



2010 FL Secure Growth Fund Report

Fund objective

The objective of the FL Secure Growth Fund is to outperform the composite benchmark at sector and total fund level providing stable income and long term capital guarantees. The benchmark is made up of UK Corporate Bonds (80%) and UK Equities (20%).

Unlike a unit-linked fund, investment returns on the FL Secure Growth Fund are smoothed over a period of years by using investment reserves.

The fund predominantly invests in fixed interest stock, with some degree of exposure to equity investment. In the long-term, the return on the fund will reflect the performance of those underlying assets. However, in the short-term, the smoothing effect will result in yields for policies that both rise and fall more slowly than fixed interest returns.

Commentary for the period 01/01/10 to 31/12/10

The year began on a positive note for the UK corporate bond markets, buoyed by improved fundamentals and further signs of recovery in the global economy. It was not long however, before the sovereign debt crisis began to dominate investor sentiment and volatility set in. This negative sentiment was compounded by downward adjustments to growth forecasts by governments across the western world, as austerity programmes were put in place to deal with onerous domestic budget deficits. Following assistance for Greece, from the EU (European Union) and IMF (International Monetary Fund), markets rebounded mid-year. However, turbulence returned in the final months of 2010 as the Irish banking sector came close to collapse. The ECB (European Central Bank) once again stepped in, providing some reassurance to markets but also highlighting on-going concerns about the finances of many peripheral eurozone economies.

The benchmark for the Secure Growth Fund is 80% investment in non-gilt fixed income securities and 20% in UK equities. We held an overweight position in UK equities and underweight position in corporate bonds for much of 2010, which contributed positively to performance at the total Fund level as the corporate bond market had a volatile year, with spreads little changed, while UK equities posted solid gains and outperformed corporate bonds. Total returns from corporate bonds were strong nevertheless and the market was up 10.4% on the year on an absolute basis.

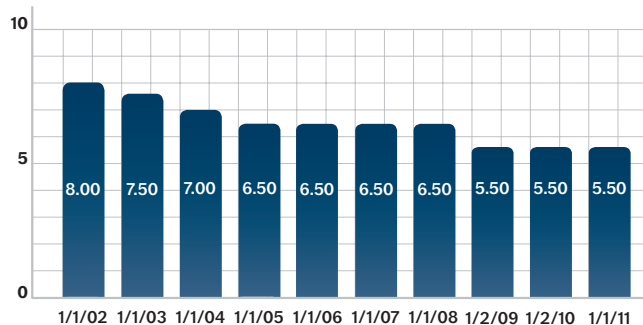
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Interest rates for the FL Secure Growth Fund

Gross annual rate of interest 2002 – 2011



Rate applying each year

The information shown refers to the past. Past performance is not a reliable guide to future performance.

The declared interest rates listed above are before any charges have been deducted.

In the FL Secure Growth Fund, we set interest rates at levels deemed appropriate over the long-term and add interest through increases in the daily unit price. The interest rate is reviewed at least once a year. The gross interest rate (before deduction of fund charges) was last changed from 1 February 2009 with subsequent reviews leaving the rate unchanged. This rate will continue to remain in force until such time as a change is authorised by the Board.

Market Value Reduction (MVR)

MVRs are used to ensure that all our customers invested in the FL Secure Growth Fund are treated fairly. They may be applied when the underlying value of investments backing the FL Secure Growth Fund is less than the unit price times the number of units. This occurs when markets are depressed to the extent that accumulated interest already added is too high to provide a fair value to customers choosing to leave the FL Secure Growth Fund. We guarantee that we will not apply an MVR at the maturity date or selected retirement date defined in your policy or on your death.

Further information

For further information on the FL Secure Growth Fund, please speak to your financial adviser or contact Friends Life on 0845 602 9199.

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