

# Gilt Fund

## Fund Objective

The aim of the Fund is to seek to provide a regular income through investment in sterling denominated government and other public securities, principally those issued by the British Government and those which pay interest without deduction of tax to non-residents of the country of issuer.

## Investment Manager

Scottish Widows Investment Partnership ("SWIP")

Manager: Graeme Caughey

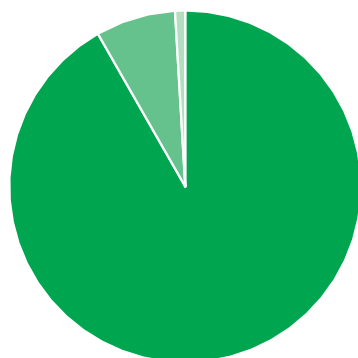
## Fund Performance

	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 (%)
Monthly B	6.44	13.38	4.95	-1.31	-0.04
Quarterly A	6.42	13.51	4.95	-1.26	0.02

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

The figures show the performance growth over 5 years as discrete 12 month periods, on a mid price basis with gross income reinvested. Source: Financial Express. Sector is Lipper Sterling Fixed Interest.

## Sector Breakdown (%)



Government bonds	91.73
Government Index-linked	7.34
Cash	0.93

## Largest Investments (%)

Treasury 8.75% 2017	24.91
Treasury 3.75% 2019	12.60
Treasury 4.5% 2013	7.80
Treasury 2.75% 2015	7.28
Treasury 4.00% 2022	5.51
Treasury 4.25% 2046	5.33
Treasury 2.5% index linked 2013	5.16
Treasury 4.25% 2055	3.48
Treasury 4% 2060	3.27
Treasury 4.5% 2034	2.37

## Market Overview

- Gilt prices moved strongly ahead during the quarter, with the yield on the benchmark 10-year gilt falling to an eight-month low of 3.31%. For most of April, yields traded in a narrow range around the 4% mark, with markets anxious about uncertainty resulting from a hung parliament.
- However, the uncertainty was dispelled on news of a Conservative/Lib-Dem coalition that promised heavy cuts to government spending. Gilts also benefited from a flight to quality, as investors sold off government bonds from peripheral European markets.
- The Fund maintained its short duration position throughout the review period. This hampered performance as yields fell in the three months to June. However, this was mitigated by a trade from 15-20 year bonds into the 5-10 year area. As the yield curve steepened, this effectively offset the adverse duration position.
- The Fund has maintained its position in short-dated index-linked bonds. These performed very strongly, and this has been beneficial for performance.



## Future Policy

- The UK economic outlook is subject to considerable uncertainty, given the extent of fiscal tightening that is being put in place. There is likely to be a moderate negative impact on growth in the shorter term but little impact further out. We are relatively optimistic, with Gross Domestic Product growth forecasts of 1.3% this year, 2.7% in 2011 and 3.4% in 2012. But there is a risk that private sector activity will fail to fill the gap left by cuts in public spending.
- The increase in VAT from 17.5% to 20% in January 2011 is likely to keep Consumer Price Index inflation above the 2% target until early 2012, with some risk that longer-term inflation expectations may drift upwards. That suggests interest rates are set to move up from their current extremely low levels. We think the first rise will be in early 2011 with increases to 2% by the end of that year and 4% by the end of 2012.
- While a moderate recovery is clearly under way in the UK, with gains of 0.4% in the final quarter of 2009 and 0.3% in the first quarter of this year. Both figures may be subject to upward revision. Industrial production data and purchasing manager indices have also been strong. But some headwinds have emerged. The sovereign debt crisis and its evolution into general risk aversion in financial markets are likely to dent consumer and business confidence. Fiscal cuts in Europe may slow growth there, affecting UK exporters. And, as previously indicated, the UK's moves to reduce the budget deficit may hit growth in the short term. The Manager anticipates that very long-dated bonds will do well in the coming months.
- Fiscal tightening and government borrowing which is below earlier expectations reduces the likely pace of net gilt issuance by the government, and make it easier for the Bank of England to unwind some of its £200 billion of asset purchases. SWIP forecasts higher gilt yields – and lower prices - in 12 months' time as inflationary pressures build up once more.

## General Information

**Value of Fund as at 30th June 2010**  
£93.74m

**Dealing Price as at 30th June 2010**  
Monthly B: £ 1.1590  
Quarterly A: £ 1.2020

**Current Yield as at 30th June 2010**  
3.13%

**Gross Redemption Yield as at 30th June 2010**  
Monthly B: 1.29%  
Quarterly A: 1.29%

**Fund Duration**  
8.04 years

**Benchmark**  
8.62 years

**Distribution Dates**  
Monthly B: 25th Monthly  
Quarterly A: 15th February, May, August & November

**XD Dates**  
Monthly B: 1st business day of month  
Quarterly A: 1st January, April, July & October

**Launch Date**  
Monthly B: 12th March 1988  
Quarterly A: 26th October 1978

**Minimum Investment**  
£5,000 or currency equivalent

**Subsequent Investment**  
£50 or currency equivalent

**Initial Charge**  
3.5%

**Annual Management Charge**  
0.85%

**Total Holdings**  
25

**Sedol**  
Monthly B: 0906830  
Quarterly A: 0906971

**ISIN**  
Monthly B: GB0009068304  
Quarterly A: GB0009069716

## Contact Details

For further information about the  
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