

Lloyds TSB Funds Limited

Interim Report and
Unaudited Financial Statements
For the period ended
31st January 2010



Lloyds TSB | International

Lloyds TSB Funds Limited

REGISTERED OFFICE

PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands

PRINCIPAL PLACE OF BUSINESS

PO Box 311, 11 - 12 Esplanade, St Helier,
Jersey, JE4 8ZU, Channel Islands

DIRECTORS

c/o Registered Office
R. D. Willcox (Chairman)
I. M. J. Hardy
B. C. James
N. R. Jeacock-Fewtrell

Advocate T. J. Herbert

PO Box 87, 22 Grenville Street, St Helier,
Jersey, JE4 8PX, Channel Islands

MANAGER AND REGISTRAR

Lloyds TSB Offshore Fund Managers Limited,
PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands
Tel : +44 (0) 1534 845555

LEGAL ADVISERS

In Jersey:

Mourant du Feu & Jeune,
PO Box 87, 22 Grenville Street, St Helier,
Jersey, JE4 8PX, Channel Islands

In England:

Linklaters,
One Silk Street, London, EC2Y 8HQ

CUSTODIAN

Capita Trust Company (Jersey) Limited,
PO Box 532, 12 Castle Street, St Helier
Jersey, JE2 3RT, Channel Islands

SECRETARY

Lloyds TSB Offshore Corporate Services Limited
PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands

INDEPENDENT AUDITORS

PricewaterhouseCoopers CI LLP,
Twenty Two Colomberie, St Helier,
Jersey, JE1 4XA, Channel Islands

PAYING AGENT

Lloyds TSB Offshore Paying Agent (HK) Limited,
26/ F Oxford House, Taikoo Place,
Quarry Bay, Hong Kong

Investment Objectives & Policy

The investment objectives and policy of the Company and the Absolute Return Bond Fund are set out below.

The Company

The Company was incorporated in Jersey on 22nd August 2008. It is a public company with limited liability under the Companies (Jersey) Law 1991, as amended (the "Companies Law").

The Company is an umbrella fund and is the holder of a recognized fund certificate issued under the Order, and holds a permit as a collective investment fund under Article 7 of the Collective Investment Funds (Jersey) Law, 1988, as amended.

As at the date of this Report, the Company has issued only one class - the Absolute Return Bond Fund ("the ARBF"), which is classified as a feeder fund under the Order. It is intended that further classes will be created from time to time. It is also intended that these classes will each be classified as feeder funds, with the objective of investment in one specified underlying fund. Each class will have a separate portfolio of investments or assets ("Funds") and a different investment objective, providing investors with opportunities to invest in feeder funds investing in different sectors and / or asset classes.

Policy

The policy of the Company is to invest in recognised funds, authorised unit trust schemes, authorised open ended investment companies or Undertaking Collective Investments in Transferable Securities ("UCITS") funds, including funds managed by members of the Lloyds Banking Group (including Scottish Widows Investment Partnership Limited). It is not currently envisaged that the Company will invest in funds managed by the Manager but there is no restriction on this. Each Fund will only invest in a single underlying fund.

The Funds may also hold cash deposits and other monetary instruments if necessary, in the opinion of the Manager, to enable Shares to be repurchased or for the efficient management of the Funds.

Absolute Return Bond Fund

The Absolute Return Bond Fund will invest in the Absolute Return Bond Fund class of the Scottish Widows Investment Partnership Investment Funds UK ICVC ("the Underlying Fund"), which is a recognised fund in the United Kingdom and meets the requirements of an UCITS Fund, as defined in the Financial Services Authority's Handbook of Rules and Guidance made under the Financial Services and Markets Act 2000, ("the FSA Rules").

An absolute return fund is a fund which seeks to achieve a positive return over a discrete period, in both rising and falling markets, rather than a fund which has its performance measured relative to a particular benchmark or index.

Report of the Directors

The Directors have pleasure in submitting their interim Report together with the Unaudited Financial Statements for the 6 months to 31st January 2010.

Results

The results for the period are set out in the Financial Statements on pages 7 to 23.

Distributions

Distributions for the period are detailed in Note 5 to the Financial Statements.

Directors

Mr I.M.J. Hardy, Advocate T.J. Herbert, Mr B.C. James, Mr N.R. Jeacock-Fewtrell and Mr R.D. Willcox were Directors throughout the period, have continued to act and are willing to remain in office.

During the period ended 31st January 2010 and subsequently, no Director had a beneficial interest in the Company.

No Director has a service contract with the Company and is, or was, materially interested in any service or other contract entered into by the Company.

Advocate Herbert is a partner of Mourant du Feu & Jeune, the Jersey legal advisers to the Company and the Manager. Mourant du Feu & Jeune receive fees in connection with advising the Company and the Manager.

Mr I.M.J. Hardy, Mr B.C. James, Mr N.R. Jeacock-Fewtrell and Mr R.D. Willcox are Directors of Lloyds TSB Offshore Fund Managers Limited ("the Manager") which has a management contract with the Company. Fees earned by the Manager are disclosed in the Financial Statements.

Investment Activities

The Report of the Manager is set out on page 6.

Independent Auditors

PricewaterhouseCoopers CI LLP were re-appointed as Independent Auditors at the Annual General Meeting held on 18th December 2009 and have indicated their willingness to continue in office.

European Union Savings Tax Directive ("EUSTD")

The European Union Savings Tax Directive ("EUSTD") was effective from 1st July 2005, its purpose is to ensure that European Union ("EU") residents pay tax on savings income in accordance with the tax laws in their country of residence. Although the Channel Islands and Isle of Man are not part of the EU, they have agreed (along with Switzerland and a number of other jurisdictions) to apply similar provisions.

Although EUSTD is aimed primarily at savings income, certain funds do come within the scope of the Directive. Since the launch of the Company, shareholders in Lloyds TSB Funds Limited who are resident in an EU country are subject to the requirements of the Directive.

Shareholders who have elected to have retention tax deducted from their income payments should note that the current rate of 20% will increase to 35% on 1st July 2011.

Paying Agent

The Directors have appointed a Lloyds Banking Group subsidiary in Hong Kong to carry out the functions of paying distributions and proceeds of redemptions on behalf of the Manager with effect from 1st October 2008.

The appointment of a paying agent in Hong Kong means that certain data relating to shareholdings will be processed in Hong Kong. Hong Kong may have different standards of data protection legislation to Jersey, but there is a contract in place with the paying agent to ensure that the information sent to Hong Kong is adequately protected and the Manager will continue to be bound by its obligations under the data protection legislation in Jersey.

Report of the Directors (continued)

Prospectus

A Prospectus dated August 2008 together with a supplement dated April 2009 have been issued by the Company.

The Supplement contains notification that with effect from 19th January 2009, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc. As a result changes have been made to the wording of the Data Protection section of the Fund's application form. Shareholders are advised that the wording; "The Lloyds TSB Group includes all companies with the Lloyds TSB name, Cheltenham & Gloucester plc and Scottish Widows plc, and their associated companies." has been replaced with "Your Group" means the Lloyds Banking Group, which includes you and a number of other companies using brands including Lloyds TSB, Halifax and Bank of Scotland, and their associated companies. More information on the Lloyds Banking Group can be found at www.lloydsbankinggroup.com. For these purposes "associated companies" includes Lloyds Banking Group plc and any subsidiary, affiliate or other firm directly or indirectly controlled from time to time by either Lloyds Banking Group plc or you."

All other references in the Prospectus to Lloyds TSB Group plc and the Lloyds TSB Group should now be read as Lloyds Banking Group plc and the Lloyds Banking Group respectively.

Copies of the Prospectus and Supplement to the Prospectus are available, free of charge, on application to the Manager.

Alternatively they can be accessed on our website at www.lloydstsb-offshore.com/funds.

Website

The Directors have selected Lloyds TSB Offshore Limited's website as the host website for the Company accounts and believe this selection to be a reasonable one; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Information published on the internet is accessible in many countries. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibilities

The Directors are required by the Companies (Jersey) Law 1991 to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company for that period and are in accordance with applicable laws. In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Jersey) Law 1991 and the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003. They are also responsible for the appointment of a duly qualified Custodian to provide safe custody of the assets of the Company. The Directors must also ensure that they or their duly appointed agents take reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

Report of the Directors (continued)

Management and administrative providers

The names and addresses of Management and administrative providers are stated on page 1.

Comparatives table

The distribution table, performance record and net asset value per share are stated on pages 24 and 25.

General Information

The Company is an open-ended investment company with variable capital and Shareholders are not liable for the debts of the Company.

Performance figures in the Report of the Manager are quoted gross of distributions.

The Company is listed on the Channel Islands Stock Exchange

The market value per share at 31st January 2010 was 98.28 pence and at 1st August 2009 was 97.61 pence.

By Order of the Board

Lloyds TSB Offshore Corporate Services Limited
Secretary

4th March 2010

Report of the Manager

Performance

The Absolute Return Bond Fund produced a return of 2.60% over the 6 months ended 31st January 2010, compared to a return of 1.35% in the 3 Months LIBOR + 2% index.

Background & Strategy

One of the most prominent features of the six months under review has been the outstanding performance of corporate bonds. The asset class has enjoyed one of its most remarkable rallies in recent history. Gains that would normally take two or three years to amass have been chalked up in a matter of months. Financials and more risky high-yield bonds produced some of the biggest gains.

The success of the corporate bond market has encouraged a growing number of companies to raise money from investors. This has partly been a result of investors' new found confidence to take on extra risk in their search for higher returns. The ensuing rise in prices and fall in yields has created a positive loop in which lower credit costs have increased the ability of companies to access bond markets. This resulted in high volumes of new issuance in the second half of 2009.

We participated in a number of these new issues, successfully taking profits on some short-term trades. Performance was also generated from our duration positions. In general, the portfolio adopted short duration positions throughout the second half of the year. This proved particularly advantageous in December when government bond yields rose sharply. Given the ongoing uncertainty surrounding public finances and the emergence of inflation, we expect yields to carry on rising in 2010. For the time being we intend to maintain the short duration position.

In terms of trades, we positioned the portfolio to take advantage of an anticipated rise in yields among short-dated US government bonds. However, the yield curve remained very steep, as short-term interest rates are still anchored at low levels. As a result, this trade had a negative impact on performance in the second half of 2009. We shall be maintaining this position, though, as we still think short-dated yields will rise as signs of inflation emerge and the prospect of interest rate rises looms.

We held several overseas positions, including a profitable Japan holding, and we expect to initiate long positions in euro assets compared to the US and UK in coming months. We are also analysing the attractiveness of some developing countries from a currency and sovereign debt perspective.

Outlook

Looking ahead, there could well be further gains for corporate bond investors, but the pace of the market's gains will not be as dramatic. The outlook for gilt markets in coming months remains weak. Inflation data continue to surprise on the upside, there is a high level of uncertainty about the upcoming election and the process of quantitative easing has been put on hold. In 2010 it will be more important than ever for investors to focus on stock picking and differentiating between sectors and individual issuers to find value.

Lloyds TSB Offshore Fund Managers Limited

4th March 2010

Balance Sheet

At 31st January 2010

	Note	31st January 2010 £	31st July 2009 £
ASSETS			
Cash and cash equivalents		2,225,989	9,183
Investment sales receivable		—	24,000
Financial assets at fair value through profit or loss		4,975,230	3,215,993
Other accrued income and pre-paid expenses	4	25,234	65,688
TOTAL ASSETS		<u>7,226,453</u>	<u>3,314,864</u>
EQUITY			
Ordinary share capital		1,000	1,000
TOTAL EQUITY		<u>1,000</u>	<u>1,000</u>
LIABILITIES			
Investment purchases payable		2,169,000	—
Proposed distributions	5	31,371	41,199
Accrued expenses	6	1,892	7,012
Nominal shares	14	—	9,513
TOTAL LIABILITIES *		<u>2,202,263</u>	<u>57,724</u>
* Excluding net assets attributable to holders of participating redeemable preference shares			
Net assets attributable to holders of participating redeemable preference shares	17	5,023,190	3,256,140
TOTAL LIABILITIES AND EQUITY		<u>7,226,453</u>	<u>3,314,864</u>

The Financial Statements on pages 7 to 23 were approved by the Board of Directors on 4th March 2010 and are signed on its behalf by:

R.D. Willcox }
B.C. James } Directors

The notes on pages 12 to 23 form an integral part of these Financial Statements.

Income Statement

For the period ended 31st January 2010

	Note	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Operating profit			
Net gains/(losses) on financial assets at fair value through profit or loss	7	45,237	(178,007)
Investment income		23,691	195,719
Other income	8	141	829
Total operating expenses	9	<u>(14,996)</u>	<u>(21,970)</u>
Operating gain/loss		<u>54,073</u>	<u>(3,429)</u>
Finance Costs			
Distributions to holders of participating redeemable preference shares	5	<u>(31,371)</u>	<u>(141,154)</u>
Total finance costs		<u>(31,371)</u>	<u>(141,154)</u>
Profit/(loss) before tax		<u>22,702</u>	<u>(144,583)</u>
Withholding tax on dividends and other investment income	18	—	(19,664)
Increase/decrease in net assets attributable to holders of participating redeemable preference shares from operations		<u>22,702</u>	<u>(164,247)</u>

The notes on pages 12 to 23 form an integral part of these Financial Statements.

Statement of changes in net assets attributable to holders of participating redeemable preference shares For the period ended 31st January 2010

	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Net assets attributable to holders of participating redeemable preference shares at the beginning of the periods	<u>3,256,140</u>	<u>0</u>
Proceeds from participating redeemable preference shares issued	2,329,128	4,513,048
Redemption of participating redeemable preference shares	<u>(584,780)</u>	<u>(1,092,661)</u>
Net increase from share transactions	<u>1,744,348</u>	<u>3,420,387</u>
Increase/decrease in net assets attributable to holders of participating redeemable preference shares from operations	<u>22,702</u>	<u>(164,247)</u>
Net assets attributable to holders of participating redeemable preference shares at the end of the periods	<u>5,023,190</u>	<u>3,256,140</u>

The notes on pages 12 to 23 form an integral part of these Financial Statements.

Cash Flow Statement

For the period ended 31st January 2010

	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Cash flows from operating activities		
Purchase of financial assets and settlement of financial liabilities	(125,000)	(4,481,000)
Receipts from sale of investments (including realised gains and losses)	604,000	1,063,000
Investment income received	54,728	140,544
Bank interest received	45	829
Interest paid	(1,201)	(678)
Operating expenses paid	(18,915)	(14,280)
Net cash inflow/(outflow) from operating activities	<u>513,657</u>	<u>(3,291,585)</u>
Cash flows from financing activities		
Distributions paid to holders of participating redeemable preference shares	(41,199)	(99,955)
Proceeds received from issue of participating redeemable preference shares	2,329,128	4,513,048
Proceeds paid due to redemption of participating redeemable preference shares	(584,780)	(1,092,661)
Tax paid	—	(19,664)
Net cash inflow from financing activities	<u>1,703,149</u>	<u>3,300,768</u>
Net Increase in cash and cash equivalents	2,216,806	9,183
Cash and cash equivalents opening balance	9,183	0
Cash and cash equivalents closing balance	<u><u>2,225,989</u></u>	<u><u>9,183</u></u>

The notes on pages 12 to 23 form an integral part of these Financial Statements.

Investment Portfolio

	Holding 31.07.09	Holding 31.01.10	Market Value 31.01.10 £	Percentage of Total Net Assets %	Market Value 31.07.09 £
Scottish Widows Investment Partnership					
Investment Funds UK ICVC:					
Absolute Return Bond Fund	3,320,935	5,053,047	4,975,230	99.05	3,215,993
Total Value of Investments			<u>4,975,230</u>	<u>99.05</u>	<u>3,215,993</u>
Other Assets			<u>2,251,223</u>	<u>44.82</u>	<u>98,871</u>
Total Value of Assets			7,226,453	143.87	3,314,864
Liabilities & Equity			(2,203,263)	(43.87)	(58,724)
Net Assets attributable to holders of participating redeemable preference shares			<u>5,023,190</u>	<u>100.00</u>	<u>3,256,140</u>

	6 months ended 31.01.10	From 22.08.08 to 31.07.09
Cost of investments purchased	£2,294,000	£4,481,000
Proceeds from investments sold	£580,000	£1,087,000

Notes to the Financial Statements

31st January 2010

1. The Company is registered in Jersey, Channel Islands.

2. BASIS OF PRESENTATION

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The policies set out below have been consistently applied to the period presented.

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003. Jersey is not part of the United Kingdom and the Company is not regulated by the Financial Services Authority of the United Kingdom ("FSA").

All amounts reported in the Income Statement are in respect of continuing activities.

The capital of the Company comprises of one class of shares relating to a single portfolio ("Fund") consisting of securities, cash, other assets and liabilities. The Financial Statements present the balance sheet, income statement, statement of changes in net assets attributable to holders of participating redeemable preference shares and cash flow statement.

The net assets attributable to holders of redeemable preference shares are classified as Financial Liabilities and therefore, in the opinion of the Directors, the Capital of the Company is only represented by the Founders Shares and Nominal Shares. Details of Founders Shares and Nominal Shares are disclosed in Notes 3(g) and 14.

Critical accounting estimates and judgements

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting policies deemed critical to the Company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been applied consistently to all periods presented, unless otherwise stated in the following text. The Directors also monitor new standards and ensure that they are applied when relevant.

Notes to the Financial Statements (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following interpretation is effective for the Fund's accounting periods beginning 1st October 2008 but is not relevant for the Fund's operations:

- IFRIC 16 'Hedges of a net investment in a foreign operation'

The following standards, amendments and interpretations are effective on or after 1st January 2009 but are not relevant for the Fund's operations:

- IAS 23 (Amendment), 'Borrowing costs'
- IAS 39 & IFRIC 9 (Amendment), 'Embedded derivatives'
- IAS 39 & IFRS 7 (Amendment), 'Reclassification of financial assets'
- IFRS 1 (Amendment), 'First-time adoption of IFRS'
- IAS 27 'Consolidated and separate financial statements'
- IFRS 2 (Amendment), 'Share-based payment'
- IFRIC 15 'Agreements for construction of real estates'
- IAS 27 (Revised) 'Consolidated and separate financial statements'
- IFRS 1 (Amendment), 'Additional exemptions for first time adopters'
- IFRS 2 (Amendment), 'Group cash-settled share-based payment transactions'
- IFRS 3 (Revised) 'Business combinations'
- IFRIC 17 'Distributions of non-cash assets to owners'
- IFRIC 18 'Transfers of assets from customers'
- IFRS 8 'Operating segments'

Improvements to IFRS were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which IASB consider non-urgent but necessary. 'Improvement to IFRS' comprise amendments that result in accounting changes for presentation, recognition of measurements purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1st January 2009 and 1st January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

Functional currency and presentation currency

The Company has adopted sterling as its presentation and functional currency, as the Company's primary activity is to invest in sterling denominated securities, all assets and liabilities are valued in sterling, the Company has no exposure to currency other than sterling and its main investments are based in the UK.

Segmental reporting

The Company is organised into one main business segment, focusing on achieving returns by investing in the Scottish Widows Investment Partnership Absolute Return Bond Fund. No additional disclosure is included in relation to segment reporting as the Company's activities are limited to one main business and geographic segment.

Notes to the Financial Statements (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities at fair value through profit or loss

(a) Classification

The Company classifies its investments in debt and equity securities as financial assets at fair value through profit or loss. These financial assets and financial liabilities are designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(b) Recognition

Purchases and sales are recognised on trade date (the date on which the Company commits to purchase or sell the asset).

(c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed in the income statement as incurred. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value.

Gains and losses arising from changes in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement in the period in which they arise.

(d) Fair value estimation

Financial assets and financial liabilities at fair value through profit or loss are valued at the mid-market prices ruling at 2.00 p.m. on the last business day of the accounting period. This is the same basis used to value the fund for dealing purposes. The Directors are aware that using the bid-market price is required by International Accounting Standards (IAS39), but the valuation price received for the underlying assets is a mid-market price and as a consequence they have decided that the mid-market price should be used.

The Financial assets at fair value through profit or loss of the Company are all quoted in active markets and therefore fall under level 1 as defined by IFRS 7.

(e) Revenue recognition

Investment income from fund investments is recognised in the income statement on an ex-dividend basis.

Bank interest is recognised in the income statement on a time proportionate basis using the effective interest method.

Notes to the Financial Statements (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(g) Share capital

- (i) The Founders Shares have been subscribed for by the Manager and are 'non-participating'. The holders thereof are therefore entitled only to income arising on the assets represented by the Management Shares. These Shares are classified as ordinary share capital in the balance sheet.
- (ii) Unclassified Shares may be issued as participating redeemable preference shares ("Participating Shares") or Nominal Shares. Participating Shares are redeemable at the shareholder's option and are classified as financial liabilities. Participating Shares are carried at the redemption amount that is payable if the holder exercises the right to redeem shares at the balance sheet date.

Participating Shares are issued and redeemed at the holder's option at prices based on the Company's net asset value per share at the time of issue or redemption. The Company's net asset value per share is calculated by dividing the net assets attributable to the holders of participating redeemable preference shares by the total number of Participating Shares in issue. In accordance with the provisions of the Company's regulations, investments are valued based on the latest traded market price for the purpose of determining the net asset value per share for subscriptions and redemptions.

Each holder of a Participating Share is entitled, on a poll, to one vote for each Participating Share held. Participating Shares have a right to dividends declared.
- (iii) Nominal Shares have been accounted for in accordance with the Companies (Jersey) Law 1991, and corresponding amounts have been included in debtors and financial liabilities. A Nominal Share will be created when a Participating Share is cancelled. A Nominal Share will be cancelled when a Participating Share is created until the number of Nominal Shares falls to zero.
- (iv) Both issued Nominal and Participating Shares are carried at a value of £ 0.01 per Share. Details of the Company's share capital and transactions are shown in note 14.

(h) Share premium

The premium on issues and redemptions of the Participating Shares is accounted for within the share premium account which forms part of Net Assets Attributable to Holders of Redeemable Participating Preference Shares. Details are shown in notes 15 and 17.

(i) Distributions payable to holders of participating redeemable preference shares

Distributions to holders of Participating Shares are recognised in the income statement as finance costs when they are ratified by the Directors.

Notes to the Financial Statements (continued)

4. OTHER ACCRUED INCOME AND PRE-PAID EXPENSES

	31st January 2010 £	31st July 2009 £
Accrued income	24,234	55,175
Other debtors	1,000	10,513
Total other accrued income and prepaid expenses	<u>25,234</u>	<u>65,688</u>

5. DISTRIBUTIONS

The distributions take account of income received on the creation of shares and income paid on the cancellation of shares, and comprise:

	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
31st January	31,371	99,955
31st July	—	41,199
		<u>141,154</u>
Income paid on cancellation of shares	811	5,201
Income received on creation of shares	(13,947)	(260)
Net distributions for the period	<u>18,235</u>	<u>146,095</u>

Details of the distributions per share are set out on page 24.

Notes to the Financial Statements (continued)

6. ACCRUED EXPENSES

	31st January 2010 £	31st July 2009 £
Due to Manager	941	1,063
Due to Custodian	135	148
Other creditors	816	5,801
Total accrued expenses	<u>1,892</u>	<u>7,012</u>

7. NET LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The net gains/(losses) on investments during the period comprise:

	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Proceeds from sales of investments during the period	580,000	1,087,000
Original cost of investments sold during the period	(592,145)	(1,151,431)
Realised losses on investments sold during the period	(12,145)	(64,431)
Net unrealised appreciation/(depreciation) for the period	57,382	(113,576)
Net gains/(losses) on financial assets at fair value through profit or loss	<u>45,237</u>	<u>(178,007)</u>

Notes to the Financial Statements (continued)

8. OTHER INCOME

	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Bank interest from cash balances	<u>141</u>	<u>829</u>
Other income	<u>141</u>	<u>829</u>

9. TOTAL OPERATING EXPENSES

	Note	6 months ended 31st January 2010 £	From 22nd August 2008 to 31st July 2009 £
Payable to the Manager :			
Annual management charge	10	5,632	11,954
Payable to the Custodian :			
Custodian fees	11	793	1,669
Other expenses:			
Administration expenses		5,571	2,847
Audit fee		<u>3,000</u>	<u>5,500</u>
Total operating expenses		<u>14,996</u>	<u>21,970</u>

Notes to the Financial Statements (continued)

10. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the party in making financial or operating decisions. The following are considered by the Directors of the Company to be related parties:

The Manager in accordance with the Management Agreement.

The fees received by the Manager are set out in Note 9. Details of amounts due to the Manager at the end of the period are shown in Note 6.

The Manager is involved in all transactions in Shares of the Company, the aggregate values of which are set out in the Statement of changes in net assets attributable to holders of participating redeemable preference shares on page 9.

At the period end the Manager held Participating Shares in the Company as follows:

31st January 2010	6,973.50
31st July 2009	8,165.56

(a) Management Fee

The Manager, which is related to the Fund by virtue of a management agreement, is entitled to a daily fee equal to an annual rate of 1% of the value of the net assets of the Fund calculated daily on a mid market basis and paid monthly from the income earned by the Fund.

(b) Directors' Fees

Directors who are employees of the Lloyds Banking Group do not receive Directors fees. All other Directors receive a fee of £5,000 per annum.

11. CUSTODIAN

The fees received by the Custodian are set out in Note 9. Details of amounts due to the Custodian at the end of the period are shown in Note 6.

The Custodian is entitled to a fee paid monthly, calculated on the following scale by reference to the value of the net assets of the Fund:

Value of Net Assets of the Fund in £ millions	Annual Fee
Up to £50M	0.05% (minimum fee £10,000)
Over £50M	0.03%

The Custodian has agreed to waive its minimum fee until further notice.

The Custodian is also entitled to reimbursement by the Fund of its expenses in connection with its duties as Custodian and to make transaction charges to cover the cost of effecting settlement of stock and cash.

12. CONTROLLING PARTY

In the opinion of the Directors, there is no ultimate controlling party of the Company as defined by International Accounting Standards No.24 Related Party Disclosures.

13. EQUALISATION

The price of a Share includes an equalisation element calculated by dividing the net undistributed income of the Company by the number of shares in issue at the time when the prices are calculated. The payment of the first dividend after the issue of a Share includes an amount of equalisation calculated by averaging the amounts received by way of equalisation during the period to which the dividend relates.

Notes to the Financial Statements (continued)

14. SHARE CAPITAL

	31st January 2010 £	31st July 2009 £
Authorised:		
1,000 Founders Shares of £1	1,000	1,000
750,000,000 Unclassified Shares of 1p	7,500,000	7,500,000
	<u>7,501,000</u>	<u>7,501,000</u>

Issued Share Capital:

1,000 Founders shares	<u>1,000</u>	<u>1,000</u>
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Participating Shares:

	Shares	£	Shares	£
Balance brought forward	3,376,950	33,770	0	0
Creations	2,363,200	23,632	4,529,750	45,298
Redemptions	<u>(597,350)</u>	<u>(5,973)</u>	<u>(1,152,800)</u>	<u>(11,528)</u>
Balance carried forward	<u>5,142,800</u>	<u>51,429</u>	<u>3,376,950</u>	<u>33,770</u>

Nominal Shares:

Balance brought forward	951,250	9,513	0	0
Creations	597,350	5,973	1,152,800	11,528
Redemptions	<u>(1,548,600)</u>	<u>(15,486)</u>	<u>(201,550)</u>	<u>(2,015)</u>
Balance carried forward	<u>0</u>	<u>0</u>	<u>951,250</u>	<u>9,513</u>

15. SHARE PREMIUM

	31st January 2010 £	31st July 2009 £
Balance brought forward	3,391,558	0
Premium on creations	2,291,549	4,467,490
Premium on redemptions	<u>(577,996)</u>	<u>(1,075,932)</u>
Balance carried forward	<u>5,105,111</u>	<u>3,391,558</u>

16. CAPITAL RESERVE

	Realised loss on Investments £	Unrealised movement on investments £	Total £
At 31st July 2009	(64,431)	(113,576)	(178,007)
Net movement in the period	<u>(12,145)</u>	<u>57,382</u>	<u>45,237</u>
At 31st January 2010	<u>(76,576)</u>	<u>(56,194)</u>	<u>(132,770)</u>

Notes to the Financial Statements (continued)

17. NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING REDEEMABLE PREFERENCE SHARES

		31st January 2010	31st July 2009
	Notes	£	£
Participating Shares	14	51,429	33,770
Share premium	15	5,105,111	3,391,558
Capital reserves	16	(132,770)	(178,007)
Undistributed income		(580)	8,819
Net assets attributable to holders of participating redeemable preference shares		<u>5,023,190</u>	<u>3,256,140</u>

18. TAXATION

Investment income is stated gross of withholding taxes. The withholding tax suffered is recorded on the taxation line as set out below:

Foreign tax on income for the period

	31st January 2010	31st July 2009
	£	£
	<u>—</u>	<u>19,664</u>

With effect from 1st January 2009 Exempt Company Status is no longer available under Jersey Income Tax regulations.

However from that date, the Company is liable to be charged at a tax rate of 0% under Schedule D under the Income Tax (Jersey) Law 1961, as amended (the "Income Tax Law") in respect of (i) the income or profits of any trade carried on by the Company in Jersey or elsewhere, (ii) any interest of money, whether yearly or otherwise, or other annual payment paid to the Company, whether such payment is made within or without of Jersey, (iii) dividends and other distributions of a company regarded as resident in Jersey paid to the Company, (iv) income arising to the Company from securities out of Jersey and (v) any other income of the Company that is not derived from the ownership or disposal of land in Jersey.

It is not expected that the Company will be in receipt of income charged to tax under any Schedule under Income Tax Law other than Schedule D. As such the Company is no longer subject to the payment of tax in Jersey.

Notes to the Financial Statements (continued)

19. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity risk, counter-party risk, capital risk and certain other risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Company's financial performance. The Company's investment objective and policy are stated on page 2. To achieve these the Company must hold or purchase financial instruments, which may include:

- Investments.
- Cash, liquid resources, short term debtors and creditors that arise directly from its investment activities.

Market price risk

Investments made by "the Underlying Fund" is principally in fixed interest securities and bank deposits. The value of these investments is not fixed (other than bank deposits) and may go down as well as up. This may be the result of a specific factor affecting the value of an individual stock or be caused by general market factors (such as interest rates, government policy or the health of the underlying economy) which could affect the entire portfolio of the Underlying Fund. "The Underlying Fund" will invest in a portfolio of securities in line with its investment objectives. In the case of equity based funds, the nature of the markets in which the fund invest means that the short term returns may be volatile.

The period end portfolio for the Company is detailed on page 11.

The Manager controls this risk and monitors the movements in "the underlying Fund" and interest rates against the relevant index and market interest rates respectively.

Interest rate risk

The Company will receive the majority of its income from the Underlying Fund in which it invests. Income in the Underlying Fund is derived from the securities held in the portfolio of the Underlying Fund which may be varied from time to time in accordance with its investment objective and policy.

Certain other income may arise from cash deposits held from time to time

In accordance with the Company's policy, the Manager monitors the Company's overall interest rate sensitivity on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The interest bearing financial assets and liabilities held in the Company expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Other than those financial instruments identified above, the Company has no significant exposure to interest rate risks.

Counter-party risk

Certain transactions that the Company enters into expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities. It is the policy of the Manager to buy and sell investments only through approved brokers or directly with the Fund Manager.

Capital risk management

The net assets attributable to holders of redeemable preference shares are classified as Financial Liabilities and therefore the Capital of the Company is only represented by the Founders Shares and Nominal Shares. Details of Founders Shares and Nominal Shares are shown in note 3(g). Due to the nature of the Founders Shares and Nominal Shares the Directors have decided that no active capital risk management is required.

Notes to the Financial Statements (continued)

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

In accordance with the Company's policy, the Manager monitors the Company's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The Company only invests in the Absolute Return Bond Fund class of the Scottish Widows Investment Partnership Investment Funds UK ICVC ("the Underlying Fund"), which is a recognised fund in the United Kingdom and meets the requirements of an Undertaking for Collective Investments in Transferable Securities ("UCITS"), as defined in the Financial Services Authority's Handbook of Rules and Guidance made under the Financial Services and Markets Act 2000, ("the FSA Rules").

An absolute return fund is a fund which seeks to achieve a positive return over a discrete period, in both rising and falling markets, rather than a fund which has its performance measured relative to a particular benchmark or index.

Foreign currency risk

Some of the financial assets of the Underlying Fund are denominated in currencies other than their base currency with the effect that the balance sheet and each Underlying Fund's total return can be significantly affected by currency movements. This risk is managed within the Underlying Fund.

Liquidity risk

The Company is exposed to daily cash redemptions of Participating Shares which are redeemed on demand at the holder's option. It therefore invests all of its assets in investments that are traded in an active market and can be readily disposed of, as such the Company's financial assets are considered to be readily realisable. The Manager manages the Company's cash to meet its liabilities. Where investments cannot be realised in time to meet any redemptions of Shares, the Company may borrow up to 10% of its value to ensure settlement of its liabilities. In accordance with the Company's policy, the Manager monitors the liquidity position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The table below analyses the Company's financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 Month	1-3 Months
	£	£
As at 31st January 2010		
Share Capital	5,024,190	—
Investment purchases payable	2,169,000	—
Proposed distribution	—	31,371
Accrued expenses	816	1,076
Total financial liabilities	<u>7,194,006</u>	<u>32,447</u>
As at 31st July 2009		
Share Capital	3,266,653	—
Proposed distribution	—	41,199
Accrued expenses	1,211	5,801
Total financial liabilities	<u>3,267,864</u>	<u>47,000</u>

Distribution table for Absolute Return Bond Fund

For the period ended 31st December 2010

	Gross income	Equalisation payable	Distribution paid current period	Distribution paid prior period
<u>1st half year</u>				
Group 1	0.61	—	0.61	2.35
Group 2	0.0237	0.5863	0.61	2.35

1st half year

Group 1 : Shares purchased prior to 1st July 2009

Group 2 : Shares purchased between 1st July 2009 and 31st January 2010

Performance Record for Absolute Return Bond Fund

Share prices and dividends

Shares in the Fund were first offered to the public in September 2008 at an offer price of £1.00 per Share.

Year	Highest offer price	Lowest bid price	Dividends per Share	Per £1,000 invested at Launch
	p	p	p	£
2008	100.00	95.93	—	—
2009	97.98	91.70	3.57	35.70
31.01.10	98.64	97.70	0.61	6.10

Net asset value per share for Absolute Return Bond Fund

Year	Net Asset Value of Fund	Net Asset Value per Share	No. of Shares in issue
31.07.09	£3,256,140	96.42p	3,376,950
31.01.10	£5,023,190	97.67p	5,142,800

