

Diversified Fund (previously Cautious Fund)

half-yearly short report for the period
1 January 2009 to 26 June 2009

On 15 May 2009, the Cautious Fund was renamed the Diversified Fund and adopted a new investment objective and policy. This allows the fund to invest in a wider range of investment vehicles. Due to a number of fund changes over the period, for certain other funds available from Skandia Investment Management Limited, we have changed the end date of the reporting period from 30 June to 26 June for this interim report only.

Some of the terms in this document are of a technical nature. We have highlighted these in bold type and you can find definitions in the glossary near the end of this document. If anything is unclear, we recommend you speak to your financial adviser who will be able to explain further.

fund objective

The Diversified Fund aims to provide investors with long-term capital growth through investment in a diversified range of asset classes.

investment policy

The Fund will invest directly in **securities** or through **collective investment schemes** (including those that are managed or operated by the **Authorised Corporate Director** (ACD) or an associate of the ACD) in order to give exposure to a diversified portfolio of asset classes including, but not limited to, equities, **fixed interest**, property, **commodities**, currency, and **derivatives**. The Fund may also invest directly in derivative instruments and **forward transactions** (for the purposes of meeting the investment objective or for efficient portfolio management), cash, **near cash**, **money market instruments**, **permitted deposits** and securities.

risk profile

The Fund holds a mix of shares and fixed interest investments from the UK and overseas. This includes some exposure to emerging markets, which tend to be less well regulated and more volatile than more established stock markets, so increasing the potential risk to investors. Exchange rate movements between sterling and other currencies may also increase or decrease the underlying value of this Fund's holdings.

The Fund may use derivatives for efficient portfolio management and undertake contracts in 'over-the-counter' derivatives as well as those which are traded on a recognised exchange. This may expose investors to additional risk as 'over-the-counter' derivatives may be more difficult to value or close. This Fund may invest in exchange-traded funds. These funds typically represent a market index but because they are traded on an exchange their price may be higher or lower than the net value of the underlying investments.

fund manager's report

Global equity markets fell sharply during the first two months of 2009 as concerns over the global economy and ongoing problems in the banking sector persisted. This trend subsequently reversed and stock markets worldwide staged a strong recovery from March onwards on hopes that the worst of the recession may be over. Signs of improvement in economic data were initially tentative but became more broad-based as the period progressed. Meanwhile, worries about the health of the financial sector gradually eased, as many banks announced better-than-expected results.

Over the period as a whole, the MSCI World Index fell by 7.2% in sterling terms. While many overseas equity markets ended the period in positive territory in local currency terms, these gains were eroded for sterling-based investors as the British pound strengthened against many major currencies. Performance of emerging markets in Asia, Latin America and Central Europe was nonetheless very strong, driven by investors' increased appetite for risk. The UK equity market, meanwhile, ended the period unchanged, with the FTSE All-Share Index returning 0.6%. At sector level, those expected to benefit most from a pick-up in global demand, such as materials (eg metals, chemicals and mining companies), and information technology fared the best. Sectors that are less sensitive to the different stages of the economic cycle, notably utilities, telecommunications services and healthcare, were the weakest areas of the market.

Turning to fixed income markets, government bonds generally struggled over the period on concerns over the level of debt that governments have accumulated in funding stimulus packages and providing support to the banking sector.

continued

fund manager's report *continued*

As confidence in the economic outlook grew, the strong demand for safe-haven assets seen last year subsided and investors favoured higher risk corporate bonds. The high yield segment of the corporate bond market made very strong gains over the period. Emerging market debt also performed well on optimism surrounding the economic outlook and a recovery in commodity prices. While many overseas bond markets rose over the period, currency movements diminished these gains for sterling-based investors and the IMA Global Bond sector fell 2.9% over the period under review.

The Diversified Fund generated a small positive return for the first half of 2009 but lagged the IMA Cautious Managed sector. The commentary below relates to the different components in which the Fund invests.

UK equities

The UK equity portfolios generally performed well compared to the UK equity market, but most could not keep pace with the IMA UK All Companies sector average. One exception was the Lazard mandate, which significantly outperformed the sector due in part to strong stock selection within banks and household/personal goods companies. On the negative side, the Skandia UK Strategic Best Ideas Fund recorded a loss for the period. The latter holding lagged during the sharp equity market rally as some of its 'short' positions, which allow the fund to benefit from falling share prices, dragged on returns.

Overseas equities

All the overseas (non-UK) equity portfolios were sold from the Fund on 15 May and replaced with the Skandia Global Dynamic Equity Fund. Prior to their sale, returns were mixed, largely reflecting differences in the performance of the underlying stock markets and in currency movements. The global emerging markets and Asia Pacific equity portfolios posted double-digit gains, benefiting from a marked pick-up in investors' appetite for risk. Meanwhile, the Global Best Ideas Fund had a strong start to the year, significantly outperforming the IMA Active Managed sector thanks to excellent stock selection from the underlying managers. There were also positive returns from the RCM European equity mandate, Alliance Bernstein's Japan equity mandate and T. Rowe Price's US equity portfolio, but losses from the remaining holdings.

Fixed interest

Performance of the JPMorgan high yield bond mandate was very strong, driven by investors' renewed appetite for higher risk assets. PIMCO's Global Real Return Fund, added to the Diversified Fund in April, also performed well. On the negative side, the Royal London and Goldman Sachs corporate bond mandates both suffered from their relatively high exposure to financial corporate bonds early in the year, although later recovered much of the lost ground. BlackRock's gilt portfolio fell over the period against a backdrop of weaker Government bond markets. The Wellington International Bond mandate was sold in May and replaced with M&G's Optimal Income Fund. The latter has since added value.

Alternatives

Following the changes to the Diversified Fund's objective on 15 May, six new funds investing in alternative assets were added, which were as follows:

- Morgan Stanley Commodities Fund (commodities)
- Commerzbank UK Premia (volatility strategies)
- Fulcrum Alternative Beta (absolute return)
- JPMorgan Highbridge Statistical Market Neutral (absolute return)
- Aviva Investors ATAA Fund (absolute return)
- Morgan Stanley FX Alpha Plus RC400 (absolute return/currencies).

The mention of any particular stock should not be taken as a recommendation to buy or sell investments.

fund facts

The Fund offers accumulation shares only, which automatically reinvest any income to increase the capital value of your investment.

Fund accounting dates (ex-dividend dates)	Fund payment/accumulation dates
31 December	28 February
26 June	31 August

The table below shows the net accumulations in pence per share distributed for the calendar years indicated. The Diversified Fund (previously the 'Cautious Fund') was launched on 14 February 2003.

Calendar year	Pence per share
2004 Accumulation	0.8342 pence
2005 Accumulation	1.2330 pence
2006 Accumulation	1.6530 pence
2007 Accumulation	1.8399 pence
2008 Accumulation	2.2125 pence
2009 Accumulation*	1.9067 pence

* to 31 August

total expense ratio (TER)

The Total Expense Ratio represents all operating charges and expenses as a percentage of a fund's value. It includes the Annual Management Charge as well as all the regular administrative costs incurred by a fund.

TER as at 26 June 2009	TER as at 31 December 2008
1.86%	1.79%

share price performance

The table below shows the highest and lowest share prices in pence per share for the calendar years indicated.

Calendar year	Highest price	Lowest price
2004 Accumulation	61.09 pence	56.77 pence
2005 Accumulation	70.34 pence	60.84 pence
2006 Accumulation	73.87 pence	68.32 pence
2007 Accumulation	75.45 pence	71.07 pence
2008 Accumulation	74.11 pence	56.61 pence
2009 Accumulation*	64.81 pence	57.01 pence

* to 26 June

fund performance

Net asset value per share as at 26 June 2009	Net asset value per share as at 31 December 2008	% change
63.39 pence	63.38 pence	0.02%

Date	Net asset value of Fund	Shares in issue	Net asset value per share
31 December 2006	£279,119,381	377,861,320	73.87 pence
31 December 2007	£273,992,913	370,562,498	73.94 pence
31 December 2008	£169,239,898	267,032,456	63.38 pence
26 June 2009	£243,496,493	384,134,344	63.39 pence

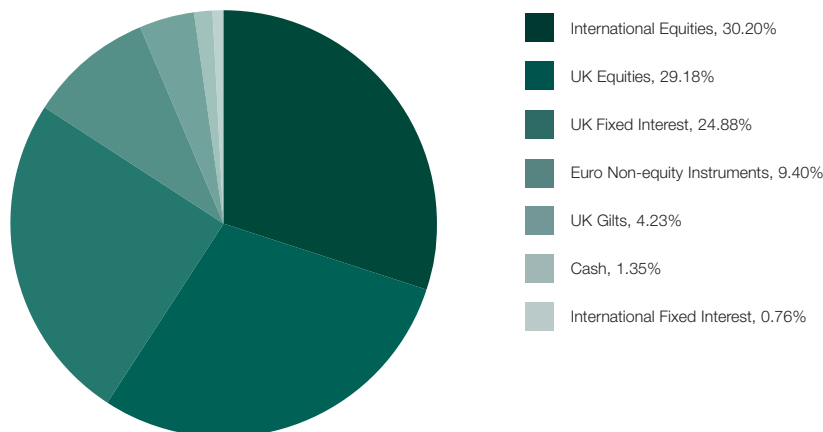
	Percentage change to 26 June 2009							
	6 months	1 year	2 years	3 years	4 years	5 years	6 years	Since launch*
Fund performance	-0.28%	-7.03%	-14.23%	-10.08%	-1.69%	9.43%	21.85%	26.72%

* from 14 February 2003

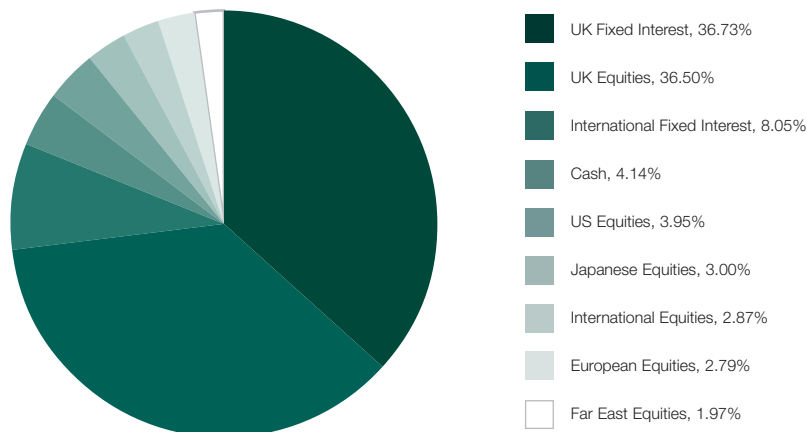
Source: Financial Express. Figures are calculated on a total return and single price basis, with net income reinvested in sterling terms. Six months' performance is from 31 December 2008 to 26 June 2009. Yearly comparatives are from previous half-yearly period end dates to 26 June.

You should not view past performance as an indication of future performance. The value of investments and any income from them may fall as well as rise and you may not get back the amount you invested. Where a fund invests in securities designated in a different currency to the Fund, the value of the Fund may rise and fall purely as a result of exchange rate fluctuations.

portfolio information as at 26 June 2009



portfolio information as at 31 December 2008



major holdings

The table below shows the top ten holdings of the Fund. All holdings will be shown if there are less than ten holdings.

As at 26 June 2009	%	As at 31 December 2008	%
Skandia Investment Funds – Global Dynamic Equity Fund	27.20	Skandia Specialist Funds – Corporate Bond Fund	14.82
Skandia Specialist Funds – Corporate Bond Fund	10.03	Skandia Specialist Funds – Gilt Fund	12.14
Skandia Specialist Funds – High Yield Bond Fund	6.66	Skandia MultiManager Trust – UK Securities Fund	8.23
Skandia MultiManager Trust – UK Securities Fund	6.01	Skandia Specialist Funds – International Bond Fund	8.05
Skandia MultiManager Trust – UK Focus Fund	5.98	Skandia MultiManager Trust – UK Equity Income Fund	7.02
Skandia MultiManager Trust – UK Equity Fund	5.02	Skandia Investment Funds – UK Strategic Best Ideas Fund	6.85
M&G Securities Optimal Income Sterling Bond Fund	4.71	Skandia MultiManager Trust – UK Focus Fund	5.26
Skandia Specialist Funds – Gilt Fund	4.23	Skandia Specialist Funds – Sterling Bond Fund	5.13
Skandia Investment Funds – UK Best Ideas Fund	3.92	Skandia Specialist Funds – High Yield Bond Fund	4.64
Skandia Investment Funds – UK Strategic Best Ideas Fund	3.48	Skandia MultiManager Trust – UK Index Fund	3.95

glossary

Authorised Corporate Director (ACD) – the Authorised Corporate Director provides a professional investment management service in respect of the open-ended investment companies (OEICs) and controls the assets and operation of each fund. The ACD of the Skandia Investment Management OEICs is Skandia Investment Management Limited.

Collective investment schemes – are investments, such as OEICs or unit trusts, in which money from individual investors is pooled into a professionally managed fund.

Commodities – a tradeable item that can generally be further processed and sold (eg metals, wheat, sugar, coal).

Derivatives – derivatives are contracts between two or more parties whose value is derived from a related asset. The most common related assets include shares, fixed interest securities, commodities, currencies, interest rates and market indices. Derivatives can be used for speculative purposes but in investment funds they are generally used to reduce risk.

Fixed interest – a fixed term investment that pays interest at a rate that does not change with any external variable, known as the coupon. Coupons are known in advance and are almost always all for the same amount and paid at regular intervals.

Forward transactions – forward transactions are also known as futures. Futures are agreements to buy or sell assets for delivery at a certain time in the future for a certain price.

Money market instruments – open-ended mutual funds that invest in short-term, tradeable, cash-type investments, such as commercial paper, government securities, and other investments with maturities ranging from 20 to 70 days.

Near cash – assets that can be quickly converted into cash.

Permitted deposits – in relation to deposits held with an approved credit institution or an approved financial institution such as banks, or an approved investment firm.

Securities – any investments that can be assigned a value and traded such as bonds or shares, where there is a right to receive interest or dividends from the investment.

report and accounts

Copies of the annual and half-yearly Long Form Report and Accounts are available on request, free of charge, from our Edinburgh office. To contact us please call 0844 892 0996* or write to:

Skandia Investment Management Limited
PO Box 23486
12 Blenheim Place
Edinburgh
EH7 5YB

depository

The independent Depository is the Royal Bank of Scotland, whose address is:

Royal Bank of Scotland plc
Waterhouse Square
138-142 Holborn
London
EC1N 2TH

The Depository is authorised and regulated by the Financial Services Authority, whose address is:

25 The North Colonnade
Canary Wharf
London
E14 5HS

auditors

The Fund's independent auditors are KPMG Audit plc, whose registered address is:

KPMG Audit plc
One Canada Square
London
E14 5AG

authorised corporate director (ACD)

The Diversified Fund is managed by Skandia Investment Management Limited, which is the Authorised Corporate Director (ACD) of the Fund. Its registered address is:

Skandia Investment Management Limited
Skandia House
Portland Terrace
Southampton
SO14 7EJ

Skandia Investment Management Limited is a company limited by shares, incorporated in England and Wales and authorised and regulated by the Financial Services Authority.

how to contact us

If you have any questions please contact us or call your financial adviser. Our offices are open on business days between the hours of 8.30am and 5.30pm.

To contact us please call 0844 892 0996* or write to:

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If you would like general information on the funds or on Skandia Investment Management Limited you can visit our website:

www.skandiainvestmentmanagement.com

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