

Skandia Spectrum 3 Fund

annual short report for the period
28 April 2008 to 30 April 2009

Some of the terms in this document are of a technical nature. We have highlighted these in *green italics* 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 Fund aims to achieve long-term capital growth by investing in a diversified range of asset classes. The risk profile of the Fund is defensive with a significant majority of investments in *defensive asset classes*, and between 15% and 40% in equities.

investment policy

The Fund will predominantly invest in units in *collective investment schemes*, including those managed and operated by the *Authorised Corporate Director*, but cash, *near cash* and *permitted deposits* may also be held.

The assets within these collective investment schemes will form a diversified portfolio, predominantly of cash, *money market instruments*, international and UK equities, property and fixed income. However securities of other asset classes may be held.

For efficient portfolio management purposes only, investment may also be made into *derivatives or forward transactions*.

risk profile

The Skandia Spectrum funds are designed to be used with Skandia's risk profiling and asset allocation tool. They invest across cash, fixed interest, property and equities in different proportions with the aim of providing relatively low risk and lower potential returns at one end of the scale and relatively high risk and higher potential returns at the other. From a risk perspective, the Skandia Spectrum 3 Fund is defensive with a significant majority of investments in defensive asset classes, and between 15% and 40% in equities.

Each Skandia Spectrum fund has its own objective. Skandia Investment Management Limited combines asset classes to produce a portfolio for each fund that it believes best matches the fund's objective. However, the asset classes may not always perform in line with the objective of the relevant fund.

Underlying collective investment schemes that invest in property may not be able to sell their investments in land and buildings immediately. In exceptional circumstances, dealing in a particular Skandia Spectrum fund may be suspended, in which case investors may have to wait until dealing restarts to buy or sell shares in the fund. Some of the Skandia Spectrum funds invest in cash, through *money market funds*, which are not guaranteed and may go down as well as up. The funds may include 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. You should be aware that if a fund uses derivatives to manage the portfolio efficiently, there is a risk that the provider of the derivative could become insolvent while it owes money to the fund. Some of the underlying collective investment schemes may use derivatives as a part of their main investment strategy so, as an investor in the Skandia Spectrum funds, you may be indirectly exposed to the risks inherent in the use of derivative instruments. Although the Skandia Spectrum funds do not charge fees related to the performance of the funds, they may invest in collective investment schemes which themselves charge performance related fees, and this may reduce the performance of the relevant fund. Where a fund invests in securities in a different currency to the fund, the value of the fund may rise and fall purely as a result of exchange rate fluctuations.

fund manager's report

Economic and market overview

Global financial markets were extremely volatile during the year under review, as global growth slowed and the crisis in the financial sector deepened. Economic data deteriorated during the period, with the threat of recession becoming a reality for many developed economies during the second half of 2008. Rising inflation, driven by high food and energy prices, remained a concern for investors during the early months of the period, limiting central banks' scope to cut interest rates. However, a marked decline in the price of oil and other commodities helped to ease inflationary pressures from the summer onwards, enabling central banks worldwide to embark on a series of aggressive interest rate cuts.

Meanwhile, problems in the banking sector deepened. September saw several major institutions run into difficulties, narrowly avoiding collapse either thanks to government assistance or through takeovers by peers, while US investment bank Lehman Brothers was forced to file for bankruptcy. While further bank failures were subsequently avoided, governments continued to provide considerable support to the financial sector, increasing their ownership in several companies, providing emergency lending facilities and announcing schemes to buy back or guarantee banks' *toxic assets*.

Against this backdrop, investors' appetite for risk plummeted. Global equity markets fell sharply for much of the period, with small- and medium-sized stocks among the worst affected due to their perceived higher risk. Defensive sectors, notably healthcare, generally performed well, while a sustained decline in commodity prices and concerns over slowing global demand led to poor performance from the energy and *materials sectors*. During the final two months of the year under review, however, the negative equity market trend reversed and stock markets worldwide staged a strong rally on tentative signs that the pace of the economic downturn could be slowing. Following dire performance for much of the period, the financial sector led the recovery. Cyclical areas of the market, such as the materials and *consumer discretionary sectors*, also performed well during the latter months.

Commercial property markets – both in the UK and internationally – were also affected by the deteriorating economic outlook and limited credit availability, driving further declines in property capital values.

Bond markets experienced a high level of volatility, as investors struggled to assess the rapidly evolving market conditions. Following initial weakness driven by concerns over rising inflation, government bonds benefited from the rise in investor risk-aversion, posting positive returns over the period as a whole. Meanwhile, riskier assets, such as corporate bonds and *emerging market debt*, were weak for much of the period due to concerns over the turmoil in the financial sector.

Spectrum 3

The Fund made a loss during the year we are reviewing. With stock markets on a downward trend for much of the period, this was largely attributable to the Fund's equity holdings, all of which experienced sizeable losses.

Within the equity holdings, the main drag on performance came from the UK equity component. Performance of the UK Focus Fund was particularly weak, hampered by its high exposure to mining stocks, which declined sharply amid falling commodity prices, and by holdings in selected financials and consumer-related stocks. We switched management of the UK Focus Fund from Gartmore to Mirabaud in late 2008, which resulted in a marked improvement in performance. Meanwhile, performance of the UK Best Ideas Fund was affected by its bias towards smaller companies and its exposure to selected banks and housebuilders. Performance of this Fund also improved in 2009.

The property holdings struggled over the period amid falling property prices and a deteriorating market outlook, recording double-digit falls. The Skandia Property Fund performed well compared to the UK commercial property market. While the Fund's property values experienced further declines, the Fund's income returns and the prudent approach to managing the *cash weighting* helped to offset some of this negative impact. We sold the M&G Property Fund in November to reduce exposure to this asset class. Meanwhile, dealings in the New Star International Property Fund were temporarily suspended during the second half of the period due to insufficient liquidity within the portfolio. The New Star Fund will be sold from Spectrum once the trading suspension has been revoked.

Performance of the fixed interest component was mixed. Strong positive returns from the Gilt Fund were offset by losses from the higher risk Corporate Bond, High Yield and BlueBay Emerging Market Bond funds. We sold the BlueBay Fund in late 2008 following changes within BlueBay's emerging debt team and took a new position in the Fidelity MoneyBuilder Income Fund shortly afterwards. The Fidelity Fund recorded a broadly flat return over the remainder of the period. During the final month of the year under review, we added the PIMCO Global Real Return Fund to the portfolio. This global inflation-linked bond portfolio is managed by one of the industry's best-resourced teams of specialists in this area and provides additional diversification benefits.

We adjusted the Fund's exposure to fixed income several times over the year, based on recommendations from Watson Wyatt following their quarterly asset allocation reviews. At the end of June, we introduced an initial allocation to bonds. This was reduced in early September, with the proceeds moved into cash. We increased exposure to fixed income in the fourth quarter of 2008 and again in 2009, at the expense of property and cash.

Within the cash component, we sold the Henderson Liquid Assets Fund in its entirety in the fourth quarter of 2008 due to concerns over liquidity/concentration of investors. Towards the end of the period, we also sold the GSAM Sterling Liquid Reserve Fund to fund an additional increase in the fixed income exposure. Both funds recorded positive returns over the period in which they were held.

Among the specialist funds, the Fulcrum Alternative Beta Plus Fund, a hedge fund replacement portfolio, recorded a small positive return for the period and continued to perform well compared to the broader hedge fund universe and the global equity market.

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

fund facts

The Fund offers accumulation shares only, which automatically reinvest any income to increase the capital value of your investment.

Fund accounting dates (ex-dividend dates)	Fund payment/ accumulation dates
31 October	31 December
30 April	30 June

The table below shows the net accumulation in pence per share distributed since launch. The Spectrum 3 Fund was launched on 28 April 2008.

Calendar year	Pence per share
2008 Accumulation*	0.3980 pence
2009 Accumulation**	0.6691 pence

* from 28 April

** paid on 30 June

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.

TER as at 30 April 2009
2.36%

share price performance

The table below shows the highest and lowest share prices in pence per share since launch.

Calendar year	Highest price	Lowest price
2008 Accumulation*	50.78 pence	41.84 pence
2009 Accumulation**	44.49 pence	40.80 pence

* from 28 April to 31 December

** from 1 January to 30 April

fund performance

Date	Net asset value of Fund	Shares in issue	Net asset value per share
30 April 2009	27,244,152	62,731,840	43.43 pence

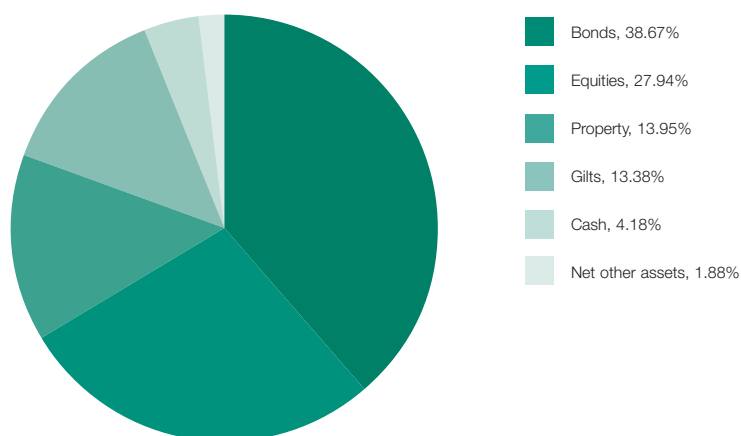
	Percentage change to 30 April 2009	
	1 year	Since launch*
Fund performance	-12.94%	-12.78%

* from 28 April 2008.

Source: Financial Express. Figures are calculated on a total return and single price basis. Prices are quoted in sterling.

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 in a different currency to the Fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.

portfolio information as at 30 April 2009



major holdings

The table below shows the top ten holdings of the Fund.

As at 30 April 2009	%
Skandia – Gilt Fund	13.38
Skandia Property Fund	12.60
Skandia – Corporate Bond Fund mandate managed by Royal London Asset Management	12.46
Fidelity Moneybuilder Income Fund	12.44
Skandia – High Yield Bond Fund mandate managed by J.P.Morgan	10.36
Morgan Stanley FX Alpha Plus RC400 Fund	4.18
PIMCO Global Real Return Fund	3.41
Skandia – UK Securities Fund mandate managed by UBS	3.28
Skandia – UK Equity Fund mandate managed by Lazard	3.21
Skandia – US Equity Fund mandate managed by QMA & T.Rowe Price	2.53

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.

Cash weighting – the proportion of a fund's investment that is held in cash.

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

Consumer discretionary sector – industries that are the most sensitive to economic cycles: automotive, household durable goods, textiles. Can also include services such as hotels, restaurants and other leisure facilities and consumer retailing.

Defensive investment/asset classes – an investment that provides stable earnings and/or reliable distributions regardless of the state of the market as a whole.

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.

Emerging market debt – bonds issued by less developed countries.

Forward transactions – are also known as futures (see below).

Futures – are agreements to buy or sell assets for delivery at a certain time in the future for a certain price (also known as forward transactions).

Materials sector – category of stocks that's made up of companies involved with the discovery, development and processing of raw materials, such as construction materials, glass, paper, forest products, chemical manufacture, and mining.

Money market funds – open-ended mutual funds that invest in money market instruments.

Money market instruments – short-term, tradeable, cash-type investments, such as commercial paper, government securities, and other investments with maturities ranging from 20 to 70 days.

Near cash – assets that can be quickly converted into cash.

Permitted deposits – in relation to deposits held with an approved credit institution or an approved financial institution such as banks; or an approved investment firm.

Toxic asset – asset whose value has fallen significantly and can no longer be reasonably sold because there is no longer a functioning market for it.

report and accounts

Copies of the annual and half-yearly Long Form Report and Accounts are available on request. 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 Skandia Spectrum 3 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 is 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:

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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

**Calls are charged at a rate of 3p 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.*

Financial Express and Skandia Investment Management Limited have done all they reasonably can to ensure the information contained in this short report is accurate. However, neither can accept any responsibility for decisions made by investors nor for any loss investors may suffer as a result of those decisions.

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