# Santander Premium Fund

## Report and Accounts for the Year Ended 31 October 2009

# 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 may be recorded or monitored.

# UK Equities

## Fund Facts

**Investment Objective**
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.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of each investment adviser is chosen by the ACD and varies at the ACD's discretion. The securities are selected to achieve high risk-adjusted returns over the longer term. 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 Advisers**
BlackRock Investment Managers Limited
Newton Investment Management Limited
Santander Asset Management (UK) Limited
State Street Global Advisors Limited

## Fund Profile

**Portfolio of Investments**

| Spread of investments | % of total net assets as at 31/10/09 | % of total net assets as at 31/10/08 |
|---|---|---|
| Basic Materials | 0.07 | 1.74 |
| Consumer Goods | 15.00 | 19.60 |
| Consumer Services | 9.83 | 8.76 |
| Financials | 17.50 | 14.10 |
| Health Care | 1.15 | 10.25 |
| Industrials | 22.17 | 8.62 |
| Oil & Gas | 17.74 | 14.08 |
| Technology | 1.31 | 0.23 |
| Telecommunications | 8.04 | 8.16 |
| Utilities | 2.58 | 7.73 |
| Total Equities | 95.39 | 93.27 |
| | | |
| Collective Investment Schemes | 0.00 | 0.29 |
| Future Contracts | 0.00 | 0.00 |
| Net other assets | 4.61 | 6.44 |
| **Net Assets** | **100.00** | **100.00** |

# UK Equities

## Fund Profile (continued)

**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 31/10/09 | Holding | % of sub-fund as at 31/10/08 |
|---|---|---|---|
| HSBC Holdings | 6.13 | Vodafone Group | 6.13 |
| BP | 6.05 | BP | 5.22 |
| Vodafone Group | 5.78 | HSBC Holdings | 4.61 |
| GlaxoSmithKline | 4.50 | Dechra Pharmaceuticals | 4.59 |
| BG Group | 3.53 | Royal Dutch Shell ‘B’ | 4.34 |
| Royal Dutch Shell ‘B’ | 3.33 | AstraZeneca | 2.81 |
| British American Tobacco | 2.77 | British American Tobacco | 2.70 |
| AstraZeneca | 2.67 | Tesco | 2.37 |
| Rio Tinto | 2.42 | Reckitt Benckiser Group | 2.05 |
| Tesco | 2.19 | BAE Systems | 2.01 |

# 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. During the period under review the sub-fund had no material exposure to currency or interest rate risks. 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 31 October 2004 to 31 October 2009 | | | |
|---|---|---|---|
| | 1 Year to 31/10/09 | 3 Years to 31/10/09 | 5 Years to 31/10/09 |
| UK Equities sub-fund | +25.72% | -12.95% | +26.47% |
| FTSE All Share | +23.47% | -7.91% | +34.21% |

***Source Lipper - bid to bid, net of fees, net income reinvested.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**

In Q4 2008, the global economic crisis deepened. In the UK, the Government became the majority shareholder in The Royal Bank of Scotland and Lloyds Banking Group. The Government also put in place £250bn for banks to guarantee medium-term debt to help boost confidence within the troubled sector. Additionally, the Bank of England (BoE) made a further £200 billion available under its Special Liquidity Scheme for short-term borrowing to ease the liquidity squeeze.

In data released, economic growth slowed from 1.5% year on year in Q2 2009 to just 0.3% year on year in Q3 2009. The unemployment rate rose at its fastest pace since 1991 to 6%; a 10 year high. House sales fell to their lowest level since The Royal Institute of Chartered Surveyors began its survey in 1978.

Alongside bailouts, governments globally announced vast fiscal stimuli as the world economy slid further into what was now being seen as a deep recession. As the data worsened on all fronts, interest rates were cut aggressively worldwide. On 8 October 2008 a 0.5% co-ordinated cut was made by the central banks of the US, UK, Eurozone, Canada, Sweden and Switzerland. By the end of the year UK rates had been cut from 5% to 2%.

# UK Equities

## Fund Performance (continued)

**Market Review (continued)**
Signs of the economic downturn continued during the first quarter of 2009, with UK data looking particularly poor in terms of a slump in growth and rising unemployment. With house prices continuing to fall and households' access to credit severely constrained, the UK seems set for a prolonged downturn in consumer spending. However, Government actions remain supportive with interest rates moving to record lows. Furthermore, the announcement of a quantitative easing strategy also helped stimulate growth in the UK.

Not surprisingly, the UK market performed very poorly during January and February 2009 but rallied by 3% during March leaving the market down by 9% over the quarter. Cyclical stocks and banks were particularly strong. Crucially, banks have started to lend again and institutional investors have been supportive of the significant number of capital raising exercises undertaken by highly indebted UK companies over this period.

The UK market continued to rally off its lows at the beginning of the second quarter, largely reflecting relief that the various initiatives put into place by the relevant authorities over the past 12 to 18 months have averted any further meltdown in the financial system. This has been helped by various economic indicators being no worse than expected and in some cases beating market estimates. Despite a number of positive indicators, concerns remain over the state of the UK economy, particularly in reference to rising Government indebtedness and how this will be funded in the near future and the impact this will have on future economic growth.

The UK market reversed the poor first quarter performance, rallying 10% in the second quarter. Cyclicals and banks maintained the positive momentum into April and May though cyclicals have generally lost some momentum during June reversing some of the gains made during the quarter. Institutional investors continue to remain supportive of the significant number of capital raisings undertaken during this period.

The quarter ended September 2009 saw the UK stock market rise by an impressive 22%, taking the overall rally since the low point reached in early March 2009 to more than 40%.

Economic growth across the world picked-up in response to unprecedented levels of central banks' stimuli and this was mirrored in upgrades to company earnings expectations. Stock markets globally have breathed a collective sigh of relief. Commodities, real estate, automobiles and banks all performed better than the overall market.

The Kraft bid for Cadbury highlighted the extent to which some stocks were undervalued. Such corporate activity is a sign of confidence in the future with shares in Cadbury rising by more than 40% on the morning of the bid.

Investors have also been encouraged by the lack of any sign of inflationary pressure. The Bank of England left the base rate at 0.5% and announced its commitment to continue its policy of Quantitative Easing.

**Investment Outlook**
Ultimately, everything will depend upon the confidence of the consumer. Central banks have provided the liquidity and the worst fears of an economic slump have been averted but it is up to the consumer to spend rather than save if the UK economy is to continue its move out of recession.

# UK Equities

## Summary of Accounts

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

**Distribution Statement**
On 31 December 2009 a final distribution of 1.9302p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 2.0294p 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| **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 | 0.02% | 0.02% |
| Total expense ratio | 1.02% | 1.02% |

**Portfolio Turnover Rate**
The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund's portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 80.90% | 286.42% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 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 |
| 31 October 2008 | Sterling Accumulation A shares | 135.2 | 337,159,878 | 455,711,756 |
| | Sterling Accumulation B shares | 135.4 | 218,687 | 296,211 |
| 31 October 2009 | Sterling Accumulation A shares | 170.0 | 335,574,955 | 570,523,207 |
| | Sterling Accumulation B shares | 170.4 | 218,687 | 372,639 |

**Share Price & Distribution**

| Calendar Year | Share Description | Highest Share Price (pence) | Lowest Share Price (pence) | Distribution per Share (pence) |
|---|---|---|---|---|
| 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 |
| 2009* | Sterling Accumulation A shares | 174.4 | 118.1 | 4.264 |
| 2009* | Sterling Accumulation B shares | 174.8 | 118.6 | 4.381 |

*to 31 October 2009

# Europe (excluding UK) Equities

## Fund Facts

**Investment Objective**
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.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of each investment adviser is chosen by the ACD and varies at the ACD's discretion. Securities are selected to achieve high risk-adjusted returns over the longer term. 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 Advisers**
State Street Global Asset Management
State Street Global Advisors Limited

## Fund Profile

**Portfolio of Investments**

| Spread of investments | % of total net assets as at 31/10/09 | % of total net assets as at 31/10/08 |
|---|---|---|
| Austria | 0.70 | 0.15 |
| Belgium | 0.85 | 0.50 |
| Cyprus | 0.24 | 0.00 |
| Denmark | 1.65 | 2.46 |
| Finland | 3.92 | 4.13 |
| France | 22.44 | 22.80 |
| Greece | 1.31 | 1.75 |
| Germany | 14.13 | 13.14 |
| Ireland | 0.88 | 0.46 |
| Italy | 8.16 | 8.63 |
| Liechtenstein | 0.00 | 0.16 |
| Luxembourg | 0.64 | 0.22 |
| Netherlands | 9.28 | 8.91 |
| Norway | 1.94 | 2.46 |
| Portugal | 1.80 | 4.16 |
| Russia | 0.61 | 0.00 |
| Spain | 13.15 | 10.35 |
| Sweden | 1.84 | 2.20 |
| Switzerland | 14.77 | 13.77 |
| United Kingdom | 0.00 | 0.78 |
| Total Equities | 98.31 | 97.03 |
| | | |
| Net other assets | 1.69 | 2.97 |
| **Net Assets** | **100.00** | **100.00** |

# Europe (excluding UK) Equities

## Fund Profile (continued)

**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 31/10/09 | Holding | % of sub-fund as at 31/10/08 |
|---|---|---|---|
| Total | 3.71 | Total | 3.90 |
| Telefonica | 3.05 | Novartis | 2.79 |
| Sanofi-Aventis | 2.96 | Zurich Financial Services | 2.63 |
| Banco Santander | 2.74 | Energias de Portugal | 2.56 |
| Nestle | 2.45 | Banco Bilbao Vizcaya Argentaria | 2.51 |
| BNP Paribas | 2.37 | ENI | 2.48 |
| AXA | 2.32 | Sanofi-Aventis | 2.45 |
| ING Groep | 2.28 | Nestle | 2.45 |
| Nokia | 2.15 | Banco Santander | 2.40 |
| Novartis | 2.11 | Roche Holding | 2.15 |

## 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. During the period under review the sub-fund had exposure to fluctuations in currency and bank interest rates. 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 31 October 2004 to 31 October 2009 | | | |
|---|---|---|---|
| | 1 year to 31/10/09 | 3 years to 31/10/09 | 5 years to 31/10/09 |
| Europe (excluding UK) Equities sub-fund | +35.94% | +1.63% | +58.31% |
| FT World Europe ex UK | +29.59% | +4.48% | +59.99% |

***Source Lipper - bid to bid, net of fees, net income reinvested.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**
Data released over the period showed that growth in Europe slowed down sharply in Q3 2008, to 0.6% year on year compared to 1.4% year on year in Q2 2008. The weakness was mainly attributed to a decline in net exports, which had previously been performing well. Lower consumption spending saw inventory levels rise. Sharp falls in business confidence (to the lowest level since the 1990’s) are consistent with a rapid slowdown in manufacturing activity.

By the end of the year, the European Central Bank (ECB), in line with other central banks, made three rate cuts, lowering the rate to 2.5%, with the ECB instead choosing to focus on getting the banks to lend to each other again, showing that while they may not take rates lower, they are taking measures to tackle the growing economic downturn.

Markets continued to be weak during the first quarter of 2009, and the FTSE World Series Europe Ex UK Index delivered returns of -16.52%, even after a rally of + 7.99% in March. Economic data continued to be poor, with falling industrial production and retail sales, and rising unemployment. Weak economic data, difficulties in the banking sector and announcements of further rescue plans weighed on the market. The ECB continued to reduce interest rates to 1.5%. However in March, markets reacted positively to action taken by the Federal Reserve and the Treasury in the US, and to some signs of stabilisation in the housing market, which was perceived as the catalyst of the crisis.

# Europe (excluding UK) Equities

## Fund Performance (continued)

**Market Review (continued)**
In the second quarter of 2009 investors demonstrated an increase in risk appetite and the European markets continued to rise following the rally in March. The strong rise was in spite of continued economic bad news and was driven by policy interventions and early signs of green shoots in real activity which appears to have succeeded in bringing a degree of stabilisation to the financial system. Economic news over the quarter was generally disappointing, although some green shoots did begin to appear, such as Eurozone economic confidence rebounding when in June 2009 the economic sentiment indicator hit its highest level since last November 2008.

The ECB cut rates twice over the period, to a record low of 1% and pumped money into the banking system in a bid to unlock credit markets and revive the region's economies.

The third quarter of 2009 began quietly in Europe, as investors nervously digested the rally that boosted global equity markets during the Spring. However, second quarter earnings reports were broadly constructive, as aggressive cost cutting exercises improved profitability.

Stocks in general saw mild corrections during every month of the third quarter, but negative momentum never accelerated, and dips were consistently followed by swift re-bounds to fresh 2009 highs. Leading economic indicators continued to suggest an emergence from recession, with business confidence picking up consistently.

**Investment Outlook**
Two consecutive quarters of solid returns have left equity markets measurably extended to the upside. While the persistent buying pressure should not be regarded as a sign of weakness, a moderation of this pressure into the Autumn would provide a much needed cushion of support and lay a better foundation for fresh appreciation into 2010.

# Europe (excluding UK) Equities

## Summary of Accounts

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

**Distribution Statement**

On 31 December 2009 a final distribution of 2.1067p will be reinvested on behalf of Sterling Accumulation A shareholders and a distribution of 2.0816p 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| **Sterling Accumulation A shares** | | |
| ACD's periodic charge | 1.00% | 1.00% |
| Other expenses | 0.05% | 0.04% |
| Total expense ratio | 1.05% | 1.04% |
| **Sterling Accumulation B shares** | | |
| ACD's periodic charge | 1.00% | 1.00% |
| Other expenses | 0.05% | 0.04% |
| Total expense ratio | 1.05% | 1.04% |

**Portfolio Turnover Rate**

The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund's portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 411.69% | 279.23% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 October 2007 | Sterling Accumulation A shares | 224.1 | 63,378,105 | 142,030,141 |
| | Sterling Accumulation B shares | 223.5 | 145,566 | 325,279 |
| 31 October 2008 | Sterling Accumulation A shares | 142.2 | 61,963,711 | 88,086,903 |
| | Sterling Accumulation B shares | 141.8 | 145,566 | 206,342 |
| 31 October 2009 | Sterling Accumulation A shares | 193.3 | 62,224,203 | 120,285,769 |
| | Sterling Accumulation B shares | 192.7 | 145,566 | 280,538 |

**Share Price & Distribution**

| Calendar Year | Share Description | Highest Share Price (pence) | Lowest Share Price (pence) | Distribution per Share (pence) |
|---|---|---|---|---|
| 2004 | Sterling Accumulation A shares | 131.4 | 108.3 | 1.6266 |
| 2004 | Sterling Accumulation B shares | 131.4 | 108.4 | 1.7119 |
| 2005 | Sterling Accumulation A shares | 166.1 | 127.6 | 1.9916 |
| 2005 | Sterling Accumulation B shares | 165.5 | 127.4 | 1.4434 |
| 2006 | Sterling Accumulation A shares | 200.0 | 162.0 | 2.7006 |
| 2006 | Sterling Accumulation B shares | 199.4 | 161.5 | 2.7879 |
| 2007 | Sterling Accumulation A shares | 226.9 | 197.1 | 3.7086 |
| 2007 | Sterling Accumulation B shares | 226.3 | 196.6 | 3.7001 |
| 2008 | Sterling Accumulation A shares | 227.1 | 132.3 | 4.7601 |
| 2008 | Sterling Accumulation B shares | 226.5 | 131.9 | 4.8013 |
| 2009* | Sterling Accumulation A shares | 211.8 | 126.0 | 4.2515 |
| 2009* | Sterling Accumulation B shares | 211.2 | 125.6 | 4.2308 |

*to 31 October 2009

# United States Equities

## Fund Facts

**Investment Objective**
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment predominantly 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.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of each investment adviser is chosen by the ACD and varies at the ACD's discretion. Securities are selected to achieve high risk-adjusted returns over the longer term. 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 Advisers**
Goldman Sachs Asset Management International
DB Absolute Return Strategies Limited

## Fund Profile

**Portfolio of Investments**

| Spread of investments | % of total net assets as at 31/10/09 | % of total net assets as at 31/10/08 |
|---|---|---|
| Basic Materials | 4.76 | 4.02 |
| Consumer Goods | 9.50 | 7.50 |
| Consumer Services | 24.60 | 19.66 |
| Financials | 15.42 | 15.15 |
| Health Care | 9.73 | 12.48 |
| Industrials | 13.50 | 15.39 |
| Oil & Gas | 7.11 | 9.77 |
| Technology | 5.98 | 4.87 |
| Telecommunications | 2.93 | 3.98 |
| Utilities | 2.96 | 3.45 |
| Total Equities | 96.49 | 96.27 |
| | | |
| Future Contracts | 0.00 | 0.00 |
| Net other assets | 3.51 | 3.73 |
| **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 31/10/09 | Holding | % of sub-fund as at 31/10/08 |
|---|---|---|---|
| Microsoft | 2.63 | Exxon Mobil | 3.47 |
| Exxon Mobil | 2.57 | Microsoft | 2.30 |
| International Business Machines | 1.97 | Pfizer | 2.19 |
| AT&T | 1.90 | Procter & Gamble | 2.05 |
| Pfizer | 1.87 | Verizon Communications | 1.94 |
| Eli Lilly | 1.59 | Wal-Mart Stores | 1.77 |
| JP Morgan Chase | 1.59 | Hewlett-Packard | 1.53 |
| Wal-Mart Stores | 1.57 | AT&T | 1.52 |
| Wells Fargo | 1.56 | Wells Fargo | 1.49 |
| Bank of America | 1.54 | Johnson & Johnson | 1.48 |

# United States 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. During the period under review the sub-fund had exposure to fluctuations in currency and bank interest rates. 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 31 October 2004 to 31 October 2009 | | | |
|---|---|---|---|
| | 1 year to 31/10/09 | 3 years to 31/10/09 | 5 years to 31/10/09 |
| United States Equity sub-fund | +10.00% | -13.38% | +7.60% |
| FT World USA | +11.03% | -14.09% | +17.02% |

***Source Lipper - bid to bid, net of fees, net income reinvested.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**
The US was hardest hit by the global slowdown, where year on year growth slowed from 2.1% in Q2 to 0.7% in Q3 2008, mainly due to consumer spending falling at its steepest rate in 28 years. Consumer confidence also fell to a record low reading in October 2009, while seasonally adjusted auto sales fell to their lowest level in 26 years in November 2008. More bad news came from the housing market, where prices fell at the fastest rate in 40 years. Manufacturing activity also contracted further, falling to its lowest level in 26 years. The unemployment rate rose to 6.7%, the highest since 1993.

In Q4 2008, the US injected $250bn into the county’s biggest banks as they changed the way the Troubled Assets Relief Programme (TARP) would be distributed. Part of the TARP was later allocated to the big three automakers in an industry bailout. The Federal Reserve Bank (Fed) announced they would also make $800bn available to buy mortgage-backed securities and to help extend credit to businesses and consumers.

Rates were cut in October 2008 and by December the interest rate was slashed to 0.25% – the lowest level in the nation's 233 year-history – and signalled new emergency steps by the Fed to boost lending as it sought to lift the world's biggest economy out of a deepening recession.

The first quarter of 2009 ended with negative returns for US equities, and the S&P 500 Index lost 11.67%, in spite of the 8.54% upturn that took place in March. On the whole, the economic context is still weak, with low employment figures and falling retail sales pushing the market downwards. Good news came from the Fed who announced that it would increase the size of its balance sheet, purchasing mortgage and public debt, and the Treasury’s plan to aid banks in difficulties was explained in further detail.

March 2009 saw some slightly more encouraging data released, and pointed to possible stabilisation with a rise in retail sales, number of home sales and first time purchases, although house prices continued to fall.

The second quarter of 2009 saw US markets move upwards, with financial stocks, which had performed badly for 2008, seeing the strongest gains. Early signs of economic recovery started to come through as some better than expected economic results were published and concerns around deflation subsided.

# United States Equities

## Fund Performance (continued)

**Market Review (continued)**

Notable data released in Q2 2009 included news that consumer confidence rose in June to its highest level since February 2008, according to the University of Michigan's index of confidence. The Fed kept US interest rates unchanged over the period on their view that that the recession in the US is "slowing", but that the economy is likely to remain “weak”. New banking reform plans were unveiled, aimed at preventing future financial crises which will impose tougher capital requirements for big banks, increase regulation of financial markets, improve consumer and investor protection and empower the Fed to take over failing banks. In corporate news, General Motors filed for Chapter 11 bankruptcy protection in the US. This was the third largest bankruptcy in US history.

During the third quarter of 2009, the US stock market continued to rally. The S&P Index reached double digit returns surprisingly quickly, on the back of an improving economic outlook, positive investor sentiment and excess liquidity waiting to come into the market.

Employment did not pick up over the quarter, and therefore consumers remain cautious. However, leading indicators point to a recovery in production which should eventually translate into better employment numbers.

**Investment Outlook**

Whilst it is still early in the recovery cycle, the recession appears to have ended and economic growth should be reasonable over the coming quarters. The market is benefitting from a turn in the inventory cycle, easing credit conditions and further fiscal stimulus. These measures should maintain the growth momentum going forward.

# United States Equities

## Summary of Accounts

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

**Distribution Statement**
On 31 December 2009 a final distribution of 0.3611p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 0.3665p 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| 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% |

**Portfolio Turnover Rate**
The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund's portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 262.64% | 395.36% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 October 2007 | Sterling Accumulation A shares | 131.8 | 97,978,600 | 129,176,080 |
| | Sterling Accumulation B shares | 131.9 | 496,075 | 654,524 |
| 31 October 2008 | Sterling Accumulation A shares | 102.9 | 98,411,350 | 101,260,588 |
| | Sterling Accumulation B shares | 103.0 | 496,075 | 510,824 |
| 31 October 2009 | Sterling Accumulation A shares | 113.2 | 93,237,450 | 105,574,863 |
| | Sterling Accumulation B shares | 113.3 | 496,075 | 562,140 |

**Share Price & Distribution**

| Calendar Year | Share Description | Highest Share Price (pence) | Lowest Share Price (pence) | Distribution per Share (pence) |
|---|---|---|---|---|
| 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 | 87.38 | 0.9203 |
| 2008 | Sterling Accumulation B shares | 130.2 | 87.44 | 0.9364 |
| 2009* | Sterling Accumulation A shares | 120.0 | 84.90 | 1.2125 |
| 2009* | Sterling Accumulation B shares | 120.1 | 84.97 | 1.1708 |

*to 31 October 2009

# Japan Equities

## Fund Facts

**Investment Objective**
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investments predominantly in Japanese equities.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of each investment adviser is chosen by the ACD and varies at the ACD's discretion. Securities are selected to achieve high risk-adjusted returns over the longer term. 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 Advisers**
DIAM International Limited
CPR Asset Management
Santander Global Asset Management

## Fund Profile

**Portfolio of Investments**

| Spread of investments | % of total net assets as at 31/10/09 | % of total net assets as at 31/10/08 |
|---|---|---|
| Basic Materials | 7.04 | 8.34 |
| Business & Public Services | 4.00 | 4.93 |
| Consumer Goods | 15.57 | 13.51 |
| Consumer Services | 11.04 | 13.80 |
| Financials | 12.74 | 14.93 |
| Generic | 0.53 | 0.33 |
| Health Care | 5.10 | 4.92 |
| Industrials | 24.12 | 16.69 |
| Oil & Gas | 1.25 | 0.45 |
| Technology | 1.25 | 2.23 |
| Telecommunications | 2.69 | 2.40 |
| Utilities | 10.22 | 8.03 |
| Total Equities | 95.55 | 90.56 |
| Net other assets | 4.45 | 9.44 |
| **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 31/10/09 | Holding | % of sub-fund as at 31/10/08 |
|---|---|---|---|
| Toyota Motor | 2.63 | Toyota Motor | 3.96 |
| Mitsubishi UFJ Financial Group | 2.56 | Mitsubishi UFJ Financial Group | 3.66 |
| Honda Motor | 2.13 | Nintendo | 2.04 |
| Toshiba | 1.95 | Canon | 1.97 |
| Panasonic | 1.82 | Panasonic | 1.69 |
| Komatsu | 1.81 | Nippon Telegraph & Telephone | 1.66 |
| Nissan Motor | 1.76 | Sony | 1.58 |
| Mizuho Financial Group | 1.66 | Mitsubishi Estate | 1.56 |
| Sumitomo Eletric Industries | 1.64 | Tokio Marine Holdings | 1.54 |
| NTT DoCoMo | 1.53 | Mizuho Financial Group | 1.54 |

# Japan 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. During the period under review the sub-fund had exposure to fluctuations in currency and bank interest rates. 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 31 October 2004 to 31 October 2009 | | | |
|---|---|---|---|
| | 1 Year to 31/10/09 | 3 Years to 31/10/09 | 5 Years to 31/10/09 |
| Japan Equities Sub-fund | +11.94% | -24.95% | -3.69% |
| FT World Japan | +11.03% | -14.09% | +17.02% |

***Source Lipper - bid to bid, net of fees, net income reinvested.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**
The last quarter of 2008 was a negative quarter for the Japanese market, but there were positive returns in Sterling terms as the Yen moved strongly (up over 35%).

Japanese markets suffered strong falls as investors became more risk averse due to all the negative news flow from the global financial sector and the global growth slowdown. As a result, the Bank of Japan reduced its key interest rate to 0.10% in December, while many companies announced earnings downgrades, and reorganisation plans.

Japan continued to suffer strong falls over the first quarter of 2009, in line with the rest of global markets, as the global macro economic news continued to deteriorate. It is now officially in recession, and the Bank of Japan has taken action to remedy the situation by embarking on a programme of quantitative easing.

In economic releases, the real GDP growth rate for Q4 2008 was –12.7% on an annualised basis which indicated that the Japanese economy had become reliant on US and Chinese demand and only had limited contribution from domestic demand. Industrial production slumped 8% in the month to December 2008, the worst fall since the series was initiated in 1978. The unemployment rate rose from 3.9% to 4.4% and Japanese business confidence tumbled at its fastest pace on record to an all time low.

Japan saw positive returns for the second quarter of 2009 both in absolute terms and relative to other global equities. The market rallied as economic data improved and investors anticipated more Government measures to aid the economy.

Data released was on the whole positive, with industrial production showing an increase that beat expectations. The widely anticipated Government measures were announced with a further stimulus package for the country worth 3.1% of GDP.

In Q3 2009 Yukio Hatoyama was elected Prime Minister of Japan, handing power to the Democratic Party of Japan after more than 50 years of almost unbroken rule by the Liberal Democratic Party.

In economic news, the unemployment rate rose to a record 5.7% in July with 3.59m jobless, more than one million higher than a year earlier. However, the Bank of Japan signalled optimism about the future of the world's second largest economy, saying "Japan's economic conditions are showing signs of recovery" and kept interest rates at 0.1%.

# Japan Equities

## Fund Performance (continued)

**Investment Outlook**
Corporate quarterly earnings announcements from the end of October 2009 provided us with the picture that positive surprises have passed by and there is new uncertainty over policy stance in light of better macro economic development. We have seen lots of analysis stating a weaker economic outlook or uncertainty over earnings outlook after the extra stimulus package runs out of steam. However stronger demand from the private sector leads us to believe that there is upside potential.

## Summary of Accounts

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

**Distribution Statement**
On 31 December 2009 no distribution will be reinvested on behalf of Sterling Accumulation A shareholders, 0.0486p on behalf of Sterling Accumulation B shareholders and 0.1583p 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| Sterling Accumulation A shares | | |
| ACD's periodic charge | 1.00% | 1.00% |
| Other expenses | 0.06% | 0.05% |
| Total expense ratio | 1.06% | 1.05% |
| Sterling Accumulation B shares | | |
| ACD's periodic charge | 1.00% | 1.00% |
| Other expenses | 0.06% | 0.03% |
| Total expense ratio | 1.06% | 1.03% |
| Sterling Accumulation D shares | | |
| ACD's periodic charge | 0.73% | 0.40% |
| Other expenses | 0.06% | 0.03% |
| Total expense ratio | 0.79% | 0.43% |

The annual management charge on Sterling Accumulation D share class increased from 0.40% to 0.75% with effect from 20 November 2008.

**Portfolio Turnover Rate**
The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund's portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 157.08% | 225.77% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 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 |
| 31 October 2008 | Sterling Accumulation A shares | 95.74 | 52,234,895 | 50,010,403 |
| | Sterling Accumulation B shares | 95.89 | 64,994 | 62,325 |
| | Sterling Accumulation D shares | 98.02 | 35,034,091 | 34,345,058 |
| 31 October 2009 | Sterling Accumulation A shares | 107.3 | 49,461,603 | 53,088,109 |
| | Sterling Accumulation B shares | 107.6 | 64,994 | 69,902 |
| | Sterling Accumulation D shares | 110.1 | 32,836,897 | 36,159 ,047 |

# 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) |
|---|---|---|---|---|
| 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 | 87.60 | 0.9948 |
| 2008 | Sterling Accumulation B shares | 133.5 | 87.70 | 2.1146 |
| 2008 | Sterling Accumulation D shares | 136.0 | 89.60 | 1.6198 |
| 2009* | Sterling Accumulation A shares | 114.5 | 88.34 | 0.6414 |
| 2009* | Sterling Accumulation B shares | 114.7 | 88.48 | 0.6664 |
| 2009* | Sterling Accumulation D shares | 117.5 | 90.53 | 0.8369 |

*to 31 October 2009

# Pacific Basin (excluding Japan) Equities

## Fund Facts

**Investment Objective**
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investments predominantly in Pacific Basin (excluding Japan) equities.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of the investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. Securities are selected to achieve high risk-adjusted returns over the longer term. 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 Adviser**
RCM (UK) Limited

## Fund Profile

**Portfolio of Investments**

| Spread of investments | % of total net assets as at 31/10/09 | % of total net assets as at 31/10/08 |
|---|---|---|
| Australia | 27.34 | 23.04 |
| China | 7.33 | 6.13 |
| Hong Kong | 20.45 | 24.69 |
| India | 7.27 | 7.61 |
| Indonesia | 2.35 | 0.80 |
| Korea | 12.33 | 13.42 |
| Malaysia | 0.87 | 0.91 |
| Singapore | 4.90 | 4.46 |
| Taiwan | 10.80 | 11.77 |
| Thailand | 1.78 | 2.78 |
| Total Equities | 95.42 | 95.61 |
| Net other assets | 4.58 | 4.39 |
| **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 31/10/09 | Holding | % of sub-fund as at 31/10/08 |
|---|---|---|---|
| BHP Billiton | 4.10 | BHP Billiton | 5.02 |
| China Construction Bank | 4.00 | Samsung Electronics | 4.81 |
| Samsung Electronics | 3.71 | China Mobile | 4.34 |
| National Australia Bank | 3.48 | United Overseas Bank | 3.61 |
| HON HAI Precision Industry | 3.23 | QBE Insurance Group | 3.46 |
| Reliance Industries | 2.78 | Taiwan Semiconductor Manufacturing | 3.33 |
| Westpac Banking | 2.24 | Hopewell Holdings | 3.18 |
| China Life Insurance | 2.11 | Westpac Banking | 3.09 |
| China Shenhua Energy | 1.94 | CSL | 2.71 |
| Australia & New Zealand Banking Group | 1.92 | China Construction Bank | 2.51 |

# Pacific Basin (excluding Japan) 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. During the period under review the sub-fund had exposure to fluctuations in currency and bank interest rates. 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 31 October 2004 to 31 October 2009 | | | |
|---|---|---|---|
| | 1 year to 31/10/09 | 3 years to 31/10/09 | 5 years to 31/10/09 |
| Pacific Basin (excluding Japan) Equities sub-fund | +50.27% | +34.37% | +113.84% |
| FT All World Pacific ex Japan | +60.03% | +41.69% | +124.34% |

***Source Lipper - bid to bid, net of fees, net income reinvested.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**
Q4 2008 ended in negative territory for Asia Pacific. At the beginning of this quarter, the markets suffered strong falls as risk aversion continued due to more negative news from the global financial sector and the continued global growth slowdown, but a year-end rally recovered most of these falls.

Valuations in some Asian markets continued to fall, and are now lower than ever before. Governments focused more on the growth risks rather than declining inflation levels due to lower commodity prices, and put in place new policy and fiscal measures in an attempt to minimize risks to downside growth.

Asia Pacific performed better in the first quarter of 2009, with positive returns over the period, as a result of a strong rally in March. Foreign inflows to the region have continued to increase, so some indices ended the quarter with double digit gains. The strong equity markets continued into April.

However, Governments in Asia continued to announce new monetary and fiscal policy as macroeconomic figures across the region showed rising unemployment, falling exports and growth forecasts.

In spite of this, some statistics from China are showing signs of stabilisation. The PMI index showed improvement and credit growth continued to rise.

Asia Pacific had strong performance over the second quarter of 2009 as global funds continued to flow into the region due to stronger growth forecasts, better earnings revisions and attractive valuations.

China showed signs of stabilisation, as export data stabilised and import growth remained strong. Elsewhere, in India, investor sentiment improved significantly after the re-election of the UPA coalition. The Singapore market also saw a strong recovery despite a contraction of 19.7% in GDP for Q1 2009.

Risk appetites continued to support the Asia-Pacific markets with both Australia and Korea up over 37% and Indonesia up over 40%. Although the outcome of the G20 conference was that the global recession was abating, the participating nations decided to keep stimulus measures in place until a durable recovery is secured.

As economic activity begins to re-accelerate, we expect to see an accommodating environment, but with an increasing use of non-interest rate tightening measures by regional policymakers, particularly in the markets with fixed/semi-fixed exchange rate regimes. With that, the biggest near-term risk to regional growth will most likely stem from an overly aggressive stance by policymakers.

# Pacific Basin (excluding Japan) Equities

## Fund Performance (continued)

**Investment Outlook**
We continue to view China as the key driver for growth in the region and we continue to see the validity and strength in the China growth story. Regional economic activity should continue to show signs of acceleration - driven by re-stocking, pent-up demand and the fiscal stimulus packages. Earnings visibility remains low, but earnings should see some recovery in the second half of 2009.

## Summary of Accounts

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

**Distribution Statement**
On 31 December 2009 a final distribution of 3.0516p will be reinvested on behalf of Sterling Accumulation A shareholders, 3.8521p on behalf of Sterling Accumulation B shareholders and 4.2888p 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| Sterling Accumulation A shares | | |
| ACD’s periodic charge | 1.00% | 1.00% |
| Other expenses | 0.08% | 0.07% |
| Total expense ratio | 1.08% | 1.07% |
| Sterling Accumulation B shares | | |
| ACD’s periodic charge | 1.00% | 1.00% |
| Other expenses | 0.08% | 0.07% |
| Total expense ratio | 1.08% | 1.07% |
| Sterling Accumulation D shares | | |
| Manager’s periodic charge | 0.73% | 0.40% |
| Other expenses | 0.08% | 0.07% |
| Total expense ratio | 0.81% | 0.47% |

The annual management charge on Sterling Accumulation D share class increased from 0.40% to 0.75% with effect from 20 November 2008.

**Portfolio Turnover Rate**
The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund’s portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 180.99% | 112.91% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 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 |
| 31 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 |
| 31 October 2009 | Sterling Accumulation A shares | 355.4 | 11,629,655 | 41,334,568 |
| | Sterling Accumulation B shares | 354.8 | 161,350 | 572,519 |
| | Sterling Accumulation D shares | 363.1 | 13,089,894 | 47,530,092 |

# 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) |
|---|---|---|---|---|
| 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 |
| 2009* | Sterling Accumulation A shares | 384.5 | 236.6 | 6.2449 |
| 2009* | Sterling Accumulation B shares | 384.8 | 236.7 | 6.0876 |
| 2009* | Sterling Accumulation D shares | 394.2 | 242.2 | 6.6334 |

*to 31 October 2009

# Sterling Bond

## Fund Facts

**Investment Objective**
The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment predominantly in Sterling fixed interest securities.
The base currency of the sub-fund is Sterling.

**Investment Policy**
The portion of the assets under the management of the investment adviser is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion. Securities are selected to achieve high risk-adjusted returns over the longer term. 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 Advisers**
BlackRock Investment Managers Limited
Baillie Gifford & Co
Santander Asset Management UK
Royal London Asset Management
Western Asset Management Company Limited

## Fund Profile

**Portfolio of Investments**

| **Spread of investments**<br>**Fixed interest securities grouped by ratings *** | **% of total net assets as at 31/10/09** | **% of total net assets as at 31/10/08** |
|---|---|---|
| AAA to AA | 35.39 | 40.40 |
| AA- to A+ | 11.89 | 15.69 |
| A to A- | 25.35 | 22.21 |
| BBB+ to BBB | 17.22 | 12.90 |
| below BBB to unrated | 7.55 | 5.80 |
| Total fixed interest securities | 97.40 | 97.00 |
| Collective Investment Schemes | 0.04 | 0.56 |
| Net other assets | 2.56 | 2.44 |
| **Net Assets** | **100.00** | **100.00** |

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

**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 31/10/09** | **Holding** | **% of sub-fund as at 31/10/08** |
|---|---|---|---|
| European Investment Bank 5.625% 2032 | 2.25 | Treasury 4.75% 2020 | 2.45 |
| Network Rail Infrastructure Finance 4.375% 2030 | 2.16 | European Investment Bank 4.75% 2018 | 1.88 |
| Treasury 6% 2028 | 1.83 | Treasury 4.25% 2011 | 1.83 |
| European Investment Bank 4.75% 2018 | 1.70 | Network Rail Infrastructure Finance 4.375% 2030 | 1.81 |
| Treasury 4.75% 2020 | 1.59 | European Investment Bank 5.625% 2032 | 1.73 |
| Treasury 4.25% 2046 | 1.34 | Treasury 5% 2018 | 1.65 |
| Landwirtschaftliche Rentenbank 5.25% 2012 | 1.33 | Bundesrepublik Deutschland 5.5% 2031 | 1.51 |
| Treasury 4.25% 2032 | 1.31 | Treasury 4.75% 2038 | 1.42 |
| European Investment Bank 4.375% 2015 | 1.22 | Treasury 6% 2028 | 1.26 |
| Treasury 8% 2021 | 1.20 | Landwirtschaftliche Rentenbank 5.25% 2012 | 1.12 |

# Sterling Bond

## 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. During the period under review the sub-fund had exposure to currency and interest rate risks. 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 31 October 2004 to 31 October 2009** | | | |
|---|---|---|---|
| | 1 year to 31/10/09 | 3 years to 31/10/09 | 5 years to 31/10/09 |
| Sterling Bond Sub-fund | +12.96% | -2.59% | +6.43% |
| 20% FT All Stocks/80% IBoxx £ Non Gilt | +14.30% | +4.75% | +20.40% |

***Source: Lipper – bid to bid, net income reinvested, net of fees.***
***Past performance is not a guarantee of future returns. The value of investments and the revenue from them can go down as well as up and investors may not get back the amount originally invested.***

**Market Review**
Q4 2008 started with the passing of the $700bn Troubled Asset Relief Programme (TARP) in the US, however any such optimism relating to this was short-lived as governments globally were forced into bailouts of their domestic financial systems. The Bank of England (BoE) announced a £50bn taxpayer bailout for the UK banking system as did Germany to the tune of €50bn.

The US injected $250bn into the country's biggest banks as they changed the way the TARP funds would be distributed. Part of the TARP was later allocated to the big three automakers in an industry bailout. The Federal Reserve Bank announced they would also make $800bn available to buy mortgage-backed securities and help extend credit to businesses and consumers.

Alongside bailouts, governments globally announced vast fiscal stimuli as the world economy slid further into what was now being seen as a deep recession. As the data worsened on all fronts, interest rates were cut aggressively worldwide. On 8 October a 0.5% co-ordinated cut was made by the central banks of the US, UK, Eurozone, Canada, Sweden and Switzerland. By the end of 2009 UK rates had been cut from 5% to 2%, US rates were cut from 2% to a range of 0% to 0.25% and Eurozone rates had been cut from 4.25% to 2.50%.

Against this backdrop spreads on all corporate bonds widened to historic levels. As investors sought safe havens government bonds outperformed.

Credit markets, which started 2009 on a degree of optimism, soon moved back on the defensive, as worsening news on the world economy and fears in the financial sectors drove markets and investors firmly back to risk aversion strategies. It soon became evident that some large banks particularly in the UK and the US, would need further assistance against the real possibly of failure and nationalisation. These fears pushed credit margins higher across most industrial sectors. Late in the quarter and into April we saw an increase in risk appetite especially on some of the hard hit financial names and corporate bonds outperformed government paper.

Against this background, both the UK Treasury and the Bank of England have undertaken aggressive actions to ease monetary policy, and increase credit availability.

Although the UK, Eurozone, and US economies, remained in deep recession throughout the first quarter of 2009, and are yet to show any real signs of recovery, the global situation outside of the financial world, is not expected to deteriorate much further for the rest of the year. Following the various fiscal stimuli announced by most of the world’s lending economic countries and low global interest rates we could see the beginning of a modest world revival by the year end providing the financial crises is contained.

# Sterling Bond

## Fund Performance (continued)

**Market Review (continued)**

The second quarter of 2009 saw a period of stabilisation in the bond market when compared to the first quarter. There was a further increase in risk appetite in the bond markets, and as the Bank of England's quantitative easing programme continued and global interest rates were held at exceptionally low levels, there was a renewed sense that the trough of the global recession may have passed. Along with the renewed feeling of optimism there was also a sense that the Governments around the world seriously needed to address their fiscal deficits and formulate a way of unwinding all the stimuli that had been applied.

The primary and secondary markets continued to become more liquid and there was a surge in issuance of investment grade corporate bonds. The investment grade corporate bond spreads continued to narrow over gilts and the secondary markets exhibited a higher degree of liquidity but only for strong companies with good balance sheets and cashflow.

Global economic macro data continued to improve throughout the third quarter of 2009 with most leading indicators showing positive growth prospects, albeit at a cautiously low level compared to historic figures.

Against this background of economic recovery, stock markets rallied, security default levels fell, and corporate credit spreads tightened. Interest rates in the UK were kept at the historically low level of 0.5%.

In the bond markets, risks and elevated dealing spreads relating to liquidity and refinancing generally abated over the summer with the only real exception to this improvement being the structured products sector, which continued to suffer from lack of investor interest.

The last quarter of 2009 continued to be good for credit, as market liquidity improved and risk premium tightened in response to better economic macro data and prospects of an early global recovery.

**Investment Outlook**

Within the bond markets we have now seen the beginning of a period of stabilisation with levels of liquidity picking up. Going forward, we hope to see an increase in economic confidence overall and a recovery in risk appetite with credit spreads moving tighter in the near term. We believe the credit markets offer the opportunity for capital growth as well as offering attractive levels of income.

# Sterling Bond

## Summary of Accounts

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

**Distribution Statement**
On 31 December 2009 a final distribution of 3.3338p will be reinvested on behalf of Sterling Accumulation A shareholders and 3.7494p paid to Sterling Income 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 paid in respect of Depositary, custody, publication, print, FSA and audit fees. Collectively these fees are known as other expenses.

| Expense Type | Year to 31/10/09 | Year to 31/10/08 |
|---|---|---|
| Sterling Accumulation A shares | | |
| ACD's periodic charge | 1.00% | 1.00% |
| Other expenses | 0.04% | 0.02% |
| Total expense ratio | 1.04% | 1.02% |
| Sterling Income D shares | | |
| ACD's periodic charge | 0.75% | n/a |
| Other expenses | 0.00% | n/a |
| Total expense ratio | 0.75% | n/a |

**Portfolio Turnover Rate**
The Portfolio Turnover Rate provides investors with a measurement of the rate of trading activity in the sub-fund's portfolio of investments.

| Year to 31/10/09 | Year to 31/10/08 |
|---|---|
| 270.77% | 119.15% |

**Net Asset Values**

| Accounting Date | Share Description | Net Value Per Share (pence) | Number of Shares in Issue | Net Asset Value |
|---|---|---|---|---|
| 31 October 2007 | Sterling Accumulation A shares | 196.0 | 327,238,800 | 641,456,386 |
| 31 October 2008 | Sterling Accumulation A shares | 170.8 | 268,346,603 | 458,222,463 |
| 31 October 2009 | Sterling Accumulation A shares | 194.2 | 243,032,204 | 472,058,280 |
| 31 October 2009 | Sterling Income D shares | 161.7 | 10,001 | 16,168 |

**Share Price & Distribution**

| Calendar Year | Share Description | Highest Share Price (pence) | Lowest Share Price (pence) | Distribution per Share (pence) |
|---|---|---|---|---|
| 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 | 171.1 | 8.4671 |
| 2008* | Sterling Income D shares | 153.3 | 149.5 | n/a |
| 2009** | Sterling Accumulation A shares | 196.5 | 156.3 | 7.2581 |
| 2009** | Sterling Income D shares | 167.3 | 135.5 | 7.5118 |

+All shares in the Sterling Accumulation B share class were cancelled on 30 June 2006.
*Sterling Income D share class commenced on 9 December 2008
**to 31 October 2009

## Appointments

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

**Directors**
Jeffrey Conrad Scott
John Christopher Bearman
Alan Mathewson
Antonio Lorenzo
Eduardo Suarez Alvarez Novoa (resigned 18 November 2009)
Nicolas Edward Merigo Cook (resigned 28 December 2009)

**Depositary**
The 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**
Deloitte LLP
Lomond House
9 George Square
Glasgow G2 1QQ, United Kingdom

**Investment advisers**

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
33 King William Street
London EC4R 9AS
United Kingdom
Authorised and regulated by the Financial Services Authority

CPR Asset Management
10 Place des Martyrs du Lycee Buffon
75015
Paris

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

## Appointments (continued)

### Investment advisers (continued)

DIAM International Limited
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 2BB
United Kingdom
Authorised and regulated by the Financial Services Authority

Newton Investment Management Limited
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 Global Asset Management
Ciudad Grupo Santander
Avenida De Cantabria
28660 Boadilla Del Monte
Madrid
Spain

Santander Asset Management (UK )Limited
2 Triton Square
Regent’s Place
London NW1 3AN
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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