

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Annual Long Form Report & Audited Financial Statements
For the year ended 30 November 2009

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

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THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Company Information

Authorised Corporate Director (ACD)
Scottish Friendly Asset Managers Limited

Head Office
16 Blythswood Square
Glasgow
G2 4HJ

Telephone: 0141 275 5000
Fax: 0141 221 4864

The ACD is a member of the Investment Management Association and is authorised and regulated by the Financial Services Authority.

Investment Manager
SVM Asset Management Limited
7 Castle Street
Edinburgh
EH2 3AH

Authorised and regulated by the Financial Services Authority.

Depository
HSBC Bank plc
Level 29
8 Canada Square
London
E14 5HQ

Authorised and regulated by the Financial Services Authority.

Custodian
J P Morgan Trustee and Depository Company Limited
Chaseside
Bournemouth
BH7 7DA

Authorised and regulated by the Financial Services Authority.

Registrar
Scottish Friendly Asset Managers Limited
16 Blythswood Square
Glasgow
G2 4HJ

Telephone: 0141 275 5000
Fax: 0141 221 4864

Authorised and regulated by the Financial Services Authority.

Administrator
(with effect from 6 April 2009)
JPMorgan Europe Limited
3 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

Authorised and regulated by the Financial Services Authority.

(from 1 December 2008 to 5 April 2009)
Northern Trust
50 Bank Street
Canary Wharf
London
E14 5NT

Authorised and regulated by the Financial Services Authority.

Auditors
KPMG Audit Plc
191 West George Street
Glasgow
G2 2LJ

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Report of the Authorised Corporate Director

The Company

The Scottish Friendly Investment Funds ICVC is an open-ended investment company with variable capital ("OEIC") under regulation 12 of the OEIC Regulations 2001 and authorised by the Financial Services Authority. The Company is incorporated in Scotland under registered number S1-11. Individual shareholders will not be held liable for the debts of the Company.

The Company is structured as an "umbrella" company for the purposes of the Financial Services Authority Regulations. The purpose of this structure is to give investors access to a series of funds with differing objectives, within the flexibility of one single corporate structure. Different funds may be established from time to time by the ACD with the approval of the Financial Services Authority and the agreement of the Depositary. The Company currently has two 'securities' funds, the Scottish Friendly Managed Growth Fund and the Scottish Friendly UK Growth Fund. If the liabilities in any Fund are greater than its net assets, these liabilities can be allocated to any other Fund within Scottish Friendly Investment Funds ICVC.

The Financial Statements

We are pleased to present the Annual Financial Statements of the Company for the year ended 30 November 2009. The financial statements have been prepared on an aggregated basis including all sub-funds as permitted by the Regulations. As required by the Regulations, information for each of the sub-funds has also been included in these financial statements. On the following pages we review the performance of each of those sub-funds during the period.

Annual General Meetings

The Company will not be holding Annual General Meetings.

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Statement of the Authorised Corporate Director's Responsibilities

The Collective Investment Schemes Sourcebook of the Financial Services Authority requires the Authorised Corporate Director (ACD) to prepare financial statements for each accounting period which give a true and fair view of the financial position of the Company at the period end and of the net revenue and net capital gains or losses on the scheme property of the Company for the period then ended. In preparing the financial statements the ACD is required to:

- comply with the Prospectus, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent;
- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation for the foreseeable future; and
- follow generally accepted accounting principles and applicable accounting standards.

The ACD is required to keep proper accounting records and to manage the Company in accordance with the Regulations and the Prospectus. The ACD is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Authorised Corporate Director's Statement

We hereby approve the Report and Financial Statements of Scottish Friendly Investment Funds ICVC for the year ended 30 November 2009 on behalf of Scottish Friendly Asset Managers Limited in accordance with the requirements of the Collective Investment Schemes Sourcebook of the Financial Services Authority.

Director

Director

Scottish Friendly Asset Managers Limited
24 February 2010

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Statement of the Depositary's Responsibilities in Respect of the Scheme

for the year from 1 December 2008 to 30 November 2009

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook ("the Sourcebook"), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the OEIC Regulations) and the Company's Instrument of Incorporation and Prospectus in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers of the Company.

Report of the Depositary to the Shareholders of The Scottish Friendly Investment Funds ICVC

for the year from 1 December 2008 to 30 November 2009

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Sourcebook and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

HSBC Bank plc
24 February 2010

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Independent Auditors' Report to the Shareholders of The Scottish Friendly Investment Funds ICVC

We have audited the financial statements of the Company for the year ended 30 November 2009 which comprise the Statements of Total Return, the Statements of Change in Net Assets Attributable to Shareholders and the Balance Sheets together with the related notes and accumulation tables. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Authorised Corporate Director ('the ACD'), The Scottish Friendly Investment Funds ICVC and Auditors

The ACD's responsibility for preparing the Annual Report and the financial statements in accordance with applicable law, UK financial services rules and regulations and UK Accounting Standards (UK Generally Accepted Accounting Practice) is set out in the Statement of ACD's Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Instrument of Incorporation, the Statement of Recommended Practice relating to Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority. We also report to you whether in our opinion the information given in the ACD's Report is consistent with the financial statements and whether we have received all the information and explanations necessary for the purposes of our audit.

In addition we report to you if, in our opinion, proper accounting records for the Company have not been kept or if the financial statements are not in agreement with those records.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the ACD in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Company as at 30 November 2009 and of the net revenue and the net capital gains on the property of the Company for the year then ended;
- the financial statements have been properly prepared in accordance with the Instrument of Incorporation, the Statement of Recommended Practice relating to Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority; and
- the information given in the Authorised Corporate Director's Report is consistent with the financial statements.

We have received all the information and explanations which we consider necessary for the purposes of the audit.

Tom Wolfenden (Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
191 West George Street
24 February 2010

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Aggregated Statement of Total Return

for the year ended 30 November 2009

	Notes	£'000	2009 £'000	2008 [^] £'000
Income				
Net capital gains/(losses)	2		12,017	(26,376)
Revenue	3	1,473		1,540
Expenses	4	<u>(752)</u>	<u>(808)</u>	
Net revenue before taxation		721	732	
Taxation	5	<u>-</u>	<u>-</u>	
Net revenue after taxation			<u>721</u>	<u>732</u>
Total return before distributions			12,738	(25,644)
Finance costs: Accumulations	6		(721)	(732)
Change in net assets attributable to shareholders from investment activities			<u>12,017</u>	<u>(26,376)</u>

Aggregated Statement of Change in Net Assets Attributable to Shareholders

for the year ended 30 November 2009

	£'000	2009 £'000	2008 £'000
Opening net assets attributable to shareholders		42,520	53,486
Amounts receivable on creation of shares	8,375		14,832
Amounts payable on cancellation of shares	<u>(72)</u>	<u>(222)</u>	
		8,303	14,610
Change in net assets attributable to shareholders from investment activities (see above)		12,017	(26,376)
Stamp duty reserve tax		(4)	(7)
Retained distribution on accumulation shares		750	807
Closing net assets attributable to shareholders		<u>63,586</u>	<u>42,520</u>

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Aggregated Balance Sheet

as at	Notes	£'000	30/11/2009 £'000	£'000	30/11/2008 £'000
ASSETS					
Investment assets			59,809		37,117
Debtors	7	281		322	
Cash and bank balances		<u>4,274</u>		<u>5,304</u>	
Total other assets			<u>4,555</u>		<u>5,626</u>
Total assets			<u>64,364</u>		<u>42,743</u>
LIABILITIES					
Creditors	8	<u>(778)</u>		<u>(223)</u>	
Total liabilities			<u>(778)</u>		<u>(223)</u>
Net assets attributable to shareholders			<u>63,586</u>		<u>42,520</u>

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

1. Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Prospectus and with generally accepted accounting principles and applicable accounting standards in the UK and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Management Association (IMA) in November 2008.

The accounts of the two sub-funds are also presented on an aggregated basis to show the position of the Scottish Friendly Investment Funds ICVC as a whole.

Disclosure and presentation

The presentation of these financial statements has been changed from the previous year to comply with the requirements of the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in November 2008. This change did not have an impact on the return or on the total net assets of the sub-funds for the previous year.

Other gains/(losses)

Other gains/(losses) were previously included as a separate line in the Statement of Total Return but have now been included in net capital gains/(losses).

Transaction charges

Transaction charges were previously included in expenses but have now been included in net capital losses.

Income

Dividends from equities are recognised when the security is quoted ex-dividend. Bank interest is accounted for as earned. Ordinary scrip dividends are recognised as revenue, based on the market value of the shares on the date they are quoted ex-dividend. Income on unquoted stocks is recognised when the entitlement to the dividend is established. Interest on fixed interest securities is recognised on an accruals basis, taking into account the effective yield on the investment. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life.

Distributions from collective investment schemes are recognised when the security is quoted ex-dividend. Equalisation on distributions received is deducted from the cost of the investment. Distributions on investments in accumulation shares / units are recognised gross in the revenue statement, with a transfer being made from the capital property to the revenue property of the individual sub-fund.

Special Dividends

Special dividends are treated as repayments of capital except where there is sufficient evidence that they should be treated as revenue.

Expenses

All expenses, other than those relating to the purchase and sale of investments, are charged against income. For purposes of determining the accumulation, security transaction charges are allocated to capital.

Equalisation Policy

The first distributions received from investments in collective investment schemes may include an element of equalisation which represents the average amount of income included in the price paid for shares/units. The equalisation is treated as a return of capital for taxation purposes and does not carry a tax credit. Equalisation received from the underlying investments has been treated as a reduction in the book cost of the investments and is not distributed.

Valuations

All investments, some of which are collective investment schemes, are shown at the bid market value, or in the case of shares in open-ended investment companies, their single price at 12 noon on the last working day of the accounting year.

Taxation

Any relevant tax is included in the property of the Company.

The charge for taxation is based on net revenue for the year. UK dividend income is disclosed net of any related tax credit.

Foreign Exchange

Assets and liabilities denominated in foreign currencies at the end of the accounting year are translated into sterling at the exchange rates ruling at close on the last valuation day of the accounting year. Revenue items denominated in foreign currencies are translated into sterling at the exchange rates ruling at the date of the transaction.

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Accumulations

Where the income from investments exceeds the expenses (for any share class), an accumulation will be made to that share class except where due to a deficit in other share classes in the same sub-funds the accumulation is restricted and a capital transfer will be made. Should expenses exceed income, there will be no accumulation and the shortfall will be transferred from capital. The policy of the sub-funds is to make dividend accumulations on a semi-annual basis.

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2. Net capital gains/(losses)

The net capital gains/(losses) during the year comprise:

	30/11/2009 £'000	30/11/2008 [^] £'000
Non-derivative securities	12,022	(26,326)
Currency gains/(losses) from other capital items*	1	(45)
Transaction charges	(6)	(5)
Net capital gains/(losses)	12,017	(26,376)

* Currency gains/(losses) from other capital items were previously included as a separate line in the Statement of Total Return.

3. Revenue

	30/11/2009 £'000	30/11/2008 £'000
UK dividends	1,193	1,161
Interest on debt securities	227	119
Property income distributions from UK REITs	21	-
Overseas dividends	19	-
Bank interest	8	256
Overseas dividends not subject to corporation tax	5	-
UK unfranked dividends	-	4
	1,473	1,540

4. Expenses

	30/11/2009 £'000	30/11/2008 £'000
Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director, and agents of either of them:		
Authorised Corporate Director's periodic charge	716	779
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fee	16	19
Safe custody charges	5	4
	21	23
Other expenses:		
Audit fee	7	6
Other expenses	7	-
Cash management fee	1	-
	15	6
Total expenses (including VAT where appropriate)	752	808

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

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5. Taxation

	30/11/2009 £'000	30/11/2008 [^] £'000
a) Analysis of charge in the year		
Corporation tax	-	-
Total taxation	-	-
b) Factors affecting current tax charge for year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Open Ended Investment Company (OEIC) of 20%. The differences are explained below:		
Net revenue before taxation	721	732
Corporation tax at 20% (2008: 20%)	144	146
Effects of:		
UK dividend income not subject to corporation tax	(238)	(231)
Overseas dividends not subject to corporation tax*	(1)	-
Current year expenses not utilised	95	82
Taxation payable in different periods	-	3
Current tax charge (note 5a)	-	-

* Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

Open Ended Investment Companies are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

c) Factors that may affect future tax charges

The disclosure of any potential unrecognised deferred tax assets are included within the individual sub-fund's financial statements.

6. Finance costs

	30/11/2009 £'000	30/11/2008 £'000
Accumulations and interest		
The accumulations take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares and comprise:		
Interim accumulation	449	142
Final accumulation	301	665
	750	807
Revenue received on issue of shares	(29)	(75)
Net distribution for the year	721	732
Details of the accumulations per share are set out in the financial statements for each individual sub-fund.		
Interest	-	-
Total finance costs	721	732

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

7. Debtors

	30/11/2009 £'000	30/11/2008 £'000
Accrued revenue	229	313
Sales awaiting settlement	30	-
Amounts due from ACD	19	-
Income tax recoverable	3	-
Prepaid expenses	-	9
	281	322

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8. Creditors

	30/11/2009	30/11/2008
	£'000	£'000
Purchases awaiting settlement	682	212
Accrued expenses	96	11
	<u>778</u>	<u>223</u>

9. Equalisation

Equalisation is accrued income included in the price of shares purchased during the accounting year, which, after using monthly groupings to average, is refunded as part of a shareholder's accumulation, resulting in the same rate of accumulation on all shares. As a capital repayment, it is not liable to income tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

10. Portfolio transaction costs

The numerical disclosures for the Portfolio transaction costs are shown within each sub-fund.

11. Related parties

Details of all related party information are disclosed in the individual sub-funds.

12. Financial instruments

In pursuing the investment objectives of the individual sub-funds, the Company may hold a number of financial instruments which comprise:

- equity and non-equity shares, Collective Investment Schemes, fixed income securities, and floating rate securities.
- cash, liquid resources and short-term debtors and creditors that arise directly from its operations.
- Shares/units in collective investment schemes which are either a money market scheme or a scheme of a category that is equivalent to a money market scheme;

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13. Risk of financial instruments

The main risks arising from the Company's financial instruments are market price, foreign currency, interest rate and liquidity risks. The ACD reviews (and agrees with the Depositary) policies for managing each of these risks as summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate:

- Market risk - arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The ACD meets regularly to consider the asset allocation of the portfolios in order to minimise the risk associated with particular industry sectors whilst continuing to follow the investment objective. An individual fund manager has responsibility for monitoring the existing portfolios selected in accordance with the overall asset allocation parameter described above and seeks to ensure that individual stocks also meet the risk reward profile that is acceptable.

The ACD does not currently use derivative instruments to hedge the investment portfolios against market risk, as in its opinion the cost of such a process would result in an unacceptable reduction in the potential for capital growth.

- Foreign currency risk - the revenue and capital value of the Company's investments can be affected by foreign currency translation movements as a proportion of the Company's assets and revenue is denominated in currencies other than sterling which is the Company's functional currency.

The ACD has identified three principal areas where foreign currency risk could impact the Company. These are movement in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements during the year between when an investment purchase or sale is entered into and the date of settlement, and finally movements in exchange rates affecting revenue received by the Company. The Company converts all receipts of revenue, received in currency, into sterling on the day of receipt.

- Interest rate risk - the Company invests in fixed rate securities. Thus any change to the interest rates relevant for particular securities may result in either income increasing or decreasing, or the ACD being unable to secure similar returns on the expiry of contracts or the sale of securities. In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held.

In general, if interest rates rise the revenue potential of the Company also rises but the value of fixed rate securities will decline (along with certain expenses calculated by reference to the assets of the Company). A decline in interest rates will in general have the opposite effect.

- Liquidity risk - the Company's assets comprise mainly realisable securities, which can be readily sold. The main liability of the Company is the redemption of any shares that investors wish to sell;
- Other risk - certain transactions in securities that the Company may enter into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities;

The Company only buys and sells investments through brokers which have been approved by the ACD as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any individual broker that may exist at any time and these limits are reviewed regularly;

- Fair value - there is no material difference between the value of the financial assets and liabilities, as shown in the Aggregated Balance Sheet, and their fair value;
- Derivatives and other financial instruments - The sub-funds do not hold any derivatives.

The numerical disclosures required by FRS13 are shown within each individual sub-fund and can be found on the pages indicated below.

14. Post balance sheet events

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

Scottish Friendly Managed Growth Fund

Investment Report

Fund Objective

The aim of the Fund is to achieve medium to long term capital growth.

Investment Policy

The investment policy will be to invest in equities and fixed interest securities both in the UK and in other international stock markets. Fixed interest securities will comprise UK gilts or fixed interest securities denominated in sterling or foreign currencies issued by sovereign governments, supranational bodies, or local authorities. The Fund may also invest in corporate bonds denominated in sterling and other foreign currencies. The use of derivatives, stock lending or borrowing as permitted by the regulations for efficient portfolio management purposes may also take place when deemed appropriate for the achievement of the objectives of the Fund.

Market Background

After a roller coaster journey through the first half of 2009, equity markets provided a smoother ride for investors in the second half. Following the near collapse of the global financial system in 2008 and the prospect that most major economies had plunged into recession, it has been surprising to many investors that equity markets have regained losses as quickly as has been the case.

Over the reporting period the FTSE All Share Index delivered a return of 29.3%. Medium and smaller companies outperformed strongly as investors' appetite for risk increased.

Over the period many companies reported better than expected profits as the effects of cost cutting began to emerge alongside an increase in confidence and demand. The US economy expanded in the third quarter and Chinese and other emerging market economies continue to grow strongly.

Portfolio Review

The portfolio benefited from good UK stock selection over the period. The portfolio's exposure to companies likely to benefit from an improvement in economic growth was positive to performance.

The fund also benefited from its exposure to resources, particularly medium sized oil exploration and production companies. We continue to believe that significant value resides in this area of the market as companies continue to grow reserves, often with attractive production profiles. Tullow Oil and Afren Energy were both helpful to performance.

The Managed Growth Fund's performance gained through its exposure to specialist emerging market funds. After underperforming in 2008, it was pleasing to see holdings including JP Morgan Russian Securities and Advance Developing Markets Trust bounce back strongly.

Over the year the Managed Growth Fund's return of 26.3% outperformed the IMA Balanced Managed Sector Average ('Sector Average') return of 23.3% - the fund ranked 46/143 funds over the reporting period. Over three years the Fund has returned -17.2% compared to a return for the Sector Average of -2.6% with a ranking of 107/108 funds.*

** Source: Lipper. Past performance is not a guide to future performance. The value of shares and the income from them can go down as well as up and the original investment is not guaranteed. The basis of taxation may change.*

Investment Outlook

An improvement in economic conditions and the stabilisation of the global financial system are welcome news for investors. Underlying problems within the global economy do remain, not least the high level of government and personal indebtedness and the banking system's ongoing exposure to fragile property markets. The recent emergence of problems within Dubai highlights the risk.

The rise in the equity market indicates there are reasons to be positive. Many companies reduced their cost base significantly as the financial storm passed; as consumer confidence began to return in 2009 an improvement in sales has resulted in improved profitability. Furthermore, we believe that operating margins in the current downturn are likely to bottom out higher than in previous recessions, which suggests that companies have efficiently reduced their cost base.

Currently investors get little return for leaving their money in the bank or investing in government bonds. The equity market, where some companies continue to offer attractive dividend yields, is an attractive investment for anyone requiring income. For that reason and in the absence of rising interest rates and bond yields, we believe equities should continue to perform well.

We believe resources and selected industrials should continue to perform well as global growth accelerates and the portfolios have good exposure to this area. Recent economic indicators all point to continued expansion of the Chinese economy and the country's insatiable appetite for resources remains strong.

In some sectors reliant on exports, the fall in value of Sterling is likely to have a positive impact on sales. Indeed many British companies now also look attractive to potential foreign acquirers, as the recent bid for Cadbury Schweppes has proved. UK engineering companies look particularly interesting to potential acquirers with good balance sheets and strong margins.

Scottish Friendly Managed Growth Fund

We remain nervous of the consumer, particularly in economies such as the UK and Ireland where personal indebtedness remains high. Rising unemployment, increased levels of taxation and the need for households to repair balance sheets all point to a difficult environment for cyclical services and other domestic consumer businesses. The Managed Growth portfolio has a preference for companies with significant overseas earnings.

Rising impairments and a tougher regulatory environment will continue to impact bank profitability, although those banks that lent more prudently are in a better position. Generally we remain cautious on the banking sector.

The fall in equity markets in 2008 presented us with many opportunities to purchase companies on truly exceptional valuations. Although value, in the broader market, is no longer as apparent, we continue to believe that individual businesses have the potential to surprise positively in the months ahead and as stock pickers the current market is providing us with many interesting opportunities.

Scottish Friendly Managed Growth Fund

Fund Information

Net Asset Value

Share Class	As at	Net asset value (£)	Number of shares in issue	Net asset value per share (p)
A Accumulation	30 November 2007	51,789,242	26,415,389	196.1
	30 November 2008	37,270,285	31,461,035	118.5
	30 November 2009	56,298,232	37,719,552	149.3

Performance Record

Share Class	Calendar year	Highest price (p)	Lowest price (p)
A Accumulation	2004	128.2	112.6
	2005	163.2	128.5
	2006	187.1	164.6
	2007	205.8	181.6
	2008	201.1	111.3
	2009*	154.1	108.6

* 1 January 2009 to 30 November 2009.

Revenue Record

The revenue record table below shows the net accumulation rates per accounting year on an xd date basis.

Share Class	Accounting year	30.11	31.05	Total (p)
		Final (p)	Interim (p)	
A Accumulation	2004	0.6182	0.7641	1.3823
	2005	0.9513	0.7473	1.6986
	2006	0.1857	0.2296	0.4153
	2007	0.5396	0.5522	1.0918
	2008	1.9254	0.2835	2.2089
	2009	0.7121	1.1005	1.8126

Total Expense Ratio

A Accumulation	30.11.09	30.11.08
	1.46%	1.46%

The total expense ratio (TER) takes into account the ACD fee and all other operating expenses over the relevant financial year and is expressed as a percentage of average daily net assets over that year.

Portfolio Turnover Rate

Scottish Friendly Managed Growth Fund	30.11.09	30.11.08
	80.61%	62.37%

The portfolio turnover ratio (PTR) takes into account the total purchases and sales less the total subscriptions and redemptions over the relevant financial year and is expressed as a percentage of average daily net assets over that year.

Scottish Friendly Managed Growth Fund

Portfolio Statement

as at 30 November 2009

Holding	Investment	Market value £	Net assets %
	Equities 83.86% (72.67%)		
	Banks 8.19% (8.87%)		
466,500	HSBC	3,314,483	5.89
87,000	Standard Chartered	1,296,300	2.30
		4,610,783	8.19
	Electricity 1.47% (2.07%)		
300,000	International Power	828,900	1.47
	Electronic & Electrical Equipment 1.91% (1.68%)		
382,500	Invensys	1,072,912	1.91
	Food & Drug Retailers 3.49% (5.50%)		
465,000	Tesco	1,965,788	3.49
	Food Producers 1.13% (0.00%)		
79,000	Cadbury	637,530	1.13
	Gas Water & Multiutilities 0.00% (1.99%)		
	General Financial 2.43% (2.33%)		
400,000	Ecofin Water & Power Opportunities	528,000	0.94
100,000	Ecofin Water & Power Opportunities Subscription Shares	13,000	0.02
880,000	Trading Emissions	827,200	1.47
		1,368,200	2.43
	General Retailers 1.37% (0.00%)		
2,088,456	DSG International	772,729	1.37
	Health Care Equipment & Services 0.00% (0.30%)		
12,750,000	International Medical Devices	-	-
	Industrial Engineering 3.50% (1.15%)		
150,000	Charter International	1,105,500	1.96
125,000	Weir	865,000	1.54
		1,970,500	3.50
	Insurance 0.80% (2.08%)		
120,000	Aviva	448,560	0.80
	Investment Companies 18.04% (17.18%)		
250,000	Advance Developing Markets Fund	920,000	1.63
50,000	Advance Developing Markets Fund Subscription Shares	43,000	0.08
3,236,425	Black Sea Property	194,186	0.35
300,000	BlackRock World Mining Trust	1,599,000	2.84
340,000	Charter Pan European Trust	765,000	1.36
675,000	City Natural Resources	1,188,000	2.11
1,422,300	CQS RIG Finance	149,342	0.27
248,000	Edinburgh Dragon Trust	446,400	0.79
825,000	Equity Partnership	152,624	0.27
1,000,000	Harewood Enhanced Property Recovery Cell	662,699	1.18
450,000	IIMIA Investment Trust	493,875	0.88
250,000	JPMorgan Russian Securities Trust	1,075,000	1.91
199,486	Jupiter Second Split Geared	80,792	0.14
990,000	Lewis Charles Sofia Property	69,300	0.12
125,000	Oryx International Growth Fund	221,250	0.39
575,000	Prospect Japan	165,807	0.29
250,000	Renaissance US Growth Investment Trust	582,500	1.04
623,000	SVM UK Active Fund	858,183	1.52
395,166	Utilico Emerging Markets	488,030	0.87
		10,154,988	18.04
	Media 0.70% (0.00%)		
750,000	ITV	393,750	0.70

Scottish Friendly Managed Growth Fund

Holding	Investment	Market value £	Net assets %
Mining 15.36% (0.15%)			
25,000	Anglo American	649,500	1.15
199,000	Antofagasta	1,792,990	3.19
83,800	Eurasian Natural Resources	705,596	1.25
45,000	Kazakhmys	546,750	0.97
276,000	Medusa Mining	629,280	1.12
1,070,000	Mercator Gold	26,750	0.05
152,857	Mercator Gold Warrants 27/05/2010	-	-
88,200	Petropavlovsk	1,086,624	1.93
39,200	Randgold Resources	1,989,400	3.53
40,000	Rio Tinto	1,221,400	2.17
3,166,667	Van Dieman Mines *	-	-
		8,648,290	15.36
Oil Equipment, Services & Distribution 0.90% (0.00%)			
64,000	AMEC	507,520	0.90
Oil & Gas Producers 12.49% (9.63%)			
959,000	Afren	822,343	1.46
100,208	BG	1,110,805	1.97
239,000	BP	1,381,420	2.45
75,000	Royal Dutch Shell 'B'	1,310,250	2.33
195,000	Tullow Oil	2,410,200	4.28
		7,035,018	12.49
Pharmaceuticals & Biotechnology 0.00% (4.49%)			
Real Estate 1.11% (1.59%)			
140,000	China Real Estate	434,000	0.77
600,000	REO Securities Zero Dividend Pref	192,000	0.34
		626,000	1.11
Speciality & Other Finance 0.94% (2.15%)			
4,000,000	EuroVestech	530,000	0.94
Support Services 3.47% (5.64%)			
165,000	Babcock International	1,046,100	1.86
126,000	Capita	907,200	1.61
		1,953,300	3.47
Technology Hardware & Equipment 2.35% (0.00%)			
257,600	Pace	539,672	0.96
822,500	Spirent Communications	781,375	1.39
		1,321,047	2.35
Telecommunications 2.57% (3.59%)			
1,054,000	Vodafone	1,444,506	2.57
Tobacco 1.64% (2.28%)			
50,000	British American Tobacco	924,000	1.64
Bonds 10.07% (14.65%)			
Government Securities 10.07% (14.65%)			
£1,000,000	Treasury 2.5% Index Linked 17/07/2024	2,672,900	4.75
£1,540,000	Treasury 4.25% 07/06/2032	1,573,917	2.80
£72,402	Treasury 5% 07/03/2012	78,223	0.14
£27,500	Treasury 6% 07/12/2028	34,604	0.06
£40,000	Treasury 8% 07/12/2015	51,215	0.09
£52,000	Treasury 8% 07/06/2021	72,976	0.13
£1,048,000	Treasury 9% 12/07/2011	1,183,158	2.10
		5,666,993	10.07
Investment assets		52,881,314	93.93
Net other assets		3,416,918	6.07
Net assets		56,298,232	100.00

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

The comparative percentage figures in brackets are at 30 November 2008.

* Delisted.

Scottish Friendly Managed Growth Fund

	Market value £	Percentage of investments %
Bonds	5,666,993	10.72
Equities	37,059,333	70.08
Investment Companies	10,154,988	19.20
Investments as shown in balance sheet	52,881,314	100.00

Scottish Friendly Managed Growth Fund

Summary of Material Portfolio Changes

for the year ended 30 November 2009

Purchases	Note	Cost £'000	Sales	Note	Proceeds £'000
Treasury 2.5% Index Linked 17/07/2024		2,511	Treasury 5.75% 07/12/2009		3,748
Randgold Resources		1,881	AstraZeneca		1,858
Antofagasta		1,648	Lloyds Banking Group		1,700
Standard Chartered		1,457	Hammerson		1,228
Treasury 4.25% 07/06/2032		1,273	Aquarius Platinum		904
BP		1,215	Goldman Sachs Strategic Investments		756
Peter Hambro Mining		1,141	Antofagasta		725
Charter International		1,088	BP		693
Lloyds Banking Group		1,065	Morrison (W) Supermarkets		656
Aquarius Platinum		901	Severn Trent		631
Hammerson		892	Prudential		623
HSBC		744	Pennon		606
Spirent Communications		736	Johnson Matthey		505
Rio Tinto		659	Babcock International		439
Eurasian Natural Resources		652	Barclays		435
DSG International Rights Issue 01/06/2009		628	Rentokil Initial		329
International Medical Devices		587	Tullow Oil		263
Kazakhmys		587	HSBC		254
Afren		581	Invesco Asia Trust		202
AMEC		560	MAN		167
Other purchases		6,555	Other sales		566
Total for the year	8	<u>27,361</u>	Total for the year	8	<u>17,288</u>

Scottish Friendly Managed Growth Fund

Statement of Total Return

for the year ended 30 November 2009

	Notes	£'000	2009 £'000	£'000	2008 [^] £'000
Income					
Net capital gains/(losses)	1		10,304		(24,034)
Revenue	2	1,284		1,380	
Expenses	3	(659)		(733)	
Net revenue before taxation		625		647	
Taxation	4	-		-	
Net revenue after taxation			625		647
Total return before distributions			10,929		(23,387)
Finance costs: Accumulations	5		(625)		(647)
Change in net assets attributable to shareholders from investment activities			10,304		(24,034)

Statement of Change in Net Assets Attributable to Shareholders

for the year ended 30 November 2009

	£'000	2009 £'000	£'000	2008 £'000
Opening net assets attributable to shareholders		37,270		51,789
Amounts receivable on creation of shares	8,125		9,052	
Amounts payable on cancellation of shares	(50)		(219)	
		8,075		8,833
Change in net assets attributable to shareholders from investment activities (see above)		10,304		(24,034)
Stamp duty reserve tax		(4)		(7)
Retained distribution on accumulation shares		653		689
Closing net assets attributable to shareholders		56,298		37,270

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

Scottish Friendly Managed Growth Fund

Balance Sheet

as at

	Notes	£'000	30/11/2009 £'000	£'000	30/11/2008 £'000
ASSETS					
Investment assets			52,881		32,546
Debtors	6	225		286	
Cash and bank balances		<u>3,927</u>		<u>4,443</u>	
Total other assets			<u>4,152</u>		<u>4,729</u>
Total assets			<u>57,033</u>		<u>37,275</u>
LIABILITIES					
Creditors	7	<u>(735)</u>		<u>(5)</u>	
Total liabilities			<u>(735)</u>		<u>(5)</u>
Net assets attributable to shareholders			<u>56,298</u>		<u>37,270</u>

Scottish Friendly Managed Growth Fund

1. Net capital gains/(losses)

The net capital gains/(losses) during the year comprise:

	30/11/2009 £'000	30/11/2008 [^] £'000
Non-derivative securities	10,305	(23,988)
Currency gains/(losses) from other capital items*	1	(45)
Transaction charges	(2)	(1)
Net capital gains/(losses)	<u>10,304</u>	<u>(24,034)</u>

* Currency gains/(losses) from other capital items were previously included as a separate line in the Statement of Total Return.

2. Revenue

	30/11/2009 £'000	30/11/2008 £'000
UK dividends	1,004	1,024
Interest on fixed interest stocks	227	119
Overseas dividends	19	-
Overseas dividends not subject to corporation tax	3	-
Bank interest	10	233
Property income distributions from UK REITs	21	-
UK unfranked dividends	-	4
	<u>1,284</u>	<u>1,380</u>

3. Expenses

	30/11/2009 £'000	30/11/2008 £'000
Payable to the Authorised Corporate Director, associates of the Authorised Corporate Director, and agents of either of them:		
Authorised Corporate Director's periodic charge	<u>634</u>	<u>709</u>
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fee	14	17
Safe custody charges	4	4
	<u>18</u>	<u>21</u>
Other expenses:		
Audit fee	3	3
Other expenses	4	-
	<u>7</u>	<u>3</u>
Total expenses (including VAT where appropriate)	<u>659</u>	<u>733</u>

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

Scottish Friendly Managed Growth Fund

4. Taxation

	30/11/2009 £'000	30/11/2008 [^] £'000
a) Analysis of charge in the year		
Corporation tax	-	-
Total taxation	<u>-</u>	<u>-</u>

b) Factors affecting current tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Open Ended Investment Company (OEIC) of 20%. The differences are explained below:

Net revenue before taxation	625	647
Corporation tax at 20% (2008: 20%)	125	129
Effects of:		
UK dividend income not subject to corporation tax	(200)	(204)
Overseas dividends not subject to corporation tax*	(1)	-
Current year expenses not utilised	76	72
Taxation payable in different periods	-	3
Current tax charge (note 4a)	<u>-</u>	<u>-</u>

* Overseas dividends are not subject to corporation tax from 1 July 2009 due to changes enacted in the Finance Act 2009.

Open Ended Investment Companies are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

c) Factors that may affect future tax charges

At the year end there is a potential deferred tax asset of £363,345 (30/11/2008: £286,612) in relation to surplus management expenses. It is unlikely the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current year or the prior year.

5. Finance costs

	30/11/2009 £'000	30/11/2008 £'000
Accumulations and interest		
The accumulations take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares and comprise:		
Interim accumulation	385	83
Final accumulation	268	606
	<u>653</u>	<u>689</u>
Revenue received on issue of shares	(28)	(42)
Net accumulation for the year	625	647
Interest	-	-
Total finance costs	<u>625</u>	<u>647</u>

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

6. Debtors

	30/11/2009 £'000	30/11/2008 £'000
Accrued revenue	211	277
Amounts due from ACD	11	-
Income tax recoverable	3	-
Prepaid expenses	-	9
	<u>225</u>	<u>286</u>

7. Creditors

	30/11/2009 £'000	30/11/2008 £'000
Purchases awaiting settlement	658	-
Accrued expenses	77	5
	<u>735</u>	<u>5</u>

Scottish Friendly Managed Growth Fund

8. Portfolio transaction costs

	30/11/2009 £'000	30/11/2008 £'000
Analysis of total purchase costs:		
Purchases in the year before transaction costs	27,232	31,558
Commissions	60	122
Taxes	69	-
Total purchase costs	27,361	31,680
Gross purchase costs		
Analysis of total sales costs:		
Gross sales before transaction costs	17,315	22,598
Commissions	(27)	(36)
Total sales net of transaction costs	17,288	22,562

9. Manually priced securities

The following security prices were not readily available through published sources, and as such required to be manually calculated or had to be sourced from a third party.

Managed Growth Stock Name	Price	Price Source	Method of Valuation
Van Dieman Mines	£nil	ACD	Stock in liquidation
International Medical Devices	£nil	Broker	Suspended

10. Contingent liabilities

There were no contingent liabilities as at the year end.

11. Post balance sheet events

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

12. Related parties

Scottish Friendly Asset Managers Limited and HSBC Bank plc are regarded as controlling parties by virtue of having the ability to act in concert in respect of the operations of the Company.

Scottish Friendly Asset Managers Limited, a related party, acts as principal on all transactions of shares in the Company. The aggregate monies received and paid through creations and cancellations is disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts due to/from Scottish Friendly Asset Managers Limited in respect of share transactions at the end of the year are disclosed in notes 6 and 7.

The amounts paid to Scottish Friendly Asset Managers Limited in respect of Authorised Corporate Director's periodic charges are disclosed in Note 3. The amounts due at the end of the year are £65,270 (2008: £nil).

Amounts paid to HSBC Bank plc in respect of depositary services and safe custody charges are disclosed in Note 3. £3,288 (2008: £1,982) was due at the end of the year.

Neither Scottish Friendly Asset Managers Limited nor HSBC Bank plc entered into any other transactions with the Company during the year.

13. Share class

Scottish Friendly Asset Managers Limited held 31,327 (2008: 42,794) accumulation shares in the Managed Growth Fund at 30 November 2009.

Scottish Friendly Managed Growth Fund

14. Financial instruments

The analyses and tables provided below refer to the narrative disclosure on 'Financial Instrument Risks' on page 14.

Currency exposure

At the year end date a proportion of the net assets of the Fund are denominated in currencies other than Sterling with the effect that the balance sheet and total return can be affected by exchange rate movement.

	30/11/2009 £'000	30/11/2008 £'000
US dollars	169	114
	<u>169</u>	<u>114</u>

Interest rate risk

Interest rate risk profile of financial assets and financial liabilities of the Company as at 30 November 2009.

	30/11/2009 £'000	30/11/2008 £'000
Fixed interest assets		
Sterling	2,994	5,456
	<u>2,994</u>	<u>5,456</u>

	30/11/2009 £'000	30/11/2008 £'000
Floating interest assets		
Sterling	6,600	4,443
	<u>6,600</u>	<u>4,443</u>

The floating rate financial assets earn interest which is based on the London Inter Bank Offer Rate (LIBOR) for cash deposits and the Retail Prices Index (RPI) in the case of floating rate bonds.

	30/11/2009	30/11/2008
Fixed rate financial assets		
Weighted average interest rate:		
Sterling	2.74%	2.17%

Fixed rate financial assets		
Weighted average maturity:		
Sterling	13.12 yrs	2.66 yrs

Scottish Friendly Managed Growth Fund

Accumulation Tables

Scottish Friendly Managed Growth Fund

Group 1: shares purchased prior to 1 December 2008.

Group 2: shares purchased from 1 December 2008 to 31 May 2009.

Interim Accumulation (in pence per share)

Group	Net Revenue	Equalisation	2009 Accumulation Paid	2008 Accumulation Paid
1	1.1005	-	1.1005	0.2835
2	0.6489	0.4516	1.1005	0.2835

Group 1: shares purchased prior to 1 June 2009.

Group 2: shares purchased from 1 June 2009 to 30 November 2009.

Final Accumulation (in pence per share)

Group	Net Revenue	Equalisation	2009 Accumulation Payable	2008 Accumulation Paid
1	0.7121	-	0.7121	1.9254
2	0.2468	0.4653	0.7121	1.9254

Scottish Friendly UK Growth Fund

Investment Report

Fund Objective

The aim of the Fund is to achieve medium to long term capital growth.

Investment Policy

The investment policy will be to invest in a diversified portfolio of UK listed equities.

Market Background

After a roller coaster journey through the first half of 2009, equity markets provided a smoother ride for investors in the second half. Following the near collapse of the global financial system in 2008 and the prospect that most major economies had plunged into recession, it has been surprising to many investors that equity markets have regained losses as quickly as has been the case.

Over the reporting period the FTSE All Share Index delivered a return of 29.3%. Medium and smaller companies outperformed strongly as investors' appetite for risk increased.

Over the period many companies reported better than expected profits as the effects of cost cutting began to emerge alongside an increase in confidence and demand. The US economy expanded in the third quarter and Chinese and other emerging market economies continue to grow strongly.

Portfolio Review

The portfolio benefited from good UK stock selection over the period. The portfolio's exposure to companies likely to benefit from an improvement in economic growth was positive to performance. Industrial stocks were particularly helpful for UK Growth; both Cookson and Morgan Crucible were notable outperformers. UK Growth's exposure to medium and smaller companies was increased in the second quarter and proved timely, benefiting performance.

The fund also benefited from its exposure to resources, particularly medium sized oil exploration and production companies. We continue to believe that significant value resides in this area of the market as companies continue to grow reserves, often with attractive production profiles. Tullow Oil and Afren Energy were both helpful to performance.

The UK Growth Fund returned 35.0% compared to a return of 32.7% for the IMA UK All Companies Sector Average ('UK Sector Average') and 29.3% for the FTSE All Share Index. Over the year the fund ranked 92/310 funds. Over three years the UK Growth Fund has returned -2.1% versus -9.9% for the UK Sector Average and ranks 62/279 funds.*

** Source: Lipper. Past performance is not a guide to future performance. The value of shares and the income from them can go down as well as up and the original investment is not guaranteed. The basis of taxation may change.*

Investment Outlook

An improvement in economic conditions and the stabilisation of the global financial system are welcome news for investors. Underlying problems within the global economy do remain, not least the high level of government and personal indebtedness and the banking system's ongoing exposure to fragile property markets. The recent emergence of problems within Dubai highlights the risk.

The rise in the equity market indicates there are reasons to be positive. Many companies reduced their cost base significantly as the financial storm passed; as consumer confidence began to return in 2009 an improvement in sales has resulted in improved profitability. Furthermore, we believe that operating margins in the current downturn are likely to bottom out higher than in previous recessions, which suggests that companies have efficiently reduced their cost base.

Currently investors get little return for leaving their money in the bank or investing in government bonds. The equity market, where some companies continue to offer attractive dividend yields, is an attractive investment for anyone requiring income. For that reason and in the absence of rising interest rates and bond yields, we believe equities should continue to perform well.

We believe resources and selected industrials should continue to perform well as global growth accelerates and the portfolios have good exposure to this area. Recent economic indicators all point to continued expansion of the Chinese economy and the country's insatiable appetite for resources remains strong.

In some sectors reliant on exports, the fall in value of Sterling is likely to have a positive impact on sales. Indeed many British companies now also look attractive to potential foreign acquirers, as the recent bid for Cadbury Schweppes has proved. UK engineering companies look particularly interesting to potential acquirers with good balance sheets and strong margins.

We remain nervous of the consumer, particularly in economies such as the UK and Ireland where personal indebtedness remains high. Rising unemployment, increased levels of taxation and the need for households to repair balance sheets all point to a difficult environment for cyclical services and other domestic consumer businesses. The UK Growth portfolio has a preference for companies with significant overseas earnings.

Scottish Friendly UK Growth Fund

Rising impairments and a tougher regulatory environment will continue to impact bank profitability, although those banks that lent more prudently are in a better position. Generally we remain cautious on the banking sector.

The fall in equity markets in 2008 presented us with many opportunities to purchase companies on truly exceptional valuations. Although value, in the broader market, is no longer as apparent, we continue to believe that individual businesses have the potential to surprise positively in the months ahead and as stock pickers the current market is providing us with many interesting opportunities.

Scottish Friendly UK Growth Fund

Fund Information

Net Asset Value

Share Class	As at	Net asset value (£)	Number of shares in issue	Net asset value per share (p)
A Accumulation	30 November 2007	1,696,666	1,006,346	168.6
	30 November 2008	5,249,654	4,786,643	109.7
	30 November 2009	7,288,254	4,991,905	146.0

Performance Record

Share Class	Calendar year	Highest price (p)	Lowest price (p)
A Accumulation	2004	105.0	90.66
	2005	128.2	104.4
	2006	157.5	127.5
	2007	185.8	153.9
	2008	169.6	96.96
	2009*	156.0	96.29

* 1 January 2009 to 30 November 2009.

Revenue Record

The revenue record table below shows the net accumulation rates per accounting year on an xd date basis.

Share Class	Accounting year	30.11	31.05	Total (p)
		Final (p)	Interim (p)	
A Accumulation	2004	0.1897	0.2566	0.4463
	2005	0.6512	0.6242	1.2754
	2006	0.9069	0.6349	1.5418
	2007	0.3177	0.7992	1.1169
	2008	1.2319	1.2470	2.4789
	2009	0.6628	1.3041	1.9669

Total Expense Ratio

	30.11.09	30.11.08
A Accumulation	1.43%	1.53%

The total expense ratio (TER) takes into account the ACD fee and all other operating expenses over the relevant financial year and is expressed as a percentage of average daily net assets over that year.

Portfolio Turnover Rate

	30.11.09	30.11.08
Scottish Friendly UK Growth Fund	265.2%	229.4%

The portfolio turnover ratio (PTR) takes into account the total purchases and sales less the total subscriptions and redemptions over the relevant financial year and is expressed as a percentage of average daily net assets over that year.

Scottish Friendly UK Growth Fund

Portfolio Statement

as at 30 November 2009

Holding	Investment	Market value £	Net assets %
	Equities 95.06% (87.08%)		
	Aerospace & Defence 5.89% (4.75%)		
351,800	Senior	211,080	2.90
75,538	UMECO	217,927	2.99
		429,007	5.89
	Banks 13.05% (7.25%)		
109,800	Barclays	322,922	4.43
70,080	HSBC	497,918	6.83
83,100	Lloyds Banking Group	45,888	0.63
111,354	Lloyds Banking Group Rights Issue 11/12/2009	20,044	0.28
49,000	Paragon Group of Companies	64,435	0.88
		951,207	13.05
	Containers & Packaging 0.00% (2.79%)		
	Electricity 0.00% (3.09%)		
	Electronic & Electrical Equipment 6.79% (1.72%)		
76,000	Invensys	213,180	2.93
77,000	Laird Group	87,010	1.19
128,500	Morgan Crucible	194,935	2.67
		495,125	6.79
	Exploration & Production 0.00% (0.75%)		
	Food & Drug Retailers 1.54% (3.91%)		
40,370	Morrison (W) Supermarkets	111,906	1.54
	Food Producers 0.00% (2.09%)		
	Gas, Water & Multiutilities 1.40% (5.39%)		
40,000	Centrica	102,040	1.40
	General Financial 0.85% (0.00%)		
19,000	Man Group	61,769	0.85
	General Retailers 3.01% (0.00%)		
783,373	Inchcape	219,736	3.01
	Household Goods 1.32% (0.00%)		
3,100	Reckitt Benckiser Group	96,100	1.32
	Industrial Engineering 3.44% (0.00%)		
34,000	Charter International	250,579	3.44
	Insurance 5.85% (2.45%)		
50,000	Aviva	186,900	2.56
38,000	Prudential	239,780	3.29
		426,680	5.85
	Mining 13.16% (3.37%)		
28,000	Antofagasta	252,280	3.46
25,500	Eurasian Natural Resources	214,710	2.95
19,650	Petropavlovsk	242,088	3.32
8,200	Rio Tinto	250,387	3.43
		959,465	13.16

Scottish Friendly UK Growth Fund

Holding	Investment	Market value £	Net assets %
	Oil Equipment, Services & Distribution 0.00% (0.98%)		
	Oil & Gas Producers 17.95% (16.20%)		
241,000	Afren	206,657	2.84
20,100	BG	222,809	3.06
37,500	BP	216,750	2.97
12,600	Royal Dutch Shell 'B'	220,122	3.02
30,080	Tullow Oil	371,789	5.10
11,500	Valiant Petroleum	70,035	0.96
		1,308,162	17.95
	Pharmaceuticals 3.01% (6.16%)		
8,070	AstraZeneca	219,383	3.01
	Support Services 6.97% (7.57%)		
188,000	Assetco	129,720	1.78
97,000	Cape	218,493	3.00
27,000	Northgate	60,533	0.83
113,900	Regus	99,435	1.36
		508,181	6.97
	Technology Hardware & Equipment 4.08% (0.00%)		
100,210	Pace	209,940	2.88
97,000	Psion	87,300	1.20
		297,240	4.08
	Telecommunications 0.00% (4.47%)		
	Tobacco 3.12% (6.37%)		
12,700	Imperial Tobacco	227,330	3.12
	Travel & Leisure 3.63% (7.77%)		
60,380	Compass	264,404	3.63
	Investment assets	6,928,314	95.06
	Net other assets	359,940	4.94
	Net assets	7,288,254	100.00

All holdings are ordinary shares or stock units and admitted to official stock exchange listings unless otherwise stated.

The comparative percentage figures in brackets are at 30 November 2008.

Scottish Friendly UK Growth Fund

Summary of Material Portfolio Changes

for the year ended 30 November 2009

Purchases	Note	Cost £'000	Sales	Note	Proceeds £'000
Cookson Group		425	Cookson Group		612
Barclays		376	Melrose		334
Eurasian Natural Resources		361	Vodafone		286
Rio Tinto		328	BAE Systems		239
Laird		271	Aquarius Platinum		226
AVIVA		259	Brammer		213
HSBC		256	Babcock International		210
Charter International		233	Bovis Homes		181
Invensys		227	Rexam		177
Imperial Tobacco		222	Eurasian Natural Resources		172
Antofagasta		221	Tesco		166
Bovis Homes		221	Scottish & Southern Energy		164
Cape		219	Elementis		164
Senior		204	Royal Dutch Shell 'B'		164
Morgan Crucible		198	BHP Billiton		161
Aquarius Platinum		196	Healthcare Locums		153
Melrose		190	Bodycote		152
UMECO		186	Imperial Tobacco		151
Inchcape		171	Balfour Beatty		149
Regus		171	Morgan Crucible		142
Other purchases		4,049	Other sales		4,128
Total for the year	8	<u>8,984</u>	Total for the year	8	<u>8,344</u>

Scottish Friendly UK Growth Fund

Statement of Total Return

for the year ended 30 November 2009

	Notes	£'000	2009 £'000	£'000	2008 [^] £'000
Income					
Net capital gains/(losses)	1		1,713		(2,342)
Revenue	2	189		160	
Expenses	3	<u>(93)</u>		<u>(75)</u>	
Net revenue before taxation		96		85	
Taxation	4	<u>-</u>		<u>-</u>	
Net revenue after taxation			<u>96</u>		<u>85</u>
Total return before distributions			1,809		(2,257)
Finance costs: Accumulations	5		(96)		(85)
Change in net assets attributable to shareholders from investment activities			<u>1,713</u>		<u>(2,342)</u>

Statement of Change in Net Assets Attributable to Shareholders

for the year ended 30 November 2009

	£'000	2009 £'000	£'000	2008 £'000
Opening net assets attributable to shareholders		5,250		1,697
Amounts receivable on creation of shares	250		5,780	
Amounts payable on cancellation of shares	<u>(22)</u>		<u>(3)</u>	
		228		5,777
Change in net assets attributable to shareholders from investment activities (see above)		1,713		(2,342)
Retained distribution on accumulation shares		<u>97</u>		<u>118</u>
Closing net assets attributable to shareholders		<u>7,288</u>		<u>5,250</u>

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

Scottish Friendly UK Growth Fund

Balance Sheet

as at

	Notes	£'000	30/11/2009 £'000	£'000	30/11/2008 £'000
ASSETS					
Investment assets			6,928		4,571
Debtors	6	56		36	
Cash and bank balances		347		861	
Total other assets			403		897
Total assets			7,331		5,468
LIABILITIES					
Creditors	7	(43)		(218)	
Total liabilities			(43)		(218)
Net assets attributable to shareholders			7,288		5,250

Scottish Friendly UK Growth Fund

1. Net capital gains/(losses)

The net capital gains/(losses) during the year comprise:

	30/11/2009 £'000	30/11/2008 [^] £'000
Non-derivative securities	1,717	(2,338)
Transaction charges	(4)	(4)
Net capital gains/(losses)	<u>1,713</u>	<u>(2,342)</u>

2. Revenue

	30/11/2009 £'000	30/11/2008 £'000
UK dividends	189	137
Overseas dividends not subject to corporation tax	2	-
Bank interest	(2)	23
	<u>189</u>	<u>160</u>

3. Expenses

	30/11/2009 £'000	30/11/2008 £'000
Payable to the Authorised Corporate Director, associates Authorised Corporate Director, and agents of either of Authorised Corporate Director's periodic charge	<u>82</u>	<u>70</u>
Payable to the Depositary, associate of the Depositary and agents of either of them:		
Depositary fee	2	2
Safe custody charges	1	-
	<u>3</u>	<u>2</u>
Other expenses:		
Audit fee	4	3
Other expenses	3	-
Cash management fee	1	-
	<u>8</u>	<u>3</u>
Total expenses (including VAT where appropriate)	<u>93</u>	<u>75</u>

4. Taxation

	30/11/2009 £'000	30/11/2008 £'000
a) Analysis of charge in the year		
Corporation tax	-	-
Total taxation	<u>-</u>	<u>-</u>

b) Factors affecting current tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Open Ended Investment Company (OEIC) of 20%. The differences are explained below:

Net revenue before taxation	<u>96</u>	<u>85</u>
Corporation tax at 20% (2008: 20%)	<u>19</u>	<u>17</u>
Effects of:		
UK dividend income not subject to corporation tax	(38)	(27)
Current year expenses not utilised	19	10
Current tax charge (note 4a)	<u>-</u>	<u>-</u>

Open Ended Investment Companies are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

c) Factors that may affect future tax charges

At the year end, there is a potential deferred tax asset of £50,356 (30/11/2008: £10,389) in relation to surplus management expenses. It is unlikely the fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the current year or the prior year.

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

Scottish Friendly UK Growth Fund

5. Finance costs

	30/11/2009 £'000	30/11/2008 [^] £'000
Accumulations and interest		
The accumulations take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares and comprise:		
Interim accumulation	64	59
Final accumulation	33	59
	<u>97</u>	<u>118</u>
Revenue received on issue of shares	(1)	(33)
Net accumulation for the year	<u>96</u>	<u>85</u>
Interest	-	-
Total finance costs	<u>96</u>	<u>85</u>

[^] Per the Accounting Policies, the comparative values for the year have changed due to IMA SORP 2008 requirements.

6. Debtors

	30/11/2009 £'000	30/11/2008 £'000
Sales awaiting settlement	30	-
Accrued revenue	18	36
Amounts due from ACD	8	-
	<u>56</u>	<u>36</u>

7. Creditors

	30/11/2009 £'000	30/11/2008 £'000
Purchases awaiting settlement	24	212
Accrued expenses	19	6
	<u>43</u>	<u>218</u>

8. Portfolio transaction costs

	30/11/2009 £'000	30/11/2008 £'000
Analysis of total purchase costs:		
Purchases in the year before transaction costs	8,960	11,492
Commissions	24	8
Gross purchase costs	<u>8,984</u>	<u>11,500</u>
Analysis of total sales costs:		
Gross sales before transaction costs	8,360	6,188
Commissions	(16)	-
Total sales net of transaction costs	<u>8,344</u>	<u>6,188</u>

9. Contingent liabilities

The aggregate of commitments not provided for at the balance sheet date are as follows:

	£'000
Nil paid rights (Lloyds Banking Group)	<u>41</u>

10. Post balance sheet events

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

Scottish Friendly UK Growth Fund

11. Related parties

Scottish Friendly Asset Managers Limited and HSBC Bank plc are regarded as controlling parties by virtue of having the ability to act in concert in respect of the operations of the Company.

Scottish Friendly Asset Managers Limited, a related party, acts as principal on all transactions of shares in the Company. The aggregate monies received and paid through creations and cancellations is disclosed in the Statement of Change in Shareholders' Net Assets attributable to Shareholders. Amounts due to/from Scottish Friendly Asset Managers Limited in respect of share transactions at the end of the year are disclosed in notes 6 and 7.

The amounts paid to Scottish Friendly Asset Managers Limited in respect of Authorised Corporate Director's periodic charges are disclosed in Note 3. The amounts due at the year end are £8,745 (2008: £1,397).

Amounts paid to HSBC Bank plc in respect of depositary services and safe custody charges are disclosed in Note 3. £454 (2008: £75) was due at the end of the year.

Neither Scottish Friendly Asset Managers Limited nor HSBC Bank plc entered into any other transactions with the Company during the year.

12. Share class

Scottish Friendly Asset Managers Limited held 7,629 (2008: 7,262) accumulation shares in the UK Growth Fund at 30 November 2009.

13. Financial instruments

The analyses and tables provided below refer to the narrative disclosure on 'Financial Instrument Risks' on page 14.

Currency exposure

At the year end date a proportion of the net assets of the Fund are denominated in currencies other than Sterling with the effect that the balance sheet and total return can be affected by exchange rate movement.

	30/11/2009	30/11/2008
	£'000	£'000
US dollars	3	-
	<u>3</u>	<u>-</u>

Interest rate risk

Interest rate risk profile of financial assets and financial liabilities of the Company as at 30 November 2009.

	30/11/2009	30/11/2008
	£'000	£'000
Floating interest assets		
Sterling	347	861
	<u>347</u>	<u>861</u>

The floating rate financial assets earn interest which is based on the London Inter Bank Offer Rate (LIBOR).

Scottish Friendly UK Growth Fund

Accumulation Tables

Scottish Friendly UK Growth Fund

Group 1: shares purchased prior to 1 December 2008.

Group 2: shares purchased from 1 December 2008 to 31 May 2009.

Interim Accumulation (in pence per share)

Group	Net Revenue	Equalisation	2009 Accumulation Paid	2008 Accumulation Paid
1	1.3041	-	1.3041	1.2470
2	0.6725	0.6316	1.3041	1.2470

Group 1: shares purchased prior to 1 June 2009.

Group 2: shares purchased from 1 June 2009 to 30 November 2009.

Final Accumulation (in pence per share)

Group	Net Revenue	Equalisation	2009 Accumulation Payable	2008 Accumulation Paid
1	0.6628	-	0.6628	1.2319
2	0.3477	0.3151	0.6628	1.2319

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

GENERAL INFORMATION

Subscription Days

Shares may be purchased or sold on any dealing day. The price of shares and the estimated yield are calculated daily. A forward pricing basis is used. Prices are listed in the Financial Times and the Herald.

Redemption of Shares

Shares in the sub-funds may be redeemed on any dealing day. All sale instructions must be made to the ACD in writing. The shares will be purchased from the shareholder at the next valuation point and a contract note confirming the sale will be sent.

Dilution

The actual cost to the Company of purchasing or selling a sub-fund's investments may be higher or lower than the mid-market value used in calculating the share price, e.g., due to dealing charges or through dealing at prices other than the mid-market price. Under certain circumstances (e.g., large volumes of deals) this may have an adverse effect on the interests of shareholders generally. In order to prevent this effect, called 'dilution', SFAM has the power to charge a dilution levy on the sale and/or redemption of shares. The dilution levy will be applied at outset and will be paid into that sub-fund and become part of the relevant sub-fund. The dilution levy for each sub-fund will be calculated by reference to the costs of dealing in the underlying investments of that sub-fund, including any dealing spreads, commission and transfer taxes.

Charges

Certain charges are levied to cover the operating costs of the ACD. An initial charge of 4% of the price paid to the depositary is levied when shares are created. An Annual Management Charge of 1% per annum of the net asset value of the sub-funds is levied. In addition a number of other fees are payable out of the sub-funds. These include audit, custody, regulatory and depositary fees. The current estimated effect of these fees is 0.50% per annum and is levied on the net asset value of the sub-funds. The charges are deducted daily from the revenue of the sub-funds.

In addition shareholders are permitted to make six free switches in each tax period, however, an administration charge of up to 3% may be levied on additional switches.

Reports

Short form reports will be sent to all shareholders or the first named shareholder in the case of joint holders, on an annual and a half-yearly basis.

Taxation

The sub-funds are exempt from UK tax on capital gains realised on the disposal of investments held within them. Dividends from UK companies are received by the Funds with the tax already deducted and no further tax is payable by the sub-funds on that revenue. Other types of revenue (after deducting allowable expenses) are subject to corporation tax of 20%.

The revenue accumulated by the sub-funds has an attaching tax credit of 10% of the accumulation plus the tax credit.

Lower and basic rate taxpayers do not have any further tax to pay, although higher rate taxpayers are liable to tax on the net revenue accumulated at the difference between higher rate tax and the tax already deducted (currently 40% and 30%).

Details of the tax paid on behalf of shareholders is sent in the form of a tax voucher at each accumulation date.

Shareholders may be liable to capital gains tax when they sell their investments if the gains exceed the exempt amount in that year. For the tax year 2008/2009 the exempt amount was £9,600 and for the tax year 2009/2010 the exempt amount is £10,100.

Stamp Duty Reserve Tax

This is disclosed on the face of the Statements of Change in Net Assets Attributable to Shareholders in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Financial Services Authority.

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Prospectus

Further details concerning the Funds are contained in the Prospectus, which is available on application from the ACD.

Publication of Prices

The most recent prices are published daily in the Financial Times and the Herald. Prices are also published on the Scottish Friendly web site at www.scottishfriendly.co.uk.

Application for Shares

All applications should be made by post to the ACD at Scottish Friendly Asset Managers Ltd, 16 Blythswood Square, Glasgow G2 4HJ or by fax on 0141 221 4864. Shares will be purchased at the next valuation point following receipt of a valid application form and cheque. A contract note will be sent to the purchaser.

Prospective shareholders should note that the price of shares can fluctuate and the revenue from them can go down as well as up and is not guaranteed. On redemption investors may receive less than the original amount invested. Past performance is not necessarily a guide to future performance.