

Scottish Friendly Managed Growth Fund

Short Report

For the six months ended ended 31 May 2010

Fund Facts

Launch Date	17 May 1999		
Fund Status	ICVC		
Domicile	UK		
Share Type	Accumulation		
Accounts Dates	31 May (interim) 30 November (final)		
Distribution Dates	30 September (interim) 31 March (final)		
Annual Charge	1.00%		
Initial Charge	4.00%		
	31 May 2010	30 November 2009	
	%	%	
Total Expense Ratio ¹	1.39	1.46	
Portfolio Turnover Rate ²	75.76	80.61	

¹ The total expense ratio (TER) takes into account the ACD fee and all other operating expenses over the relevant financial period and is expressed as a percentage of average daily net assets over that period.

² The portfolio turnover rate (PTR) takes into account the total purchases and sales less the total subscriptions and redemptions over the relevant financial period and is expressed as a percentage of average daily net assets over that period.

Net Asset Value

	Net Asset Value Per Share (p)		
31 May 2010	30 November 2009		Change (%)
151.9	149.3		1.7
	31 May 2010	30 November 2009	
Fund Size	£62,653,790	£56,298,232	

Summary Fund Performance

Calendar Year	Highest Price (p)	Lowest Price (p)
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
2010*	164.3	144.5

* to 31 May 2010

Top Ten Holdings (%)	31 May 2010
Treasury 2.5% Index Linked 2024	4.28
Randgold Resources	3.60
Royal Dutch Shell 'B'	3.51
BT Group	3.02
BP	2.87
Centrica	2.86
BlackRock World Mining Trust	2.81
Tesco	2.66
Anglo American	2.60
Burberry Group	2.49
Top Ten Holdings (%)	30 November 2009
HSBC	5.89
Treasury 2.5% Index Linked 2024	4.75
Tullow Oil	4.28
Randgold Resources	3.53
Tesco	3.49
Antofagasta	3.19
BlackRock World Mining Trust	2.84
Treasury 4.25% 2032	2.80
Vodafone Group	2.57
BP	2.45

Report of the Authorised Corporate Director (ACD)

Investment Objective and Policy

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

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

Equity markets enjoyed a positive return over the six months although, towards the end of the period, volatility returned and gains were largely eroded with markets falling heavily in May. The FTSE All Share Index finished in positive territory, returning 2.7%.

Through the start of the year it appeared that economic recovery was well on track and that the coordinated effort of central banks to stimulate the global economy was succeeding. Although economic data did improve over the period, the enormous task that faces European governments in reducing budget deficits and forcing through associated cost cutting eventually weighed on investor sentiment.

Portfolio Review

The performance of the Managed Growth Fund was behind the benchmark over the period, returning 1.8% versus a return for the FTSE All Share Index of 2.7% and a return for the IMA Balanced Managed Sector Average ("Sector Average") of 3.8%; the fund ranked 136/150 funds for the six months. Over twelve months the fund has returned 16.6% versus a return for Sector Average of 18.5% and ranks 116/146 funds. Over three years the fund has returned -23.3% versus a return for the Sector Average of -7.0% and ranks 118/118 funds. The disappointing performance over three years is attributable to an unusually poor 2008; recent performance has been more encouraging.*

The bid for Cadbury by US food giant Kraft benefited performance early in the period. The portfolio's exposure to lowly valued, early cycle, economically sensitive stocks Invensys and Cookson benefited the portfolio after robust trading updates indicating a return to growth in end markets. Some of the portfolio's overseas holdings performed well; Prospect Japan Fund, JP Morgan Russian Securities Trust and Advance Developing Markets Fund were all notable out performers.

Performance largely disappointed towards the end of the reporting period as risk aversion increased due to concerns within the financial system and the potential for a 'double dip' recession. The sell off in UK equities was indiscriminate and in this environment economically sensitive and financial stocks suffered the most. The holdings in Barclays and Lloyds Banking Group both performed poorly.

Investment Outlook

The rise in share prices over the last six months, until April, has reflected investor confidence in an improving global growth outlook. Undoubtedly the US is growing again, and China is now bringing its runaway economy back under control through higher interest rates. However, the cutbacks and tax increases that face many major economies around Europe could yet derail Europe's nascent economic recovery. Even Germany has slashed its budget, tilting the balance of risk in Europe towards deflation.

The problems in the Eurozone take some of the pressure off the pound and the UK's own precarious financial position. Concern has primarily been focused on the prospect of a government debt default from within southern Europe. Whilst a debt default would hurt British banks, even financially sound British and German insurers would see their balance sheets affected. Banks are also now finding it harder and more expensive to lend to each other although conditions are considerably better than during the middle of the financial crisis. The portfolio only has a small exposure to banks and only in stocks where we believe the valuation is compelling enough to offset the risks.

Much discussion during the recent General Election campaign centred around the UK's own perilous financial position which has perhaps affected sentiment to UK equities. We see many reasons to be positive however. Many British companies have significant overseas earnings and should continue to benefit from the recovering global economy, even if there are cutbacks in the UK. The UK stock market now has an increasingly international flavour compared to twenty years ago when most companies were largely domestic-focused businesses.

* 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.

Scottish Friendly Managed Growth Fund

Short Report

For the six months ended ended 31 May 2010

Portfolio Breakdown (%)	31 May 2010
Investment Companies	17.95
Mining	11.10
Oil & Gas Producers	10.20
Government Securities	8.94
Banks	4.03
Telecommunications	4.00
Industrial Engineering	3.61
Gas Water & Multitilities	2.86
Media	2.66
Food & Drug Retailers	2.66
Other sectors	24.73
Net other assets	7.26
Total assets	100.00

Portfolio Breakdown (%)	30 November 2009
Investment Companies	18.04
Mining	15.36
Oil & Gas Producers	12.49
Government Securities	10.07
Banks	8.19
Industrial Engineering	3.50
Food & Drug Retailers	3.49
Support Services	3.47
Telecommunications	2.57
General Financial	2.43
Other sectors	14.32
Net other assets	6.07
Total assets	100.00

Revenue Record	Accumulation pence per share (p)
Accounting Year	
2005	1.6986
2006	0.4153
2007	1.0918
2008	2.2089
2009	1.8126
2010*	0.3810

* to 31 May 2010

Risk Profile

- As your money is invested in shares and other securities, its value, and the revenue from it, will go up and down and you may not get back the amount invested.
- The Managed Growth Fund is exposed to and can hold currencies other than sterling. As a result, exchange rate movements may affect your investment as well as price movements.
- Current tax law and practice may change.
- If you are saving regularly for a particular purpose, you may not achieve your target If you do not keep up your payments.
- In the exceptional event that a sub-fund's liabilities exceed its net assets, the OEIC structure allows for these liabilities to be allocated across other sub-funds in the OEIC.
- Details of all risks are available within the full Prospectus, which is available on request.

Other Information

The information in this report is designed to enable shareholders to make an informed judgment on the activities of the Fund during the period it covers and the result of those activities at the end of the period. The full Report and Financial Statements are available on request from the ACD. For more information about the activities and performance of the Fund during the period and previous periods, please contact the ACD at the address noted below.

ACD

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

Tel: 0141 275 5000
Fax: 0141 221 4864

Investment Managers

SVM Asset Management Limited
7 Castle Street
Edinburgh EH2 3AH

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Financial Services Authority.*

Registrar

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Auditor

KPMG Audit Plc
191 West George Street
Glasgow
G2 2LJ

Investment Outlook (continued)

With slower growth predicted in many Western economies the portfolio's exposure to the faster-growing Asian economies should continue to drive sales growth in the sector over the medium and longer term.

The portfolio has good exposure to industrial companies. These businesses offer attractive valuations and economic sensitivity; we are also particularly excited by the prospect of potential M&A activity within the sector. As the Pound and Euro have depreciated, particularly against the US Dollar, companies have become relatively more attractive to overseas buyers. The UK has some leading industrial businesses and the corporate sector is generally in good financial health, unlike the consumer or government! In an environment where only relatively modest organic growth is likely for Western countries, M&A is likely to prove an increasingly attractive option for many businesses.

Although the fiscal tightening is likely to be painful to many businesses, we remain optimistic over the outlook for equity markets. Valuations, particularly in the UK, are attractive relative to other asset classes. Asia appears to have survived the financial crisis well and ongoing growth in the region should continue to drive top line growth in many businesses. We believe that equity markets can make further progress although, until economic recovery is assured, volatility is likely to remain.

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

Scottish Friendly UK Growth Fund

Short Report

For the six months ended ended 31 May 2010

Fund Facts		
Launch Date	16 May 2001	
Fund Status	ICVC	
Domicile	UK	
Share Type	Accumulation	
Accounts Dates	31 May (interim) 30 November (final)	
Distribution Dates	30 September (interim) 31 March (final)	
Annual Charge	1.00%	
Initial Charge	4.00%	
	31 May 2010	30 November 2009
	%	%
Total Expense Ratio ¹	1.42	1.43
Portfolio Turnover Rate ²	219.9	265.2

¹ The total expense ratio (TER) takes into account the ACD fee and all other operating expenses over the relevant financial period and is expressed as a percentage of average daily net assets over that period.

² The portfolio turnover rate (PTR) takes into account the total purchases and sales less the total subscriptions and redemptions over the relevant financial period and is expressed as a percentage of average daily net assets over that period.

Net Asset Value		
Net Asset Value Per Share (p)		
	31 May 2010	30 November 2009
	145.3	146.0
		Change (%)
		-0.5
Fund Size	31 May 2010	30 November 2009
	£7,395,034	£7,288,254

Summary Fund Performance		
Calendar Year	Highest Price (p)	Lowest Price (p)
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
2010*	163.4	137.3

* to 31 May 2010

Top Ten Holdings (%)		31 May 2010
Royal Dutch Shell 'B'		5.97
Compass		4.39
GlaxoSmithKline		4.07
Shire		3.94
Premier Oil		3.28
Babcock International		3.27
IMI		3.04
Centrica		2.98
BT Group		2.97
Centaimn Egypt		2.79
Top Ten Holdings (%)		30 November 2009
HSBC		6.83
Tullow Oil		5.10
Barclays		4.43
Compass		3.63
Antofagasta		3.46
Charter International		3.44
Rio Tinto		3.43
Petropavlovsk		3.32
Prudential		3.29
Imperial Tobacco		3.12

Report of the Authorised Corporate Director (ACD)

Investment Objective and Policy

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

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

Market Background

Equity markets enjoyed a positive return over the six months although, towards the end of the period, volatility returned and gains were largely eroded with markets falling heavily in May. The FTSE All Share Index finished in positive territory, returning 2.7%. Through the start of the year it appeared that economic recovery was well on track and that the coordinated effort of central banks to stimulate the global economy was succeeding. Although economic data did improve over the period, the enormous task that faces European governments in reducing budget deficits and forcing through associated cost cutting eventually weighed on investor sentiment.

Portfolio Review

The performance of the UK Growth Fund was behind the benchmark over the period returning -0.3% versus a return for the FTSE All Share Index of 2.7% and a return of 3.1% for the IMA UK All Companies Sector Average ("UK Sector Average"); the fund ranked 293/309 funds over the six months. Over twelve months the fund has returned 21.5% compared to the UK Sector Average of 22.0% and ranks 159/303 funds. Over three years the fund has returned -16.9% versus the UK Sector Average return of -17.0% with a ranking of 170/278 funds.*

Much of the portfolio's relative underperformance came in May when a sharp rise in risk aversion saw the FTSE All Share Index decline by 6.2%. Concerns over the credit worthiness of some European states caused bank share prices to come under increased pressure and the portfolio's positions in Lloyds Banking Group and Royal Bank of Scotland both impacted performance. Europe's debt concerns prompted investors to avoid riskier assets and the portfolio's economically sensitive stocks declined on concerns that the economic recovery was faltering.

The portfolio's exposure to lowly valued, early cycle, economically sensitive stocks Senior, Morgan Crucible and Cookson benefited the portfolio after robust trading updates indicating a return to growth in most of their end markets. Outsourced catering business Compass Group also performed strongly as the company continued to deliver strong operational performance.

Investment Outlook

The rise in share prices over the last six months, until April, has reflected investor confidence in an improving global growth outlook. Undoubtedly the US is growing again, and China is now bringing its runaway economy back under control through higher interest rates. However, the cutbacks and tax increases that face many major economies around Europe could yet derail Europe's nascent economic recovery. Even Germany has slashed its budget, tilting the balance of risk in Europe towards deflation.

The problems in the Eurozone take some of the pressure off the pound and the UK's own precarious financial position. Concern has primarily been focused on the prospect of a government debt default from within southern Europe. Whilst a debt default would hurt British banks, even financially sound British and German insurers would see their balance sheets affected. Banks are also now finding it harder and more expensive to lend to each other although conditions are considerably better than during the middle of the financial crisis. The portfolio only has a small exposure to banks and only in stocks where we believe the valuation is compelling enough to offset the risks.

Much discussion during the recent General Election campaign centred around the UK's own perilous financial position which has perhaps affected sentiment to UK equities. We see many reasons to be positive however. Many British companies have significant overseas earnings and should continue to benefit from the recovering global economy, even if there are cutbacks in the UK. The UK stock market now has an increasingly international flavour compared to twenty years ago when most companies were largely domestic-focused businesses.

With slower growth predicted in many Western economies the portfolio's exposure to the faster-growing Asian economies should continue to drive sales growth in the sector over the medium and longer term.

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Scottish Friendly UK Growth Fund

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Portfolio Breakdown (%)	31 May 2010
Oil & Gas Producers	16.84
Mining	11.94
Travel & Leisure	9.73
Pharmaceuticals	8.01
Industrial Engineering	5.07
Support Services	4.65
Banks	4.50
General Industrials	4.10
General Retailers	3.55
Tobacco	3.46
Other sectors	23.57
Net other assets	4.58
Total assets	100.00

Portfolio Breakdown (%)	30 November 2009
Oil & Gas Producers	17.95
Mining	13.16
Banks	13.05
Support Services	6.97
Electronic & Electrical Equipment	6.79
Aerospace & Defence	5.89
Insurance	5.85
Technology Hardware & Equipment	4.08
Travel & Leisure	3.63
Industrial Engineering	3.44
Other sectors	14.25
Net other assets	4.94
Total assets	100.00

Investment Outlook (continued)

The portfolio has good exposure to industrial companies. These businesses offer attractive valuations and economic sensitivity; we are also particularly excited by the prospect of potential M&A activity within the sector. As the Pound and Euro have depreciated, particularly against the US Dollar, companies have become relatively more attractive to overseas buyers. The UK has some leading industrial businesses and the corporate sector is generally in good financial health, unlike the consumer or government! In an environment where only relatively modest organic growth is likely for Western countries, M&A is likely to prove an increasingly attractive option for many businesses.

Although the fiscal tightening is likely to be painful to many businesses, we remain optimistic over the outlook for equity markets. Valuations, particularly in the UK, are attractive relative to other asset classes. Asia appears to have survived the financial crisis well and ongoing growth in the region should continue to drive top line growth in many businesses. We believe that equity markets can make further progress although, until economic recovery is assured, volatility is likely to remain.

Revenue Record	Accumulation pence per share (p)
Accounting Year	
2005	1.2754
2006	1.5418
2007	1.1169
2008	2.4789
2009	1.9669
2010*	1.0538

* to 31 May 2010

Risk Profile

- As your money is invested in shares and other securities, its value, and the income from it, will go up and down and you may not get back the amount invested.
- Current tax law and practice may change.
- If you are saving regularly for a particular purpose, you may not achieve your target if you do not keep up your payments.
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