Scottish Widows UK and Income Investment Funds ICVC

Short Report
for the period ended
31 August 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 Conduct 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 Conduct 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 Conduct 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 Conduct 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 period and up to the date of this report, the following changes were made to the Company and therefore the following changes were reflected in the Prospectus of Scottish Widows UK and Income Investment Funds ICVC:

- With effect from 6 April 2013 the dilution adjustment basis for the Funds was changed so that the ACD may now make a dilution adjustment under the following circumstances:
  - on a fund where there is a net inflow or net outflow on any Dealing Day; or
  - in any other case where the ACD believes that the imposition of a dilution adjustment is required to safeguard the interests of continuing Shareholders.
- With effect from 31 May 2013 the Prospectus was updated to disclose the associated income arrangements which the parties may receive out of any gross lending income generated from a stock lending transaction, with the split being made between:-

  a) the particular Fund involved in such stock lending transaction (75%);

  b) State Street Bank & Trust Company* as the stock lending agent (20%); and

  c) the ACD for the administration and oversight of the stock lending arrangements (5%).

  The SafetyPlus® Fund is currently not subject to any stock lending transaction arrangements.

* The Depositary appointed State Street Bank & Trust Company to perform stock lending arrangements as agent for the Funds.

A copy of the Prospectus is available on request.

Important information

Amendments to the UK Regulations governing Open-Ended Investment Companies and the FCA'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 FCA 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.

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

Corporate bonds suffered a reverse during the six months to 31 August. The asset class outperformed government bonds as yield spreads tightened. However, the sharp upward movement in government bond yields – particularly during the summer months – caused corporate bonds to end the review period in negative territory.

Yields on government bonds were driven substantially higher in June after the US Federal Reserve indicated that it would reduce the size of its monthly quantitative easing programme. This led to heightened risk aversion on the part of investors, driving corporate bond spreads higher and corporate bond prices lower. However, a consensus soon developed that the market had overreacted with its tapering talk, and spreads tightened once more. That trend was reinforced by better-than-expected economic data on both sides of the Atlantic.

The Corporate Bond Fund returned -1.10% in the six months to 31 August. Performance has lagged that of its benchmark for two reasons. First, the Fund is precluded from holding sub-investment grade assets, and these have performed strongly in recent months. Second, the Fund has been underweight both in very short-dated and in long-dated credit, both areas that have also outperformed. We believe that yield curves should steepen going forward which would vindicate this position.

Throughout the review period, we have been adding to credit risk, as we believe corporate bonds continue to offer good value. We have adopted overweight positions in subordinated financials and insurers. Banks, particularly in core Europe and strong economic regions such as the US and Scandinavia, have been forced by regulators to trim their balance sheets. Similarly, the insurance sector has been subjected to heavy regulatory supervision. In both instances, we believe this will be of long-term benefit to bondholders.

In financials, we added risk via extension trades in Bank of America to increase duration (ie selling shorter-maturity bonds in favour of longer maturities) and added to our holdings in Standard Chartered and Citigroup. We also purchased holdings in telecoms providers BT and AT&T.

We significantly reduced our weighting in Gilts. We maintained our underweight in peripheral credit, selling some Telecom Italia. Other sales included taking profits on our holdings in Wm Morrisons, the UK supermarket group.

Looking ahead, we continue to expect corporate bonds to outperform government bonds based on strong corporate fundamentals and the ongoing hunt for yield.

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
31/03/13	15/05/13
30/04/13	14/06/13
31/05/13	15/07/13
30/06/13	15/08/13
31/07/13	13/09/13
31/08/13	15/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.12	1.12
A Income	1.12	1.12
B Accumulation	0.87	0.87
B Income	0.87	0.87
G Accumulation	1.12	1.12
G Income	1.12	1.12

Share class G Accumulation was launched 12 November 2012.

Share class G Income was launched 12 November 2012.

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Corporate Bonds	84.89	80.19
Government Bonds	4.54	10.08
Mortgage-Backed Securities	4.23	2.44
Asset-Backed Securities	3.83	4.24
Net other assets	2.51	3.05
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	252.36	254.04	(0.66)
A Income	115.03	117.49	(2.09)
B Accumulation	257.45	258.91	(0.56)
B Income	114.93	117.39	(2.10)
G Accumulation	99.51	100.15	(0.64)
G Income	97.16	99.24	(2.10)

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
Corporate Bond Fund A Accumulation	(1.10)	9.57	6.36	5.44	27.26	(13.94)
£ Corporate Bond Sector Average Return	(0.56)	9.87	6.91	5.56	22.28	(10.99)
Composite*	0.09	12.72	8.92	7.77	25.40	(13.82)

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

	First interim 31/03/13 (p)	Second interim 30/04/13 (p)	Third interim 31/05/13 (p)	Fourth interim 30/06/13 (p)	Fifth interim 31/07/13 (p)	Sixth interim 31/08/13 (p)
A Accumulation	0.5638	0.6705	0.6235	0.5790	0.6827	0.6239
A Income	0.2608	0.3094	0.2870	0.2658	0.3126	0.2851
B Accumulation	0.6148	0.7318	0.6815	0.6305	0.7426	0.6788
B Income	0.2787	0.3310	0.3074	0.2837	0.3333	0.3039
G Accumulation	0.2229	0.2666	0.2469	0.2282	0.2693	0.2463
G Income	0.2203	0.2617	0.2433	0.2251	0.2640	0.2420

Top five holdings

	31/08/13 %		28/02/13 %
1. UK Treasury 4.75% 07/12/2038	3.33	UK Treasury 5% 07/03/2025	4.31
2. Barclays Bank 10% 21/05/2021	1.71	UK Treasury 1.75% 07/09/2022	3.18
3. Imperial Tobacco Finance 9% 17/02/2022	1.38	UK Treasury 4.25% 07/12/2027	2.09
4. Merrill Lynch 7.75% 30/04/2018	1.33	Barclays Bank 10% 21/05/2021	1.82
5. British Telecommunications 6.375% 23/06/2037	1.11	Imperial Tobacco Finance 9% 17/02/2022	1.47
Number of holdings: 263		Number of holdings: 248	

Summary of portfolio by credit ratings

Rating block	31/08/13 %	28/02/13 %
Investment grade (AAA to BBB-)	94.90	95.33
Non-Investment grade (BB+ to C)	1.71	1.05
Unrated	0.88	0.57
Total bonds	97.49	96.95
Other	2.51	3.05
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.

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a positive six months for UK equities, although volatility made an unwelcome return over the closing stages. Initially, performance was driven by ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted. Overall, the Fund generated a return of 10.44% for the period under review, significantly outperforming its benchmark.

On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. The Fund's lack of exposure to the basic material sector therefore had a strongly positive effect on performance over the six months.

At asset level, the holding in Vodafone boosted returns. The stock has risen sharply since the company announced plans to sell its stake in the US communications company Verizon Wireless for a reported $130 billion.

Ashtead, which leases heavy equipment such as cranes and pumps was another strong performer over the period. Ashtead has benefited from a structural shift towards rentals in the US construction sector where builders remain reluctant to invest in their own equipment. The company's most recent earnings report exceeded expectations.

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index. Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at seven-year highs, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has led some commentators to worry that we are entering an unsustainable debt-led recovery.

Investment Manager's Review (continued)

Medium-term risks also remain concerning the country's debt burden. New Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the EU) coming out of recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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.

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.61	1.62
G Accumulation	1.61	1.62
X Accumulation	0.11	0.12

Share class G Accumulation was launched 12 November 2012.

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Financials	24.40	25.99
Industrials	21.02	19.75
Consumer Services	13.00	12.32
Health Care	11.19	10.64
Telecommunications	11.09	10.21
Utilities	8.54	8.29
Consumer Goods	7.97	8.16
Technology	1.13	1.12
Oil & Gas	0.50	1.11
Net other assets	1.16	2.41
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	220.16	199.44	10.39
G Accumulation	123.69	112.09	10.35
X Accumulation	260.09	233.85	11.22

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
Environmental Investor Fund Accumulation	10.44	15.74	(8.08)	15.02	42.08	(43.78)
Customised Benchmark*	5.45	23.21	(0.40)	18.05	49.44	(36.30)

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.

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.

Top five holdings

	31/08/13 %		28/02/13 %
1. Vodafone	8.78	HSBC	7.71
2. GlaxoSmithKline	7.62	Vodafone	7.57
3. HSBC	6.84	GlaxoSmithKline	7.08
4. Prudential	4.91	Prudential	4.63
5. Ashtead	4.42	Diageo	3.86

Number of holdings: 35 | Number of holdings: 37

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 →

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a positive six months for UK equities, although volatility made an unwelcome return over the closing stages. Initially, performance was driven by ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted. Overall, the Fund generated a return of 9.60% for the period under review, significantly outperforming its benchmark.

On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. The Fund's comparative lack of exposure to the basic material sector therefore had a positive effect on performance over the six months.

In terms of portfolio performance, one of the strongest contributors over the period was Ashtead, which leases heavy equipment such as cranes and pumps. Ashtead has benefited from a structural shift towards rentals in the US construction sector where builders remain reluctant to invest in their own equipment. The company's most recent earnings report exceeded expectations.

Resolution also had a positive effect on returns. The stock outperformed along with other companies related to the life assurance industry. The sector rose in sympathy with the hike in bond yields following Ben Bernanke's comments about "tapering the US quantitative easing programme.

Investment Manager's Review (continued)

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index. Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at seven-year highs, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has led some commentators to worry that we are entering an unsustainable debt-led recovery.

Medium-term risks also remain concerning the country's debt burden. New Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the EU) coming out of recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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.

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.63	1.62
B Accumulation	1.38	1.37
G Accumulation	1.63	1.63
X Accumulation	0.13	0.12

Share class G Accumulation was launched 12 November 2012.

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Financials	26.41	29.52
Industrials	20.99	19.51
Health Care	9.02	10.86
Consumer Services	8.76	7.11
Utilities	8.17	8.22
Oil & Gas	7.76	8.91
Telecommunications	6.76	6.51
Basic Materials	5.36	1.60
Consumer Goods	1.63	1.64
Net other assets	5.14	6.12
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	117.68	107.13	9.85
B Accumulation	121.09	110.10	9.98
G Accumulation	121.65	110.69	9.90
X Accumulation	138.39	125.04	10.68

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
Ethical Fund A Accumulation	9.60	11.75	(10.19)	12.19	40.58	(42.82)
Customised Benchmark*	4.13	17.02	(1.82)	18.38	44.18	(35.68)

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.

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.

Top five holdings

	31/08/13 %		28/02/13 %
1. Vodafone	5.95	HSBC	8.49
2. HSBC	5.49	BG	5.68
3. BG	4.34	GlaxoSmithKline	5.53
4. Prudential	4.18	Vodafone	5.52
5. WPP	3.20	Prudential	4.73

Number of holdings: 46

Number of holdings: 38

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.

The synthetic risk and reward indicator shown above is accurate as at 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

In February, just prior to the beginning of the review period, ratings agency Moody's stripped the UK of its Aaa credit rating. But the country's borrowing costs were little changed. This was largely due to the "safe haven" appeal of UK Gilts for investors unnerved by events on the Eurozone periphery. Accordingly, the yield on the ten-year Gilt was on a downward trend in the early part of the review period. By early May it reached a historic low of 1.62%.

Only then did the ten-year Gilt yield begin to climb once more. The initial causes were stronger-than-usual economic data and an inflation report that appeared to rule out further quantitative easing. Then in June, global markets – including the UK – were affected after indications by the US Federal Reserve that it would reduce its own QE programme. This concentrated minds squarely on the UK's own eventual exit from loose monetary policy, and yields continued to ascend. In total, the ten-year Gilt yield moved a full percentage point higher between the beginning of May and the end of June.

During the six months to 31 August, the Gilt Fund returned -3.20%, underperforming its benchmark, the FTA All Stocks, which returned -2.33%.

The portfolio was structured overweight index linked bonds throughout most of the period in anticipation of outperformance due to UK inflation remaining stubbornly high. This benefitted the portfolio at first but then detracted from performance as crowded positioning in global index-linked bonds saw them underperform.

Throughout the review period, the manager has taken tactical positions in overseas bond markets on an opportunistic basis – for example, Italian government bonds against UK Gilts. The portfolio has also taken advantage of periods of sterling weakness by being underweight against the US dollar and the Japanese yen.

Looking forward, we maintain a modestly bearish view on UK Gilts. The market has sold off, now believing that interest rates will rise sooner than previously anticipated. This is due to recent stronger-than-expected economic data and the Monetary Policy Committee's announcement of forward guidance on the policy rate, which will now be based on an unemployment rate threshold.

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
31/05/13	31/07/13
31/08/13	31/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.11	1.11
A Income	1.11	1.11
B Income	0.86	0.86
G Accumulation	1.10	1.11
G Income	1.11	1.11

Share class G Accumulation was launched 12 November 2012.

Share class G Income was launched 12 November 2012.

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Sterling Denominated Bonds	94.76	97.07
Australian Dollar Denominated Bonds	1.43	0.64
Mexican Peso Denominated Bonds	0.69	-
Derivatives	0.05	(0.07)
Net other assets	3.07	2.36
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	224.24	231.64	(3.19)
A Income	176.12	182.59	(3.54)
B Income	176.11	182.58	(3.54)
G Accumulation	94.84	97.97	(3.19)
G Income	94.29	97.75	(3.54)

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
Gilt Fund A Accumulation	(3.20)	0.61	14.31	4.85	3.12	8.77
UK Gilt Sector Average Return	(2.72)	1.44	16.29	4.68	0.77	7.91
FTA British Government All Stocks Index	(2.33)	2.55	16.31	5.59	2.46	9.55

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

	First interim 31/05/13 (p)	Second interim 31/08/13 (p)
A Accumulation	0.4081	0.4081
A Income	0.3216	0.3211
B Income	0.4148	0.4100
G Accumulation	0.1732	0.1748
G Income	0.1710	0.1761

Top five holdings

	31/08/13 %		28/02/13 %
1. UK Treasury 1% 07/09/2017	12.50	UK Treasury 1% 07/09/2017	11.28
2. UK Treasury 1.75% 07/09/2022	10.08	UK Treasury 4.5% 07/03/2013	11.19
3. UK Treasury 3.75% 22/07/2052	8.72	UK Treasury 3.75% 22/07/2052	8.49
4. UK Treasury 1.25% 22/07/2018	8.71	UK Treasury 4.25% 07/06/2032	8.25
5. UK Treasury 1.75% 22/01/2017	8.35	UK Treasury 8% 27/09/2013	7.20

Number of holdings: 35 Number of holdings: 32

Summary of portfolio by credit ratings

Rating block	31/08/13 %	28/02/13 %
Investment grade (AAA to BBB-)	96.88	97.71
Total bonds	96.88	97.71
Other	3.12	2.29
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 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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager’s Review

The High Income Bond Fund invests primarily in US high-yield bonds, an asset class that performed well for much of the review period.

Investors, dismayed by the low returns on offer from government bonds, moved higher up the risk spectrum in a chase for higher yields. This drove prices higher from March through to mid-June. However, the general upward trend faltered in June and again in August. Riskier assets across the board were hit by comments from Federal Reserve chairman Ben Bernanke. Following an consistent improvement in economic data, Mr Bernanke talked of “tapering” – starting to reduce the amount of assets the US central bank is purchasing under its quantitative easing programme.

The reaction was swift. Ten-year Treasury yields moved sharply higher and riskier assets – including high-yielding corporate bonds – sold off. Markets were calmed somewhat in July by some measured words from Mr Bernanke surrounding the timing of the tapering, but the earlier nervousness resurfaced in August and risk assets suffered a further reverse. Over the six-month review period as a whole, US high-yield delivered a positive return, outperforming both government and corporate bonds.

In the six months to 31 August, the Scottish Widows High Income Bond Fund delivered a total return of 0.05%.

Supply in the new issue market has been healthy practically throughout the review period, with corporations keen to refinance high coupon debt with lower cost debt at current market rates. We have been selective in our purchases, preferring bonds from companies with the ability to generate free cash flow and deliver their balance sheets. Purchases included UPC, Dish Network, Commscope Holding and William Hill. Sales included ArcelorMittal and Mueller Water.

Looking ahead, we expect corporate bonds to outperform government bonds based on strong corporate fundamentals and the ongoing hunt for yield. This latter factor should provide continued support for US high-yielding bonds.

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
31/03/13	15/05/13
30/04/13	14/06/13
31/05/13	15/07/13
30/06/13	15/08/13
31/07/13	13/09/13
31/08/13	15/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.62	1.62
A Income	1.62	1.62

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
US Dollar Denominated Bonds	76.31	66.64
Euro Denominated Bonds	11.10	-
Sterling Denominated Bonds	8.82	32.98
Collective Investment Schemes	0.08	-
Derivatives	0.27	(1.46)
Net other assets	3.42	1.84
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	206.17	206.20	(0.01)
A Income	97.08	99.25	(2.19)

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
High Income Bond Fund A Accumulation	0.05	6.62	8.84	8.76	24.85	(11.62)
£ High Yield Sector Average Return	1.38	11.99	0.08	12.20	44.69	(19.83)
Composite*	1.25	8.54	10.56	12.84	32.64	(9.54)

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

	First interim 31/03/13 (p)	Second interim 30/04/13 (p)	Third interim 31/05/13 (p)	Fourth interim 30/06/13 (p)	Fifth interim 31/07/13 (p)	Sixth interim 31/08/13 (p)
A Accumulation	0.6001	0.6301	0.8778	0.7837	1.0152	0.6582
A Income	0.2889	0.3024	0.4200	0.3734	0.4819	0.3110

Top five holdings

	31/08/13 %		28/02/13 %
1. Clear Channel Communications 11.25% 01/03/2021	1.47	UK Treasury 4.5% 07/03/2013	4.06
2. American Airlines 10.5% 15/10/2012*	1.22	UK Treasury 2.25% 07/03/2014	3.79
3. First Data 8.25% 15/01/2021	1.11	UK Treasury 1% 07/09/2017	3.40
4. Sprint Communications 6% 15/11/2022	1.08	UK Treasury 3.75% 22/07/2052	2.75
5. Intelsat Luxembourg 7.75% 01/06/2021	1.05	UK Treasury 4.25% 07/06/2032	2.49
Number of holdings: 467		Number of holdings: 323	

* The redemption of this bond is currently under negotiation with full principal plus interest expected to be received.

Summary of portfolio by credit ratings

Rating block	31/08/13 %	28/02/13 %
Investment grade (AAA to BBB-)	3.90	34.76
Non-Investment grade (BB+ to C)	90.17	63.01
Unrated	2.16	1.85
Total bonds	96.23	99.62
Other	3.77	0.38
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, 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 31 August 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. Over the review period, the Fund produced a return of 5.59%.

Looking first at the equity portion of the portfolio. It was a bumpy six months for investors in UK stock markets. Driving sentiment initially was the ongoing extraordinary support from the world's central bankers. High levels of liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets across the world, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted.

In terms of sectors, financials did well, as a number of high-street names returned to profit. By contrast, miners continued to suffer based on fears of a slowdown in China. Overall, the FTSE All-Share finished up 4.13% for the review period.

Within the corporate bond portion of the portfolio, we believe corporate bonds continue to offer good value and so have added to holdings in some of the higher risk parts of the market. This includes banks, particularly in core Europe and strong economic regions such as the US and Scandinavia, which have been forced by regulators to trim their balance sheets. Similarly, the insurance sector has been subjected to heavy regulatory supervision. In both instances, we believe this will be of long-term benefit to bondholders.

Looking ahead, it would not be a surprise to see equities to see equity markets consolidate after the bull market rally that ended in May. Further volatility certainly seems likely. 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.

High Reserve Fund (continued)

Distribution

XD dates	Payment dates
31/05/13	31/07/13
31/08/13	31/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.37	1.36
A Income	1.37	1.36

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Corporate Bonds	20.20	19.88
Financials	13.68	13.91
Oil & Gas	12.69	13.22
Consumer Goods	9.84	10.08
Consumer Services	8.29	7.33
Health Care	7.66	8.43
Industrials	7.51	5.90
Telecommunications	6.57	4.06
Basic Materials	4.36	5.42
Utilities	3.13	4.45
Technology	1.83	2.05
Government Bonds	1.43	1.85
Asset-Backed Securities	0.71	0.75
Mortgage-Backed Securities	0.69	0.93
Derivatives	(0.01)	-
Net other assets	1.42	1.74
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	279.72	264.95	5.57
A Income	125.35	121.46	3.20

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
High Reserve Fund A Accumulation	5.59	8.57	(0.57)	13.33	29.87	(27.78)
UK Equity & Bond Income Sector Average Return	4.59	13.00	3.63	12.72	30.62	(26.06)

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

	First interim 31/05/13 (p)	Second interim 31/08/13 (p)
A Accumulation	3.4249	2.9446
A Income	1.5701	1.3336

Top five holdings

	31/08/13 %		28/02/13 %
1. Royal Dutch Shell 'B'	5.61	Royal Dutch Shell 'B'	5.13
2. GlaxoSmithKline	5.12	GlaxoSmithKline	4.45
3. Vodafone	4.87	Vodafone	4.06
4. HSBC	4.48	BP	3.78
5. British American Tobacco	3.21	British American Tobacco	3.48

Number of holdings: 252 Number of holdings: 239

Summary of portfolio by credit ratings

Rating block	31/08/13 %	28/02/13 %
Investment grade (AAA to BBB-)	22.97	23.10
Non-Investment grade (BB+ to C)	0.06	0.31
Total bonds	23.03	23.41
Other	76.97	76.59
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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a positive six months for UK equities, although volatility made an unwelcome return over the closing stages. The FTSE 100 index gained 3.2% in total return terms. Initially, performance was driven by ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted.

On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. Overall, the Fund returned 1.12%, while the safety price for A Class shares remained at 38.08.

At the end of August, 94.3% of the fund was invested in cash investments, while 5.7% was invested in call options. In the current 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. The manager, however, remains alert to any opportunities to buy additional call options.

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index.

Investment Manager's Review (continued)

Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at seven-year highs, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has led some commentators to worry that we are entering an unsustainable debt-led recovery.

Medium-term risks also remain concerning the country's debt burden. New Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the EU) coming out of recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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.

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.12	1.11
X Accumulation	0.12	0.11

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Short Term Deposit	88.03	87.93
Options Contracts	6.56	3.48
Net other assets	5.41	8.59
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	40.79	40.35	1.09
X Accumulation	45.17	44.53	1.44

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

Performance record

	01/03/13 31/08/13 %	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 %
SafetyPlus® Fund A Accumulation	1.12	0.70	(3.91)	4.67	9.51	(3.24)
Protected Sector Average Return	(0.15)	2.26	(3.57)	4.27	4.53	(4.87)

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

	31/08/13	%	28/02/13	%
1.	Credit Industriel 0.58% 12/09/2013	5.03	ABN Amro Bank 0.45% 11/04/2013	4.78
2.	Denmark Norske Bank 0.44% 03/09/2013	5.03	Bank of Tokyo Mitsubishi 0.5% 13/05/2013	4.78
3.	ING Bank 0.48% 06/09/2013	5.03	Denmark Norske Bank 0.51% 03/06/2013	4.78
4.	Nationwide Building Society 0.52% 01/11/2013	5.03	Mizuho Corporate Bank 0.495% 07/05/2013	4.78
5.	Nordea Bank Finland 0.49% 12/09/2013	5.03	Nationwide Building Society 0.65% 01/05/2013	4.78
6.	Rabobank International 0.58% 24/02/2014	5.03	UBS 0.47% 12/03/2013	4.78
7.	JPMorgan Chase Bank 0.48% 05/09/2013	4.61	BNP Paribas 0.46% 28/05/2013	4.77
8.	Natixis 0.46% 05/09/2013	4.61	Credit Industriel 0.53% 12/03/2013	4.77
9.	Sumitomo Mitsui Banking 0.000001% 04/09/2013	4.61	Deutsche Bank 0.46% 22/04/2013	4.77
10.	Bank of Tokyo Mitsubishi 0.5% 14/11/2013	4.19	HSBC Bank 0.45% 09/04/2013	4.77
11.	Barclays Bank 0.49% 15/11/2013	4.19	ING Bank 0.47% 06/03/2013	4.77
12.	BNP Parabis 0.5% 28/11/2013	4.19	National Bank of Abu Dhabi 0.47% 15/04/2013	4.77
13.	DZ Bank 0.49% 15/11/2013	4.19	Societe Generale 0.45% 04/03/2013	4.77
14.	Mizuho Corporate Bank 0.49% 08/11/2013	4.19	Standard Chartered Bank 0.0000001% 22/05/2013	4.77
15.	Overseas Chinese Banking 0.47% 10/10/2013	4.19	Sumitomo Mitsui Banking 0.01% 04/04/2013	4.77
16.	Standard Chartered Bank 0.5% 22/11/2013	4.19	Credit Agricole 0.45% 18/03/2013	4.38
17.	Svenska Handelsbanken 0.5% 03/12/2013	4.19	Nordea Bank Finland 0.46% 04/03/2013	3.98
18.	Deutsche Bank 0.5% 29/10/2013	3.78	Svenska Handelsbanken 0.48% 03/06/2013	3.98
19.	National Bank of Abu Dhabi 0.5% 15/10/2013	3.78	Barclays Bank 0.45% 15/04/2013	1.99
20.	Wells Fargo Bank International 0.48% 16/10/2013	2.10	National Australia Bank 0.45% 11/03/2013	1.99
21.	Skandinaviska Enskilda 0.49% 13/11/2013	0.84		

Number of holdings: 32 Number of holdings: 25

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

Corporate bonds suffered a reverse during the six months to 31 August. The asset class outperformed government bonds as yield spreads tightened. However, the sharp upward movement in government bond yields – particularly during the summer months – caused corporate bonds to end the review period in negative territory.

Yields on government bonds were driven substantially higher in June after the US Federal Reserve indicated that it would reduce the size of its monthly quantitative easing programme. Initially, this led to heightened risk aversion on the part of investors, driving yield spreads wider and corporate bond prices lower. However, a consensus soon developed that the market had overreacted with its tapering talk, and spreads tightened once more. That trend was reinforced by better-than-expected economic data on both sides of the Atlantic.

Meanwhile, high-yielding bonds have been supported by a "hunt for yield" for much of the review period which drove prices higher from March through to mid-June. However, this general upward trend also faltered after comments from the US Federal Reserve that suggested a scaling-down of its asset purchase programme in the near future. Over the six-month review period as a whole, European high-yield delivered a positive return, outperforming both government and corporate bonds.

The Strategic Income Fund comprises a portfolio of which 70% is invested in investment grade corporate bonds and 30% in European high-yielding bonds.

The investment grade portfolio was positioned with a short duration. This helped performance as yields have been rising. We were overweight in insurers and in subordinated financials – particularly banks in the European core, the US and Scandinavia. We significantly reduced our weighting in Gilts. Trades included purchases of telecoms stocks BT and AT&T. We also added a euro-denominated hybrid from Hutchison Whampoa and a sterling-denominated hybrid from Enel. We significantly reduced our weighting in Gilts. Sales also included Telecom Italia and Wm Morrisons.

The high yield portfolio enjoyed strong contributions from holdings in bonds issued by Thomas Cook, Matalan, Pennon (water company) Cabot and Lowell (both debt management and recovery firms), CareUK and Arqiva (transmission towers).

The high yield market has displayed much lower levels of volatility than either the Gilt or investment grade market. Nevertheless, high yield struggled in July and August with long-dated, lower coupon bonds selling off in anticipation of expected Federal Reserve "tapering" in September.

Investment Manager's Review (continued)

Looking ahead, we expect corporate bonds to outperform government bonds based on strong corporate fundamentals and the ongoing hunt for yield. This latter factor in particular should provide continued support for European high-yielding bonds.

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
31/03/13	15/05/13
30/04/13	14/06/13
31/05/13	15/07/13
30/06/13	15/08/13
31/07/13	13/09/13
31/08/13	15/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.38	1.37
A Income	1.38	1.37

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Sterling Denominated Bonds	74.77	73.63
Euro Denominated Bonds	20.71	22.48
US Dollar Denominated Bonds	1.06	0.58
Swiss Franc Denominated Bonds	0.42	0.27
Financials	-	0.14
Derivatives	(0.05)	(0.22)
Net other assets	3.09	3.12
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	161.77	161.60	0.11
A Income	93.33	94.92	(1.68)

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
Strategic Income Fund A Accumulation	0.06	12.07	2.35	8.24	40.27	(23.78)
£ Strategic Bond Sector Average Return	(0.06)	9.65	5.31	6.43	27.91	(15.19)
Composite*	1.13	13.94	7.18	10.40	36.98	(17.76)

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

	First interim 31/03/13 (p)	Second interim 30/04/13 (p)	Third interim 31/05/13 (p)	Fourth interim 30/06/13 (p)	Fifth interim 31/07/13 (p)	Sixth interim 31/08/13 (p)
A Accumulation	0.4261	0.5294	0.5210	0.4607	0.5765	0.4272
A Income	0.2502	0.3101	0.3042	0.2682	0.3346	0.2471

Top five holdings

	31/08/13 %		28/02/13 %
1. Lloyds TSB Bank 13% Perpetual	1.50	Lloyds TSB Bank 13% Perpetual	1.44
2. GE Capital UK Funding 5.125% 24/05/2023	1.23	UK Treasury 4.25% 07/12/2027	1.34
3. Annington Finance No 4 6.5676% 10/01/2023	1.23	UK Treasury 1.75% 07/09/2022	1.27
4. Lloyds TSB Bank 5.75% 09/07/2025	1.20	GE Capital UK Funding 5.125% 24/05/2023	1.26
5. Bank of America 7% 31/07/2028	1.18	Annington Finance No 4 6.5676% 10/01/2023	1.25

Number of holdings: 343 | Number of holdings: 303

Summary of portfolio by credit ratings

Rating block	31/08/13 %	28/02/13 %
Investment grade (AAA to BBB-)	66.49	65.95
Non-Investment grade (BB+ to C)	28.97	30.27
Unrated	1.50	0.74
Total bonds	96.96	96.96
Other	3.04	3.04
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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a bumping six months for investors in UK equity markets. Driving sentiment initially was the ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted. On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. Overall, the FTSE All-Share finished up 4.13% for the review period.

Turning to the portfolio, a holding in Travis Perkins, the builders' merchant, boosted returns. The company had an excellent six months as the fortunes of the UK housing market improved after a long period in the doldrums. Travis Perkins' market value rose impressively, culminating in the firm entering the FTSE 100 index. Meanwhile, ITV's shares hit a record high in June after the group delivered an upbeat outlook statement. The free-to-air broadcaster also received a number of positive broker comments. Other highlights included BAE Systems, GlaxoSmithKline and Reed Elsevier.

By contrast, BT's shares slipped after it delivered uninspiring first-quarter numbers, with revenues and profits down. Nonetheless, the roll-out of the firm's new BT Sports offering has been well received and should help lift future returns. Meanwhile, Lloyds Banking found its shares in demand after updating the market with a positive set of results. Evidence that the UK housing market is healing also lifted the stock. Our relative underweight here therefore hurt performance. The Fund's holdings in Indus Gas, KSK Power Ventur and Rio Tinto disappointed.

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index. Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at a seven-year high, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has lead some commentators to worry that we are entering an unsustainable debt-led recovery.

Investment Manager's Review (continued)

Medium-term risks also remain concerning the country's debt burden, although new Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the EU) coming out of recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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
31/08/13	3/10/13

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.36	1.36
A Income	1.36	1.36
B Income	1.11	1.11
C Income	0.61	0.61
X Accumulation	0.11	0.11

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Financials	18.66	19.05
Oil & Gas	16.60	17.42
Consumer Goods	12.89	13.01
Consumer Services	10.89	9.43
Health Care	9.98	11.03
Industrials	9.97	7.92
Telecommunications	8.65	5.29
Basic Materials	5.72	7.40
Utilities	4.66	6.17
Technology	2.18	2.42
Derivatives	(0.02)	0.02
Net other (liabilities)/assets	(0.18)	0.84
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	3,703.20	3,457.91	7.09
A Income	701.78	671.28	4.54
B Income	725.28	692.89	4.67
C Income	763.69	727.74	4.94
X Accumulation	4,254.91	3,948.26	7.77

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
UK Equity Income Fund A Accumulation	6.90	7.85	(2.85)	15.60	31.66	(33.59)
UK Equity Income Sector Average Return	7.85	15.42	2.48	16.18	37.25	(32.60)
FTSE All-Share Index	4.13	14.06	2.33	17.01	47.34	(33.90)

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

	Interim 31/08/13 (p)
A Accumulation	88.2935
A Income	17.1408
B Income	17.7037
C Income	18.6174
X Accumulation	101.1318

Top five holdings

	31/08/13 %		28/02/13 %
1. Royal Dutch Shell 'B'	7.38	Royal Dutch Shell 'B'	6.74
2. GlaxoSmithKline	6.59	GlaxoSmithKline	5.71
3. Vodafone	6.40	Vodafone	5.29
4. HSBC	5.67	BP	5.26
5. British American Tobacco	4.22	British American Tobacco	4.49

Number of holdings: 95 Number of holdings: 96

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a bumping six months for investors in UK equity markets. Driving sentiment initially was the ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted. On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. Overall, the FTSE All-Share finished up 4.13% for the review period.

The Fund is managed in accordance with SWIP's optimised alpha process. This combines the best stock ideas of SWIP's high alpha equity team with a quantitative portfolio construction and management approach. The managers seek to ensure that the Fund has a diversified risk budget, minimal unintended or unwanted risk and optimal trading efficiency.

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index. Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at a seven-year high, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has lead some commentators to worry that we are entering an unsustainable debt-led recovery.

Medium-term risks also remain concerning the country's debt burden, although new Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the EU) coming out of recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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. .

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.61	1.61
B Accumulation	1.11	1.11
C Income	0.61	0.61
X Income	0.11	0.11

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Financials	22.76	22.61
Oil & Gas	14.56	15.96
Consumer Goods	13.26	14.60
Consumer Services	11.66	10.50
Industrials	9.25	9.65
Basic Materials	7.94	9.31
Health Care	7.74	7.42
Telecommunications	6.85	5.57
Utilities	3.63	3.91
Technology	1.73	2.04
Derivatives	0.07	0.02
Net other assets/(liabilities)	0.55	(1.59)
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	146.75	138.84	5.70
B Accumulation	155.04	146.31	5.97
C Income	121.46	114.33	6.24
X Income	121.23	113.83	6.50

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
UK Growth Fund A Accumulation	5.69	10.69	(3.17)	14.32	35.30	(34.44)
UK All Companies Sector Average Return	7.28	14.36	1.06	19.24	43.67	(35.56)
FTSE All-Share Index	4.13	14.06	2.33	17.01	47.34	(33.90)

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.

Top five holdings

	31/08/13 %		28/02/13 %
1. HSBC	6.30	HSBC	6.74
2. Vodafone	4.82	Royal Dutch Shell 'B'	4.79
3. Royal Dutch Shell 'B'	4.52	BP	4.66
4. GlaxoSmithKline	4.32	Vodafone	4.28
5. BP	4.01	GlaxoSmithKline	3.94

Number of holdings: 266

Number of holdings: 321

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 31 August 2013 and there have been no changes to this ranking to date.

Investment Manager's Review

It was a bumping six months for investors in UK equity markets. Driving sentiment initially was the ongoing extraordinary support from the world's central bankers. Liquidity and historically low interest rates have encouraged traders into riskier assets, with equities among the main beneficiaries. Markets, however, were thrown into turmoil in May after Ben Bernanke, the Federal Reserve (the Fed) chairman, hinted that his rate-setting institution could soon "taper" its quantitative easing (QE) programme.

Investors have become accustomed to the Fed's largesse and the thought of that support being withdrawn saw traders take fright. Equity markets plunged, while government bonds yields climbed alarmingly. Since then, though, Mr Bernanke has sought to reassure investors. He stated that the curtailment of QE would be entirely data-dependent. He also said that a slowing of asset purchases does not constitute a tightening of monetary policy. Not to be outdone, Mark Carney, the new Bank of England governor, introduced his brand of "forward guidance". This will see rates remain low until unemployment falls below 7%. The declaration came with several caveats, however, and investors' reactions have been fairly muted. On the markets, financials did well as a number of high-street names returned to profit. By contrast, miners continued to suffer on fears of a slowdown in China. Overall, the FTSE All-Share finished up 4.13% for the review period.

Turning to the portfolio, insurance firm Resolution had a good six months as the wider financial sector was lifted by the improving UK economy and rising bond yields. Sports Direct, the UK retailer, was another standout performer. The company's share price hit an all-time high after it announced excellent annual earnings and delivered an upbeat outlook statement. This valued the company at £3.6 billion, putting it on the cusp of entry to the FTSE 100 index. Additional highlights included BAE Systems and Reed Elsevier.

By contrast, a position in Rio Tinto disappointed as mining shares suffered during the summer on the aforementioned fears about the Chinese economy. The firm's share price has since recovered, however, and we continue to hold it in the portfolio. Elsewhere, our lack of exposure to Lloyds Banking and Vodafone relative to the benchmark hurt the fund's showing. The latter saw its shares in demand after rumours abounded that the UK telecoms group was planning to sell back its 45% joint venture stake to US partner Verizon Communications (the deal has since been confirmed). Holdings in KSK Power Ventur and Indus Gas were an additional drag on performance.

There are growing indications that the UK economic rebound is gaining momentum. Official data from the Office for National Statistics recorded 0.7% growth in the second quarter (up from 0.6%), mainly as a result of stronger growth from the construction and manufacturing sectors. Indeed, the latter rose at its fastest pace since 1994, according to the Purchasing Managers' Index. Activity in August for industry was at a 30-month high. The UK labour market, meanwhile, continues to improve. House prices are at a seven-year high, thanks in part to the government's Funding for Lending and Help to Buy schemes. This, though, has lead some commentators to worry that we are entering an unsustainable debt-led recovery.

Investment Manager's Review (continued)

Medium-term risks also remain concerning the country's debt burden, although new Bank of England Governor Mark Carney's forward guidance suggests that interest rates (and the carrying cost of this debt) will remain manageable for the foreseeable future. In the meantime, with real wages beginning to stabilise, our biggest trade partner (the European Union) emerging from recession and the housing market buoyed by government intervention, the outlook for earnings growth looks good for 2014.

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.

Ongoing charges figures

	31/08/13 %	28/02/13 %
A Accumulation	1.64	1.62
B Accumulation	1.39	1.37
C Accumulation	1.14	1.12
X Accumulation	0.14	0.11

The ongoing charges figure (OCF) 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	31/08/13 %	28/02/13 %
Financials	23.18	18.63
Oil & Gas	17.04	25.97
Consumer Services	15.28	7.31
Health Care	11.43	12.40
Industrials	10.11	9.95
Consumer Goods	6.17	6.08
Basic Materials	4.39	8.08
Technology	4.32	5.62
Utilities	3.62	5.44
Telecommunications	3.05	-
Net other assets	1.41	0.52
Total net assets	100.00	100.00

Net asset value

	NAV per share 31/08/13 (p)	NAV per share 28/02/13 (p)	NAV percentage change %
A Accumulation	1,767.95	1,691.52	4.52
B Accumulation	1,819.74	1,738.87	4.65
C Accumulation	1,868.33	1,783.07	4.78
X Accumulation	2,095.92	1,990.27	5.31

Please note: negative figures are shown in brackets.

Performance record

	01/03/13 31/08/13 %	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 %
UK Select Growth Fund A Accumulation	4.78	5.35	(6.74)	18.44	52.92	(36.65)
UK All Companies Sector Average Return	7.28	14.36	1.06	19.24	43.67	(35.56)
FTSE All-Share Index	4.13	14.06	2.33	17.01	47.34	(33.90)

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.

Top five holdings

	31/08/13 %		28/02/13 %
1. GlaxoSmithKline	5.89	AstraZeneca	7.89
2. Indus Gas	5.64	BP	7.25
3. HSBC	5.33	Indus Gas	6.74
4. Barclays	4.19	Resolution	6.03
5. BG	4.04	Reed Elsevier	5.94

Number of holdings: 40

Number of holdings: 39

45672 10/13