18)		25	
Net revenue after taxation			5,686		3,655
<b>Total return before distribution</b>			<b>(20,003)</b>		<b>46,593</b>
Finance costs: Distribution	6		(5,686)		(3,655)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(25,689)</b>		<b>42,938</b>

### Statement of Change in Net Assets Attributable to Shareholders

for the year ended 28 February 2012

	01/03/11 to 28/02/12		01/03/10 to 28/02/11	
	£000	£000	£000	£000
<b>Opening net assets attributable to shareholders</b>		<b>295,112</b>		<b>233,332</b>
Amounts receivable on creation of shares	136,607		47,145	
Less: Amounts payable on cancellation of shares	(26,830)		(32,350)	
		109,777		14,795
Dilution levy charged		280		52
Stamp duty reserve tax		(43)		(66)
Change in net assets attributable to shareholders from investment activities		(25,689)		42,938
Retained distribution on accumulation shares		6,495		4,061
<b>Closing net assets attributable to shareholders</b>		<b>385,932</b>		<b>295,112</b>

*Notes to the Financial Statements are on pages 183 to 187.*

# UK Select Growth Fund

## Balance Sheet

as at 28 February 2012

	Notes	28/02/12 £000	28/02/11 £000
<b>Assets</b>			
Portfolio of investments		353,453	295,839
Debtors	7	3,496	1,726
Cash and bank balances		32,945	1,989
<b>Total other assets</b>		<b>36,441</b>	<b>3,715</b>
<b>Total assets</b>		<b>389,894</b>	<b>299,554</b>
<b>Liabilities</b>			
Creditors	8	(3,962)	(4,442)
<b>Total liabilities</b>		<b>(3,962)</b>	<b>(4,442)</b>
<b>Net assets attributable to shareholders</b>		<b>385,932</b>	<b>295,112</b>

*Notes to the Financial Statements are on pages 183 to 187.*



## Notes to the Financial Statements

as at 28 February 2012

**1. Accounting basis and policies**

Please see pages 8 to 10 for accounting basis and policies.

**2. Net capital (losses)/gains**

The net capital (losses)/gains during the year comprise:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Non-derivative securities	(25,716)	43,048
Currency gains/(losses)	32	(107)
Handling charges	(5)	(3)
Net capital (losses)/gains	(25,689)	42,938

**3. Revenue**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
UK dividends	6,553	5,803
Overseas taxable revenue	(4)	(4)
Overseas non-taxable revenue	1,862	451
Property revenue from UK REITs - PID	15	-
Distributions from Regulated Collective Investment Schemes:		
Franked investment income	35	89
Bank interest	84	39
Interest on debt securities	92	-
Stocklending revenue	44	9
UK scrip dividends	138	421
Total revenue	8,819	6,808

**4. Expenses**

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
<b>Payable to the ACD, associates of the ACD, and agents of either of them:</b>		
ACD's periodic charge	2,705	2,837
Registration fees	359	259
	3,064	3,096
<b>Payable to the Depositary, associates of the Depositary, and agents of either of them:</b>		
Depositary's fees	33	24
Safe custody fees	7	6
	40	30
<b>Other expenses:</b>		
Audit fee	8	8
Total expenses	3,112	3,134

Expenses include irrecoverable VAT where applicable.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

## 5. Taxation

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
(a) Analysis of charge in year:		
Irrecoverable overseas tax	18	(25)
(b) Factors affecting current tax charge for the year:		
The tax assessed for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK for an Open-Ended Investment Company of 20% (2011: 20%). The differences are explained below:		
Net revenue before taxation	5,704	3,630
Corporation tax of 20% (2011: 20%)	1,141	726
Effects of:		
UK dividends*	(1,318)	(1,179)
Non-taxable scrip dividends	(28)	(84)
Overseas non-taxable revenue**	(372)	(90)
Movement in excess management expenses	577	627
Irrecoverable overseas tax	18	(25)
Current tax charge for year (note 5a)	18	(25)

\*As an authorised OEIC these items are not subject to corporation tax.

\*\*Overseas dividends received from 1st July 2009 are not subject to corporation tax due to changes enacted in the Finance Act 2009.

OEICs are exempt from tax on capital gains in the UK. Therefore, any capital return is not included within the reconciliation above.

## (c) Deferred taxation:

There is no provision required for deferred taxation at the Balance Sheet date in the current or prior year.

## (d) Factors that may affect future tax charges:

At the year end, after offset against revenue taxable on receipt, there is a potential deferred tax asset of £7,996,494 (28/02/11: £7,419,876) relating to surplus management expenses. No deferred tax asset has been recognised in either year as it was considered unlikely the Fund would generate sufficient taxable profits in the future to utilise these amounts.

## 6. Finance costs

## Distribution and interest

The distribution takes account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprises:

	01/03/11 to 28/02/12 £000	01/03/10 to 28/02/11 £000
Final	6,495	4,061
Add: Revenue deducted on cancellation of shares	365	346
Deduct: Revenue received on creation of shares	(1,174)	(752)
Net distribution for the year	5,686	3,655
Bank interest	3	44
Total finance costs	5,689	3,699

Details of the distribution per share is set out in the Distribution Tables on pages 188 to 189.

## 7. Debtors

	28/02/12 £000	28/02/11 £000
Sales awaiting settlement	1,920	-
Amounts receivable for issue of shares	10	968
Accrued revenue	1,536	746
Overseas tax recoverable	30	12
Total debtors	3,496	1,726

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**8. Creditors**

	28/02/12	28/02/11
	£000	£000
Purchases awaiting settlement	3,603	4,087
Amounts payable for cancellation of shares	113	88
Accrued expenses	246	267
Total creditors	3,962	4,442

**9. Related party transactions**

Scottish Widows Unit Trust Managers Limited, ("the ACD") is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of the operations of the Fund.

Scottish Widows Unit Trust Managers Limited act as principal on all the transactions of shares in the Fund. The aggregate monies received through sales and repurchases of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Widows Unit Trust Managers Limited in respect of share transactions at the year end are included in the Balance Sheet.

Amounts paid to Scottish Widows Unit Trust Managers Limited in respect of ACD and registration fees are disclosed in note 4, with £230,430 (28/02/11: £247,654) due at the year end.

Holdings of Lloyds Banking Group (the ultimate parent company) related investments are disclosed in the Portfolio Statement.

Distributions from Regulated Collective Investment Schemes disclosed in note 3 includes amounts earned from funds where Scottish Widows Unit Trust Managers Limited act as Authorised Corporate Director and Registrar. The total revenue earned amounts to £nil (28/02/11: £88,581).

*Shares held by associates of the ACD*

On 28 February 2012, shares held as a percentage of the Fund's value were:

	28/02/12	28/02/11
	%	%
ACD and associates of the ACD	84.16	82.87

**10. Share classes**

The Fund has four share classes in issue.

The ACD's periodic charge on each share class is as follows:

	%
Share Class A - Accumulation:	1.50
Share Class B - Accumulation:	1.25
Share Class C - Accumulation:	1.00
Share Class X - Accumulation:	-

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the Performance Record on page 180.

The distribution per share class is given in the Distribution Tables on pages 188 to 189.

All share classes have the same rights on winding up.

**11. Capital commitments and contingent liabilities**

On 28 February 2012, the Fund had no capital commitments (28/02/11: £nil) and no contingent liabilities (28/02/11: £nil).

**12. Securities on loan**

The aggregate value of securities on loan at 28 February 2012 is £32,261,362 (28/02/11: £10,065,957). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 28 February 2012 is £33,988,250 (28/02/11: £10,511,415). This collateral is in the form of bonds £949,502; equities £12,138,390 and cash £20,900,358 (28/02/11: bonds £1,347,875 and cash £9,163,541).

The gross earnings and fees paid for the year are £65,757 (28/02/11: £15,222) and £21,425 (28/02/11: £5,632).

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**13. Derivatives and other financial instruments**

A statement of the Fund's objective and the policy for achieving it has been included on page 176. The risks inherent in the Fund's investment portfolio are as follows:

*(a) Currency risk*

A proportion of the Fund's financial assets and liabilities are denominated overseas. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash and investment purchases and sales.

As at 28 February the Fund had the following net currency exposure (excluding sterling):

Currency	Net foreign currency assets 28/02/12			Net foreign currency assets 28/02/11		
	Monetary exposures	Non-monetary exposures	Total	Monetary exposures	Non-monetary exposures	Total
	£000	£000	£000	£000	£000	£000
Euro	-	-	-	-	5,822	5,822
US dollar	551	1,542	2,093	189	345	534
	551	1,542	2,093	189	6,167	6,356

The Fund manages currency risk on the initial purchase of investments denominated in foreign currencies. The Fund does not hedge or otherwise seek to avoid movement risk on the subsequent gains/losses on the settling value.

*(b) Interest rate risk profile of financial assets and liabilities*

The Fund receives revenue from holdings in equities, fixed interest investments and Open Ended Investment Companies. The cashflow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cashflows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £32.945m (28/02/11: holding £1.989m) is held in a floating rate deposit account whose rate is determined by reference to rates supplied by the Depositary.

The Fund did not have any long term financial liabilities.

*(c) Liquidity risk*

All of the Fund's financial assets are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

All of the Fund's financial liabilities are payable on demand or in less than one year.

*(d) Market price risk and fair value of financial assets and liabilities*

The Fund can invest in both equities and bonds. The value of equities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual equity or be caused by general market factors (such as government policy or the health of the underlying economy) which can affect the entire portfolio. The Investment Adviser seeks to minimise these risks by holding a diversified portfolio of investments spread across all market sectors in line with the Fund's objectives. In addition, the management of the Fund complies with the Financial Services Authority COLL sourcebook, which includes rules limiting the size of investment in any particular holding.

There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair values.

*(e) Credit risk*

The Fund enters into transactions in financial instruments which expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its obligations. The Fund only buys and sells financial instruments through parties that have been approved by the ACD as acceptable. These are reviewed on an ongoing basis.

## Notes to the Financial Statements

(continued)

as at 28 February 2012

**14. Portfolio transaction costs**

Analysis of total trade costs.

	Purchases		Sales	
	01/03/11 to 28/02/12	01/03/10 to 28/02/11	01/03/11 to 28/02/12	01/03/10 to 28/02/11
	£000	£000	£000	£000
Non-derivative securities	448,640	384,588	364,514	367,065
Trades in the year before transaction costs	448,640	384,588	364,514	367,065
Commissions	443	476	(376)	(467)
Taxes	1,869	1,647	-	-
Total costs	2,312	2,123	(376)	(467)
<b>Total net trades in the year after transaction costs</b>	<b>450,952</b>	<b>386,711</b>	<b>364,138</b>	<b>366,598</b>

# UK Select Growth Fund

## Distribution Tables

for the year ended 28 February 2012

### Distribution in pence per share

Group 1 Final Shares purchased prior to 1 March 2011

Group 2 Final Shares purchased between 1 March 2011 and 28 February 2012

#### Share Class A - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	14.4871	-	14.4871	16.2089
Group 2	(p)	(p)	(p)	(p)
Final	7.8447	6.6424	14.4871	16.2089

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

#### Share Class B - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	18.9319	-	18.9319	20.4962
Group 2	(p)	(p)	(p)	(p)
Final	10.8719	8.0600	18.9319	20.4962

#### Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Distribution Tables

(continued)

for the year ended 28 February 2012

## Share Class C - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	23.5261	-	23.5261	24.8976
Group 2	(p)	(p)	(p)	(p)
Final	11.6383	11.8878	23.5261	24.8976

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## Share Class X - Accumulation

	Net revenue	Equalisation	Distribution payable 30/04/2012	Distribution paid 30/04/2011
Group 1	(p)	(p)	(p)	(p)
Final	44.2028	-	44.2028	44.4990
Group 2	(p)	(p)	(p)	(p)
Final	27.5929	16.6099	44.2028	44.4990

## Corporate Tax

A shareholder liable to corporation tax receives this distribution, excluding equalisation, as follows:

Final - 100.00% of the dividend together with the tax credit is received as franked investment income.

Final - 0.00% of the dividend is received as an annual payment (non foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. The tax deemed to be deducted is treated as income tax.

Final - 0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue & Customs.

## General Information

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### About OEICs

The Scottish Widows UK and Income Investment Funds ICVC (the "Company") is an umbrella Open Ended Investment Company ("OEIC"). An OEIC is a collective investment vehicle with variable capital in which your funds are pooled with a portfolio of investments in accordance with its Prospectus and the Collective Investment Schemes sourcebook (COLL sourcebook).

It should be remembered that the value of your shares will be affected by fluctuations in the relevant markets and foreign currency exchange rates (where applicable) and may, therefore, go down as well as up. You should view your investment over the medium to long-term.

Please contact us on 0845 300 2244 for more information. We may record and monitor calls to help us improve our service.

All sub-funds are classified as UCITS schemes which comply with Chapter 5 of the COLL sourcebook.

The base currency of the Company is Sterling, but a class of shares in respect of any sub-fund may be designated in any currency other than Sterling.

### Shares

The Company currently offers four share classes; Class A, Class B, Class C and Class X. Each share class has a different ACD fee.

### Prices and Dealing Times

The price used for either the purchase or sale of shares is normally the next price calculated after your instructions are received and accepted at our Edinburgh Office. Advisers have no authority to guarantee applications or prices.

The latest prices are obtainable from the Dealing Desk on 0845 845 0066.

Shares may be bought or sold between 9.00am and 5.00pm on Mondays to Fridays inclusive.

### Liability

Any shortfall may have to be met out of the assets attributable to one or more sub-funds of the umbrella company where the assets allocated to any sub-fund were insufficient to meet the liabilities attributable to it. Shareholders are not liable for the debts of the Company.

### Prospectus

The Prospectus, which is available from the ACD free of charge, outlines how the Company is managed and gives details of the types of assets in which each sub-fund may invest. The Prospectus and (where applicable) the Instrument of Incorporation have been amended during the year to 28 February 2012 (as noted on page 2). Full terms and conditions are available from the ACD.

### Personal Taxation

Unless your shares are held within an ISA, if you sell your shares or switch your shares to a different sub-fund, this is treated as a disposal for Capital Gains Tax purposes. Tax rules can change. The value to an investor of the tax advantages of an ISA will depend on personal circumstances, which may change.

Shareholders are recommended to consult with their professional tax advisors if they are in any doubt about their position.

### Queries

If you have any queries about the operation of your sub-fund you should in the first instance contact the ACD. Please supply details of your holding (including surname, initials and account number).





As part of the Lloyds TSB Group, Scottish Widows is proud to be an Official Provider of the London 2012 Olympic and Paralympic Games.

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