



the specialist investment service from Abbey National

Inscape Investment Fund

**Report and Accounts for the Year
Ended 31st October 2006**

Introduction

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If you have any questions about your investment with us, would like further information or would like to obtain a copy of the Long Form Report and Accounts, please call 0845 605 5600. Our lines are open between 8a.m. and 9p.m. Monday to Friday, 9a.m. and 6p.m. on Saturday and 10a.m. and 4p.m. on Sunday.

UK Equities

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in UK equities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisors

AXA Rosenberg Investment Management Limited
 State Street Global Advisors Limited
 JP Morgan Fleming Asset Management (UK) Limited

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
Basic Materials	7.98	7.13
Consumer Goods	8.70	10.20
Consumer Services	11.39	9.91
Financials	28.74	23.70
Health Care	7.10	7.80
Industrials	6.95	6.52
Oil & Gas	15.18	17.84
Technology	0.63	0.56
Telecommunications	5.92	8.19
Utilities	4.69	3.69
Collective Investment Schemes	0.95	0.95
Future Contracts	0.01	(0.01)
Net other assets	1.76	3.52

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
HSBC Holdings	6.13	BP	7.18
BP	5.63	Royal Dutch Shell 'B'	5.89
Royal Dutch Shell 'B'	5.35	Vodafone Group	5.51
Royal Bank of Scotland Group	4.71	HSBC Holdings	5.34
GlaxoSmithKline	3.67	GlaxoSmithKline	4.02
Vodafone Group	3.57	HBOS	3.32
Barclays	3.19	AstraZeneca	3.20
AstraZeneca	3.03	Royal Bank of Scotland Group	2.83
HBOS	2.65	British American Tobacco	2.50
BT Group	2.34	Barclays	2.05

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

UK Equities

Fund Performance

Percentage Change from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
UK Equities Sub-fund	22.1	63.7	52.0
IMA UK All Companies	22.0	58.6	52.5

Source: Lipper – bid to bid, gross income reinvested.

Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 22.1% (based on bid price, gross income reinvested) This compared to a return of 22.0% from the average fund in the IMA UK All Companies sector (Source: Lipper).

Market Review

The UK equity market produced strong returns over the period against a generally supportive economic and corporate background. On the economic front, the global recovery remained largely on track despite heightened energy prices and tighter monetary policy in the US, UK, Eurozone and Japan while growth in the UK re-accelerated in part thanks to the resilience of the housing market. At the corporate level, companies continued to report improved earnings and there was a rash of merger and acquisitions activity. Along with other global equity markets, the UK suffered a sharp correction in May on fears that the US Federal Reserve would have to raise interest rates to a restrictive level to contain inflationary pressures and cool the economy. However, signs of a housing market led slowdown in US growth led to an unexpected pause in US rates during August following seventeen consecutive 0.25% increases. This raised hopes that the US economy would experience a soft landing, helping equity markets to resume upward progress. The Bank of England surprised the market by raising interest rates by 0.25% to 4.75% in August, reversing last November's cut. Against a background of accelerating growth and relatively tight capacity in the economy, and with consumer price inflation above the Bank's 2% target for nine of the previous twelve months, this was a pre-emptive move to prevent inflationary pressures from building.

Policy Review

The portfolio grew in size over the year reflecting the rise in the market and new investment into the sub-fund. The portion of the assets under the management of each investment advisor, named above, is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisors to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Global equity markets are supported by reasonable valuation levels and robust company earnings. Improved growth in the Eurozone and Japan should help to offset the slowdown in the US economy, however, returns over the medium term are likely to be unexciting in the face of moderating global economic activity and slowing earnings growth. If growth in the UK remains above trend the Bank of England is likely to raise interest rates further. Corporate profits are likely to come more into focus as it becomes increasingly difficult for companies to achieve the high annual earnings growth rates seen over the past few years.

UK Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 1.8308p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 0.0757p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
Sterling Accumulation A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.02%
Total expense ratio	1.01%	1.02%
Sterling Accumulation B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.03%
Total expense ratio	1.01%	1.03%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st October 2004	Sterling Accumulation A shares	134.6	239,515,600	322,269,118
	Sterling Accumulation B shares	134.5	1,545,522	2,078,983
31 st October 2005	Sterling Accumulation A shares	160.2	278,194,534	445,530,263
	Sterling Accumulation B shares	160.1	386,381	618,723
31 st October 2006	Sterling Accumulation A shares	195.2	319,850,034	624,455,510
	Sterling Accumulation B shares	195.3	5,126,519	10,010,828

UK Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	153.4	112.1	-
2001	Sterling Accumulation B shares	153.4	112.1	-
2002	Sterling Accumulation A shares	139.6	99.33	1.9652
2002	Sterling Accumulation B shares	139.6	99.33	2.4296
2003	Sterling Accumulation A shares	125.6	91.37	2.3828
2003	Sterling Accumulation B shares	125.6	91.37	2.5212
2004	Sterling Accumulation A shares	142.2	123.8	2.6946
2004	Sterling Accumulation B shares	142.2	123.8	2.8315
2005	Sterling Accumulation A shares	174.8	141.5	3.0990
2005	Sterling Accumulation B shares	174.8	141.5	4.0836
2006*	Sterling Accumulation A shares	198.1	173.1	3.8262
2006*	Sterling Accumulation B shares	198.1	173.1	2.1407

*to 31st October 2006

Europe (excluding UK) Equities

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Europe (excluding UK) equities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisors

AXA Rosenberg Investment Management Limited

State Street Global Advisors Limited

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
Austria	0.48%	0.82%
Belgium	3.60%	1.49%
Denmark	0.72%	1.78%
Finland	3.00%	3.65%
France	22.22%	23.15%
Greece	0.88%	0.44%
Germany	18.47%	17.68%
Ireland	2.57%	1.72%
Italy	7.46%	6.98%
Luxembourg	-	0.22%
Netherlands	7.87%	7.33%
Norway	2.78%	2.12%
Portugal	0.30%	0.47%
Spain	10.44%	9.95%
Sweden	3.97%	5.48%
Switzerland	13.31%	14.07%
Future Contracts	0.02%	(0.01%)
Net other assets	1.91%	2.66%

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
BNP Paribas	3.41	BNP Paribas	3.03
Telefonica	2.80	ENI	2.64
Total	2.45	Societe Generale	2.57
UBS 'R'	2.43	Total	2.53
Banco Santander Central Hispano	2.40	Novartis	2.51
Sanofi -Aventis	2.18	Banco Santander Central Hispano	2.50
ENI	2.11	UBS	2.41
ING Groep	2.10	Allianz	2.39
Societe Generale	1.97	ING Groep	2.07
Allianz	1.80	E.ON	1.77

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Europe (excluding UK) Equities

Fund Performance

Percentage Change from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
Europe (excluding UK) Equities Sub-fund	28.5	80.4	67.1
IMA Europe (excl. UK)	24.7	71.9	61.5

Source: Lipper – bid to bid, gross income reinvested.
Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 28.5% (based on bid price, gross income reinvested) This compared to a return of 24.7% from the sub-fund's benchmark IMA Europe (excl. UK). (Source: Lipper).

Market Review

Continental European equities produced strong returns over the period against a background of rising global markets. There were growing signs of improvement in the growth outlook for the Eurozone, following a prolonged period of disappointing economic performance. Data suggests that domestic demand in the region has finally begun to pick up while strength in exports has continued to underpin the recovery. Along with other global equity markets, Europe suffered steep falls in the middle of May on concerns that rising inflationary pressures could force the US Federal Reserve to raise interest rates to a restrictive level while growth is slowing. Following the sharp sell off, the market then began to regain its composure in the latter part of June. The European Central Bank raised interest rates by 0.25% in August and October in response to signs of a pick up in inflation and accelerating growth in the Eurozone. The ECB has revised up its inflation forecasts for 2006 and 2007 to 2.4%. It forecasts growth of 2.5% in 2006 and 2.1% in 2007. GDP data showed that activity across the Eurozone accelerated over the second quarter, with overall growth of 0.9%. The firming of activity was in line with improvements in surveys in the manufacturing and service sectors. Business confidence in Germany and France picked up in October on the back of lower oil prices and strong exports. Purchasing managers surveys of the manufacturing and service sectors in the Eurozone remain relatively strong.

Policy Review

The portion of the assets under the management of each investment advisor, named above, is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisors to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Looking forward to 2007 our central expectation is that the US economy will experience a soft landing although the possibility of a hard landing cannot be discounted. Recent data suggests that the Eurozone and Japan may be in a position to pick up some of the slack from a moderately slowing US economy but if the US decelerates sharply, the rest of the world will suffer too. For equity markets this could mean a shaky start to the New Year and strong progress is only likely if the scenario of gently slowing growth combined with moderating inflationary pressures plays out. Corporate profits are likely to come more into focus as it becomes increasingly difficult for companies to achieve the high annual earnings growth rates seen over the past few years.

Europe (excluding UK) Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 1.9010p will be reinvested on behalf of Sterling Accumulation A shareholders and a distribution of 1.9649p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
Sterling Accumulation A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.05%
Total expense ratio	1.03%	1.05%
Sterling Accumulation B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.06%
Total expense ratio	1.01%	1.06%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st October 2004	Sterling Accumulation A shares	122.0	50,221,605	61,281,057
	Sterling Accumulation B shares	122.0	582,261	710,256
31 st October 2005	Sterling Accumulation A shares	148.2	57,077,705	84,577,662
	Sterling Accumulation B shares	147.7	145,566	214,994
31 st October 2006	Sterling Accumulation A shares	189.9	63,115,505	119,841,483
	Sterling Accumulation B shares	189.3	145,566	275,496

Europe (excluding UK) Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	157.9	97.30	-
2001	Sterling Accumulation B shares	157.9	97.30	-
2002	Sterling Accumulation A shares	126.7	78.92	0.8554
2002	Sterling Accumulation B shares	126.7	78.92	-
2003	Sterling Accumulation A shares	114.6	104.9	1.2104
2003	Sterling Accumulation B shares	114.6	104.9	1.4473
2004	Sterling Accumulation A shares	131.4	108.3	1.6266
2004	Sterling Accumulation B shares	131.4	108.4	1.7119
2005	Sterling Accumulation A shares	166.1	127.6	1.9916
2005	Sterling Accumulation B shares	165.5	127.4	1.4434
2006*	Sterling Accumulation A shares	192.3	162.0	2.7006
2006*	Sterling Accumulation B shares	191.7	161.5	2.7879

*to 31st October 2006

United States Equities

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in United States equities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisors

Goldman Sachs Asset Management International
DB Absolute Return Strategies Limited (formerly Deutsche Asset Management)

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
Basic Materials	3.10	2.49
Consumer Goods	6.57	7.89
Consumer Services	15.81	13.15
Financials	21.30	21.60
Health Care	10.56	11.30
Industrials	11.88	13.74
Oil & Gas	8.90	9.14
Technology	11.67	12.87
Telecommunications	3.99	2.02
Utilities	2.77	2.94
Future Contracts	0.07	-
Net other assets	3.38	2.86

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
Bank of America	2.82	General Electric	3.16
Exxon Mobil	2.79	Exxon Mobil	2.59
Pfizer	2.32	Johnson & Johnson	2.21
JPMorgan Chase	2.16	Citigroup	2.19
Citigroup	1.97	Microsoft	2.11
Microsoft	1.88	Intel	1.89
General Electric	1.86	Pfizer	1.83
Verizon Communications	1.75	Conoco Phillips	1.62
AT&T	1.69	Wachovia	1.34
Hewlett-Packard	1.65	Amgen	1.26

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

United States Equities

Fund Performance

Percentage Change from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
United States Equity Sub-fund	10.7	25.6	7.0
IMA North America	6.9	18.2	0.0

Source: Lipper – bid to bid, gross income reinvested.
Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 10.7% (based on bid price, gross income reinvested) This compared to a return of 6.9% from the sub-fund's benchmark IMA North America. (Source: Lipper).

Market Review

The US market made strong gains over the period under review, although these were reduced for Sterling based investors by a weakening of the dollar against the pound. The market rallied towards the end of 2005 driven by a pick up in investor risk appetite as data signalled that global economic growth remained solid at around the long term trend level despite heightened oil prices and rising US interest rates while corporate profits continued to improve. Further progress was made in early 2006 against a background of robust fourth quarter corporate earnings, a cooling oil price and a spate of merger and acquisitions activity. The upbeat tone continued to the middle part of May when the US led a sell off in global equities. Investors were unsettled by data suggesting that the US economy had begun to slow after a very strong start to the year while core inflation, excluding energy, was picking up. This raised concerns about the future direction of interest rate policy. Investors had been hoping that the Federal Reserve would be in a position to stop raising rates when they reached a neutral level. During June, the market began to recover some composure. Inflation data for May was not as bad as some had feared and while data on consumer activity and the housing market was mixed, overall activity in the economy remained resilient. The Federal Reserve caught the market by surprise when it left interest on hold in August following seventeen consecutive rate increases. This decision was vindicated by signs that inflationary pressures in the economy may be easing slightly. Data released towards the end of the period was largely consistent with the view that the US economy will experience a soft landing, although there are signs that the ride may be bumpy.

Policy Review

The portfolio grew in size over the year reflecting the rise in the market and new investment into the sub-fund. The portion of the assets under the management of each investment advisor, named above, is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisors to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Looking forward to 2007 our central expectation is that the US economy will continue to slow moderately and that inflationary pressures will ease, allowing the Federal Reserve to cut interest rates. We do not expect the US to fall into recession although the possibility cannot be wholly discounted. Recent data suggests that the Eurozone and Japan may be in a position to pick up some of the slack from a moderately slowing US economy but if the US decelerates sharply, the rest of the world will suffer too. For equity markets this could mean a shaky start to the New Year and strong progress is only likely if the scenario of gently slowing growth combined with moderating inflationary pressures plays out. Corporate profits are likely to come more into focus as it becomes increasingly difficult for companies to achieve the high annual earnings growth rates seen over the past few years.

United States Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 0.4022p will be reinvested on behalf of Sterling Accumulation A shareholders and an amount of 0.4294p will be reinvested on behalf of Sterling Accumulation B shareholders.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
Sterling Accumulation A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.02%	0.04%
Total expense ratio	1.02%	1.04%
Sterling Accumulation B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.02%	0.05%
Total expense ratio	1.02%	1.05%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st October 2004	Sterling Accumulation A shares	105.3	53,037,800	55,843,847
	Sterling Accumulation B shares	105.3	1,984,300	2,089,968
31 st October 2005	Sterling Accumulation A shares	118.7	68,450,700	81,235,779
	Sterling Accumulation B shares	118.7	496,075	588,981
31 st October 2006	Sterling Accumulation A shares	130.7	84,420,700	110,356,541
	Sterling Accumulation B shares	130.8	496,075	648,951

United States Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	156.9	111.2	-
2001	Sterling Accumulation B shares	156.9	111.2	-
2002	Sterling Accumulation A shares	138.1	83.21	0.1087
2002	Sterling Accumulation B shares	138.1	83.21	0.1139
2003	Sterling Accumulation A shares	107.4	102.6	0.2939
2003	Sterling Accumulation B shares	107.4	102.6	0.2155
2004	Sterling Accumulation A shares	110.3	98.53	0.3281
2004	Sterling Accumulation B shares	110.3	98.54	0.4083
2005	Sterling Accumulation A shares	130.8	101.7	0.5907
2005	Sterling Accumulation B shares	130.8	101.7	1.8689
2006*	Sterling Accumulation A shares	135.1	118.8	0.7800
2006*	Sterling Accumulation B shares	135.2	118.9	0.8708

*to 31st October 2006

Japan Equities

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Japanese equities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisor

Schroder Investment Management Limited

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
Basic Materials	4.29	6.43
Consumer Goods	14.42	15.87
Consumer Services	7.94	10.44
Financials	24.10	23.54
Health Care	6.89	6.64
Industrials	19.06	18.79
Technology	10.29	4.63
Telecommunications	5.55	4.92
Utilities	1.24	2.06
Collective Investment Schemes	3.90	4.08
Net other assets	2.32	2.60

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
Toyota Motor	7.38	Toyota Motor	7.82
Sumitomo Mitsui Financial Group	6.11	Mitsubishi Tokyo Financial Group	6.18
Schroder Institutional Japanese Smaller Companies Fund	3.90	Sumitomo Mitsui Financial Group	4.10
Astellas Pharma	3.67	Schroder Institutional Japanese Smaller Companies Fund	4.08
East Japan Railway	3.66	Nomura Holdings	3.82
Mizuho Financial Group	3.64	Takeda Pharmaceutical	3.47
Canon	3.59	Astellas Pharma	3.17
Takeda Pharmaceutical	3.22	Mitsubishi Estate	3.16
Mitsui	3.15	East Japan Railway	3.14
Nippon Telegraph & Telephone	2.98	Omron	3.05

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Japan Equities

Fund Performance

Percentage Change from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
Japan Equities Sub-fund	4.6	30.6	17.4
IMA Japan	2.7	27.5	23.2

Source: Lipper – bid to bid, gross income reinvested.
Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 4.6% (based on bid price, gross income reinvested) This compared to a return of 2.7% from the sub-fund's benchmark IMA Japan. (Source: Lipper).

Market Review

The Japanese market produced strong gains early in the period as data confirmed that the economy was on a sustainable growth path and signalled an end to the era of deflation. GDP data showed that the Japanese economy grew at an annualized rate of 5.4% in the fourth quarter of 2005, comfortably beating the US, Eurozone and UK. This led to speculation that the Bank of Japan would soon have to bring the era of ultra loose monetary policy to an end. The announcement of a change in policy, the first in four years, actually came a month earlier than expected at the Bank's March meeting. However, the Bank took great pains to make it clear that the process of removing monetary policy accommodation would be gradual and interest rates would effectively remain at zero for some time as it removed excess liquidity from the economy. Japanese equities fell sharply over the second quarter of 2006 as the market was hit by concerns that the export led recovery could be damaged by a drop in demand from a slowing US economy. The fall in the market was exacerbated by a drop off in buying support from overseas investors. Over the rest of the period the market began to make modest positive progress again, taking its direction from the US market which was buoyed by hopes that US interest rates had reached their peak and the economy would experience a soft landing.

Policy Review

The portfolio grew in size over the year reflecting the rise in the market and new investment into the sub-fund.

During the period under review the Authorised Corporate Director (ACD) monitored the investment activities of the appointed investment advisor, named above, to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Looking forward to 2007 our central expectation is that the US economy will experience a soft landing although the possibility of a hard landing cannot be discounted. Recent data suggests that the Eurozone and Japan may be in a position to pick up some of the slack from a moderately slowing US economy but if the US decelerates sharply, the rest of the world will suffer too. For equity markets this could mean a shaky start to the New Year and strong progress is only likely if the scenario of gently slowing growth combined with moderating inflationary pressures plays out. Corporate profits are likely to come more into focus as it becomes increasingly difficult for companies to achieve the high annual earnings growth rates seen over the past few years.

Japan Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 0.1381p will be reinvested on behalf of Sterling Accumulation A shareholders, 0.1000p on behalf of Sterling Accumulation B shareholders and 0.4891p on behalf of Sterling Accumulation D shareholders.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
Sterling Accumulation A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.05%
Total expense ratio	1.03%	1.05%
Sterling Accumulation B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.03%	0.05%
Total expense ratio	1.03%	1.05%
Sterling Accumulation D shares		
Manager's periodic charge	0.40%	0.40%
Other expenses	0.03%	0.05%
Total expense ratio	0.43%	0.45%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st December 2004	Sterling Accumulation A shares	111.3	26,854,500	29,876,246
	Sterling Accumulation B shares	111.3	259,975	289,418
	Sterling Accumulation D shares	111.8	10,076,514	11,261,795
31 st October 2005	Sterling Accumulation A shares	136.4	34,720,900	47,362,857
	Sterling Accumulation B shares	136.7	64,994	88,844
	Sterling Accumulation D shares	137.7	19,047,458	26,226,872
31 st October 2006	Sterling Accumulation A shares	142.5	38,496,900	54,856,191
	Sterling Accumulation B shares	142.8	64,994	92,834
	Sterling Accumulation D shares	144.5	23,928,558	34,581,567

Japan Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	153.8	111.7	0.0623
2001	Sterling Accumulation B shares	153.8	111.7	-
2002	Sterling Accumulation A shares	129.2	93.15	-
2002	Sterling Accumulation B shares	129.2	93.15	-
2003	Sterling Accumulation A shares	114.4	83.87	0.0837
2003	Sterling Accumulation B shares	114.4	83.87	0.3197
2003	Sterling Accumulation D shares	114.5	103.0	-
2004	Sterling Accumulation A shares	121.2	101.1	0.1303
2004	Sterling Accumulation B shares	121.2	101.1	0.0795
2004	Sterling Accumulation D shares	121.5	101.3	0.2992
2005	Sterling Accumulation A shares	159.2	107.2	0.1732
2005	Sterling Accumulation B shares	159.6	107.4	-
2005	Sterling Accumulation D shares	160.9	107.9	0.7617
2006*	Sterling Accumulation A shares	169.9	135.9	0.1382
2006*	Sterling Accumulation B shares	170.3	136.2	0.1000
2006*	Sterling Accumulation D shares	171.8	137.7	0.4892

*to 31st October 2006

Pacific Basin (excluding Japan) Equities

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Pacific Basin (excluding Japan) equities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisor
RCM (UK) Limited

Fund Profile

Portfolio of Investments

Spread of investments	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
Australia	21.82	27.60
China	7.10	3.87
Hong Kong	15.18	17.98
India	5.33	3.81
Indonesia	4.67	1.69
Korea	14.18	16.00
Malaysia	2.30	4.60
New Zealand	0.44	0.57
Philippines	0.98	0.70
Singapore	7.84	5.68
Taiwan	12.56	12.40
Thailand	3.00	1.58
Net other assets	4.60	3.52

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
Samsung Electronics	5.21	Samsung Electronics	5.99
BHP Billiton	4.01	Hutchison Whampoa	3.48
National Australia Bank	3.46	National Australia Bank	2.89
HON HAI Precision Industry	2.49	BHP Billiton	2.68
Swire Pacific	2.39	Taiwan Semiconductor	
AMP	2.33	Manufacturing	2.42
China Mobile	2.26	Kookmin Bank	2.34
ITC	2.03	Westpac Banking	2.26
China Life Insurance	1.93	China Mobile Hong Kong	2.09
Perusahaan Gas Negara	1.89	CSL	2.06
		Brambles Industries	2.04

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Pacific Basin (excluding Japan) Equities

Fund Performance

Percentage Change and Sector Ranking from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
Pacific Basin (excluding Japan) Equities Sub -fund	28.1	64.7	127.8
IMA Asia Pacific excl. Japan	24.9	56.1	103.5

Source: Lipper – bid to bid, gross income reinvested.
Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 28.1% (based on bid price, gross income reinvested) This compared to a return of 24.9% from the sub-fund's benchmark IMA Asia Pacific excl. Japan.

(Source: Lipper).

Market Review

Pacific Basin ex Japan equities produced strong returns over the period under review as the region's robust economies continued to help spearhead the global economic recovery. Growth in the major regional economies remained strong, with China's trade surplus hitting a record \$13 billion in May due to booming exports. Regional markets experienced a sharp sell-off during May prompted by concern that the US central bank, the Federal Reserve, might have to continue raising interest rates to a restrictive level in order to contain increasing inflationary pressures. Fear that that this could precipitate a pronounced slowdown in the pace of global growth and fall in company profits led to a sudden increase in risk aversion among investors and as buying momentum within the market dried up, equities were marked down by profit taking. Emerging markets, which had risen farthest earlier in the year, saw some of the steepest falls as investors sought the security of lower risk assets. By June markets had regained some composure and in August the Federal Reserve surprised investors by leaving US interest rates on hold at 5.25%. Over the rest of the period regional markets bounced back on the expectation of looser US monetary policy. The military coup in Thailand and the news of North Korea's nuclear test had little impact on markets.

Policy Review

The portfolio grew in size over the year reflecting the rise in the market and new investment into the sub-fund.

During the period under review the Authorised Corporate Director (ACD) monitored the investment activities of the appointed investment advisor, named above, to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

Looking forward to 2007 our central expectation is that the US economy will experience a soft landing although the possibility of a hard landing cannot be discounted. Recent data suggests that the Eurozone and Japan may be in a position to pick up some of the slack from a moderately slowing US economy but if the US decelerates sharply, the rest of the world will suffer too. For equity markets this could mean a shaky start to the New Year and strong progress is only likely if the scenario of gently slowing growth combined with moderating inflationary pressures plays out. Corporate profits are likely to come more into focus as it becomes increasingly difficult for companies to achieve the high annual earnings growth rates seen over the past few years.

Pacific Basin (excluding Japan) Equities

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 2.5232p will be reinvested on behalf of Sterling Accumulation A shareholders, 2.5777p on behalf of Sterling Accumulation B shareholders and 3.0760p on behalf of Sterling Accumulation D shareholders.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.04%	0.08%
Total expense ratio	1.04%	1.08%
B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.06%	0.09%
Total expense ratio	1.06%	1.09%
D shares		
Manager's periodic charge	0.40%	0.40%
Other expenses	0.04%	0.07%
Total expense ratio	0.44%	0.47%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st October 2004	Sterling Accumulation A shares	166.2	11,204,300	18,620,384
	Sterling Accumulation B shares	166.0	645,401	1,071,597
	Sterling Accumulation D shares	167.0	7,401,033	12,363,010
31 st October 2005	Sterling Accumulation A shares	206.3	13,075,600	26,971,703
	Sterling Accumulation B shares	206.5	161,350	333,190
	Sterling Accumulation D shares	208.1	13,178,503	27,419,500
31 st October 2006	Sterling Accumulation A shares	263.9	14,200,900	37,480,203
	Sterling Accumulation B shares	264.2	161,350	426,266
	Sterling Accumulation D shares	267.5	15,532,603	41,553,643

Pacific Basin (excluding Japan) Equities

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	161.0	106.0	1.0933
2001	Sterling Accumulation B shares	161.0	106.0	-
2002	Sterling Accumulation A shares	153.0	109.4	1.4356
2002	Sterling Accumulation B shares	153.0	109.4	1.1629
2003	Sterling Accumulation A shares	166.0	109.1	1.4955
2003	Sterling Accumulation B shares	166.0	109.1	1.4464
2003	Sterling Accumulation D shares	166.0	150.5	0.1690
2004	Sterling Accumulation A shares	177.1	147.4	2.3447
2004	Sterling Accumulation B shares	176.8	147.2	2.4591
2004	Sterling Accumulation D share	177.9	147.7	1.7662
2005	Sterling Accumulation A shares	236.6	175.6	3.7213
2005	Sterling Accumulation B shares	236.8	175.6	4.6502
2005	Sterling Accumulation D shares	238.9	176.6	4.7217
2006*	Sterling Accumulation A shares	279.1	231.3	3.4031
2006*	Sterling Accumulation B shares	279.4	231.5	3.4197
2006*	Sterling Accumulation D shares	282.2	234.0	4.5369

*to 31st October 2006

Sterling Bond

Fund Facts

Investment Objective and Policy

The sub-fund's investment objective is to achieve a long term total return of capital appreciation and income receipts from investment primarily in Sterling fixed interest securities, with the appointment of sub-fund advisors, and the selection of securities to achieve high risk-adjusted returns over the longer term.

Investment Advisors

Merrill Lynch Investment Managers Limited
Western Asset Management Company Limited
Barclays Global Investors Limited

Fund Profile

Portfolio of Investments

Spread of investments Fixed interest securities grouped by ratings *	% of total net assets as at 31/10/06	% of total net assets as at 31/10/05
AAA to AA	42.77	46.69
AA- to A+	14.63	16.65
A to A-	18.70	16.52
BBB+ to BBB	14.80	12.14
below BBB to unrated	2.67	2.73
Collective Investment Schemes	0.38	0.41
Forward currency contracts (net)	0.11	0.10
Net other assets	5.94	4.76

* source: S&P / Moody's

Major Holdings

The top 10 holdings at the end of this period and the previous period are shown below.

Holding	% of Sub-fund as at 31/10/06	Holding	% of Sub-fund as at 31/10/05
Treasury 4.75% 2010	2.66	Treasury 4.75% 2010	3.00
Bundesrepublik Deutschland 4% 2037	2.11	Treasury 5% 2014	2.95
Treasury 4.75% 2015	1.65	Treasury 5% 2012	2.47
Treasury 4% 2016	1.54	Treasury 4.25% 2032	2.45
Treasury 4.5% 2007	1.27	Treasury 4.5% 2007	2.15
Treasury 4% 2009	1.23	Bundesrepublik Deutschland 5.5% 2031	1.31
Treasury 5% 2012	1.16	Bundesobligation 4.5% 2007	1.29
Bundesrepublik Deutschland 5.5% 2031	1.01	Treasury 6% 2028	1.22
Canary Wharf Finance 6.455% 2030	0.96	Canary Wharf Finance 6.455% 2030	1.20
Treasury 4.25% 2032	0.95	Treasury 8% 2021	1.19

Risk Profile

The main risks within the portfolio relate to changes in the prices of securities held. Other risks include risks of bankruptcy of companies held, risks from foreign exchange and risks of adverse effects from changes in interest rates. The sub-fund does not borrow in the normal course of business and has no material exposure to unlisted securities. The manager reviews policies for managing these risks regularly as part of the process for achieving the investment objective.

Sterling Bond

Fund Performance

Percentage Change and Sector Ranking from 31 st October 2001 to 31 st October 2006			
	1 Year	3 Years	5 Years
Sterling Bond Sub -fund	3.5	18.6	30.9
IMA UK Corporate Bond	2.7	15.5	23.8

Source: Lipper – bid to bid, gross income reinvested.
Past performance is not a guarantee of future returns.

Performance Review

For the year ended 31 October 2006, the sub-fund returned 3.5% (based on bid price, gross income reinvested) This compared to a return of 2.7% from the sub-fund's benchmark IMA UK Corporate Bond. (Source: Lipper).

Market Review

Over the fourth quarter of 2005 UK bond yields fell against a benign growth and moderate inflation backdrop as markets continued to anticipate very little change in UK interest rates. During this period, the yield curve inverted as long dated bonds received support from pension funds seeking to match their liabilities. The first quarter of 2006 was slightly negative for bond markets overall. Bonds were affected primarily by changing interest rate expectations. Hopes of a cut in UK interest rates faded, while the market faced up to the prospect of further tightening in the US and Eurozone and an end to ultra loose monetary policy in Japan. Long-dated bonds remained supported by institutional demand for liability matching assets. During April, the UK bond market retreated further, along with other global bond markets in the face of an improving global growth outlook and the prospect of rising interest rates in several major economies. Bonds benefited from the flight to safety during May's volatile market conditions but yields began to rise again in June. The European Central Bank and the US Federal Reserve both tightened monetary policy during the second quarter while the Bank of England left rates on hold at 4.5%. Bond prices rallied over the third quarter of 2006 as news flow led to the expectation of slower global growth and looser US monetary policy in 2007. Following seventeen consecutive rate rises, the Federal Reserve kept US interest rates on hold at 5.25% in August and September. The UK yield curve inverted further over the quarter. Short yields rose as the Bank of England surprised the market by raising rates by 0.25% to 4.75% while long yields followed international yields lower as markets priced in a weaker US economy and moderating inflationary pressures.

Policy Review

The portfolio grew in size over the year reflecting the rise in the market and new investment into the sub-fund. The portion of the assets under the management of each investment advisor, named above, is chosen by the Authorised Corporate Director (ACD) and varies at the ACD's discretion.

During the period under review the ACD monitored the investment activities of each of the appointed investment advisors to ensure consistent application of investment techniques, processes, and compliance with the terms of their Investment Management Agreement. The portfolio remained fully invested.

Derivatives were used during this review period in order to secure efficient portfolio management. The sub-fund holds no derivatives that could impact the value of the sub-fund significantly. We did not utilise the sub-fund's borrowing facility other than to facilitate timely settlement of stock purchases.

Investment Outlook

We believe that the UK is nearing the top of the interest rate cycle and that rates will begin to come down some time in 2007 as the slowing US economy leads to a more general deceleration in global growth. This should provide some support for the bond market.

Sterling Bond

Summary of Accounts

Fund Accounting Dates	Distribution Payment Dates
30 April / 31 October	30 June / 31 December

Distribution Statement

On 31st December 2006 a final distribution of 3.2502p will be reinvested on behalf of Sterling Accumulation A shareholders.

All shares in Sterling Accumulation B share class were cancelled on 30 June 2006.

Total Expense Ratio

Expense Type	as at 31/10/06	as at 31/10/05
Sterling Accumulation A shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.02%
Total expense ratio	1.01%	1.02%
Sterling Accumulation B shares		
Manager's periodic charge	1.00%	1.00%
Other expenses	0.01%	0.04%
Total expense ratio	1.01%	1.04%

Net Asset Values

Accounting Date	Share Description	Net Value Per Share (pence)	Number of Shares in Issue	Net Asset Value
31 st October 2004	Sterling Accumulation A shares	183.6	192,420,500	353,270,159
	Sterling Accumulation B shares	184.1	246,446	453,664
31 st October 2005	Sterling Accumulation A shares	195.4	238,508,300	465,966,048
	Sterling Accumulation B shares	193.9	61,611	119,459
31 st October 2006	Sterling Accumulation A shares	200.3	326,845,300	654,593,837
	Sterling Accumulation B shares	-	-	-

Sterling Bond

Summary of Accounts (continued)

Share Price & Distribution

Calendar Year	Share Description	Highest Share Price (pence)	Lowest Share Price (pence)	Distribution per Share (pence)
2001	Sterling Accumulation A shares	162.7	147.7	4.5854
2001	Sterling Accumulation B shares	162.7	147.7	-
2002	Sterling Accumulation A shares	170.6	157.0	4.6918
2002	Sterling Accumulation B shares	170.6	157.0	6.2630
2002	Sterling Accumulation C shares	172.4	159.5	0.9454
2003	Sterling Accumulation A shares	181.2	166.6	5.7617
2003	Sterling Accumulation B shares	181.2	166.6	6.6150
2003	Sterling Accumulation C shares	183.9	168.2	1.2392
2004	Sterling Accumulation A shares	189.4	173.6	6.4172
2004	Sterling Accumulation B shares	189.7	173.9	6.6673
2005	Sterling Accumulation A shares	200.7	186.5	6.0934
2005	Sterling Accumulation B shares	199.0	186.9	11.2488
2006*	Sterling Accumulation A shares	204.2	194.2	6.2084
2006*	Sterling Accumulation B shares	202.5	192.6	3.2058

*to 31st October 2006

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