

# Bond Income Fund

half-yearly short report for the period  
1 January 2009 to 26 June 2009

Due to a number of fund changes over the period, for certain other funds available from Skandia Investment Management Limited, we have changed the end date of the reporting period from 30 June to 26 June for this interim report only.

Some of the terms in this document are of a technical nature. We have highlighted these in bold type and you can find definitions in the glossary near the end of this document. If anything is unclear, we recommend you speak to your financial adviser who will be able to explain further.

## fund objective

The Bond Income Fund aims to provide investors with income whilst seeking to maximise total return.

## investment policy

The Bond Income Fund will comprise a well-diversified global portfolio primarily of **debt securities** (including bonds issued by corporations, governments, supranational entities; asset backed and mortgage backed **securities**), currencies and preference shares. Investment will be through **collective investment schemes** ('funds'), either funds managed or operated by the **Authorised Corporate Director** (ACD) or its associates, or via funds not managed or operated by the ACD or its associates. Subject to the above policy, **derivatives** for efficient portfolio management may be used.

## risk profile

This Fund aims to maximise total return and therefore the level of income will fluctuate. It invests partly in high yielding corporate bonds. A high yield is the reward for lending money to companies that present a higher risk of default than those issuing lower yielding bonds. Defaulting can adversely affect the capital and income return from this Fund. This Fund includes some exposure to emerging markets, which tend to be less well regulated and more volatile than more established stock markets, so increasing the potential risk to investors.

## fund manager's report

Most government bond markets suffered in early 2009 on concerns over the level of debt that governments have accumulated in funding stimulus packages and providing support to the banking sector. This was followed by a recovery in February, when worries about the economic outlook took precedence and investors favoured safe-haven assets. The rally continued in March, as central banks announced further measures to tackle the credit crisis.

However, as signs of improvement in the economic backdrop emerged, investors' appetite for risk rose markedly and demand for government bonds waned, leading to weakness in the major markets during the second quarter of the year. In the UK, the FTSE British Government All Stocks Index fell 2.0% over the review period as a whole.

Corporate bonds continued to struggle during the first quarter of 2009, dragged lower by the financial sector, which suffered on fears of bank nationalisations. This trend reversed during the second half of the period and corporate bonds staged a strong recovery, driven by signs of stabilisation in economic data and improving corporate results. Bonds issued by financial institutions led the rally as many banks were deemed to be in a better position than previously feared. High yield corporate bonds generated strong returns over the period as a whole, boosted by a recovery in equity markets and an increase in demand for riskier assets. Against this backdrop, the IMA Sterling Corporate Bond sector gained 1.9%.

The Bond Income Fund had a strong start to 2009, recording a positive return and outperforming the IMA Sterling Corporate Bond sector. Both the Threadneedle High Yield Bond Fund and the J.P.Morgan High Yield Bond mandate recorded very strong returns, benefiting from investors' improving appetite for risk. The M&G Optimal Income Fund and the Aegon Strategic Bond Fund (previously known as the Aegon Global Bond Fund) also recorded impressive, double-digit returns. The M&G Fund performed consistently well, benefiting from a low weighting in financial corporate bonds during the first half of the period (although the manager increased the position as the outlook improved), while the low exposure to government bonds added value. Meanwhile, the Aegon Fund had a weak start to the year due to its high exposure to corporate bonds, notably those issued by banks, but later made a very strong recovery as the outlook for the financial sector and broader economy began to improve. The Aegon Fund also benefited from an allocation to high yield bonds during the latter part of the period.

**The mention of any particular stock should not be taken as a recommendation to buy or sell investments.**

## fund facts

The Fund offers income shares only.

Share class	Fund accounting dates (ex-dividend dates)	Fund payment dates
Retail and Institutional	31 December	28 February
Retail and Institutional	31 March	31 May
Retail and Institutional	26 June	31 August
Retail and Institutional	30 September	30 November

The table below shows the net income in pence per share distributed for the calendar years indicated. The Bond Income Fund was launched on 22 August 2003.

Calendar year	Pence per share
2004 – Retail	1.3837 pence
2004 – Institutional	1.5160 pence
2005 – Retail	1.7888 pence
2005 – Institutional	1.9852 pence
2006 – Retail	1.7231 pence
2006 – Institutional	1.8312 pence
2007 – Retail	2.0219 pence
2007 – Institutional	2.1684 pence
2008 – Retail	2.0241 pence
2008 – Institutional	2.2297 pence
2009 – Retail*	1.7690 pence
2009 – Institutional*	1.8009 pence

\* to 31 August

## total expense ratio (TER)

The Total Expense Ratio represents all operating charges and expenses as a percentage of a fund's value. It includes the Annual Management Charge as well as all the regular administrative costs incurred by a fund.

Share class	TER as at 26 June 2009	TER as at 31 December 2008
Retail	2.03%	1.96%
Institutional	1.68%	1.61%

## share price performance

The table below shows the highest and lowest share prices in pence per share for the calendar years indicated below.

Calendar year	Highest price	Lowest price
2004 – Retail	52.30 pence	48.76 pence
2004 – Institutional	52.47 pence	48.97 pence
2005 – Retail	52.97 pence	50.84 pence
2005 – Institutional	53.15 pence	50.98 pence
2006 – Retail	53.18 pence	50.81 pence
2006 – Institutional	53.33 pence	50.94 pence
2007 – Retail	51.72 pence	48.99 pence
2007 – Institutional	51.85 pence	49.17 pence
2008 – Retail	49.21 pence	37.52 pence
2008 – Institutional	49.31 pence	37.62 pence
2009 – Retail*	42.55 pence	36.61 pence
2009 – Institutional*	42.65 pence	36.69 pence

\* to 26 June

## fund performance

Share class	Net asset value per share as at 26 June 2009	Net asset value per share as at 31 December 2008	% change
Retail	41.64 pence	38.43 pence	8.35%
Institutional	41.73 pence	38.52 pence	8.33%

Date	Net asset value of Fund	Shares in issue		Net asset value per share	
		Retail	Institutional	Retail	Institutional
31 December 2006	£101,430,109	193,367,107	4,350,414	51.30 pence	51.40 pence
31 December 2007	£85,329,900	170,706,999	3,765,575	48.91 pence	49.00 pence
31 December 2008	£59,357,200	151,512,200	2,935,936	38.43 pence	38.52 pence
26 June 2009	£59,936,705	141,148,851	2,801,658	41.64 pence	41.73 pence

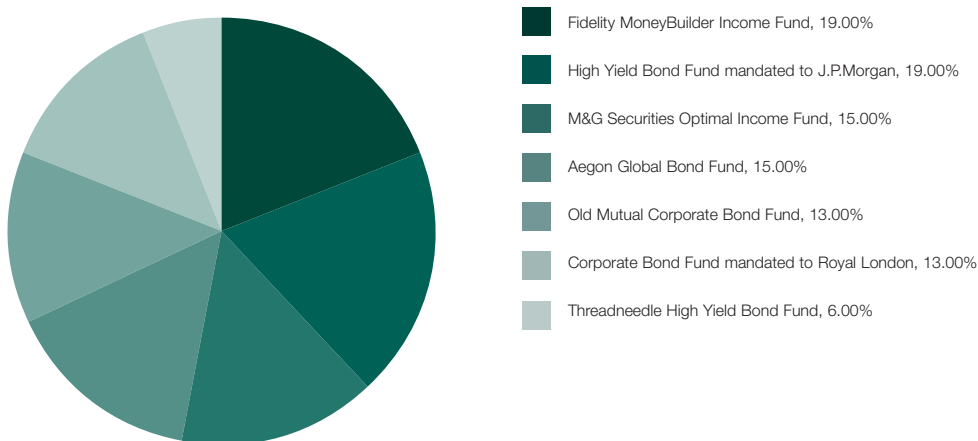
	Percentage change to 26 June 2009						
	6 months	1 year	2 years	3 years	4 years	5 years	Since launch*
Fund performance	8.56%	-6.35%	-9.35%	-7.90%	-7.37%	-1.79%	1.80%

\*from 22 August 2003.

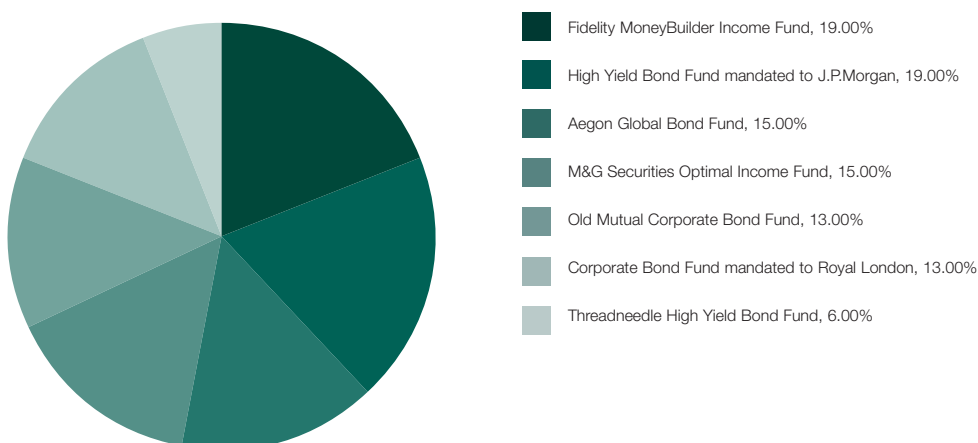
Source: Financial Express. Figures are calculated on a total return and single price basis, with net income reinvested in sterling terms. Six months' performance is from 31 December 2008 to 26 June 2009. Yearly comparatives are from previous half-yearly period end dates to 26 June.

You should not view past performance as an indication of future performance. The value of investments and any income from them may fall as well as rise and you may not get back the amount you invested. Where a Fund invests in securities designated in a different currency to the Fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.

## target manager allocation as at 26 June 2009



## target manager allocation as at 31 December 2008



## major holdings

The table below shows the top ten holdings of the Fund. All holdings will be shown if there are less than ten holdings.

As at 26 June 2009	%	As at 31 December 2008	%
Fidelity MoneyBuilder Income Fund	19.10	High Yield Bond Fund mandated to J.P.Morgan	19.28
High Yield Bond Fund mandated to J.P.Morgan	18.64	Fidelity MoneyBuilder Income Fund	18.55
Aegon Asset Management Global Bond Fund	15.10	M&G Securities Optimal Income Fund	14.70
M&G Securities Optimal Income Fund	15.01	Aegon Global Bond Fund	14.38
Corporate Bond Fund mandated to Royal London	12.95	Corporate Bond Fund mandated to Royal London	12.47
Threadneedle High Yield Bond Fund	11.03	Old Mutual Corporate Bond Fund	12.28
Old Mutual Corporate Bond Fund	7.96	Threadneedle High Yield Bond Fund	5.86

## glossary

**Authorised Corporate Director (ACD)** – the Authorised Corporate Director provides a professional investment management service in respect of the open-ended investment companies (OEICs) and controls the assets and operation of each fund. The ACD of the Skandia Investment Management OEICs is Skandia Investment Management Limited.

**Collective investment schemes** – are investments, such as OEICs or unit trusts, in which money from individual investors is pooled into a professionally managed fund.

**Debt securities** – IOUs created through loan-type transactions such as commercial paper, bank Certificates of Deposit, bills, bonds, and other investment instruments.

**Derivatives** – derivatives are contracts between two or more parties whose value is derived from a related asset. The most common related assets include shares, fixed interest securities, commodities, currencies, interest rates and market indices. Derivatives can be used for speculative purposes but in investment funds they are generally used to reduce risk.

**Securities** – any investments that can be assigned a value and traded such as bonds or shares, where there is a right to receive interest or dividends from the investment.

## report and accounts

Copies of the annual and half-yearly Long Form Report and Accounts are available on request, free of charge, from our Edinburgh office. To contact us please call 0844 892 0996\* or write to:

Skandia Investment Management Limited  
PO Box 23486  
12 Blenheim Place  
Edinburgh  
EH7 5YB

## depository

The independent Depository is the Royal Bank of Scotland, whose address is:

Royal Bank of Scotland plc  
Waterhouse Square  
138-142 Holborn  
London  
EC1N 2TH

The Depository is authorised and regulated by the Financial Services Authority, whose address is:

25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

## auditors

The Fund's independent auditors are KPMG Audit plc, whose registered address is:

KPMG Audit plc  
One Canada Square  
London  
E14 5AG

## authorised corporate director (ACD)

The Bond Income Fund is managed by Skandia Investment Management Limited, which is the Authorised Corporate Director (ACD) of the Fund. Its registered address is:

Skandia Investment Management Limited  
Skandia House  
Portland Terrace  
Southampton  
SO14 7EJ

Skandia Investment Management Limited is a company limited by shares, incorporated in England and Wales and authorised and regulated by the Financial Services Authority.

## how to contact us

If you have any questions please contact us or call your financial adviser. Our offices are open on business days between the hours of 8.30am and 5.30pm.

To contact us please call 0844 892 0996\* or write to:

Skandia Investment Management Limited  
PO Box 23486  
12 Blenheim Place  
Edinburgh  
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If you would like general information on the funds or on Skandia Investment Management Limited you can visit our website:

**[www.skandiainvestmentmanagement.com](http://www.skandiainvestmentmanagement.com)**

*\* Calls cost 3 pence per minute from a BT landline. Customers who have telephone services with other providers may have different call charges. Calls from mobiles or internet services may be considerably higher.*

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Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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