

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Long Form Report & Financial Statements
For the six months ended 31 May 2010 (unaudited)

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

JPMorgan Europe Limited
3 Lochside View
Edinburgh Park
Edinburgh
EH12 9DH

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 Interim Financial Statements of the Company for the period ended 31 May 2010. 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 period ended 31 May 2010 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
28 July 2010

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Aggregated Statement of Total Return (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Income				
Net capital gains		662		4,151
Revenue	684		758	
Expenses	(476)		(326)	
Finance costs: Interest	-		-	
Net revenue before taxation	208		432	
Taxation	(1)		-	
Net revenue after taxation		207		432
Total return before distributions		869		4,583
Finance costs: Accumulations		(207)		(432)
Change in net assets attributable to shareholders from investment activities		662		4,151

Aggregated Statement of Change in Net Assets Attributable to Shareholders (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Opening net assets attributable to shareholders		63,586		42,520
Movement due to sales and repurchases of shares:				
Amounts receivable on creation of shares	5,910		4,312	
Amounts payable on cancellation of shares	(315)		-	
		5,595		4,312
Change in net assets attributable to shareholders from investment activities (see above)		662		4,151
Stamp duty reserve tax		(5)		(2)
Retained distribution on accumulation shares		211		449
Closing net assets attributable to shareholders		70,049		51,430

The Statement of Recommended Practice (2008) requires that comparatives are shown for the above report. As the comparative should be for the comparable interim period, the closing net assets of that period will not agree to the opening net assets of the current period. The published net assets as at 30 November 2009 was £63,586,486.

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

Aggregated Balance Sheet (unaudited)

as at	£'000	31 May 2010 £'000	£'000	30 November 2009 £'000
ASSETS				
Investment assets		65,160		59,809
Debtors	1,294		281	
Cash and bank balances	7,081		4,274	
Total other assets		<u>8,375</u>		<u>4,555</u>
Total assets		<u>73,535</u>		<u>64,364</u>
LIABILITIES				
Creditors	(3,486)		(778)	
Total liabilities		<u>(3,486)</u>		<u>(778)</u>
Net assets attributable to shareholders		<u><u>70,049</u></u>		<u><u>63,586</u></u>

THE SCOTTISH FRIENDLY INVESTMENT FUNDS ICVC

ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2008.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 November 2009 and are described in those annual financial statements.

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.

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.

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

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.

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.

*Source: Lipper. Past performance is not a guide to future performance. The value of shares and the revenue 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

Investment Report 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.

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
	31 May 2010	62,653,790	41,246,841	151.9

Performance Record

Share Class	Calendar year	Highest price (p)	Lowest price (p)
A Accumulation	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

Revenue Record

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

Share Class	Accounting year	31.05 Interim (p)	30.11 Final (p)	Total (p)
A Accumulation	2005	0.7473	0.9513	1.6986
	2006	0.2296	0.1857	0.4153
	2007	0.5522	0.5396	1.0918
	2008	0.2835	1.9254	2.2089
	2009	1.1005	0.7121	1.8126
	2010**	0.3810	-	0.3810

** 1 December 2009 to 31 May 2010

Total Expense Ratio

	31.05.10	30.11.09
A Accumulation	1.39%	1.46%

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.

Portfolio Turnover Rate

	31.05.10	30.11.09
Scottish Friendly Managed Growth Fund	75.76%	80.61%

The portfolio turnover ratio (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.

Scottish Friendly Managed Growth Fund

Portfolio Statement

as at 31 May 2010

Holding	Investment	Market value £	Net assets %
	Equities 83.80% (83.86%)		
	Automobiles & Parts 1.37% (0.00%)		
680,000	GKN	860,880	1.37
	Banks 4.03% (8.19%)		
436,000	Barclays	1,345,714	2.15
71,000	Standard Chartered	1,177,890	1.88
		2,523,604	4.03
	Electricity 1.90% (1.47%)		
405,000	International Power	1,191,105	1.90
	Electronic & Electrical Equipment 1.28% (1.91%)		
282,500	Invensys	799,192	1.28
	Food & Drug Retailers 2.66% (3.49%)		
405,000	Tesco	1,663,943	2.66
	Food Producers 0.92% (1.13%)		
60,000	Associated British Foods	573,900	0.92
	Gas Water & Multiutilities 2.86% (0.00%)		
650,000	Centrica	1,793,350	2.86
	General Financial 1.85% (2.43%)		
200,000	Ecofin Water & Power Opportunities	261,400	0.42
100,000	Ecofin Water & Power Opportunities Subscription Shares	5,000	0.01
880,000	Trading Emissions	891,000	1.42
		1,157,400	1.85
	General Industrials 1.88% (0.00%)		
245,000	Cookson Group	1,178,205	1.88
	General Retailers 0.00% (1.37%)		
	Health Care Equipment & Services 0.00% (0.00%)		
12,750,000	International Medical Devices	-	-
	Household Goods 1.40% (0.00%)		
27,000	Reckitt Benckiser Group	876,690	1.40
	Industrial Engineering 3.61% (3.50%)		
150,000	Charter International	1,059,000	1.69
182,000	IMI	1,203,020	1.92
		2,262,020	3.61
	Insurance 0.00% (0.80%)		
	Investment Companies 17.95% (18.04%)		
300,000	Advance Developing Markets Fund	1,215,000	1.94
50,000	Advance Developing Markets Fund Subscription Shares	57,000	0.09
3,236,425	Black Sea Property	129,457	0.21
300,000	BlackRock World Mining Trust	1,764,000	2.81
340,000	Charter Pan European Trust	674,050	1.07
675,000	City Natural Resources	1,269,000	2.02
1,422,300	CQS RIG Finance	273,793	0.44
248,000	Edinburgh Dragon Trust	507,408	0.81
825,000	Equity Partnership	156,750	0.25
1,000,000	Harewood Enhanced Property Recovery Cell	568,800	0.91
450,000	IIMIA Investment Trust	519,750	0.83
250,000	JPMorgan Russian Securities Trust	1,428,750	2.28

Scottish Friendly Managed Growth Fund

Holding	Investment	Market value £	Net assets %
199,486	Jupiter Second Split Geared	73,810	0.12
990,000	Lewis Charles Sofia Property	29,700	0.05
125,000	Oryx International Growth Fund	211,875	0.34
575,000	Prospect Japan	224,817	0.36
300,000	Renaissance US Growth Investment Trust	825,000	1.32
573,000	SVM UK Active Fund	796,470	1.27
395,166	Utilico Emerging Markets	523,595	0.83
		11,249,025	17.95
	Industrial Metals 0.35% (0.00%)		
512,000	Discovery Metals	217,600	0.35
	Media 2.66% (0.70%)		
2,000,000	ITV	1,138,000	1.82
80,000	WPP	528,400	0.84
		1,666,400	2.66
	Mining 11.10% (15.36%)		
60,000	Anglo American	1,629,000	2.60
480,000	Centamin Egypt	728,400	1.16
1,070,000	Mercator Gold	10,165	0.02
152,857	Mercator Gold Warrants 27/05/2010	-	-
110,200	Petropavlovsk	1,343,338	2.14
37,200	Randgold Resources	2,252,460	3.60
96,000	Xstrata	989,760	1.58
		6,953,123	11.10
	Oil Equipment, Services & Distribution 0.00% (0.90%)		
	Oil & Gas Producers 10.20% (12.49%)		
1,609,000	Afren	1,538,204	2.45
359,000	BP	1,797,154	2.87
325,000	Gulfsands Petroleum	858,000	1.37
125,000	Royal Dutch Shell 'B'	2,196,875	3.51
		6,390,233	10.20
	Personal Goods 2.49% (0.00%)		
225,000	Burberry Group	1,561,500	2.49
	Pharmaceuticals & Biotechnology 2.27% (0.00%)		
100,000	Shire	1,421,000	2.27
	Real Estate 2.49% (1.11%)		
140,000	China Real Estate	539,000	0.86
600,000	REO Securities Zero Dividend Pref	174,000	0.28
530,000	Songbird Estates	845,350	1.35
		1,558,350	2.49
	Speciality & Other Finance 0.81% (0.94%)		
4,000,000	EuroVestech	510,000	0.81
	Support Services 2.00% (3.47%)		
115,000	Babcock International	661,250	1.05
600,000	Shanks Group	594,600	0.95
		1,255,850	2.00
	Technology Hardware & Equipment 2.10% (2.35%)		
257,600	Pace	413,706	0.66
822,500	Spirent Communications	898,992	1.44
		1,312,698	2.10

Scottish Friendly Managed Growth Fund

Holding	Investment	Market value £	Net assets %
	Telecommunications 4.00% (2.57%)		
1,480,000	BT Group	1,890,990	3.02
55,000	Virgin Media	616,000	0.98
		2,506,990	4.00
	Tobacco 1.62% (1.64%)		
50,000	British American Tobacco	1,017,500	1.62
	Bonds 8.94% (10.07%)		
	Government Securities 8.94% (10.07%)		
1,000,000	Treasury 2.5% Index Linked 17/07/2024	2,682,700	4.28
1,540,000	Treasury 4.25% 07/06/2032	1,541,190	2.46
72,402	Treasury 5% 07/03/2012	77,591	0.12
27,500	Treasury 6% 07/12/2028	33,976	0.05
40,000	Treasury 8% 07/12/2015	51,329	0.08
52,000	Treasury 8% 07/06/2021	72,465	0.12
1,048,000	Treasury 9% 12/07/2011	1,144,614	1.83
		5,603,865	8.94
	Investment assets	58,104,423	92.74
	Net other assets	4,549,367	7.26
	Net assets	62,653,790	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 2009.

The total purchases for the period, including transaction costs, amounted to £28,274,777 (30.11.09: £27,361,305) and the total sales, net of transaction costs amounted to £23,809,044 (30.11.09: £17,287,542).

Scottish Friendly Managed Growth Fund

Statement of Total Return (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Income				
Net capital gains		758		3,720
Revenue	577		657	
Expenses	(422)		(288)	
Finance costs: Interest	-		-	
Net revenue before taxation	155		369	
Taxation	(1)		-	
Net revenue after taxation		154		369
Total return before distributions		912		4,089
Finance costs: Accumulations		(154)		(369)
Change in net assets attributable to shareholders from investment activities		758		3,720

Statement of Change in Net Assets Attributable to Shareholders (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Opening net assets attributable to shareholders		56,298		37,270
Movement due to sales and repurchases of shares:				
Amounts receivable on creation of shares	5,761		4,158	
Amounts payable on cancellation of shares	(315)		-	
		5,446		4,158
Change in net assets attributable to shareholders from investment activities (see above)		758		3,720
Stamp duty reserve tax		(5)		(2)
Retained distribution on accumulation shares		157		385
Closing net assets attributable to shareholders		62,654		45,531

The Statement of Recommended Practice (2008) requires that comparatives are shown for the above report. As the comparative should be for the comparable interim period, the closing net assets of that period will not agree to the opening net assets of the current period. The published net assets as at 30 November 2009 was £56,298,232.

Scottish Friendly Managed Growth Fund

Balance Sheet (unaudited)

<i>as at</i>		31 May 2010		30 November 2009
	£'000	£'000	£'000	£'000
ASSETS				
Investment assets		58,104		52,881
Debtors	1,241		225	
Cash and bank balances	<u>6,208</u>		<u>3,927</u>	
Total other assets		<u>7,449</u>		<u>4,152</u>
Total assets		<u>65,553</u>		<u>57,033</u>
LIABILITIES				
Creditors	<u>(2,899)</u>		<u>(735)</u>	
Total liabilities		<u>(2,899)</u>		<u>(735)</u>
Net assets attributable to shareholders		<u><u>62,654</u></u>		<u><u>56,298</u></u>

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

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.

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.

* 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 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
	31 May 2010	7,395,034	5,090,593	145.3

Performance Record

Share Class	Calendar year	Highest price (p)	Lowest price (p)
A Accumulation	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	137.30

* to 31 May 2010

Revenue Record

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

Share Class	Accounting year	31.05 Interim (p)	30.11 Final (p)	Total (p)
A Accumulation	2005	0.6242	0.6512	1.2754
	2006	0.6349	0.9069	1.5418
	2007	0.7992	0.3177	1.1169
	2008	1.2470	1.2319	2.4789
	2009	1.3041	0.6628	1.9669
	2010**	1.0538	-	1.0538

** 1 December 2009 to 31 May 2010

Total Expense Ratio

	31.05.10	30.11.09
A Accumulation	1.42%	1.43%

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.

Portfolio Turnover Rate

	31.05.10	30.11.09
Scottish Friendly UK Growth Fund	219.9%	265.2%

The portfolio turnover ratio (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.

Scottish Friendly UK Growth Fund

Portfolio Statement

as at 31 May 2010

Holding	Investment	Market value £	Net assets %
	Equities 95.42% (95.06%)		
	Aerospace & Defence 0.00% (5.89%)		
	Automobiles & Parts 1.88% (0.00%)		
110,000	GKN	139,260	1.88
	Banks 4.50% (13.05%)		
64,200	Barclays	198,153	2.68
98,000	Paragon Group of Companies	134,652	1.82
		<u>332,805</u>	<u>4.50</u>
	Beverages 1.62% (0.00%)		
26,000	Britvic	120,068	1.62
	Electricity 1.95% (0.00%)		
49,000	International Power	144,109	1.95
	Electronic & Electrical Equipment 0.98% (6.79%)		
39,500	Morgan Crucible	72,048	0.98
	Financial Services 1.11% (0.00%)		
58,000	Aberdeen Asset Management	81,780	1.11
	Fixed Line Telecommunications 2.97% (0.00%)		
172,000	BT Group	219,816	2.97
	Food & Drug Retailers 0.00% (1.54%)		
	Gas, Water & Multiutilities 2.98% (1.40%)		
80,000	Centrica	220,720	2.98
	General Industrials 4.10% (0.00%)		
33,000	Cookson Group	158,697	2.15
46,000	Rexam	144,210	1.95
		<u>302,907</u>	<u>4.10</u>
	General Financial 0.00% (0.85%)		
	General Retailers 3.55% (3.01%)		
36,000	Dunelm Group	138,564	1.87
25,000	Halfords Group	123,950	1.68
		<u>262,514</u>	<u>3.55</u>
	Household Goods 2.66% (1.32%)		
88,000	Barratt Developments	96,096	1.30
3,100	Reckitt Benckiser Group	100,657	1.36
		<u>196,753</u>	<u>2.66</u>
	Industrial Engineering 5.07% (3.44%)		
75,000	Fenner	150,075	2.03
34,000	IMI	224,740	3.04
		<u>374,815</u>	<u>5.07</u>
	Industrial Metals 1.72% (0.00%)		
300,000	Discovery Metals	127,500	1.72
	Insurance 0.00% (5.85%)		
	Media 3.45% (0.00%)		
239,000	ITV	135,991	1.84
18,000	WPP	118,890	1.61
		<u>254,881</u>	<u>3.45</u>

Scottish Friendly UK Growth Fund

Portfolio Statement

as at 31 May 2010

Holding	Investment	Market value £	Net assets %
Mining 11.94% (13.16%)			
150,000	African Aura Mining	120,000	1.62
5,600	Anglo American	152,040	2.06
136,000	Centamin Egypt	206,380	2.79
16,650	Petropavlovsk	202,964	2.74
19,600	Xstrata	202,076	2.73
		883,460	11.94
Oil & Gas Producers 16.84% (17.95%)			
173,900	Afren	166,248	2.25
40,000	BP	200,240	2.71
55,000	Gulfsands Petroleum	145,200	1.96
20,500	Premier Oil	242,720	3.28
25,100	Royal Dutch Shell 'B'	441,133	5.97
7,700	Valiant Petroleum	49,511	0.67
		1,245,052	16.84
Personal Goods 2.25% (0.00%)			
24,000	Burberry Group	166,560	2.25
Pharmaceuticals 8.01% (3.01%)			
26,000	GlaxoSmithKline	301,340	4.07
20,500	Shire	291,305	3.94
		592,645	8.01
Support Services 4.65% (6.97%)			
42,000	Babcock International	241,500	3.27
113,900	Regus	101,940	1.38
		343,440	4.65
Technology Hardware & Equipment 0.00% (4.08%)			
Tobacco 3.46% (3.12%)			
5,100	British American Tobacco	103,785	1.40
8,500	Imperial Tobacco	152,660	2.06
		256,445	3.46
Travel & Leisure 9.73% (3.63%)			
60,380	Compass	324,543	4.39
12,500	Easyjet	50,687	0.69
52,000	Mitchells & Butlers	166,192	2.25
12,800	Whitbread	177,408	2.40
		718,830	9.73
Investment assets		7,056,408	95.42
Net other assets		338,626	4.58
Net assets		7,395,034	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 2009.

The total purchases for the period, including transaction costs, amounted to £8,558,346 (30.11.09: £8,984,192) and the total sales, net of transaction costs amounted to £8,335,574 (30.11.09: £8,344,177).

Scottish Friendly UK Growth Fund

Statement of Total Return (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Income				
Net capital (losses)/gains		(96)		431
Revenue	107		101	
Expenses	(54)		(38)	
Finance costs: Interest	-		-	
Net revenue before taxation	53		63	
Taxation	-		-	
Net revenue after taxation		53		63
Total return before distributions		(43)		494
Finance costs: Accumulations		(53)		(63)
Change in net assets attributable to shareholders from investment activities		(96)		431

Statement of Change in Net Assets Attributable to Shareholders (unaudited)

for the six months ended 31 May

	£'000	2010 £'000	£'000	2009 £'000
Opening net assets attributable to shareholders		7,288		5,250
Amounts receivable on creation of shares	149		154	
Amounts payable on cancellation of shares	-		-	
		149		154
Change in net assets attributable to shareholders from investment activities (see above)		(96)		431
Retained distribution on accumulation shares		54		64
Closing net assets attributable to shareholders		7,395		5,899

The Statement of Recommended Practice (2008) requires that comparatives are shown for the above report. As the comparative should be for the comparable interim period, the closing net assets of that period will not agree to the opening net assets of the current period. The published net assets as at 30 November 2009 was £7,288,254.

Scottish Friendly UK Growth Fund

Balance Sheet (unaudited)

<i>as at</i>		31 May 2010		30 November 2009
	£'000	£'000	£'000	£'000
ASSETS				
Investment assets		7,056		6,928
Debtors	53		56	
Cash and bank balances	<u>873</u>		<u>347</u>	
Total other assets		<u>926</u>		<u>403</u>
Total assets		<u>7,982</u>		<u>7,331</u>
LIABILITIES				
Creditors	<u>(587)</u>		<u>(43)</u>	
Total liabilities		<u>(587)</u>		<u>(43)</u>
Net assets attributable to shareholders		<u>7,395</u>		<u>7,288</u>