

# Euro High Income Fund

## Fund Objective

The aim of the Fund is to maintain a high income, through investment in a spread of fixed interest securities denominated predominantly in euro.

## Investment Manager

Scottish Widows Investment Partnership ("SWIP")  
Manager: Neil Murray

## Fund Performance

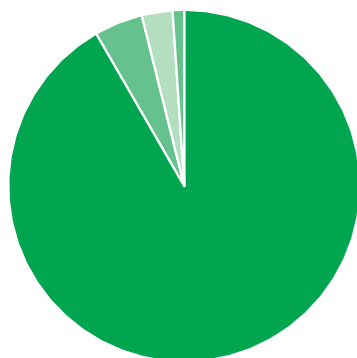
	30/06/09 to 30/06/10 (%)	30/06/08 to 30/06/09 (%)	30/06/07 to 30/06/08 (%)	30/06/06 to 30/06/07 (%)	30/06/05 to 30/06/06 (%)
Euro (€)	18.34	-2.92	-6.08	N/A	N/A

Past performance should not be seen as an indication of future performance.

Performance since launch: Euro High Income Fund Euro (€) 5.57%

The figures show the performance growth over 3 years as discrete 12 month periods, on a mid price basis with gross income reinvested. Source: Financial Express. Sector is Lipper UK Offshore - Fixed Interest Euro.

## Sector Breakdown (%)



Corporate bonds	91.66
Government bonds	4.45
Cash	2.83
Public authorities	1.06

## Largest Investments (%)

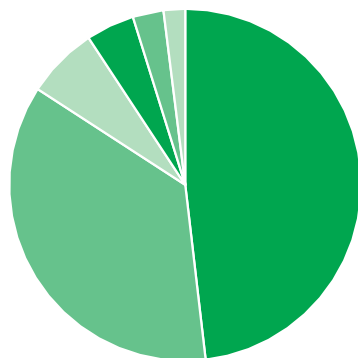
Bundesrepub DTL 3.75% 2017	3.92
Citigroup 3.5% 2015	2.08
RWE Finance 6.5% 2021	2.00
Royal Bank of Scotland 6.934% 2018	1.92
Lloyds TSB Bank 6.375% 2016	1.86
National Australia Bank 6.75% (F/R) 2023	1.83
Bank of America 4% (F/R) 2018	1.77
Barclays Bank 6% 2018	1.74
Elte de France 4.625% 2030	1.62
E.ON Intl Finance 5.75% 2020	1.53

## Market Overview

- Having gained ground for most of the previous year, corporate bonds started to suffer heavy sell offs at the end of April and throughout May. This was prompted by renewed concerns about sovereign debt levels and resulted in a dash for the safety of government bonds.
- Over the quarter, the Fund took advantage of indiscriminate selling in the market to acquire bonds that had been oversold – these included Zurich Life and Intesa Sanpaolo. We also participated in a new issue by America Movil (Latin America's largest mobile phone operator), and gained further exposure to emerging markets by adding Brazilian industrial group, Votorantim. These new holdings offer excellent spread tightening potential and were funded by the sale of German bunds.
- The Fund retains an overweight position in the financial sector and a slight short duration position based on our anticipation of rising yields.



## Bond Ratings (%)



\*Under Review.  
Investments downgraded as a result of market dislocation.

■ A	48.15
■ BBB	36.01
■ AA	6.58
■ AAA	4.45
■ Cash	2.83
■ Not Rated*	1.98

## Future Policy

- Risk aversion remains the overriding theme for credit markets as fears have shifted from sovereign debt restructuring, to the impact that tough austerity measures will have on economic growth. Further political intervention in the guise of possible bank levies will also have an unsettling effect. While the recent correction may have a little further to run, we believe that accommodative monetary policy and economic stimuli will remain in place for longer. This will ultimately make corporate bond yields look relatively attractive.
- We continue to favour the financial sector; however, there are clearly risks and many banks still have work to do to repair their balance sheets. Nonetheless we feel these risks are already written into the price of many companies in the financial sector, which in turn justifies our continued willingness to invest there.

## General Information

Value of Fund as at 30th June 2010	€15.80m
Dealing Price as at 30th June 2010	€ 1.5850
Current Yield as at 30th June 2010	4.56%
Gross Redemption Yield as at 30th June 2010	3.22%
Fund Duration	5.41 years
Benchmark	6.61 years
Distribution Dates	22nd February, May, August & November
XD Dates	1st January, April, July & October
Launch Date	2nd October 2006
Minimum Investment	€5,000 or currency equivalent
Subsequent Investment	€100 or currency equivalent
Initial Charge	4%
Annual Management Charge	0.875%
Total Holdings	100
Sedol	0871756
ISIN	GB0008717562

## Contact Details

For further information about the  
**Lloyds TSB Offshore Funds Limited - Euro High  
Income Fund**

call **+44 (0) 1534 845555**  
email **funds@lloydtsb-offshore.com**  
or go to **www.lloydtsb-offshore.com/funds**

The value of investments and the income from them can go down as well as up and cannot be guaranteed. The Euro High Income Fund is denominated in Euro. An investment in a fund that is denominated in a currency other than the shareholder's own reference currency will be subject to the movement of foreign exchange rates. Consequently, investors may receive an amount greater or less than their original investment.

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The commentary contained in this document has been derived from sources, which we consider to be reasonable and appropriate. It may also include our views and expectations, which cannot be taken as fact.

The dividend policy of the Fund is to pay an above average level of income and this will lead to a gradual reduction in capital except when bond prices generally are rising. The dividend may fluctuate in value in money terms.

The rules of the UK Financial Services Authority and the United Kingdom Financial Services Compensation scheme do not apply to the Fund and no cancellation rights apply, however, the Fund is recognised under Section 270 of the Financial Services and Markets Act 2000.

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