

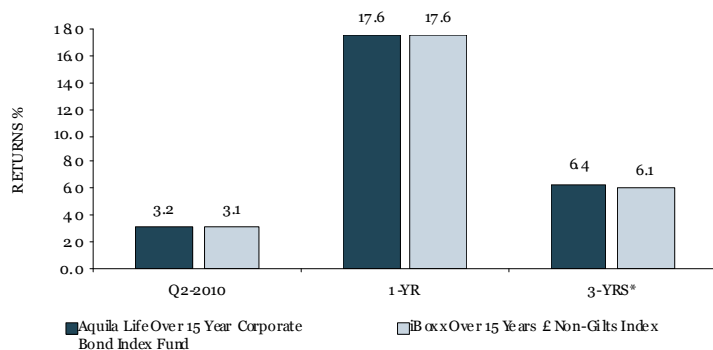
# Aquila Life Over 15 Year Corporate Bond Index Fund

30 June 2010

FUND VALUE	NET NEW MONEY	NUMBER OF HOLDINGS
£3,006,492,821	-£397,594,453	280

Source: BlackRock.

## Performance



\* Annualised

Past performance is not a reliable indicator of future results.  
Performance shown is gross of investment management fees.  
Source: BlackRock.

## Market Background

In a market environment in which investor concern over sovereign credit risk tended to dominate market valuations, corporate bonds as a whole underperformed government bonds substantially during the quarter. Financials were by far the worst performers in the corporate bond universe, a reflection of investor concern over the potential threat to financial market stability posed by banking exposures to the weaker members of the Euro Zone. Within financials, unsurprisingly, banks performed worst (relative to insurance companies and other financials issuers), with subordinated debt faring especially badly.

Whilst market focus tended to be fixed on the situation in the Euro Zone, the general skittish tone meant that markets were sensitive to any negative news affecting the corporate sector. During the quarter, this included a market focus on BP and its discussions with the Obama administration relating to the cost of the oil spill in the Gulf of Mexico. The market reacted positively to the announcement that BP had set aside USD20bn to cover the cost of the spill, and the marked underperformance of BP debt abated. Nevertheless, BP was a significant underperformer amongst industrials, with the premium to governments ending the quarter around 3% points higher.

Whilst market concern over a slowdown in economic activity helped to put downward pressure on government bond yields, fundamental indicators relating to the health of corporate debt remain positive. Historic rates of default seem to have peaked and to be falling, consistent with continuing economic recovery. Cash balances remain high amongst investment-grade corporate issuers, suggesting that they have sufficient cash to meet their debt repayment obligations into the medium term.

## Quarterly Commentary

The Fund is neutral to benchmark duration. Benchmark duration at quarter end was 12.18 years. The Fund tracked to within its tolerance during the quarter.

The Fund participated in 7 new issues during the quarter. New issues included bonds from Dong Energy A/S, Reseau Ferre De France and Bat International Finance PLC.

LARGEST HOLDINGS	TICKER / COUPON / MATURITY	FUND %
EUROPEAN INVESTMENT BANK	EIB 6.000 07-DEC-2028	3.3
KREDITANSTALT FUER WIEDERAUFBAU - (LT) GTD	KFW 6.000 07-DEC-2028	2.8
EUROPEAN INVESTMENT BANK	EIB 5.625 07-JUN-2032	2.3
EUROPEAN INVESTMENT BANK	EIB 5.000 15-APR-2039	1.5
KREDITANSTALT FUER WIEDERAUFBAU	KFW 5.750 07-JUN-2032	1.4
PFIZER INC	PFE 6.500 03-JUN-2038	1.3
ELECTRICITE DE FRANCE	EDF 6.125 02-JUN-2034	1.3
ITALY (REPUBLIC OF)	ITALY 6.000 04-AUG-2028	1.2
ENEL FINANCE INTERNATIONAL SA	ENEL 5.750 14-SEP-2040	1.0
LCR FINANCE PLC	LCRFIN 5.100 07-MAR-2051	1.0

Source: BlackRock.

## STOCK LENDING

ON LOAN	COLLATERAL	INCOME	RETURN(%) ‡
£37,196,449	£38,443,198	£68,431	0.001

Source: BlackRock.

The above table details the stock lending activity during the quarter.

‡Non-Annualised

iBoxx is a registered trade mark of iBoxx Limited. iBoxx Limited does not approve, endorse or recommend BlackRock. This Fund is not sponsored, endorsed or sold by iBoxx Limited which makes no representation regarding the suitability of investing in the product.

**BLACKROCK**