



Swisscanto (LU) Bond Invest GBP B

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Quarter report

1. Market review

Economic growth in the UK has continued to fall for the second consecutive quarter, to a 15 year low of 1.4% (measured on a year-on-year basis), as the global credit crisis shows no sign of abating. Rising production costs have once again been passed onto the British consumer in the form of higher food and energy prices, driving consumer confidence to a historic low. The UK labour market continued to feel the pressure with unemployment levels returning to a seasonally adjusted rate of 5.4%, as firms were forced to cut their workforce once again, in a bid to compensate for shrinking profit margins. Exports did however witness a small increase due to the weaker sterling currency during Q308. The main focus this period has once again been on the UK housing market, where a severe lack of mortgage finance has led to the 12th consecutive monthly fall in mortgage approvals. The collapse and subsequent takeover of major UK financial house 'HBOS' by 'Lloyds TSB' also shocked the financial markets, a route taken to avoid another potential 'run' on the retail banking system. The Central Bank was forced to leave Official Rates unchanged at 5% during the third quarter, employing an inflation fighting stance (currently 4.7% year-on-year) at the expense of economic growth.

2. Performance review

The fund maintained the same yield curve steepening bias from the second quarter of the year, with an overweight in the 5-10 year area and underweight at the longer maturity spectrum. The duration position was returned to a neutral stance over the reporting period, in light of the Central Banks monetary policy. The portfolio has maintained a high concentration of government bonds, only diversifying from this into the highest grade, short dated, bank and financial paper, adding incremental yield when compared to our government bond benchmark.

Note concerning performance

Past performance is no indication of future performance and does not guarantee success in the future. The performance data assume that any dividends will be reinvested and do not take account of commission and costs charged for issuing and redemption of units. The calculation is performed in the fund's currency of account GBP. Returns in other currencies may rise or fall as a result of currency fluctuations.

3. Outlook

The UK housing market remains a key driver for domestic consumption, and has the potential to fall further still over the next few quarters. With consumer confidence at new lows and food and energy costs impacted by higher Commodity prices, we expect the Central Bank to leave monetary policy unchanged over the final meetings of this year, unless a UK financial crisis ensues. The portfolio managers will maintain the current duration and yield curve positioning, along with the bias toward government bond holdings. We will take advantage of positive risk/reward trades in the same high grade, non government issuers which we currently hold, as they arise.

Opportunities/risks

All investments involve risk, especially with regard to fluctuations in value and returns. In addition, investments in foreign currencies are subject to exchange rate fluctuations. The risks are described in detail in the sales prospectus.

Additional important notes All information published here is solely for your information and does not constitute investment advice or any other recommendation. While we have carefully researched and compiled the contents, Swisscanto cannot assume warranty for the correctness, completeness and timeliness of the information provided. The sole binding basis for the acquisition of units/shares in Swisscanto investment funds are the respective sales prospectuses and reports on activities.

Important notes for Austria Luxembourg: The sales prospectus, simplified sales prospectus, contractual conditions and the most recent annual or semi-annual report may be obtained free of charge from Banque et Caisse d'Epargne de l'Etat, Luxembourg, 1, place de Metz, L-2954 Luxembourg.

Note concerning TER: The Total Expense Ratio (TER) refers to the commission continuously charged to the fund's assets (operating expenses) and is expressed as a percentage of the fund's assets. The figure quoted relates to the amount of the TER in the past financial year or half-year and does not guarantee that the figure will be similar in the future.