Santander Premium Fund

Report and Accounts for the Year Ended 31 October 2008

Contents

If you have any questions about your investment with us, would like further information or would like to obtain a copy of the Long Form Report and Accounts, please call 0845 605 5600. Our lines are open between 8a.m. and 8p.m. Monday to Friday, 9a.m. and 5p.m. on Saturday.

Calls cost 7p plus up to 2p per minute from a BT Together landline. Mobile and other providers' charges may vary.

UK Equities

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in UK equities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisers
AXA Rosenberg Investment Management Limited (resigned 18.06.08)
Blackrock Investment Managers Limited (appointed 03.07.08)
JP Morgan Fleming Asset Management (UK) Limited (resigned 20.06.08)
Newton Investment Management Limited (appointed 01.07.08)
Santander Asset Management UK (appointed 25.06.08)
State Street Global Advisors Limited
State Street Global Advisors Limited (transition 17.06.08 to 02.07.08)

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/08	% of total net assets as at 31/10/07
Basic Materials	1.74	3.67
Consumer Goods	19.60	16.06
Consumer Services	8.76	8.93
Financials	14.10	24.07
Health Care	10.25	6.06
Industrials	8.62	11.18
Oil & Gas	14.08	14.95
Technology	0.23	0.16
Telecommunications	8.16	7.57
Utilities	7.73	5.34
Total Equities	93.27	97.99
Collective Investment Schemes	0.29	1.01
Future Contracts	0.00	0.01
Net other assets	6.44	0.99
Net Assets	**100.00**	**100.00**

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/08	Holding	% of Sub-fund as at 31/10/07
Vodafone Group	6.13	HSBC Holdings	5.86
BP	5.22	Royal Dutch Shell 'B'	5.77
HSBC Holdings	4.61	Vodafone Group	5.77
Dechra Pharmaceuticals	4.59	BP	5.40
Royal Dutch Shell 'B'	4.34	Royal Bank of Scotland Group	3.82
AstraZeneca	2.81	BHP Billiton	3.26
British American Tobacco	2.70	GlaxoSmithKline	3.10
Tesco	2.37	Royal Dutch Shell 'A'	2.57
Reckitt Benckiser Group	2.05	Rio Tinto	2.54
BAE Systems	2.01	Lloyds TSB Group	2.08

UK Equities

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange movements and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Fund Performance

Percentage Price Change from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
UK Equities Sub-fund	-37.07	-15.54	12.75
FTSE All Share	-35.55	-10.91	19.12

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
During the period under review interest rates were kept on hold until December 2007 when unexpectedly, the Bank of England (BoE) cut them for the first time in two years saying inflation was likely to slow down as higher credit costs hurt economic growth. The bank rate was reduced by 0.25% to 5.5%. Also in December, the BoE, Federal Reserve, European Central Bank, Bank of Canada and the Swiss National Bank announced a co-ordinated plan that aimed to alleviate the credit crunch in the financial markets. The BoE stated it would make available £10 billion of three-month funds in two auctions in December and January. The loans would be secured against a wider range of collateral than previously allowed, and could include mortgage-backed securities, credit card securities, and non sterling denominated collateral. Rates were cut again in February and April by 0.25% respectively, to 5.00% amid signs that the economy was slowing down. April's decision came not long after most gas and electricity companies raised their prices.

In April, despite good performance from the mining sector and oil companies at the beginning of the month, the market declined. In economic releases, inflation rose to 3%, well above the BoE's target of 2%, due to the effects of rising oil, food and utilities prices.

In June, the banking sector led the market lower as the rights issues from RBS and HBOS were unable to lift their shares higher. Barclays suffered further as analysts expressed concerns that the bank needed to raise more capital, and Bradford & Bingley retreated after an alternative funding plan for the lender was revealed.

The UK economy showed further signs of deterioration throughout July, growing at its slowest pace since 2001. Within the market, merger activity came back into the spotlight, with companies looking for opportunities during the tough trading conditions.
In August, generally a quiet trading month, the market was lifted by the banking sector and major oil sensitive companies. The oil price remained volatile, spiking on worrying news flow from Georgia, and from the Gulf of Mexico as Hurricane Gustav closed in.

September was a volatile month even by the standards of the credit-crunch era, with markets producing some of the largest falls of the last 20 years. It was a critical month for the global financial system, as a series of high profile casualties prompted concerted efforts by governments to provide support. The most high profile of these was Lehman Brothers, followed by the acquisition of Merrill Lynch by Bank of America, and the state sponsored rescue of AIG. In the UK, the Government announced the nationalisation of Bradford & Bingley, while the savings business and branch network was sold to Santander, and Lloyds TSB agreed to buy HBOS. As a result Central Banks around the world co-ordinated action to lend extra cash to banks, while the US finally approved a $700bn rescue plan.

The volatility continued through to October. Major markets around the globe were in negative territory as concerns over the credit crisis increased. Signs of recession in all major countries have worried investors and dented confidence of a prompt recovery. In the UK, Lloyds TSB, HBOS and RBS were part

Fund Performance (continued)

Market Review (continued)
nationalised as a result of the government bail-out plan to counter the crisis. During the month the BoE cut rates for the first time since October, taking them to 4.5%.

Policy Review
The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisers to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook
The world's major economies are already in, or going into, recession; the only arguments are on how severe and how long the downturn will last. However, the risk of inflation has been greatly reduced with the fall in commodity values, allowing central banks around the world to aggressively cut interest rates and loosen monetary policy. No-one can tell if the economy has hit the bottom or if there is worse to come, but the Government and Bank of England are working hard to ease the situation. The effects of the credit crunch have already been felt, but it will take time for the benefits of interest rate cuts to come through. Following the sell off seen in 2008, many stocks are on valuations that appear very attractive. Markets are already discounting a severe economic downturn and we would expect volatility to remain in the short term. However, we would expect to see a recovery in the UK equity market in 2009 ahead of any recovery in the economy.

UK Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 2.5201p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 48.6117p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.02%	0.01%
Total expense ratio	1.02%	1.01%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.02%	0.01%
Total expense ratio	1.02%	1.01%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	195.2	319,850,034	624,455,510
	Sterling Accumulation B shares	195.3	5,126,519	10,010,828
31st October 2007	Sterling Accumulation A shares	214.9	330,456,134	710,018,088
	Sterling Accumulation B shares	214.9	5,209,834	11,194,222
31st October 2008	Sterling Accumulation A shares	135.2	337,159,878	455,711,756
	Sterling Accumulation B shares	135.4	218,687	296,211

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	125.6	91.4	2.3828
2003	Sterling Accumulation B shares	125.6	91.4	2.5212
2004	Sterling Accumulation A shares	142.2	123.8	2.6946
2004	Sterling Accumulation B shares	142.2	123.8	2.8315
2005	Sterling Accumulation A shares	174.8	141.5	3.0990
2005	Sterling Accumulation B shares	174.8	141.5	4.0836
2006	Sterling Accumulation A shares	202.8	173.1	3.8262
2006	Sterling Accumulation B shares	202.8	173.1	2.1407
2007	Sterling Accumulation A shares	216.9	189.3	4.6726
2007	Sterling Accumulation B shares	217.0	189.4	4.5989
2008*	Sterling Accumulation A shares	205.2	121.6	5.0226
2008*	Sterling Accumulation B shares	205.2	122.1	51.0699

*to 31st October 2008

Europe (excluding UK) Equities

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Europe (excluding UK) equities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisers
AXA Rosenberg Investment Management Limited (resigned 21.07.08)
Santander Asset Management SA SGIIC (appointed 31.07.08)
State Street Global Advisors Limited
State Street Global Advisors Limited (transition 22.07.08 to 30.07.08)

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/08	% of total net assets as at 31/10/07
Austria	0.15	1.17
Belgium	0.50	2.70
Denmark	2.46	1.71
Finland	4.13	3.70
France	22.80	18.19
Greece	1.75	1.59
Germany	13.14	20.78
Ireland	0.46	2.25
Italy	8.63	7.93
Liechtenstein	0.16	0.00
Luxembourg	0.22	1.08
Netherlands	8.91	5.96
Norway	2.46	3.39
Portugal	4.16	0.83
Spain	10.35	10.01
Sweden	2.20	6.15
Switzerland	13.77	10.82
United Kingdom	0.78	0.00
Total Equities	97.03	98.26
Net other assets	2.97	1.74
Net Assets	**100.00**	**100.00**

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/08	Holding	% of Sub-fund as at 31/10/07
Total	3.90	Telefonica	3.37
Novartis	2.79	Banco Santander	2.48
Zurich Financial Services	2.63	Nokia	2.41
Energias de Portugal	2.56	E.ON	2.19
Banco Bilbao Vizcaya Argentaria	2.51	Allianz	2.14
ENI	2.48	Total	2.11
Sanofi-Aventis	2.45	DaimlerChrysler	2.11
Nestle	2.45	RWE	2.07
Banco Santander	2.40	ENI	1.95
Roche Holding	2.15	ING Groep	1.94

Europe (excluding UK) Equities

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Fund Performance

Percentage Price Change from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
Europe (excluding UK) Equities Sub-fund	-36.57	-4.05	34.28
FT World Europe ex UK	-34.37	-0.86	38.03

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
In the final quarter of 2007 markets and economies were dominated by sub-prime and credit problems. The European Central Bank (ECB) kept interest rates on hold but there was strong upward pressure on inflation and the bank was ready to counter any upside risks to price stability. Inflation accelerated during the quarter and in November, it rose to 3.1%, above Central Bank's target for 2007. Both investor confidence (German ZEW) and consumer confidence (German IFO) fell at the end of the year to their lowest levels in 2 years.

The ECB kept the main rate at 4% during the first half of 2008, as rising inflation dominated their concerns, above the liquidity problems and the slower growing economy. Inflation reached record highs and the ECB raised the possibility of an increase in interest rates.

Consumer prices in the 13-nation Eurozone accelerated during the first half of the year and reached a record high of 4% in June. Higher oil prices and energy prices pushed prices up.

The German ZEW investor confidence indicator fell sharply during the first half of the year and it reached the lowest levels in two years, -52.4 in June. Business and consumer confidence fell too, due to higher oil prices and the strong Euro, which did not help company earnings expectations.

Growth in the European region was positive during the first half of 2008, but the ECB lowered the growth prospects for the rest of 2008, as economic conditions deteriorated. Despite the lower economic growth unemployment remained low at 7.2%.

In July, inflation in the Eurozone continued to increase and became a major problem for the ECB, who raised interest rates by 0.25% at the beginning of the month. Retail sales continued to fall; the effect of higher prices and worries about the economic growth, and consumer confidence fell.

August data releases showed that economic growth in the Eurozone contracted in Q2. This was the first fall since the Euro was introduced in 1999. Inflation stayed at 4%.

In September European shares surged to their biggest one-day percentage gain on record, as battered banks and insurers gained, thanks to temporary bans on short sales of financial stocks and the US Government's moves to end the credit crisis. The ECB kept interest rates on hold at 4.25%. The ECB's key concern was controlling inflation, which remained well above its 2% target, due to rising food and energy prices.

Europe (excluding UK) Equities

Fund Performance (continued)

Market Review (continued)

The volatility continued through to October. Major markets around the globe were in negative territory as concerns over the credit crisis increased. Signs of recession in all major countries have worried investors and dented confidence of a prompt recovery. The ECB cuts rates to 3.75% in a co-ordinated move with other banks around the world, in an attempt to boost the economy.

Policy Review

The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisers to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Weak economic data should continue into 2009, the question is to what extent fiscal stimulus plans, which are being designed and approved throughout the region, will be able to reactivate the economy. Monetary policy is not likely to help significantly, even if the ECB were willing to aggressively reduce its interest rates - and at this stage it seems reluctant to push this strategy further. However, although economic recovery may not arrive immediately, the equity markets may start discounting future growth and stabilise at some point in 2009.

Europe (excluding UK) Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 2.7859p will be reinvested on behalf of Sterling Accumulation A shareholders and a distribution of 2.8561p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.04%	0.03%
Total expense ratio	1.04%	1.03%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.04%	0.03%
Total expense ratio	1.04%	1.03%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	189.9	63,115,505	119,841,483
	Sterling Accumulation B shares	189.3	145,566	275,496
31st October 2007	Sterling Accumulation A shares	224.1	63,378,105	142,030,141
	Sterling Accumulation B shares	223.5	145,566	325,279
31st October 2008	Sterling Accumulation A shares	142.2	61,963,711	88,086,903
	Sterling Accumulation B shares	141.8	145,566	206,342

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	1.2104	114.6	104.9
2003	Sterling Accumulation B shares	1.4473	114.6	104.9
2004	Sterling Accumulation A shares	1.6266	131.4	108.3
2004	Sterling Accumulation B shares	1.7119	131.4	108.4
2005	Sterling Accumulation A shares	1.9916	166.1	127.6
2005	Sterling Accumulation B shares	1.4434	165.5	127.4
2006	Sterling Accumulation A shares	2.7006	200.0	162.0
2006	Sterling Accumulation B shares	2.7879	199.4	161.5
2007	Sterling Accumulation A shares	3.7086	226.9	197.1
2007	Sterling Accumulation B shares	3.7001	226.3	196.6
2008*	Sterling Accumulation A shares	4.7601	227.1	132.3
2008*	Sterling Accumulation B shares	4.8013	226.5	131.9

*to 31st October 2008

United States Equities

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in United States equities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisers
DB Absolute Return Strategies Limited
Goldman Sachs Asset Management International

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/08	% of total net assets as at 31/10/07
Basic Materials	4.02	2.47
Consumer Goods	7.50	5.90
Consumer Services	19.66	20.36
Financials	15.15	18.98
Health Care	12.48	10.46
Industrials	15.39	18.97
Oil & Gas	9.77	9.03
Technology	4.87	4.48
Telecommunications	3.98	5.08
Utilities	3.45	2.32
Total Equities	96.27	98.05
Future Contracts	0.00	0.03
Net other assets	3.73	1.92
Total Assets	**100.00**	**100.00**

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/08	Holding	% of Sub-fund as at 31/10/07
Exxon Mobil	3.47	Exxon Mobil	3.41
Microsoft	2.30	Microsoft	3.05
Pfizer	2.19	Chevron	1.90
Procter & Gamble	2.05	Wells Fargo	1.76
Verizon Communications	1.94	Bank of America	1.65
Wal-Mart Stores	1.77	Citigroup	1.60
Hewlett-Packard	1.53	General Electric	1.58
AT&T	1.52	AT&T	1.58
Wells Fargo	1.49	JPMorgan Chase	1.38
Johnson & Johnson	1.48	Gilead Sciences	1.36

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

United States Equities

Fund Performance

Percentage Price Change from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
United States Equity Sub-fund	-21.91	-12.86	-1.44
FT World USA	-19.29	-8.02	6.30

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
The Federal Reserve cut interest rates twice during the last quarter of 2007, taking the main interest rate to 4.25% to help the credit crisis. During the same period, inflation rose at the fastest pace since September 2005 and in November the Consumer Price Index was 4.3% higher than a year ago.

January saw one of the most volatile months for equity markets in recent history. To reassure markets, the US Federal Reserve cut interest rates by 0.75% to 3.5%, outside the normal schedule, and then again at the end of the month by half a point to 3%. April saw another cut, the seventh cut in seven months, taking rates to 2%.

Retail sales unexpectedly rose in January boosting hopes that the US might avoid a recession despite the pressure of a weakening housing market. Industrial production also increased in January, but ended the first half of the year lower. Sentiment indices of business conditions and consumer expectations declined, with research showing consumer confidence at its lowest level in 16 years. Rising oil prices, a weak dollar and concerns over the impact of the credit crunch all affected consumers.

The housing market continued to slow down, and figures on new home sales and building starts fell to their lowest level in 17 years in March. Sales of existing houses also fell, as did home prices. Unemployment increased 5.5% in May and was the largest increase in two decades.

Ongoing concerns over the economy and the financial sector continued to impact the markets the second half of the year. The financial sector continued to struggle and by mid July, two of the major mortgage companies in the US (Fannie Mae and Freddie Mac) had to be rescued by the Federal Reserve. Adding to economic concerns, data released showed that the economy grew less than expected in the second quarter of the year. Consumer prices rose on higher energy costs and soaring food prices. The house market continued to deteriorate as prices kept falling, as did the levels of home sales, this led consumer confidence to fall to the lowest level in 16 years, adding more worries to job prospects.

In August oil prices started on a downward trend allowing car makers and manufacturing companies to claw back some previous losses. Other good news came from new figures showed that the US economy expanded faster than previously estimated in the second quarter, helped by a surge in exports. GDP increased at a 3.3% annual pace, compared with the initial estimate of 1.9%. Also positive, and unexpected, was an increase in the sale of new and existing houses. However, consumer prices continued to rise as did unemployment figures.

In September markets saw some of the largest falls of the last 20 years. It was a critical month for the global financial system, as a series of high profile casualties, including the collapse of Lehman Brothers, prompted concerted efforts by Governments to provide support. In addition to the Central Banks' action to lend extra cash to banks, the US finally approved a $700bn rescue plan.

The volatility continued through to October. Major markets around the globe were in negative territory as concerns over the credit crisis increased. Signs of recession in all major countries have worried investors and dented confidence of a prompt recovery. The Fed cut rates for the first time since April in October from 2% to 1.5%, in a co-ordinated move with other banks around the world, in an attempt to boost the economy.

Fund Performance (continued)

Policy Review
The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisers to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook
2008 will be a year to be remembered. A fall of almost 40% in the S&P500, a collapse of the whole financial system, a market economy turned into a subsidised economy and the fall of the oil price from $145 to $34 will be difficult to forget. But we must look forward to 2009 with a little more optimism. Although reducing global leverage may take time, central banks in general and the Federal Reserve in particular, are doing all they can to re float the economy and see it progress. Even if they don't achieve this goal until 2010, chances are that markets will begin to discount the outcome well in advance. Optimism about the new Administration's plans to revive the economy could be vital. The Fed's purchase of assets from money-market funds and commercial paper to fund non-financial business may well prove more effective than a blanket asset-recovery plan like TARP. The convalescence period could be long, but US markets' flexibility and the Fed's aggressive monetary policy will most likely bring a recovery ahead of other hard-hit areas.

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 0.4618p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 0.4724p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.03%
Total expense ratio	1.03%	1.03%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.02%
Total expense ratio	1.03%	1.02%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	130.7	84,420,700	110,356,541
	Sterling Accumulation B shares	130.8	496,075	648,951
31st October 2007	Sterling Accumulation A shares	131.8	97,978,600	129,176,080
	Sterling Accumulation B shares	131.9	496,075	654,524
31st October 2008	Sterling Accumulation A shares	102.9	98,411,350	101,260,588
	Sterling Accumulation B shares	103.0	496,075	510,824

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	107.4	102.6	0.2939
2003	Sterling Accumulation B shares	107.4	102.6	0.2155
2004	Sterling Accumulation A shares	110.3	98.53	0.3281
2004	Sterling Accumulation B shares	110.3	98.54	0.4083
2005	Sterling Accumulation A shares	130.8	101.7	0.5907
2005	Sterling Accumulation B shares	130.8	101.7	1.8689
2006	Sterling Accumulation A shares	135.1	118.8	0.7800
2006	Sterling Accumulation B shares	135.2	118.9	0.8708
2007	Sterling Accumulation A shares	139.2	120.1	0.7143
2007	Sterling Accumulation B shares	139.3	120.2	0.7565
2008*	Sterling Accumulation A shares	130.1	91.22	0.9203
2008*	Sterling Accumulation B shares	130.2	91.29	0.9364

*to 31st October 2008

Japan Equities

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Japanese equities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisers
CPR Asset Management (appointed 22.02.08)
DIAM International Limited (appointed 22.02.08)
Schroder Investment Management Limited (resigned 13.02.08)
State Street Global Advisors Limited (transition 14.02.08 to 21.02.08)

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/08	% of total net assets as at 31/10/07
Basic Materials	8.34	10.34
Business & Public Services	4.93	1.10
Consumer Goods	13.51	17.54
Consumer Services	13.80	10.67
Financials	14.93	15.74
Generic	0.33	0.00
Health Care	4.92	8.43
Industrials	16.69	17.25
Oil & Gas	0.45	0.00
Technology	2.23	4.61
Telecommunications	2.40	5.85
Utilities	8.03	3.59
Total Equities	90.56	95.12
Collective Investment Schemes	0.00	2.46
Net other assets	9.44	2.42
Net Assets	**100.00**	**100.00**

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/08	Holding	% of Sub-fund as at 31/10/07
Toyota Motor	3.96	Toyota Motor	8.42
Mitsubishi UFJ Financial Group	3.66	Mizuho Financial Group	3.77
Nintendo	2.04	Sumitomo Mitsui Financial Group	3.68
Canon	1.97	Mitsui	3.49
Panasonic	1.69	KDDI	3.22
Nippon Telegraph & Telephone	1.66	Canon	3.16
Sony	1.58	Hoya	2.76
Mitsubishi Estate	1.56	Mitsubishi	2.56
Tokio Marine Holdings	1.54	Daiwa House Industry	2.55
Mizuho Financial Group	1.54	Chiba Bank	2.47

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Japan Equities

Fund Performance

Percentage Price Change from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
Japan Equities Sub-fund	-46.02	14.42	46.53
FT World Japan	-15.01	-13.22	10.87

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
The Japanese economy grew at double the expected rate in the last quarter of 2007. Strong capital spending and exports helped drive quarterly growth to 0.9%, compared with a forecast 0.4% rise. Japan's current account surplus fell 4.7% in December from the same month a year earlier.

The Bank of Japan kept interest rates on hold during the first half of 2008 and cut its economic growth forecast for the rest of the year in response to the poor data released at the beginning of the year.

Manufacturing activity slowed in February due to weaker exports. The NTC Research/Nomura/JMMA Purchasing Managers Index, which gives an early snapshot of the health of manufacturing, declined to a seasonally adjusted 50.8 in February from 52.3 in January

Japanese manufacturers' sentiment fell to a four-year low in March, battered by high raw materials costs, slack domestic demand, the Yen's rise and worries over the US economic outlook. Corporate optimism in the service sector also stayed near the four-year low registered in January, as many firms felt the pinch from rising crude oil and food prices and sluggish personal consumption.

In March, consumer prices rose at their fastest pace in nine years as higher oil and food prices affected the economy.

May saw inflation rise to 1.5%, this was the highest level in the last ten years. Data released showed that confidence among the largest manufacturers also fell for a second consecutive quarter in Q2. Unemployment increased over the same period.

The Bank of Japan cut its economic growth forecast in July, raised its inflation estimate and kept the benchmark interest rate at 0.5%, saying higher commodity prices were hindering the expansion of the world's second-largest economy. Confidence among Japan's largest manufacturers fell to a four-year low as the Tankan Index of manufacturer sentiment saw its third quarterly decline

In August Japanese household budgets came under pressure as the inflation rate exceeded 2% for the first time in a decade, causing consumer sentiment to drop to the lowest level in at least 26 years. The unemployment rate rose to the highest in almost two years adding to signs that the economy's longest post war expansion may be coming to an end.

Japanese economic data released by the Central Bank in September showed that exports were losing steam and Japan's expansion was stagnating. The global financial crisis spurred by the bankruptcy of Lehman may weaken Japan further, diminishing hopes that the economy would rebound after contracting in the second quarter.

The Bank of Japan decided to cut its key interest rate by 0.2% to 0.3% in October, marking its first rate cut since 2001. The unemployment rate unexpectedly fell from a two-year high and job vacancies tumbled to a four-year low as job seekers stopped looking for work amid an economic slowdown. Retail sales also fell for the first time in 14 months.

Fund Performance (continued)

Policy Review
The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of the appointed investment advisers to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook
2008 proved to be the most difficult year yet for the Japanese Equity Markets since the Tokyo Stock Exchange was established in April 1950. However, in GBP terms we saw positive returns for Japanese Equities due to currency moves. Japanese markets suffered strong falls throughout the year as investors became more risk averse due to the negative news from the global financial sector and the continuing global growth slowdown. The global recession could deepen in 2009, as all economies will face rising unemployment and lower corporate earnings. In Japan, the government could change again due to Lower House elections. Meanwhile, all governments will continue to announce more policy and fiscal measures in an attempt to minimize downside growth. With all these worldwide measures, we could see an improvement in economic fundamentals in 2009. If throughout 2009, liquidity increases, investors regain positive sentiment and the inflows and repatriation into Japan restart, and if China sees strong fiscal expansion and there is an improvement in trading conditions with Japan, then we could see a turning point in the Japanese Equity markets. However, in the meantime the volatility will continue.

Japan Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 0.6242p will be reinvested on behalf of Sterling Accumulation A shareholders, 0.6699p on behalf of Sterling Accumulation B shareholders and 0.9440p on behalf of Sterling Accumulation D shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.05%	0.03%
Total expense ratio	1.05%	1.03%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.03%
Total expense ratio	1.03%	1.03%
Sterling Accumulation D shares		
ACD's periodic charge	0.75%	0.40%
Other expenses	0.03%	0.03%
Total expense ratio	0.78%	0.43%

On 20 November 2008 the ACD's periodic charge for Sterling Accumulation D share class changed from 0.40% to 0.75%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	142.5	38,496,900	54,856,190
	Sterling Accumulation B shares	142.8	64,994	92,834
	Sterling Accumulation D shares	144.5	23,928,558	34,581,567
31st October 2007	Sterling Accumulation A shares	131.2	49,075,300	64,406,181
	Sterling Accumulation B shares	131.4	64,994	85,434
	Sterling Accumulation D shares	133.8	31,869,958	42,627,018
31st October 2008	Sterling Accumulation A shares	95.74	52,234,895	50,012,020
	Sterling Accumulation B shares	95.89	64,994	62,324
	Sterling Accumulation D shares	98.02	35,034,091	34,343,442

Japan Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	114.4	83.87	0.0837
2003	Sterling Accumulation B shares	114.4	83.87	0.3197
2003	Sterling Accumulation D shares	114.5	103.0	-
2004	Sterling Accumulation A shares	121.2	101.1	0.1303
2004	Sterling Accumulation B shares	121.2	101.1	0.0795
2004	Sterling Accumulation D shares	121.5	101.3	0.2992
2005	Sterling Accumulation A shares	159.2	107.2	0.1732
2005	Sterling Accumulation B shares	159.6	107.4	-
2005	Sterling Accumulation D shares	160.9	107.9	0.7617
2006	Sterling Accumulation A shares	169.9	134.6	0.2174
2006	Sterling Accumulation B shares	170.3	134.9	0.1976
2006	Sterling Accumulation D shares	171.8	136.5	0.9121
2007	Sterling Accumulation A shares	146.9	123.8	0.2070
2007	Sterling Accumulation B shares	147.2	124.1	0.1596
2007	Sterling Accumulation D shares	149.3	126.3	0.8572
2008*	Sterling Accumulation A shares	133.2	87.61	0.9948
2008*	Sterling Accumulation B shares	133.5	87.75	2.1146
2008*	Sterling Accumulation D shares	136.0	89.68	1.6198

*to 31st October 2008

Pacific Basin (excluding Japan) Equities

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Pacific Basin (excluding Japan) equities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Adviser
RCM (UK) Limited

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/08	% of total net assets as at 31/10/07
Australia	23.04	19.27
Bermuda	1.71	0.00
Cayman Islands	0.48	0.00
China	5.65	6.68
Hong Kong	19.96	22.36
India	7.61	8.29
Indonesia	0.80	0.63
Korea	13.42	17.64
Malaysia	0.91	4.04
Netherlands	1.07	0.00
Pakistan	0.00	0.52
Philippines	0.00	0.83
Singapore	4.46	5.37
Taiwan	11.77	11.44
Thailand	2.78	2.03
United States of America	1.95	0.00
Total Equities	95.61	99.10
Net other assets	4.39	0.90
Net Assets	**100.00**	**100.00**

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/08	Holding	% of Sub-fund as at 31/10/07
BHP Billiton	5.02	BHP Billiton	4.77
Samsung Electronics	4.81	China Mobile	4.38
China Mobile	4.34	Larsen & Toubro	2.72
United Overseas Bank	3.61	CNOOC	2.59
QBE Insurance Group	3.46	HON HAI Precision Industry	2.49
Taiwan Semiconductor Manufacturing	3.33	Bharat Heavy Electricals	2.45
Hopewell Holdings	3.18	China Construction Bank	2.32
Westpac Banking	3.09	Hong Kong Exchanges and Clearing	2.30
CSL	2.71	POSCO	2.20
China Construction Bank	2.51	Samsung Electronics	2.17

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Pacific Basin (excluding Japan) Equities

Fund Performance

Percentage Price Change and Sector Ranking from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
Pacific Basin (excluding Japan) Equities Sub-fund	-46.02	14.42	46.53
FT All World Pacific ex Japan	-44.92	6.67	44.07

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
In the last quarter of 2007 China's consumer prices hit an 11 year high and reached a 6.9% increase from a year earlier. The People's Bank of China increased the one-year benchmark deposit rate to 4.14%, and the one-year lending rate to 7.47%. Elsewhere, macro-economic data remained robust, showing expanding growth in most regions.

The Asia region continued to grow at a fast pace and in the first quarter of 2008 China's GDP grew 10.6% year-on-year, while Korea lagged on lower domestic consumption. In Hong Kong, the Gross Domestic Product increased by 7.1% in real terms over a year earlier, compared with the 6.9% growth in the fourth quarter of 2007

China's export growth bounced back to 30.6% in March from 6.5% growth in February, while manufacturing accelerated to 18.0% from 15% in the previous month. The economy grew at an annual rate of 10.1% in the three months to June, down from 10.6% over the previous quarter.

Inflation remained at record highs across Asia and has become one of the main problems for Asian governments. In China, consumer prices hit another high of 8.5% in April with food prices rising more than 23%. The People's Bank of China responded by raising interest rates twice, with the latest 0.5% hike taking the rate to 16.0%.

Central Banks across the region responded to the rising inflationary pressures by tightening monetary conditions, as India, Malaysia, Indonesia and Taiwan also hiked their rates.

Inflation continued to rise across the Asia-Pacific region in July, complicating policy for Central Banks as economic growth cooled. Malaysia's consumer prices rose at the fastest pace in 26 years in June. In Australia, data released showed that the inflation rate surged to a two-year high in the second quarter.

In August, Asian Governments lowered their 2008 growth forecasts as the global slowdown spread further and soaring prices hurt spending. By region, data released showed that Singapore's exports are expected to fall this year for the first time since 2001. In China, economic growth slowed further.

Markets across Asia Pacific hit their lowest levels for 27 months in September. Fears deepened about the global economy, the prospects for the US and the effects on China. China's industrial output growth fell to a 6-year low as the closure of many factories for the Olympics compounded the impact of softening demand for the country's exports. However, sales expanded to a record pace.

The markets across the region fell even further in October as risk aversion continued due to more negative news flow from the global financial sector and the continued global growth slowdown.

Pacific Basin (excluding Japan) Equities

Fund Performance (continued)

Policy Review
The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of the appointed investment adviser to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook
Over the year the Asian markets suffered as investors became more risk averse due to the negative news flow from the global financial sector, higher inflation and a possible global growth slowdown. However, valuations in some emerging markets reached historic highs in April, but now are cheaper than ever before. Governments are currently focusing on the growth risks as inflation is now declining due to lower commodity prices.

Looking to 2009, although the global economic slowdown looks set to continue, the financial system in emerging markets is still healthy and these economies are still growing, so we could see a turn around in these markets as investor confidence slowly returns.

Pacific Basin (excluding Japan) Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 4.6171p will be reinvested on behalf of Sterling Accumulation A shareholders, 5.4905p on behalf of Sterling Accumulation B shareholders and 7.4438p on behalf of Sterling Accumulation D shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.07%	0.05%
Total expense ratio	1.07%	1.05%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.07%	0.05%
Total expense ratio	1.07%	1.05%
Sterling Accumulation D shares		
Manager's periodic charge	0.75%	0.40%
Other expenses	0.07%	0.05%
Total expense ratio	0.82%	0.45%

On 20 November 2008 the ACD's periodic charge for Sterling Accumulation D share class changed from 0.40% to 0.75%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	263.9	14,200,900	37,480,203
	Sterling Accumulation B shares	264.2	161,350	426,266
	Sterling Accumulation D shares	267.5	15,532,603	41,553,643
31st October 2007	Sterling Accumulation A shares	437.1	14,002,800	61,201,646
	Sterling Accumulation B shares	437.4	161,350	705,789
	Sterling Accumulation D shares	445.1	12,894,968	57,389,420
31st October 2008	Sterling Accumulation A shares	235.1	12,606,911	29,635,801
	Sterling Accumulation B shares	236.0	161,350	380,782
	Sterling Accumulation D shares	241.6	13,612,747	32,890,560

Pacific Basin (excluding Japan) Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	166.0	109.1	1.4955
2003	Sterling Accumulation B shares	166.0	109.1	1.4464
2003	Sterling Accumulation D shares	166.0	150.5	0.1690
2004	Sterling Accumulation A shares	177.1	147.4	2.3447
2004	Sterling Accumulation B shares	176.8	147.2	2.4591
2004	Sterling Accumulation D shares	177.9	147.7	1.7662
2005	Sterling Accumulation A shares	236.6	175.6	3.7213
2005	Sterling Accumulation B shares	236.8	175.6	4.6502
2005	Sterling Accumulation D shares	238.9	176.6	4.7217
2006	Sterling Accumulation A shares	285.1	231.3	3.4031
2006	Sterling Accumulation B shares	285.4	231.5	3.4197
2006	Sterling Accumulation D shares	289.2	234.0	4.5369
2007	Sterling Accumulation A shares	445.0	273.9	4.1066
2007	Sterling Accumulation B shares	445.4	274.2	3.9826
2007	Sterling Accumulation D shares	453.2	278.1	5.9599
2008*	Sterling Accumulation A shares	407.8	208.6	4.6171
2008*	Sterling Accumulation B shares	408.1	208.7	5.4905
2008*	Sterling Accumulation D shares	415.7	213.4	7.4438

*to 31st October 2008

Sterling Bond

Fund Facts

Investment Objective and Policy
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Sterling fixed interest securities, with the appointment of sub-fund advisers, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisers
Baillie Gifford & Co
Blackrock Investment Managers Limited
Royal London Asset Management
Western Asset Management Company Limited

Fund Profile

Portfolio of Investments

Spread of investments **Fixed interest securities grouped by ratings ***	**% of total net assets as at 31/10/08**	**% of total net assets as at 31/10/07**
AAA to AA	40.40	31.37
AA- to A+	15.69	15.08
A to A-	22.21	18.87
BBB+ to BBB	12.90	15.85
below BBB to unrated	5.80	12.70
Total fixed interest securities	97.00	93.87
Collective Investment Schemes	0.56	1.41
Net other assets	2.44	4.72
Net Assets	**100.00**	**100.00**

** source: S&P / Moody's*

Major Holdings
The top 10 holdings at the end of this period and the previous period are shown below.

Holding	**% of Sub-fund as at 31/10/08**	**Holding**	**% of Sub-fund as at 31/10/07**
Treasury 4.75% 2020	2.45	Bundesrepublik Deutschland 4% 2037	2.05
European Investment Bank 4.75% 2018	1.88	Treasury 5% 2025	1.48
Treasury 4.25% 2011	1.83	United Kingdom Gilt 7.25% 2007	1.33
Network Rail Infrastructure Finance 4.375% 2030	1.81	Treasury 4.75% 2038	1.24
European Investment Bank 5.625% 2032	1.73	European Investment Bank 5.625% 2032	1.06
Treasury 5% 2018	1.65	BAA 5.75% 2031	1.04
Bundesrepublik Deutschland 5.5% 2031	1.51	Standard Life Funding 6.14% Perpetual	1.02
Treasury 4.75% 2038	1.42	Bundesrepublik Deutschland 5.5% 2031	0.95
Treasury 6% 2028	1.26	Society of Lloyd's 7.421% Perpetual	0.85
Landwirtschaftliche Rentenbank 5.25% 2012	1.12	Western Asset High Yield Bond	0.79

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The ACD reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Sterling Bond

Fund Performance

Percentage Price Change and Sector Ranking from 31st October 2003 to 31st October 2008			
	1 Year	3 Years	5 Years
Sterling Bond Sub-fund	-12.10	-11.47	-0.17
20% FT All Stocks/80% IBoxx £ Non Gilt	-3.96	0.04	15.95

Source: Lipper – bid to bid, net income reinvested, net of fees.
Past performance is not a guarantee of future returns.

Market Review
At the beginning of this period we were in the midst of the credit crunch, which was starting to bite harder; Bear Stearns filed for bankruptcy and was rescued by JP Morgan with funding provided by the Federal Reserve.

Credit spreads for Corporate Bonds were at their widest levels, but the rescue of Bear Stearns provided a catalyst for a tightening in the credit markets. Equity markets rallied and spreads tightened during a two month period with financial bonds leading the way.

UK Government bonds turned back to the view that inflation was on the up and that the Bank of England (BoE) would soon have to raise rates to combat inflation. UK 2 Year Gilt Yields rose from 3.65% to 5.50% between the end of March and June due to the inflation outlook and a reversal of the flight to quality.

June, however, saw a renewed sense of uncertainty in the Bond market. Although inflation was high, and rising, attention shifted towards the downward pressures on economic fundamentals. The US housing market was showing no signs of bottoming-out and US employment started to rise. In the UK, the housing market started to show signs of slowing down as lenders tightened credit dramatically and growth started to weaken.

All of this was seen to be weighing on the consumer even though the US was providing a fiscal stimulus. Many saw this as a temporary help and companies were announcing job cuts. Borrowing costs for companies were extremely high so the outlook for corporates darkened. In the Eurozone however, the ECB surprised the markets by raising rates due to the inflation outlook.

Q3 2008 proved to be a defining period in the current financial crisis. The freezing of credit and lack of trust between lenders meant counterparties hoarded cash and the Central Banks became the main lenders to the market.

A lack of confidence and increased counterparty risk led to many predominant financial institutions either being bailed out or failing. The notable names included Fannie Mae and Freddie Mac which were bailed out by the US Government and Lehman Brothers who were not and were allowed to fail. Morgan Stanley and Goldman Sachs applied to become national banks in order to gain access to government funding marking the end of the US Investment Bank model.

In response to the lack of liquidity following the Lehman's failure Central Banks launched various programs ensuring troubled companies could access funding. The US announced plans to provide $700bn for their Troubled Asset Relief Program (TARP).

Sterling Bond

Fund Performance (continued)

Market Review (continued)
Corporate Bond spreads widened dramatically and Financial Bonds as an asset class reached historically high levels of 475 basis points over UK Government Bonds. As global economic data deteriorated Government bond yields dropped, as the market went back to a flight to quality, and as investors priced in aggressive interest rate cuts. The UK 2 Year yield dropped from 5.2% to 4% during Q308 even as the Bank of England kept rates unchanged at 5%.

As economic data worsened on all fronts, interest rates were cut aggressively worldwide. On the 8th October a 50bp co-ordinated cut was made by the central banks of the US, UK, Eurozone, Canada, Sweden and Switzerland.

Policy Review
The portion of the assets under the management of each investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. The portfolio remained fully invested.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisers to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook
Corporate Bond credit spreads which have now moved out to historically high levels, on the back of investor risk aversion, may need a period of consolidation and stability to regain investors appetite. Although the start of the new year may well continue to evidence nervousness and reduced levels of liquidity as we move forward into 2009 volatility should reduce and investor demand grow for good quality securities. Clearly the world's major economies are already in, or going into, recession. The only arguments are on how severe and how long the downturn will last. However, the risk of inflation has been greatly reduced with the fall in commodity values, allowing Central Banks around the world to aggressively cut interest rates and loosen monetary policy. In 2009, we should expect further cuts in world interest rates and the Bank of England could bring UK bank rate down to near zero. Along with lower official rates, we may also see substantial quantitative easing both in the US and UK with Central Banks purchasing a broad range of securities including Treasury Bonds, mortgage and asset backed securities, and even equities. These actions, alongside the recapitalisation of the banks and government guaranteed securities issuance, should begin to unfreeze the credit markets. With prospects of low or even zero inflation corporate bond yields showing real rates of return in excess of 7%, look very attractive and present a great opportunity for both real growth as well as achieving a high running yield.

Sterling Bond

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement
On 31st December 2008 a final distribution of 4.3908p will be reinvested on behalf of Sterling Accumulation A shareholders.

Total Expense Ratio
The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs in running a Collective Investment Scheme. The TER consists principally of the ACD's annual charge, but also includes the costs for other services namely depositary, custody, audit and publication. Collectively these fees are known as other expenses.

Expense Type	as at 31/10/08	as at 31/10/07
Sterling Accumulation A shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.02%	0.02%
Total expense ratio	1.02%	1.02%
Sterling Accumulation B shares		
ACD's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.01%
Total expense ratio	1.01%	1.01%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31st October 2006	Sterling Accumulation A shares	200.3	326,845,300	654,593,837
31st October 2007	Sterling Accumulation A shares	196.0	327,238,800	641,456,386
31st October 2008	Sterling Accumulation A shares	170.8	268,346,603	458,222,463

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2003	Sterling Accumulation A shares	181.2	166.6	5.7617
2003	Sterling Accumulation B shares	181.2	166.6	6.6150
2003	Sterling Accumulation C shares	183.9	168.2	1.2392
2004	Sterling Accumulation A shares	189.4	173.6	6.4172
2004	Sterling Accumulation B shares	189.7	173.9	6.6673
2005	Sterling Accumulation A shares	200.7	186.5	6.0934
2005	Sterling Accumulation B shares	199.0	186.9	11.2488
2006	Sterling Accumulation A shares	204.2	194.2	6.2084
2006	Sterling Accumulation B shares+	202.5	192.6	3.2058
2007	Sterling Accumulation A shares	200.9	191.4	6.8476
2008*	Sterling Accumulation A shares	199.7	171.5	8.4671

*to 31st October 2008
+All shares in the Sterling Accumulation B share class were cancelled on 30 June 2006.

Appointments

ACD and Registrar
Santander Portfolio Management UK Limited
Abbey National House
2 Triton Square
Regent's Place
London NW1 3AN
United Kingdom
Authorised and regulated by the Financial Services Authority

Directors
Jose Ignacio Izquierdo Saugar (resigned 24 October 2008)
John Christopher Bearman
Alan Mathewson
Nicolas Edward Merigo Cook
Keith Morgan (resigned 31 October 2007)
Eduardo Suarez Alvarez Novoa
Antonio Lorenzo
Jeffrey Conrad Scott (appointed 25 September 2008)

Depositary
Royal Bank of Scotland
Trustee & Depositary Services
The Broadstone
50 South Gyle Cresent
Edinburgh EH12 9UZ
United Kingdom
Authorised and regulated by the Financial Services Authority

Independent Auditors
Deloittes LLP
Lomond House
9 George Square
Glasgow G2 1QQ
United Kingdom

Investment advisers:

AXA Rosenberg Investment Management Limited (resigned 21.07.08)
9a Devonshire Square
London EC2M4YY
United Kingdom
Authorised and regulated by the Financial Services Authority

Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN
United Kingdom
Authorised and regulated by the Financial Services Authority

Blackrock Investment Managers Limited
(formerly Merrill Lynch Investment Managers Limited)
33 King William Street
London EC4R 9AS
United Kingdom
Authorised and regulated by the Financial Services Authority

Appointments (continued)

CPR Asset Management (appointed 22.02.08)
10 Place des Martyrs du Lycee Buffon
75015
Paris
Authorised and regulated by the Financial Services Authority

DB Absolute Return Strategies Limited
One Appold Street
London EC2A 2UU
United Kingdom
Authorised and regulated by the Financial Services Authority

DIAM International Limited (appointed 22.02.08)
Bracken House
One Friday Street
London EC4M 9JA
United Kingdom
Authorised and regulated by the Financial Services Authority

Goldman Sachs Asset Management International
4th Floor, Peterborough Court
133 Fleet Street
London EC4A 7RF
United Kingdom
Authorised and regulated by the Financial Services Authority

JP Morgan Fleming Asset Management (UK) Limited (resigned 20.06.08)
10 Aldermanbury
London EC2V 7RF
United Kingdom
Authorised and regulated by the Financial Services Authority

Newton Investment Management Limited (appointed 01.07.08)
The Bank of New York Mellon Centre
160 Queen Victoria Street
London
EC4V 4LA
Authorised and regulated by the Financial Services Authority

RCM (UK) Limited
155 Bishopsgate
London EC2M 3AD
United Kingdom
Authorised and regulated by the Financial Services Authority

Royal London Asset Management
55 Gracechurch Street
London EC3V 0UF
United Kingdom
Authorised and regulated by the Financial Services Authority

Santander Asset Management SA SGIIC (appointed 31.07.08)
Ciudad Grupo Santander
Avenida De Cantabria
28660 Boadilla Del Monte
Authorised and regulated by the Financial Services Authority
Madrid

Appointments (continued)

Santander Asset Management UK (appointed 25.06.08)
Abbey National House
2 Triton Square
Regent's Place
London NW1 3AN
United Kingdom
Authorised and regulated by the Financial Services Authority

Schroder Investment Management Limited (resigned 13.02.08)
31 Gresham Street
London EC2V 7QA
United Kingdom
Authorised and regulated by the Financial Services Authority

State Street Global Advisors Limited
21 St James Street
London SW1Y 4SS
United Kingdom
Authorised and regulated by the Financial Services Authority

Western Asset Management Company Limited
10 Exchange Square
Primrose Street
London EC2A 2EN
United Kingdom
Authorised and regulated by the Financial Services Authority

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Abbey National plc advises on mortgages, a limited range of life assurance, pension and collective investment scheme products and acts as an insurance intermediary for general insurance.