Scottish Widows UK and Income Investment Funds ICVC

Short Report
for the year ended
28 February 2013

Scottish Widows UK and Income Investment Funds ICVC

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.

Authorised Corporate Director (ACD), Authorised Fund Manager & 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.

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.

Depositary

State Street Trustees Limited

Registered Office:

20 Churchill Place
London
E14 5HJ

Correspondence Address:

525 Ferry Road
Edinburgh
EH5 2AW

Authorised and regulated by the Financial Services Authority.

Independent Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Introduction

Twice a year we are required to send you a Short Report of the Investment Company with Variable Capital (ICVC) in which you're invested. The report covers how the Funds in the ICVC have performed and how they are invested. It also includes a review from the Funds' managers. Short Reports are important as not only do they keep you up-to-date with Fund activity and Fund managers' opinion, but they also contain important information about any changes to how Funds operate. However, please note that Short Reports don't contain any details about the value of your personal investment. Information that is personal to you is sent to you annually in your OEIC or ISA statement. The statement gives you the value of your investment. You can also get an up-to-date value of your investment by registering at **www.scottishwidows.co.uk/statements**

Contents

Long reports are available on request. If you would like a copy, please telephone Client Services on **0845 300 2244** or download the Financial Statements from the website **www.scottishwidows.co.uk** which is a website maintained by Scottish Widows plc on behalf of Scottish Widows Unit Trust Managers Limited.

Daily fund prices can also be found at the above website.

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:

- The wording in the Prospectus was updated on 30 June 2012 to explain that Shares in the Funds are currently only available to be acquired or switched by persons that are resident in the UK (unless the ACD agrees otherwise). The ACD is unable to accept business from persons who are US residents or subsequently become US residents.
- The wording in the Prospectus was updated on 30 June 2012 to explain the method used for the calculation of the global exposure of derivative and forward transactions that may be used by the Funds.
- On 12 November 2012 a new Share Class was introduced: Class G net income share and a Class G net accumulation share. The Class G net accumulation share is only available in the Ethical Fund, Gilt Fund, Corporate Bond Fund and Environmental Investor Fund. The Class G net income share is only available in the Gilt Fund and Corporate Bond Fund.

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.

Corporate Bond Fund

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give either an income, while having regard to the capital value, or growth (when income is kept within the Fund). To do so by investing mainly in investment grade corporate bonds and other fixed interest securities issued by companies primarily in the UK and also Europe.

Investment grade bonds have achieved or exceeded a minimum credit rating awarded by a credit rating agency. Therefore they are considered lower risk than bonds with a lower credit rating. Credit ratings indicate the likelihood that an issuer will be able to make their payments.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 4 because it has experienced medium levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

Two themes dominated bond market movements during much of the review period: a barrage of gloomy economic data and uncertainty over the future of the European single currency. These forces affected different areas of the market in different ways. Government bonds in the US, Germany and the UK benefited from a flight to quality, with the result that yields continued to fall and prices continued to rise.

Riskier asset classes were provided with some support by the European Central Bank's long-term refinancing operations (LTROs). These helped support government bonds and effectively put a floor under corporate bond prices in the financial sector. But as 2012 wore on, the beneficial effects of the LTROs gradually waned, until risk appetite was bolstered once more by a promise that European Central Bank head Mario Draghi would do "whatever it takes" to save the euro.

Meanwhile, the uncertainties caused by the continuation of the eurozone sovereign debt crisis continued to provide support for core government bonds. In this environment, corporate bonds have done well. The asset class outperformed its government bond counterparts as strong demand from yield-hungry investors pushed up prices of both investment grade and high-yield corporate bonds.

The Scottish Widows Corporate Bond Fund returned 9.57% in the twelve months to 28 February. Throughout much of the review period, we pursued a policy of de-risking the portfolio and locking in profits.

Fund performance was derived from a variety of sources. Early on, we gained due to yield curve movement, with the Fund's overweight duration position making a positive contribution. Latterly, the Fund benefited from good security selection in the financial sector. In the second six months of the review period, gains were primarily due to asset allocation in the financial sector, where exposure to banks and insurance securities provided a major contribution. The Fund also gained due to our exposure to strongly-performing high yield credit.

Looking ahead, with continued injections of liquidity courtesy of central bank actions, the market environment remains strong and new corporate bond issuance is likely to remain robust. We expect corporate bonds to outperform government bonds, although we favour high yield over investment grade on the basis of historically low default rates. Investment grade credit spreads at current levels offer some compensation for increases in yield, but less than the high yield sector where greater protection is afforded by higher coupons. However, we believe the European sovereign crisis is far from over, and further volatility is likely.

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 (continued)

Distribution

XD dates	Payment dates
30/09/12	15/11/12
31/10/12	14/12/12
30/11/12	15/01/13
31/12/12	15/02/13
31/01/13	15/03/13
28/02/13	15/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.12	n/a
A Income	1.12	n/a
B Accumulation	0.87	n/a
B Income	0.87	n/a
G Accumulation	1.12*	-
G Income	1.12*	-

Share class G Accumulation was launched 12 November 2012.

Share class G Income was launched 12 November 2012.

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

*As the accounting period is less than one year, the expenses have been annualised.

Details of investments

Investments	28/02/13 %	28/02/12 %
Corporate Bonds	80.19	81.56
Government Bonds	10.08	5.64
Asset-Backed Securities	4.24	5.18
Mortgage-Backed Securities	2.44	2.54
Net other assets	3.05	5.08
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	254.04	229.45	10.72
A Income	117.49	109.58	7.22
B Accumulation	258.91	233.38	10.94
B Income	117.39	109.49	7.22
G Accumulation	100.15	-	-
G Income	99.24	-	-

Please note: negative figures are shown in brackets.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
Corporate Bond Fund A Accumulation	9.57	6.36	5.44	27.26	(13.94)	(5.91)
£ Corporate Bond Sector Average Return	9.87	6.91	5.56	22.28	(10.99)	(4.23)
Composite*	12.72	8.92	7.77	25.40	(13.82)	(4.45)

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 year Index, and 10% iBoxx Non Gilt ex Sov. > 15 year 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.

Distribution

	Seventh interim 30/09/12 (p)	Eighth interim 31/10/12 (p)	Ninth interim 30/11/12 (p)	Tenth interim 31/12/12 (p)	Eleventh interim 31/01/13 (p)	Final 28/02/13 (p)
A Accumulation	0.5921	0.7097	0.6392	0.6500	0.6517	0.5760
A Income	0.2779	0.3323	0.2988	0.3027	0.3028	0.2669
B Accumulation	0.6410	0.7685	0.6932	0.7057	0.7079	0.6261
B Income	0.2953	0.3532	0.3176	0.3225	0.3226	0.2846
G Accumulation	-	-	0.1532	0.2575	0.2595	0.2287
G Income	-	-	0.1532	0.2562	0.2577	0.2304

Top five holdings

	28/02/13 %		28/02/12 %
1. UK Treasury 5% 07/03/2025	4.31	Imperial Tobacco Finance 9% 17/02/2022	1.59
2. UK Treasury 1.75% 07/09/2022	3.18	Barclays Bank 10% 21/05/2021	1.39
3. UK Treasury 4.25% 07/12/2027	2.09	UK Treasury 3.75% 07/09/2021	1.00
4. Barclays Bank 10% 21/05/2021	1.82	ASIF III Jersey 5.375% 14/10/2016	0.94
5. Imperial Tobacco Finance 9% 17/02/2022	1.47	UK Treasury 2.5% Index-Linked 16/04/2020	0.92
Number of holdings: 248		Number of holdings: 240	

Summary of portfolio by credit ratings

Rating block	28/02/13 %	28/02/12 %
Investment grade (AAA to BBB-)	95.33	88.97
Non-Investment grade (BB+ to C)	1.05	-
Unrated	0.57	5.95
Total bonds	96.95	94.92
Other	3.05	5.08
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's, Moody's or Fitch Ratings.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give long-term capital growth by investing in primarily UK companies which show a positive commitment to the protection and preservation of the natural environment. These companies are selected according to a broad range of environmental criteria. Such criteria are agreed with the Fund's independent advisory body, which is made up of leading environmentalists.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund is retained in the Fund and has the effect of increasing the share price.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

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Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

Investment Manager's Review

During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slipped, albeit briefly, into a double-dip recession. Yet despite this unpromising environment the UK market notched up solid gains; the FTSE All-Share Index rose by 14.06%. Over the same period, the Fund rose by 15.74%, under-performing its custom benchmark, which rose by 23.21%.

On a stock-specific basis, the largest positive contributor to Fund performance was our holding in plant hire group Ashtead. The company has benefited from strong demand for construction equipment in the US arising from a combination of a recovery in the housing market and continued caution among US builders, who remain reluctant to invest in their own equipment. The holding in recycled packaging company DS Smith performed well as a positive management statement underlined the synergies that it is deriving from its recent acquisition of SCA Packaging. The purchase of a new holding TalkTalk Telecom proved well-timed. Its shares rose strongly as it made progress towards launching a simple TV-and-broadband offering to rival Sky.

The biggest negative came from three "clean tech" holdings: Nandan Cleantec, Pursuit Dynamics and Greenko. These stocks suffered from the global demise in carbon-credit pricing, the eurozone crisis and, in the case of Pursuit Dynamics, an overstretched balance sheet, which led to a rights issue. We reviewed all three holdings. We sold Pursuit Dynamics but remain convinced that both Nandan and Greenko will deliver value in the years to come.

Activity over the year included the establishment of new holdings in TalkTalk Telecom, Melrose (smart metering), National Express (efficient public transport), Prudential and RPC (sustainable packaging). We sold holdings in Pursuit Dynamics, Lloyds Banking and Barclays. We also locked in profits by reducing the size of the Fund's holding in Ashtead.

Looking forward, central bankers have indicated that interest rates will remain low for some time. In this environment, investors are obliged to expose themselves to some degree of risk if they want to see any sort of real (i.e. inflation-adjusted) return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds. We will continue to seek out attractively valued companies that meet the Fund's environmental remit.

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 (continued)

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.62	n/a
G Accumulation	1.62*	-
X Accumulation	0.12	n/a

Share class G Accumulation was launched 12 November 2012.

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

*As the accounting period is less than one year, the expenses have been annualised.

Details of investments

Investments	28/02/13 %	28/02/12 %
Financials	25.99	20.51
Industrials	19.75	16.63
Consumer Services	12.32	12.75
Health Care	10.64	15.64
Telecommunications	10.21	9.36
Utilities	8.29	7.43
Consumer Goods	8.16	12.48
Technology	1.12	1.01
Oil & Gas	1.11	1.79
Basic Materials	-	1.10
Net other assets	2.41	1.30
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	199.44	172.03	15.93
G Accumulation	112.09	-	-
X Accumulation	233.85	198.70	17.69

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
Environmental Investor Fund A Accumulation	15.74	(8.08)	15.02	42.08	(43.78)	(16.41)
Customised Benchmark*	23.21	(0.40)	18.05	49.44	(36.30)	N/A
FTSE All-Share Index	N/A	N/A	N/A	N/A	N/A	(1.30)

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.

Distribution

	Final 28/02/13 (p)
A Accumulation	3.8279
G Accumulation	0.3331
X Accumulation	7.5383

Top five holdings

	28/02/13 %		28/02/12 %
1. HSBC	7.71	Vodafone	9.36
2. Vodafone	7.57	GlaxoSmithKline	9.26
3. GlaxoSmithKline	7.08	Diageo	6.67
4. Prudential	4.63	AstraZeneca	6.38
5. Diageo	3.86	HSBC	5.49

Number of holdings: 37 Number of holdings: 40

Please note: negative figures are shown in brackets.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give long-term capital growth by investing in primarily UK companies with positive ethical practices. These companies are selected according to a broad range of ethical criteria. Such criteria are agreed with the Fund's independent advisory body.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund is retained in the Fund and has the effect of increasing the share price.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

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This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

Investment Manager's Review

During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slipped, albeit briefly, into a double-dip recession. Yet despite this unpromising environment the UK market notched up solid gains; the FTSE All-Share Index rose by 14.06%. Over the same period, the Fund rose by 11.75%.

On a stock-specific basis, the largest positive contributor to Fund performance was our holding in plant hire group Ashtead. The company has benefited from strong demand for construction equipment in the US arising from a combination of a recovery in the housing market and continued caution among US builders, who remain reluctant to invest in their own equipment. An underweight position in Vodafone also boosted index-relative performance. The telecoms giant suffered after the Dutch state raised more at auction for fourth generation (4G) frequencies than had been expected, suggesting that rolling out the next generation of mobile networks could be more costly than anticipated.

The biggest negative came from two "clean tech" holdings – Pursuit Dynamics and Greenko. These stocks suffered from the global demise in carbon-credit pricing; the eurozone crisis and, in the case of Pursuit Dynamics, an overstretched balance sheet, which led to a rights issue. We reviewed both holdings. We sold Pursuit Dynamics but remain convinced that Greenko will deliver value in the years to come.

Activity over the year included the establishment of new holdings in Melrose (smart metering), Prudential and RPC (sustainable packaging). We sold holdings in Pursuit Dynamics and Lloyds Banking. We also locked in profits by reducing the size of the Fund's holding in Ashtead.

Looking forward, central bankers have indicated that interest rates will remain low for some time. In this environment, investors are obliged to expose themselves to some degree of risk if they want to see any sort of real (i.e. inflation-adjusted) return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds. We will continue to seek out attractively valued companies that meet the Fund's ethical remit.

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 (continued)

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.62	n/a
B Accumulation	1.37	n/a
G Accumulation	1.63*	-
X Accumulation	0.12	n/a

Share class G Accumulation was launched 12 November 2012.

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

*As the accounting period is less than one year, the expenses have been annualised.

Details of investments

Investments	28/02/13 %	28/02/12 %
Financials	29.52	20.22
Industrials	19.51	13.29
Health Care	10.86	15.71
Oil & Gas	8.91	8.20
Utilities	8.22	10.18
Consumer Services	7.11	12.33
Telecommunications	6.51	8.91
Consumer Goods	1.64	2.28
Basic Materials	1.60	3.15
Technology	-	1.19
Net other assets	6.12	4.54
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	107.13	95.62	12.04
B Accumulation	110.10	98.02	12.32
G Accumulation	110.69	-	-
X Accumulation	125.04	109.95	13.72

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
Ethical Fund A Accumulation	11.75	(10.19)	12.19	40.58	(42.82)	(15.39)
Customised Benchmark*	17.02	(1.82)	18.38	44.18	(35.68)	N/A
FTSE All-Share Index	N/A	N/A	N/A	N/A	N/A	(1.30)

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.

Distribution

	Final 28/02/13 (p)
A Accumulation	2.0649
B Accumulation	2.3685
G Accumulation	0.2149
X Accumulation	4.0825

Top five holdings

	28/02/13 %		28/02/12 %
1. HSBC	8.49	GlaxoSmithKline	9.00
2. BG	5.68	Vodafone	8.91
3. GlaxoSmithKline	5.53	HSBC	7.31
4. Vodafone	5.52	AstraZeneca	6.71
5. Prudential	4.73	Reed Elsevier	4.67

Number of holdings: 38 Number of holdings: 35

Please note: negative figures are shown in brackets.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give either an income, while having regard to the capital value, or growth (when income is kept within the Fund). To do so by investing primarily in UK Government and other fixed interest securities

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk — Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 4 because it has experienced medium levels of volatility over the past 5 years.

Investment Manager's Review

Over the year to the end of February the benchmark FTA British Government All Stocks index returned 2.55%. This modest positive return reflected continued support from central-bank intervention. Although the Bank of England was less aggressive in its bond-buying than the US Federal Reserve or Bank of Japan, it nonetheless increased the size of its bond buying programme, taking total asset purchases as part of its quantitative easing programme to £375 billion. In mid-2012 another flare up in the eurozone crisis also offered support for Gilts; despite concerns over the UK's creditworthiness, bonds issued by the UK government continue to be regarded as a safe-haven asset. This perception continued to support prices hold down yields – when tensions in the eurozone were at their peak, Gilt yields hit record lows.

That support, however, began to ebb a little towards the end of the reporting period. In January 2013, Gilt yields rose and prices (which are the inverse of yields) fell. Most explanations for the sell off focused on better economic data coming from the US and expectations of a "great rotation" out of bonds and into equities. In February 2013, ratings agency Moody's stripped the UK of its Aaa rating. And while the downgrade attracted sensationalist media coverage, the UK's borrowing costs were little changed following the news.

Over the period under review, the Scottish Widows Gilt Fund generated a modest positive return but lagged behind the benchmark index, generating a total return (net of charges) of 0.61%. In the first half of the review period, the Fund held a yield-curve flattening position - underweight five- and ten-year Gilts and overweight in longer-dated Gilts. This detracted from relative performance, as did the holding in inflation-linked bonds. Against that, our off-benchmark allocations to corporate bonds (which enjoyed strong demand amid a hunt for yield) and overseas government bonds were generally beneficial. Towards the end of 2012 we began to rebuild the inflation position as we judged the market had overreacted to worries about potential revision to the calculation methodology for retail prices index. This boosted performance as it was eventually decided to leave the RPI methodology unchanged. This prompted very strong rally in short-dated inflation-linked bonds.

Towards the end of the review period, we tactically took some profits on the Fund's holdings in inflation-linked bonds due to overdone expectations for changes to the Bank of England's inflation remit going into the budget. With the burden of supporting the economy falling squarely on monetary (rather than fiscal) policy, the market's appetite for index-linked debt has been very strong. It is anticipated that the Bank of England may grow more tolerant of inflation under the stewardship of governor-elect Mark Carney. However, investors' recent enthusiasm for inflation-linked bonds has been such that it has propelled their prices some way above what we calculated to be fair value relative to conventional Gilts.

Looking forward, we expect that the UK's deteriorating creditworthiness will come under scrutiny as weak growth makes the fiscal adjustments envisaged by the government seem challenging. We are also aware that we could see a general reduction in demand for Gilts, as demand from the Bank of England, overseas buyers, pension funds and UK banks moderates. That would seem to point to a move higher in Gilt yields and to a fall in prices (which move inversely to yields). At the same time, we acknowledge that the weak outlook for the global economy and uncertainty in Europe may limit the extent of any sell off.

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 (continued)

Distribution

XD dates	Payment dates
30/11/12	31/01/13
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.11	n/a
A Income	1.11	n/a
B Income	0.86	n/a
G Accumulation	1.11*	-
G Income	1.11*	-

Share class G Accumulation was launched 12 November 2012.

Share class G Income was launched 12 November 2012.

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

*As the accounting period is less than one year, the expenses have been annualised.

Details of investments

Investments	28/02/13 %	28/02/12 %
Sterling Denominated Bonds	97.07	94.53
Australian Dollar Denominated Bonds	0.64	1.21
Derivatives	(0.07)	-
Net other assets	2.36	4.26
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	231.64	229.95	0.73
A Income	182.59	182.54	0.03
B Income	182.58	182.53	0.03
G Accumulation	97.97	-	-
G Income	97.75	-	-

Summary of portfolio by credit ratings

Rating block	28/02/13 %	28/02/12 %
Investment grade (AAA to BBB-)	97.71	95.34
Unrated	-	0.40
Total bonds	97.71	95.74
Other	2.29	4.26
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's, Moody's or Fitch Ratings.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
Gilt Fund A Accumulation	0.61	14.31	4.85	3.12	8.77	1.42
UK Gilt Sector Average Return	1.44	16.29	4.68	0.77	7.91	2.12
FTA British Government All Stocks Index	2.55	16.31	5.59	2.46	9.55	4.59

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) government backed securities, with a rating the same or higher than that of the UK, 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.

Distribution

	Third interim 30/11/12 (p)	Final 28/02/13 (p)
A Accumulation	0.4662	0.4189
A Income	0.3705	0.3307
B Income	0.4638	0.4208
G Accumulation	0.0432	0.1780
G Income	0.0432	0.1748

Top five holdings

	28/02/13 %		28/02/12 %
1. UK Treasury 1% 07/09/2017	11.28	UK Treasury 5.25% 07/06/2012	15.00
2. UK Treasury 4.5% 07/03/2013	11.19	UK Treasury 4.5% 07/03/2013	11.67
3. UK Treasury 3.75% 22/07/2052	8.49	UK Treasury 4.25% 07/09/2039	10.49
4. UK Treasury 4.25% 07/06/2032	8.25	UK Treasury 5% 07/03/2025	10.08
5. UK Treasury 8% 27/09/2013	7.20	UK Treasury 3.75% 07/09/2021	9.57
Number of holdings: 26		Number of holdings: 27	

Please note: negative figures are shown in brackets.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give either an income or growth (when income is kept within the Fund). To do so by investing predominantly in corporate bonds and other fixed interest securities issued by companies and governments operating in the USA, the UK and Europe. The majority of the Fund will be in non-investment grade bonds with a higher than average risk.

Non-investment grade bonds have not been awarded the minimum rating required to meet the investment grade rating. Therefore they are considered higher risk than bonds with a higher credit rating. Credit ratings indicate the likelihood that an issuer will be able to make their payments.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.
- To help manage the effect of fluctuations in exchange rates with Sterling.

We calculate the value of this Fund at 2pm daily on working days in the UK and the USA. Instructions received before 12pm will receive the price calculated on that day. Instructions received after 12pm will receive the price calculated on the next working day.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 4 because it has experienced medium levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

The twelve months under review has been positive for bond markets. The Scottish Widows High Income Bond Fund invests in a mixture of UK government bonds and high yield bonds. In combination, these very different parts of the market helped the Fund to generate a return of 6.62%. In an environment in which yields from cash and government bonds are close to record lows, this represents a reasonable return.

At the beginning of the review period, we embarked upon a transition towards a high yield portfolio that consisted entirely of US high yield assets. Accordingly, we gradually sold down our holdings in European high-yielding bonds. Against that, we made purchases that we considered to represent excellent long-term investment opportunities. This resulted in some inevitable disruption which detracted from performance. Happily, however, performance gradually resumed an upward path, and as 2012 wore on, riskier assets outperformed as interest rates remained low and investors continued to seek higher yields.

The default environment has remained benign, with most troubled companies able to refinance rather than restructure. New issuance remained strong and well-placed in the market with good secondary performance.

Our overall strategy with high yield bonds has been to reduce holdings in lower-yielding assets, with the proceeds used to acquire higher yielding issues with more upside potential. Sales included Cincinnati Bell (telecoms), Cott Beverages, BE Aerospace, Xinergy Corp, Toys R Us and Alcatel Lucent. Meanwhile, one of our largest holdings in the Fund, Ford Motor, was upgraded to investment grade and was also sold. Purchases included Dish DBS, Inmet Mining and K Hovnanian Enterprises.

The Gilt portion of the portfolio generally benefited from record low global interest rates across the globe and investor nervousness about the economy, albeit ten-year yields rose in the second half of the review period.

In the first six months, the Fund held a yield-curve flattening position – underweight five-year and ten-year Gilts and overweight in longer-dated Gilts. This detracted from relative performance, as did the holding in inflation-linked bonds.

Towards the end of the review period, we reduced the size of the Fund's holdings in inflation-linked bonds. With the burden of supporting the economy falling squarely on monetary (rather than fiscal) policy, the market's appetite for index-linked debt has been very strong. It is anticipated that the Bank of England may grow more tolerant of inflation under the stewardship of governor-elect Mark Carney. However, investors' recent enthusiasm for inflation-linked bonds has been such that it has propelled their prices some way above what we calculated to be fair value relative to conventional Gilts.

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 (continued)

Distribution

XD dates	Payment dates
30/09/12	15/11/12
31/10/12	14/12/12
30/11/12	15/01/13
31/12/12	15/02/13
31/01/13	15/03/13
28/02/13	15/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.62	n/a
A Income	1.62	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
US Dollar Denominated Bonds	66.64	67.85
Sterling Denominated Bonds	32.98	30.58
Derivatives	(1.46)	(0.52)
Net other assets	1.84	2.09
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	206.20	193.38	6.63
A Income	99.25	97.02	2.30

Summary of portfolio by credit ratings

Rating block	28/02/13 %	28/02/12 %
Investment grade (AAA to BBB-)	34.76	36.44
Non-Investment grade (BB+ to C)	63.01	60.46
Unrated	1.85	1.53
Total bonds	99.62	98.43
Other	0.38	1.57
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's, Moody's or Fitch Ratings.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
High Income Bond Fund A Accumulation	6.62	8.84	8.76	24.85	(11.62)	(1.46)
£ High Yield Sector Average Return	11.99	0.08	12.20	44.69	(19.83)	(6.18)
Composite*	8.54	10.56	12.84	32.64	(9.54)	1.13

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 Index, 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.

Distribution

	Seventh interim 30/09/12 (p)	Eighth interim 31/10/12 (p)	Ninth interim 30/11/12 (p)	Tenth interim 31/12/12 (p)	Eleventh interim 31/01/13 (p)	Final 28/02/13 (p)
A Accumulation	0.6044	0.7293	0.6973	0.6419	0.7147	0.7789
A Income	0.2968	0.3571	0.3403	0.3122	0.3465	0.3763

Top five holdings

	28/02/13 %		28/02/12 %
1. UK Treasury 4.5% 07/03/2013	4.06	UK Treasury 5.25% 07/06/2012	8.23
2. UK Treasury 2.25% 07/03/2014	3.79	UK Treasury 5% 07/03/2025	3.45
3. UK Treasury 1% 07/09/2017	3.40	UK Treasury 4.25% 07/09/2039	3.06
4. UK Treasury 3.75% 22/07/2052	2.75	UK Treasury 3.75% 22/07/2052	2.17
5. UK Treasury 4.25% 07/06/2032	2.49	UK Treasury 4.25% 07/03/2036	1.77

Number of holdings: 323 | Number of holdings: 330

Please note: negative figures are shown in brackets.

High Reserve Fund

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give an income, and the potential for long-term capital growth, by investing mainly in shares and fixed interest securities in the UK, including Gilts and corporate bonds. The Fund may also invest in Europe.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 5 because it has experienced medium levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

The Fund invests in a mix of equities and corporate bonds. The period under review was a positive time for both asset classes and the Fund produced a return of 8.57%.

Looking first at the equity portion of the portfolio. During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slumped, albeit briefly, into a double-dip recession (each recession representing two consecutive quarters of negative growth). Yet despite this unpromising environment the UK market notched up strong double-digit gains. Share prices were generally higher for the first two and a half months of the year, fell from the middle March through to late May but rallied from late June onwards.

On a stock specific basis, the Fund enjoyed strong returns from holdings in Close Brothers, Invensys, Reed Elsevier and Berkeley. Those positives were more than offset by an underweight position in the banking sector, one of the strongest areas of the UK market over the year – and by disappointing returns from holdings in KSK Power Ventur, Resolution and Tullett Prebon.

In terms of activity, we built a new position in Severn Trent, a water utility well placed to perform against a tough macro-economic backdrop and which announced a special dividend over and above its normal distribution. Overall, we are targeting companies that offer good cash flows, solid yields and can offer dividend growth. We took advantage of periods of share-price weakness to establish new positions in Melrose Industries and Shire. Through the year, we added to existing holdings in high conviction investment ideas including British Sky Broadcasting and defence group BAE Systems. We funded these purchases by selling the Fund's holdings in Tesco and by reducing the size of some of the larger positions in the portfolio.

Looking at the corporate bond portion of the portfolio, it was affected by two main themes: a barrage of gloomy economic data and uncertainty over the future of the European single currency. These forces affected different areas of the market in different ways. Government bonds in the US, Germany and the UK benefited from a "flight to quality", with the result that yields fell and prices rose over the year as a whole. However, corporate bonds performed even better. With government bond yields trading at close to record lows, and returns on cash generating almost zero, investors have been forced to look further afield in their hunt for yield.

Looking ahead, the market environment remains strong and new corporate bond issuance is likely to remain robust. We expect corporate bonds to outperform government bonds, although we favour high yield over investment grade on the basis that defaults by companies are at historically low levels.

High Reserve Fund (continued)

Overall, we believe the portfolio's current blend of corporate bonds and equities leaves the Fund well placed to participate in any further market gains, while providing investors with an attractive level of income.

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.

Distribution

XD dates	Payment dates
30/11/12	31/01/13
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.36	n/a
A Income	1.36	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Corporate Bonds	19.88	18.57
Financials	13.91	13.54
Oil & Gas	13.22	17.98
Consumer Goods	10.08	9.38
Health Care	8.43	8.54
Consumer Services	7.33	8.58
Industrials	5.90	1.44
Basic Materials	5.42	6.68
Utilities	4.45	4.18
Telecommunications	4.06	3.70
Technology	2.05	2.07
Government Bonds	1.85	2.19
Mortgaged-Backed Securities	0.93	0.45
Asset-Backed Securities	0.75	0.56
Net other assets	1.74	2.14
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	264.95	243.77	8.69
A Income	121.46	116.42	4.33

Please note: negative figures are shown in brackets.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
High Reserve Fund A Accumulation	8.57	(0.57)	13.33	29.87	(27.78)	(11.62)
UK Equity & Bond Income Sector Average Return	13.00	3.63	12.72	30.62	(26.06)	(4.28)

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.

Distribution

	Third interim 30/11/12 (p)	Final 28/02/13 (p)
A Accumulation	2.2057	1.9607
A Income	1.0278	0.9055

Top five holdings

	28/02/13 %		28/02/12 %
1. Royal Dutch Shell 'B'	5.13	Royal Dutch Shell 'B'	6.28
2. GlaxoSmithKline	4.45	BP	6.24
3. Vodafone	4.06	GlaxoSmithKline	4.53
4. BP	3.78	Vodafone	3.70
5. British American Tobacco	3.48	British American Tobacco	3.30

Number of holdings: 239

Number of holdings: 196

Summary of portfolio by credit ratings

Rating block	28/02/13 %	28/02/12 %
Investment grade (AAA to BBB-)	23.10	20.29
Non-Investment grade (BB+ to C)	0.31	0.20
Unrated	-	1.28
Total bonds	23.41	21.77
Other	76.59	78.23
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's, Moody's or Fitch Ratings.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give long-term capital growth, normally by investing primarily in share of companies included in the Financial Times Stock Exchange 100 Index (FTSE 100 Index). The Fund may move away from the policy of being primarily invested in shares when market conditions indicate that a better return is expected to be achieved by being invested in cash, near cash and/or deposits and with or without options. To give a level of protection against major stock market falls through the use of a Safety Price. By 'Safety Price' we mean the lowest possible selling price which is guaranteed not to fall for a period of time, the 'Safety Period', normally 12 months. The Safety Price is set at 95% of the share price at the start of each Safety Period.

Important Notes

- If the share price of class A shares rises 10% above the share price at the start of the Safety Period, we will raise the Safety Price and start a new Safety Period.
- You can check the up-to-date Safety Price and end date for the Safety Period on our website at **www.scottishwidows.co.uk** Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund is retained in the Fund and has the effect of increasing the share price.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.
- To help manage the effect of fluctuations in exchange rates with Sterling.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 3 because it has experienced low levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

While the UK stock market made good progress over the year under review, it was far from a smooth ride. At the start of the year, indications that the United States' economic recovery was gaining momentum combined with the cheap loans dispersed by the European Central Bank (ECB) to European banks to send share prices higher. In spring 2012, however, renewed worries about the eurozone sent the UK market sharply lower once again. Greece came under renewed pressure and borrowing costs for peripheral economies rose sharply, with Spain becoming the focus of investor fears. However, a subsequent promise by Mario Draghi to do "whatever it takes" to protect the euro provided reassurance that the Bank would act to support Spain and Italy if needed. In conjunction with the additional quantitative easing measures announced by the Bank of England, US Federal Reserve and Bank of Japan, Mr Draghi's promise helped drive share prices worldwide sharply higher through the summer and into 2013.

In total-return terms (i.e. including dividends) the FTSE 100 Index rose by 12.44% over the year. On a sector level, some of the best returns over the year were produced by banks, life insurers and beverage companies. On the other side of the ledger, mining stocks fell sharply as worries about slowing growth in the Chinese economy sent metal prices lower.

In the current economic climate the cash and call strategy remains the most efficient way of meeting the Fund's aim due to the prohibitive cost of protection via derivatives. A large proportion of the portfolio continues to be invested in cash-like investments, these provide the protection required but will significantly limit the extent of FTSE 100 exposure. Over the review period, the Fund returned 0.70%, while the safety price for A Class shares was raised from 37.96 pence to 38.09 pence.

Looking forward, central bankers have indicated that interest rates will remain low for some time and the Bank of England has indicated that UK economic growth will likely remain weak. In this environment, investors are obliged to expose themselves to some degree of risk if they want to see any sort of real (i.e. inflation-adjusted) return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds.

SafetyPlus®Fund (continued)

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.

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.11	n/a
X Accumulation	0.11	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Short Term Deposit	87.93	98.63
Options Contracts	3.48	1.38
Net other assets/(liabilities)	8.59	(0.01)
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	40.35	40.07	0.70
X Accumulation	44.53	44.00	1.20

Distribution

	Final 28/02/13 (p)
A Accumulation	-
X Accumulation	0.1876

Please note: negative figures are shown in brackets and all short term holdings are shown for this fund.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
SafetyPlus® Fund A Accumulation	0.70	(3.91)	4.67	9.51	(3.24)	(1.67)
Protected Sector Average Return	2.26	(3.57)	4.27	4.53	(4.87)	(1.57)

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.

Portfolio holdings

		28/02/13 %		28/02/12 %
1.	ABN Amro Bank 0.45% 11/04/2013	4.78	ABN Amro Bank 1.18% 09/03/2012	5.04
2.	Bank of Tokyo Mitsubishi 0.5% 13/05/2013	4.78	Bank of Tokyo Mitsubishi 0.98% 12/04/2012	5.04
3.	Denmark Norske Bank 0.51% 03/06/2013	4.78	BNP Paribas 1.29% 14/05/2012	5.04
4.	Mizuho Corporate Bank 0.495% 07/05/2013	4.78	Credit Suisse 0.9% 16/04/2012	5.04
5.	Nationwide Building Society 0.65% 01/05/2013	4.78	Denmark Norske Bank 0.95% 10/04/2012	5.04
6.	UBS 0.47% 12/03/2013	4.78	Deutsche Bank 1% 10/04/2012	5.04
7.	BNP Paribas 0.46% 28/05/2013	4.77	Nationwide Building Society 1.04% 26/04/2012	5.04
8.	Credit Industriel 0.53% 12/03/2013	4.77	Rabobank 1% 12/03/2012	5.04
9.	Deutsche Bank 0.46% 22/04/2013	4.77	Svenska Handelsbanken 1.2% 13/07/2012	5.04
10.	HSBC Bank 0.45% 09/04/2013	4.77	Bank of Nova Scotia 0.8% 02/08/2012	4.68
11.	ING Bank 0.47% 06/03/2013	4.77	Barclays Bank 1.2% 27/03/2012	4.68
12.	National Bank of Abu Dhabi 0.47% 15/04/2013	4.77	Credit Agricole 0.9% 06/03/2012	4.68
13.	Societe Generale 0.45% 04/03/2013	4.77	Lloyds Banking 1.06% 08/05/2012	4.68
14.	Standard Chartered Bank 0.0000001% 22/05/2013	4.77	Overseas Chinese Banking 0.745% 16/05/2012	4.68
15.	Sumitomo Mitsui Banking 0.01% 04/04/2013	4.77	Royal Bank of Scotland 0.55% 13/03/2012	4.68
16.	Credit Agricole 0.45% 18/03/2013	4.38	Standard Chartered Bank 1% 27/06/2012	4.68
17.	Nordea Bank Finland 0.46% 04/03/2013	3.98	ING Bank 1.16% 05/03/2012	3.60
18.	Svenska Handelsbanken 0.48% 03/06/2013	3.98	Societe Generale 0.76% 12/03/2012	3.60
19.	Barclays Bank 0.45% 15/04/2013	1.99	Calyon 0.55% 28/02/2012	3.59
20.	National Australia Bank 0.45% 11/03/2013	1.99	National Australia Bank 0.81% 23/08/2012	2.88
21.			Nordea Bank Finland 1.01% 01/03/2012	2.52
22.			Skandinaviska Enskilda Bank 1.04% 05/04/2012	2.52
23.			National Australia Bank 1% 08/05/2012	1.80
	Number of holdings: 25		Number of holdings: 27	

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give either an income or growth (when income is kept within the Fund). To do so by investing primarily in the UK and European corporate bonds and other fixed interest securities, including government bonds. The majority of the Fund will be in investment grade securities, but a significant proportion will be in securities with a higher than average risk.

Investment grade bonds have achieved or exceeded a minimum credit rating awarded by a credit rating agency. Therefore they are considered lower risk than bonds with a lower credit rating. Credit ratings indicate the likelihood that an issuer will be able to make their payments.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.
- To help manage the effect of fluctuations in exchange rates with Sterling.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 4 because it has experienced medium levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

Two themes dominated bond market movements during much of the review period: a barrage of gloomy economic data and uncertainty over the future of the European single currency. These forces affected different areas of the market in different ways. Government bonds in the US, Germany and the UK benefited from a "flight to quality", with the result that yields continued to fall and prices continued to rise.

Riskier asset classes were provided with some support by the European Central Bank's long-term refinancing operations (LTROs). These helped support government bonds and effectively put a floor under corporate bond prices in the financial sector. But as 2012 wore on, the beneficial effects of the LTROs gradually waned, until risk appetite was bolstered once more by a promise that European Central Bank head Mario Draghi would do "whatever it takes" to save the euro. Meanwhile, the uncertainties caused by the continuation of the eurozone sovereign debt crisis continued to provide support for "core" government bonds. In the current environment, corporate bonds have done well. The asset class outperformed its government bond counterparts as strong demand from yield-hungry investors pushed up prices for investment grade and high-yield corporate bonds.

Earlier on, the portfolio of the Scottish Widows Strategic Income Fund was positioned in expectation of rising yields on government bonds. This position detracted from the Fund's overall performance as yields continued to decline. Some of this more defensive action was reversed in July and August, as it became clearer that policymakers were committed to take the necessary action to avert a break-up of the single currency union.

Within the Fund, having taken advantage of the strong rally in higher-yield assets, we adopted a slightly more cautious approach during the latter part of the period, when the emphasis shifted towards capital preservation. In the latter part of 2012, we reduced some of our exposure to subordinated financial debt. While in the medium term we believe yield spreads over government bonds will continue to tighten, we recognise that risks are increasing.

Purchases during the review period have included hybrid issues from Koninklijke KPN, National Grid and EDF.

We continue to avoid exposure to the peripheral European economies, where recovery looks a long way off. We think the economic and political situation mean investors are no longer being appropriately compensated for risks in that area. The high yield market has continued to enjoy high levels of new issuance. Again, our stance has been rather cautious, given that the asset class has rallied together with other risk assets.

Strategic Income Fund (continued)

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.

Distribution

XD dates	Payment dates
30/09/12	15/11/12
31/10/12	14/12/12
30/11/12	15/01/13
31/12/12	15/02/13
31/01/13	15/03/13
28/02/13	15/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.37	n/a
A Income	1.37	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the period, annualised, against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Sterling Denominated Bonds	73.63	67.30
Euro Denominated Bonds	22.48	26.40
US Dollar Denominated Bonds	0.58	2.40
Swiss Franc Denominated Bonds	0.27	0.28
Financials	0.14	0.13
Derivatives	(0.22)	0.30
Net other assets	3.12	3.19
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	161.60	144.03	12.20
A Income	94.92	88.11	7.73

Please note: negative figures are shown in brackets.

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
Strategic Income Fund A Accumulation	12.07	2.35	8.24	40.27	(23.78)	(8.78)
£ Strategic Bond Sector Average Return	9.65	5.31	6.43	27.91	(15.19)	(6.18)
Composite*	13.94	7.18	10.40	36.98	(17.76)	(6.20)

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). 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.

Distribution

	Seventh interim 30/09/12 (p)	Eighth interim 31/10/12 (p)	Ninth interim 30/11/12 (p)	Tenth interim 31/12/12 (p)	Eleventh interim 31/01/13 (p)	Final 28/02/13 (p)
A Accumulation	0.4752	0.5759	0.5130	0.5231	0.5540	0.5023
A Income	0.2846	0.3439	0.3053	0.3102	0.3275	0.2960

Top five holdings

	28/02/13 %		28/02/12 %
1. Lloyds TSB Bank 13% Perpetual	1.44	Lloyds TSB Bank 13% Perpetual	1.46
2. UK Treasury 4.25% 07/12/2027	1.34	Fortis Bank (FRN) 0.7131% 22/05/2017	1.45
3. UK Treasury 1.75% 07/09/2022	1.27	Annington Finance No 4 6.5676% 10/01/2023	1.34
4. GE Capital UK Funding 5.125% 24/05/2023	1.26	Barclays Bank 10% 21/05/2021	1.31
5. Annington Finance No 4 6.5676% 10/01/2023	1.25	GE Capital UK Funding 5.125% 24/05/2023	1.26

Number of holdings: 303   Number of holdings: 304

Summary of portfolio by credit ratings

Rating block	28/02/13 %	28/02/12 %
Investment grade (AAA to BBB-)	65.95	60.98
Non-Investment grade (BB+ to C)	30.27	27.28
Unrated	0.74	8.12
Total bonds	96.96	96.38
Other	3.04	3.62
Total net assets	100.00	100.00

The credit ratings used in the above table have been supplied by Standard & Poor's, Moody's or Fitch Ratings.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give an income together with some capital growth over the long-term by investing primarily in UK company shares.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

← Typically lower rewards, lower risk | Typically higher rewards, higher risk →

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slumped, albeit briefly, into a double-dip recession (each recession representing two consecutive quarters of negative growth). Yet despite this unpromising environment the UK market notched up solid gains; the FTSE All-Share Index rose by 14.06%. Share prices trended generally higher for the first two and a half months of the year, fell from the middle March through to late May but rallied from late June onwards. The Fund underperformed, returning 7.85% net of fees over the same period.

Despite the solid positive return that the Fund generated, this was a somewhat disappointing period for index-relative performance. On a stock specific basis, the Fund enjoyed strong returns from holdings in Close Brothers, Invensys, Reed Elsevier and Berkeley. Those positives were more than offset by an underweight position in the banking sector, one of the strongest areas of the UK market over the year – and by disappointing returns from holdings in KSK Power Ventur, Resolution and Tullett Prebon.

In terms of activity, we built a new position in Severn Trent, a water utility well placed to perform against a tough macro-economic backdrop and which announced a special dividend over and above its normal distribution. We also established new holdings in builder's merchant Travis Perkins, Diageo and media group WPP. These companies boast good cash flows, solid yields and could offer dividend growth. We took advantage of periods of share-price weakness to establish new positions in Melrose Industries and Shire. Through the year, we added to existing holdings in high conviction investment ideas including British Sky Broadcasting and defence group BAE Systems.

We funded these purchases by selling the Fund's holdings in Tesco and by reducing the size of some of the larger active positions in the portfolio. For example, towards the end of the period, we reduced the size of the holding in Invensys, locking in some profits following the significant price spike on the announcement of the disposal of its rail division to Siemens.

Looking forward, central bankers have indicated that interest rates are going to remain low for some time and the Bank of England has indicated that the UK economy is going to remain weak. In this environment, investors are being obliged to expose themselves to some degree of risk if they want to see any sort of total return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds. So in 2013, our central scenario is that we will see a modest total return from equities, possibly led by some of the market's higher-yielding stocks.

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 (continued)

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.36	n/a
A Income	1.36	n/a
B Income	1.11	n/a
C Income	0.61	n/a
X Accumulation	0.11	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Financials	19.05	16.55
Oil & Gas	17.42	23.38
Consumer Goods	13.01	12.19
Health Care	11.03	11.16
Consumer Services	9.43	10.98
Industrials	7.92	1.87
Basic Materials	7.40	8.67
Utilities	6.17	5.73
Telecommunications	5.29	4.88
Technology	2.42	2.56
Derivatives	0.02	-
Net other assets	0.84	2.03
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	3,457.91	3,201.23	8.02
A Income	671.28	646.10	3.90
B Income	692.89	665.21	4.16
C Income	727.74	695.14	4.69
X Accumulation	3,948.26	3,609.11	9.40

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
UK Equity Income Fund A Accumulation	7.85	(2.85)	15.60	31.66	(33.59)	(12.89)
UK Equity Income Sector Average Return	15.42	2.48	16.18	37.25	(32.60)	(7.77)
FTSE All-Share Index	14.06	2.33	17.01	47.34	(33.90)	(1.30)

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.

Distribution

	Final 28/02/13 (p)
A Accumulation	50.2394
A Income	9.8955
B Income	10.2082
C Income	10.7100
X Accumulation	57.2008

Top five holdings

	28/02/13 %		28/02/12 %
1. Royal Dutch Shell 'B'	6.74	Royal Dutch Shell 'B'	8.26
2. GlaxoSmithKline	5.71	BP	8.06
3. Vodafone	5.29	GlaxoSmithKline	5.98
4. BP	5.26	Vodafone	4.88
5. British American Tobacco	4.49	British American Tobacco	4.26

Number of holdings: 96 Number of holdings: 50

Please note: negative figures are shown in brackets.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give long-term capital growth by investing in a wide portfolio of primarily UK company shares.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund in respect of accumulation shares is retained in the Fund and has the effect of increasing the share price. Any Income received by the Fund in respect of Income shares will be paid out to you.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slipped, albeit briefly, into a double-dip recession. Yet despite this unpromising environment the UK market notched up solid gains; the FTSE All-Share Index rose by 14.06%. Share prices trended generally higher at the start of the year under review, fell from the middle of March through to late May but rallied from June onwards.

Although the Fund recorded a positive return over the year, index-relative performance was disappointing: the Fund returned 10.69% – some way behind the rise in the market. On 13 April 2012 SWIP announced that, in response to changing client needs, it would reposition its equities business. The underperformance of the Fund was driven in part by the market's reaction to this change in strategy. As a result, share prices of a number of the Fund's holdings came under pressure, unrelated to the long-term fundamentals underpinning those investments.

On 16 July management of the Fund moved to SWIP's optimised alpha process. This means the new managers will seek to ensure that the Fund has a diversified risk budget, minimal unintended or unwanted risk and optimal trading efficiency.

Looking forward, central bankers have indicated that interest rates are going to remain low for some time and the Bank of England has indicated that the UK economy is going to remain weak. In this environment, investors are being obliged to expose themselves to some degree of risk if they want to see any sort of total return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds. So in 2013, our central scenario is that we will see a modest total return from equities, possibly led by some of the market's higher-yielding stocks.

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 (continued)

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.61	n/a
B Accumulation	1.11	n/a
C Income	0.61	n/a
X Income	0.11	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Financials	22.61	14.19
Oil & Gas	15.96	20.24
Consumer Goods	14.60	17.32
Consumer Services	10.50	8.28
Industrials	9.65	5.13
Basic Materials	9.31	9.56
Health Care	7.42	9.36
Telecommunications	5.57	7.25
Utilities	3.91	3.26
Technology	2.04	1.49
Derivatives	0.02	-
Net other (liabilities)/assets	(1.59)	3.92
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	138.84	125.37	10.74
B Accumulation	146.31	131.46	11.30
C Income	114.33	105.20	8.68
X Income	113.83	104.71	8.71

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
UK Growth Fund A Accumulation	10.69	(3.17)	14.32	35.30	(34.44)	(5.20)
UK All Companies Sector Average Return	14.36	1.06	19.24	43.67	(35.56)	(3.65)
FTSE All-Share Index	14.06	2.33	17.01	47.34	(33.90)	(1.30)

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.

Distribution

	Final 28/02/13 (p)
A Accumulation	2.6736
B Accumulation	3.4713
C Income	3.3046
X Income	3.8325

Top five holdings

	28/02/13 %		28/02/12 %
1. HSBC	6.74	Royal Dutch Shell 'B'	8.16
2. Royal Dutch Shell 'B'	4.79	BP	7.03
3. BP	4.66	Vodafone	6.22
4. Vodafone	4.28	HSBC	5.65
5. GlaxoSmithKline	3.94	GlaxoSmithKline	5.03

Number of holdings: 321 Number of holdings: 81

Please note: negative figures are shown in brackets.

FUND PROFILE

Fund objectives and investment policy

This Fund aims to give long-term capital growth by investing in a limited portfolio of primarily UK company shares. Typically the Fund will be invested in 30 to 50 holdings.

Investors should aim to hold their investment in this Fund for the medium to long-term (at least five to ten years).

Any Income received by the Fund is retained in the Fund and has the effect of increasing the share price.

The Fund is allowed to use derivatives (contracts which have a value linked to the price of another asset) for the following reasons:

- To help reduce risk;
- To help reduce cost;
- To help generate extra capital or income for the Fund with an acceptably low level of risk.

We calculate the value of this Fund at 8am daily on working days in the UK. Our dealing times are from 9am to 5pm each working day. Instructions received before 5pm will receive the next day's price.

Synthetic risk and reward profile

There are several different ways of measuring risk. The table below uses an industry standard measure of fund risk based on measuring a fund's volatility using its returns over the past five years. Volatility is generated by both rising and falling prices. Volatility doesn't tell you how much a fund has lost or gained; it indicates how volatile its returns were historically. The Fund's ranking may change over time and may not be a reliable indication of its future risk profile.

This is a separate measure to Scottish Widows' Investment Approaches (where we use our own methodology to take an overall look at funds' risks and aims and categorise our funds as Secure, Cautious, Balanced, Progressive, Adventurous or Specialist). You can read more about them at **www.scottishwidows.co.uk/investmentapproaches**

Typically lower rewards, lower risk ← → Typically higher rewards, higher risk

1	2	3	4	5	6	7

This Fund is ranked at 6 because it has experienced high levels of volatility over the past 5 years.

The synthetic risk and reward indicator shown above is accurate as at 28 February 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

During the year under review, economic growth worldwide slowed and corporate earnings faltered. Closer to home, data showed that the UK had slipped, albeit briefly, into a double-dip recession. Yet despite this unpromising environment the UK market notched up solid gains; the FTSE All-Share Index rose by 14.06%. Share prices trended generally higher at the start of the year under review, fell from the middle of March through to late May but rallied from June onwards.

Although the Fund recorded a positive return over the year, index-relative performance was disappointing: the Fund rose by 5.35%, some way behind the rise in the market. On 13 April 2012 SWIP announced that, in response to changing client needs, it would reposition its equities business. The underperformance of the Fund was driven in part by the market's reaction to this change in strategy. As a result, share prices of a number of the Fund's holdings came under pressure, unrelated to the long-term fundamentals underpinning those investments. Following the announcement regarding the repositioning of SWIP's equities business, James Clunie assumed responsibility for managing the portfolio from Peter Cockburn.

Following a period of underperformance by the mining sector, the manager built new positions in Rio Tinto and Xstrata, reducing what had been one of the Fund's largest sectoral underweight positions relative to the benchmark. The new manager also built holdings in BAE Systems and Travis Perkins and a new position in RSA Insurance. With yields on investment-grade corporate bonds near record lows, high-quality equities are attracting attention for their dividend payments. We believe this theme is likely to continue.

These additions were funded by selling the holding in SABMiller and reducing (though not entirely disposing of) the holdings in Berkeley. The holding in Invensys was reduced following the significant price spike on the announcement of the disposal of its rail division to Siemens. A holding in Dolphin Capital, a real estate company, was sold after it raised new equity capital.

Looking forward, central bankers have indicated that interest rates are going to remain low for some time and the Bank of England has indicated that the UK economy is going to remain weak. In this environment, investors are being obliged to expose themselves to some degree of risk if they want to see any sort of total return. In particular, investors seeking yield are increasingly turning to equities, where yields look attractive compared to government bonds. So in 2013, our central scenario is that we will see a modest total return from equities, possibly led by some of the market's higher-yielding stocks.

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 (continued)

Distribution

XD date	Payment date
28/02/13	30/04/13

Ongoing charges figures

	28/02/13 %	28/02/12 %
A Accumulation	1.62	n/a
B Accumulation	1.37	n/a
C Accumulation	1.12	n/a
X Accumulation	0.11	n/a

Subsequent to a change in the rules of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority the total expense ratio has been replaced by the ongoing charges figure (OCF). As a result of this change comparative figures for the preceding financial year are not required and as such have not been reported.

The ongoing charges figure is the total expenses paid by each share class in the year against its average net asset value. It excludes the cost of buying or selling assets for the Fund (unless these assets are shares of another fund). The OCF can fluctuate as underlying costs change.

Details of investments

Investments	28/02/13 %	28/02/12 %
Oil & Gas	25.97	27.10
Financials	18.63	12.74
Health Care	12.40	10.74
Industrials	9.95	3.44
Basic Materials	8.08	3.58
Consumer Services	7.31	9.20
Consumer Goods	6.08	12.37
Technology	5.62	3.23
Utilities	5.44	8.82
US Dollar Denominated Bonds	-	0.36
Net other assets	0.52	8.42
Total net assets	100.00	100.00

Net asset value

	NAV per share 28/02/13 (p)	NAV per share 28/02/12 (p)	NAV percentage change %
A Accumulation	1,691.52	1,602.13	5.58
B Accumulation	1,738.87	1,643.17	5.82
C Accumulation	1,783.07	1,680.72	6.09
X Accumulation	1,990.27	1,854.29	7.33

Performance record

	29/02/12 28/02/13 %	01/03/11 28/02/12 %	01/03/10 28/02/11 %	01/03/09 28/02/10 %	29/02/08 28/02/09 %	01/03/07 28/02/08 %
UK Select Growth Fund A Accumulation	5.35	(6.74)	18.44	52.92	(36.65)	3.59
UK All Companies Sector Average Return	14.36	1.06	19.24	43.67	(35.56)	(3.65)
FTSE All-Share Index	14.06	2.33	17.01	47.34	(33.90)	(1.30)

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.

Distribution

	Final 28/02/13 (p)
A Accumulation	21.5583
B Accumulation	27.0946
C Accumulation	31.8855
X Accumulation	53.7347

Top five holdings

	28/02/13 %		28/02/12 %
1. AstraZeneca	7.89	BP	8.26
2. BP	7.25	Indus Gas	6.45
3. Indus Gas	6.74	AstraZeneca	5.98
4. Resolution	6.03	Resolution	5.46
5. Reed Elsevier	5.94	Reed Elsevier	5.21

Number of holdings: 39   Number of holdings: 38

Please note: negative figures are shown in brackets.

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