

SC 162841

LIFE OFFICES OPPORTUNITIES TRUST PLC

ANNUAL REPORT

31 December 2005



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The investment objective of the Company is long term capital growth from a diversified portfolio of with-profits life assurance policies which have the potential for achieving enhanced capital returns, particularly through corporate change in the life assurance industry

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Highlights

- Net asset value ("NAV") increases by 5.1%
- Discount narrows to 8.7%
- Strong underlying markets improve outlook
- Life offices continue to smooth returns

Financial Highlights	31 December 2005	31 December 2004	% Change
Total return:			
Net asset value	123.73p	117.73p	+5.1
Share price	113.00p	98.50p	+14.7
Discount	8.7%	16.4%	
Total expense ratio:			
Investment management fees	0.75%	0.75%	
Policy advisory fees	0.50%	0.50%	
Other operating expenses	0.29%	0.27%	

Historical record Year to 31 December	NAV per share (p)	Share price (p)	Total Return per share (p)
2000	154.54	127.50	13.26
2001	160.69	133.50	6.24
2002	154.86	98.00	(8.21)
2003	123.49	91.75	(29.37)
2004	117.73	98.50	(5.72)
2005	123.73	113.00	6.00

Chairman's Statement

Review of 2005

Over the year, the net asset value per share increased by 5.1 per cent to 123.73 pence. The investment objective of your Company is to achieve long-term capital growth and no dividend is payable.

Last year, I commented on the failure of the value of the underlying assets to respond to the upturn in financial markets. In particular, the lagged effects of returns on bonuses as life offices smooth returns means that changes in bonuses tend to lag underlying markets. These features have been repeated in 2005 where bonuses again were reduced but to a much lesser extent.

The bonus season in the spring of 2005 was somewhat mixed. Most offices reduced bonuses further, but some by much more than others. Standard Life was the most disappointing, cutting both in the Spring and again later in the year. Most others cut bonuses in the Spring but resisted any further change at the interim stage later in the year. Scottish Widows actually increased its bonuses, showing that they had been more realistic at an earlier stage.

2004 saw the first positive returns on with-profits funds for four years, with the typical mixed asset fund returning 10–12 per cent. Although we are only in the early stages of the bonus declaration season from the life offices, recent announcements are confirming that 2005 was even better, with returns on funds at around 15–16 per cent.

Some funds may have fared a little worse than this, especially Standard Life, depending on the degree to which they have switched out of equities into gilts and bonds. This action was taken to recognise the more stringent solvency testing regime introduced by the Financial Services Authority in the last few years. But, in the main, it has been a very good couple of years for with-profits funds.

Chairman's Statement

Standard Life

We are still awaiting a formal announcement of the timetable and terms of a demutualisation of Standard Life. Currently, they are in the midst of an exercise to tidy up their membership register to ensure they are in communication with all members. Although demutualisation is a slow process, it would appear that this one is particularly costly and protracted being it is nearly two years since this action was first mooted. It is entirely possible that Standard Life might be subject to a takeover either before or after flotation. Either way, this will be the catalyst for releasing value for the Company.

The timing is very helpful as the great majority of policies mature after the proposed flotation date this year. Although the size of higher bonuses or demutualisation proceeds are unknown at present, they should result in a material uplift in value.

Accounting Standards

The Company continues to prepare its financial statements under UK Generally Accepted Accounting Practice and the AITC's 2003 Statement of Recommended Practice. Your Board, following discussions with the Secretaries and your Company's auditors, resolved not to adopt International Financial Reporting Standards (IFRS). In your Board's view, there would be no material change in the financial results and position of the Company were it to adopt IFRS. Your Board will, of course, keep this matter under review.

However, consistent with the 2005 Interim Report, these financial statements do incorporate three changes to accounting practices: Financial Reporting Standards (FRS) 21 'Events after the Balance Sheet Date', FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'. As the Company does not pay a dividend or have any financial instruments that require restatement, the adoption of these standards does not require a major change in the treatment and presentation of the financial statements. Further information regarding the required accounting treatment is provided in the notes to these financial statements.

Outlook

After the adverse events of preceding years, 2005 has been a reassuringly stable year for the life assurance industry and the companies involved in it. With strong financial markets, life offices have seen their assets increase and, even accounting for some degree of smoothing, should start increasing bonuses. It is likely that these will manifest themselves through increases in terminal bonuses initially. Your Company should benefit from this and is well-placed to deliver capital growth.

John C H Brumwell
Chairman

7 March 2006

Managers' Review

With-Profit Fund Performance

Entering 2005, the life industry background was more favourable. With the typical mixed asset fund returning 10–12 per cent, 2004 had seen the first positive returns on with-profits funds for four years. Although we are only in the early stages of the bonus declaration season from the life offices, many are confirming that 2005 was even better, with returns on funds at around 15–16 per cent.

Even after the reduction in the equity content as a result of the implementing of the tougher FSA testing regime introduced over recent years, many still retain around 40 per cent in equities. Some funds may have fared worse, depending on the degree to which they have fled to gilts and bonds as a result but generally it has been a very good couple of years for with-profits funds.

Bonus Declarations

The returns earned on the underlying funds are distributed to policyholders through annual and terminal bonuses. Annual bonus rates tend to be set by life offices by reference to long term economic benchmarks, inflation and more particularly long bond yields. These have been in decline for a decade. With gilt and long bond yields remaining low, the current declaration season is indicating that annual bonus additions will remain at their historically low levels. However, more importantly they are not falling further and may have bottomed.

However the strong positive returns on the underlying funds should be credited through to policyholders through bonuses. As annual bonus rates are not yet being increased, the uptick is being fed through via the terminal bonuses. Against a framework of future long term inflation expectations at 2–3 per cent, the returns on with-profits funds in 2005 should be regarded as well-above trend. In such years when returns are better than expected, it would be normal to expect life offices to retain a proportion of the excess return for

smoothing, and undoubtedly this will be the case in this season's bonus declarations. Nevertheless, it should be part of policyholders reasonable expectations to have a substantial portion of the investment return credited to policyholders. Early analysis of one of the major life offices is promising, showing that out of a 16 per cent return on the fund, around 13 per cent had been credited to policyholders.

Life Insurers

Ten years ago, the UK life assurance market was highly fragmented and faced a future of rationalisation and consolidation that had already taken place in many other business sectors. The position in the market for mutuals with their limited means to raise development capital looked particularly uncertain, which was part of the rationale for the establishment of LOOT, and most of the larger mutuals seemed certain to demutualise to become proprietary offices through flotation or trade sale. Subsequently, there has also been some consolidation of proprietary offices too, as has been the case with what is now Aviva plc, a consolidation of two former mutuals, Norwich Union and Provident Mutual and two proprietaries, Commercial Union and General Accident.

Over the last five or so years, life insurers have found their business environment very tough and amongst the key indicators for these difficulties is the dramatic fall in the domestic savings ratio. Increased competition for the saver's pound has further underlined that only specialist niche players or just the very few largest companies can continue to successfully market new products. Many of the medium sized players, or the life assurance arms of composite insurers, have simply found writing new business uneconomic or too difficult and have closed. The rapid rise in these closed funds has led to a new generation of 'fund consolidators' such as Resolution plc, established to collect up these funds and run them off. It is our view that these companies will be

Managers' Review

beneficial to a small extent for policyholders, because the larger aggregate mass provides greater investment freedoms and also enables fixed overheads to be spread more thinly.

Traded Policies

The traded endowment market from which the Fund's investments were acquired is slowly declining as the population of in-force endowments reduces. There remains a reasonably healthy market in policies and there is considerable overseas interest at present. Much in keeping with the fortunes of the life insurers own new product sales, 2005 saw increased activity after three slower years.

For LOOT, the level of surrender values and implementation of market value adjusters matter less with the portfolio relatively close to maturity. Nevertheless, it is interesting to note that surrender values have risen of late and that there has been a gradual reduction/removal of market value adjusters. This can only be seen as positive for the sector.

Life Office Opportunities

We are still awaiting a formal announcement of the timetable for the proposed demutualisation of Standard Life; it is nearly two years since this was first mooted. In the interim, there has been prolonged industry speculation that the mutual would be a target of a takeover in the run-up to flotation, or indeed afterwards. It would be difficult for the corporate advisors to ignore an offer above the perceived flotation valuation.

As demutualisation is a slow process in general, and this one in particular, the long lead time would aid an aggressor to formulate such a takeover plan. To date, the only disadvantage in the intervening period has been the strength of global equity markets, which will have increased Standard Life's perceived value. However, whereas Standard Life was perceived as a powerhouse when equity markets were strong in the

late nineties, their retreat from their over-weight equity exposure at the nadir in markets in 2003, has weakened them somewhat. We suspect that 2006 will be an interesting year in the sector.

Should an event occur – be it flotation or takeover – this will be especially pleasing as it will finally complete the Company's program of unlocking value from mutuals and other surplus funds which began back in 1996/97 with the flotation of Norwich Union and the trade sale of Clerical Medical.

Projected Maturity Values as at 31 December 2005

Rate of Return	No Further Bonuses	4%	8%
Final NAV per share	99.3	141.5	156.6

The estimated rate of return required to ensure bonuses remain unchanged is 6.1 per cent per annum.

No further bonuses assumes that the return consists only of the amount guaranteed by life offices.

The following are the main assumptions used.

- All policies are held to maturity, with no policyholders dying.
- All future premiums are paid.
- Interest rates of 6 per cent per annum on borrowings and 4 per cent per annum on deposits.
- Administrative costs increase at 2.5 per cent per annum.
- The Company continues as an investment trust and maintains its current tax position.
- The Company winds up at 31 December 2008 and incurs no additional expenses.
- No further windfall gains are received.
- No further shares are issued or bought back.

Investment Portfolio *as at 31 December 2005*

Company	Number of Policies	Cost £000	Valuation £000	% of Net Assets
1 Standard Life	488	8,027	9,467	32.5
2 Century Life	8	2,034	5,940	20.4
3 Aviva (Norwich Union)	269	4,517	5,562	19.1
4 Prudential (Scottish Amicable)	172	2,290	3,829	13.1
5 Scottish Provident	185	3,276	3,658	12.6
6 Legal & General	134	2,239	3,122	10.7
7 Prudential	130	1,955	2,910	10.0
8 Scottish Life Assurance	99	1,695	2,046	7.0
9 Clerical Medical	46	1,454	1,872	6.4
10 Friends Provident	52	833	866	3.0
Ten largest investments	1,583	28,320	39,272	134.8
11 Pearl Assurance	38	518	604	2.1
12 Sun Life of Canada	23	410	486	1.7
13 AXA (Equity & Law)	22	378	479	1.6
14 Royal London Mutual	11	181	268	0.9
15 Co-operative Insurance	14	193	262	0.9
16 AXA (Sun Life)	13	214	260	0.9
17 Royal & Sun Alliance (Royal)	12	166	217	0.7
18 Windsor Life (Gresham)	11	137	216	0.7
19 Friends Provident (UKPI)	9	115	140	0.5
20 Scottish Widows	6	113	130	0.4
Twenty largest investments	1,742	30,745	42,334	145.3
Other investments	16	227	341	1.2
Total investments	1,758	30,972	42,675	146.5
Net current liabilities			(13,536)	(46.5)
			29,139	100.0

Maturity Profile (number of policies)

2006
164

2007
794

2008
800

Board of Directors

John Brumwell (Chairman) (aged 71)

John Brumwell retired in 1995 as a fund manager and company secretary of Prudential Portfolio Managers Limited. He is a Fellow of the Institute of Actuaries and is currently a consultant with FTSE

International Limited and serves on the Membership and Statistics Committees of the Association of Investment Trust Companies. He was appointed in 1996 and is due for re-election this year.

John Motion (aged 70)

John Motion worked for over 25 years as a stockbroker and retired from Merrill Lynch in 1995. He specialised in the investment trust sector, joining Kitcat & Aitken in 1969 and was joint head

of investment trusts there for 15 years. In 1986 he became director of investment trusts at Kitcat & Aitken Limited. He was a member of the London Stock Exchange for over 20 years. He is also a director of SVM TEP Fund. He was appointed in 1996 and is due for re-election this year.

Raymond Paul (Senior non-executive Director) (aged 64)

Raymond Paul is a Fellow of the Faculty of Actuaries. He has spent over 40 years in the life assurance industry and was formerly Appointed Actuary at the Life

Association of Scotland Limited. He is an independent consulting actuary and is the author of a paper on the subject of merging and reconstructing life funds. He was appointed in 1996 and is due for re-election this year.

John Wilson (aged 63)

John Wilson joined James Capel in 1960 and retired in 1995. He was a partner of James Capel & Co. for eight years until James Capel became part of the HSBC Group in 1986. He worked in a

variety of roles at James Capel and was a trustee of James Capel's in-house pension schemes. He was a member of the London Stock Exchange for over 25 years. He is also a director of SVM TEP Fund. He was appointed in 1996 and is due for re-election this year.

Report of the Directors

The Directors submit their Report and Accounts for the year to 31 December 2005.

Principal activity and status

The Company is an Investment Company as defined in Section 266 of the Companies Act 1985.

The Company has been approved by the Inland Revenue as an investment trust under Section 842 of The Income and Corporation Taxes Act 1988 for the year to 31 December 2004. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval and the Company will continue to seek approval each year. A review of the business during the year is set out on pages 2 to 5.

Results

The total return for the year of £1,413,000 has been transferred to reserves. No dividend has been declared.

Directors

The Directors who held office during the year and their beneficial interests in the Ordinary Shares of the Company were:

	31 December 2005 Shares	31 December 2004 Shares
J C H Brumwell	25,000	25,000
J S H H Motion	20,000	20,000
R M Paul	30,000	30,000
J B Wilson	12,500	12,500

There have been no changes in the Directors' interests between 31 December 2005 and 7 March 2006.

No Director has a service contract with the Company.

Mr R M Paul and Mr J B Wilson retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Mr J C H Brumwell and Mr J S H H Motion, having attained the age of 70, retire and offer themselves for re-election at the Annual General Meeting.

Disclosure of information to auditors

Each Director of the Company confirms that:

- so far as each Director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish that the auditors are aware of that information.

Substantial shareholdings

As at 7 March 2006, the following interests in excess of 3% of the issued Ordinary Shares of the Company had been reported:

Name	Number of Shares	Percentage of Issued Shares
CG Asset Management Limited	3,323,500	14.1%
SVM TEP Fund	2,275,000	9.7%
Deutsche Bank AG	900,000	3.8%

Management

SVM Asset Management Limited provides investment management and secretarial services to the Company. These services can be terminated by either party, without compensation, at any time by giving one year's notice or an immediate payment of a year's fee in lieu of notice. SVM Asset Management Limited receives a fee for these services, payable quarterly in arrears, equivalent to 0.75% per annum of the total assets of the Company less current liabilities plus the bank loan.

The Management and Nomination Committee has reviewed the appropriateness of the Manager's contract. In carrying out its review, the Committee considered the Company's past investment performance and the Manager's capability and resources to deliver optimal future performance. It also considered the length of the notice period of the investment management contract and the fees payable,

Report of the Directors

together with the standard of other services provided which include secretarial, accounting and marketing.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the best interests of the shareholders as a whole.

Creditors Payment Policy

The Company's policy is to agree and make suppliers aware of payment terms prior to the transacting of business. The Company did not have any trade creditors at the year end.

Financial Instruments

The Company's financial instruments comprise the investment portfolio, cash at bank and on deposit, bank loans, overdrafts, and debtors and creditors that arise directly from operations. The main risks that the Company faces from its financial instruments are disclosed in Note 13 to the financial statements.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

Directors' Authority to Issue Shares

The Directors are currently authorised to allot ordinary shares up to an aggregate amount of £1,087,500, such authority expiring on 31 December 2008. The Directors would only issue new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in a dilution of net asset value per share.

Directors' Authority to Buy Back Shares

The current authority of the Company to make market purchases of up to 15% of the issued ordinary shares expires at the end of the Annual General Meeting and Special Resolution 9 as set out in the notice of the

Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2007. The price paid for shares will not be less than 75 pence per share nor more than 5% above the average of the market values of these shares for the five business days before the shares are purchased. This power will only be exercised if, in the opinion of the Directors, a repurchase would be in the best interests of the shareholders as a whole. Any shares purchased under this authority will be cancelled.

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements each year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the revenue of the Company for that year. These statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In preparing these statements, the Directors are required to: (a) select suitable accounting policies and then apply them consistently; (b) make judgements and estimates that are reasonable and prudent; and (c) state whether applicable accounting standards have been followed.

The Directors are also responsible for the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The Board, having made appropriate enquiries, has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of preparing the financial statements. An Extraordinary

Report of the Directors

General Meeting will be convened in the year 2008 in order to give shareholders the opportunity to consider whether to approve a resolution to put the Company into voluntary liquidation.

Corporate Governance

The Board of Directors has in place throughout the year the procedures necessary to ensure compliance with the Combined Code of Best Practice issued in 2003 ("the Combined Code") except as noted below. In addition, as a member of the Association of Investment Trust Companies ("AITC") has complied throughout the year with the provisions of the AITC Code of Corporate Governance, which complements the Combined Code. In certain areas as described below, the Board has implemented alternative arrangements more suited to an investment trust.

The Directors confirm that the Company has complied with the requirement to be headed by an effective Board to lead and control the Company. The Company is an investment trust and not a trading company and, as such, there is no requirement for a Chief Executive Officer (Code A.2.1). Mr R M Paul has acted as the Senior non-executive Director throughout the year. As detailed on page 7, the Board comprises the four independent non-executive Directors. Although Messrs J S H H Motion and J B Wilson are non-executive Directors of SVM TEP Fund Limited, we believe them to be independent of the Managers and free from all business or other relationships that could interfere with the exercise of their independent judgement. Whilst the Directors are not appointed for specific terms, as required by the Combined Code (Code A.7.2), all the Directors must submit themselves for re-election by the shareholders every three years and are not entitled to compensation if they are not re-elected to office.

Since all Directors are non-executive, the Company is not required to comply with the principles of the Combined Code in respect of executive Directors' remuneration. Directors may seek independent advice at the expense of the Company.

The Directors complete an annual self-assessment of their collective and individual performances on a range of issues in order to ensure that they are acting in the best interest of the Company and its shareholders. Each Director continues to be effective and committed to the Company.

During the year, there were five Board and three Committee meetings (two Audit and two Management & Nomination). All Directors attended all the meetings.

The Managers maintain regular contact with the Company's shareholders, particularly institutional shareholders, and report regularly to the Board on shareholder relations. In addition, the Board uses the Annual General Meeting as a forum for shareholders to meet and discuss issues with the Board and the Managers.

The Company usually exercises its voting powers for general meetings of investee companies. The Company does not operate a fixed policy when voting but treats each case on merit. The Company does not have an environmental policy given the investment remit it operates.

Internal Control and Financial Reporting

The Board, in conjunction with the Managers, established a process in 2000 for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the Turnbull guidance and has been in place for the whole year and up to the date of the approval of the financial statements. The Board is responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The principal elements of the Company's system of internal controls and the process applied by the Board in reviewing its effectiveness are:

Report of the Directors

- Clearly documented contractual arrangements with service providers.
- Annual review by the Board of FRAG 21 reports of service providers.
- Consideration by the Board of the latest Review of Internal Controls every six months.
- Quarterly Board meetings to review performance, investment policy, strategy and shareholder relations.
- Regular updating by the Managers on key risks and control developments.

The Board meets every quarter to review the overall business of the Company and to consider the matters specifically reserved for it to decide upon. At these meetings, the Directors review investment performance of the Company in relation to comparable investment trusts. The Directors also review the Company's activities over the preceding quarter to ensure it adheres to its investment policy, or if it is considered appropriate, to authorise any change to that policy. The Board is satisfied that it is supplied in a timely manner with information to enable it to discharge its duties.

Committees

The Board has adopted a schedule of matters specifically reserved to itself for decision and, in relation to certain matters, two committees have been established. Both committees are chaired by the Chairman of the Company. The terms of reference of both committees are available from the Managers upon request.

Management and Nomination Committee

The Management and Nomination Committee, which comprises all of the independent Directors and for which a quorum is any two of the independent Directors, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Company (e.g. by the Auditors and the Managers), reviewing and recommending new appointments to the Board and fixing the remuneration of the Directors.

Audit Committee

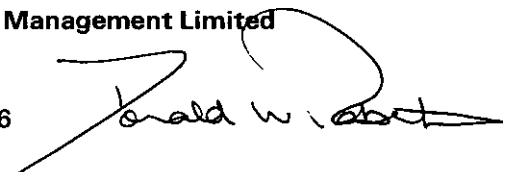
The Audit Committee, which comprises all of the independent Directors and for which a quorum is any two of the independent Directors, meets at least twice a year. Its remit is to review the Company's financial position, internal controls, scope and results of the audit and its cost effectiveness and the independence and objectivity of auditors. The auditors do not provide any other non-audit services with the exception of tax services for which they are paid £1,000. The Committee must also satisfy itself that the Company's published financial statements represent a true and fair view of the position. The Committee's auditors are invited to attend the meeting reviewing the year end audit and report on the position.

The Committee considers annually the need for an internal audit function. It believes such a function is unnecessary as the Company has no employees and subcontracts its business to third parties the principal one of which is SVM Asset Management Limited which by its size and nature does not merit an internal audit function.

The Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. There are clearly documented contractual arrangements between the Company and these organisations which define the areas where the Board has delegated authority to them. The Board receives reports on at least an annual basis detailing the internal control objectives and procedures adopted by each organisation. Each report has been reviewed by the respective organisation's auditors. The Board's examination of these reports allows it to assess the effectiveness of the internal systems of financial control which affect the Company.

Except as noted above, the Company has complied with the applicable provisions of the Combined Code during the year and up to the date of the approval of the financial statements.

By Order of the Board,
SVM Asset Management Limited
Secretaries
Edinburgh
7 March 2006



Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 14 and 15.

Remuneration Committee

The Company has four non-executive Directors, as detailed on page 7, all of whom are independent. The Management and Nomination Committee, comprising the independent non-executive directors, fulfils the function of a Remuneration Committee in addition to its nominations functions. The Board have appointed SVM Asset Management Limited as the Company Secretaries to provide advice when the Management and Nomination Committee considers the level of Directors' fees. The Management and Nomination Committee carries out a review of the level of Directors' fees on an annual basis. In addition SVM Asset Management Limited provides investment management and administration services to the Company.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure, and have similar investment objectives. It is the intention that this policy will continue in the future. The fees paid to the Directors were increased in 2004 and have remained unchanged for the year to 31 December 2005.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association and shareholder approval in a general meeting would be required to change these limits. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that none of the Directors has a service contract. All Directors were originally appointed at the Company's inception and their availability for re-election is detailed on page 7. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years thereafter. In addition, in compliance with Article 97 of the Articles of Association of the Company and Section 293 of the Companies Act 1985, on reaching the age of 70, all such Directors will submit themselves for annual re-election. There is no notice period and no provision for compensation on early termination of appointment.

Directors' Remuneration Report

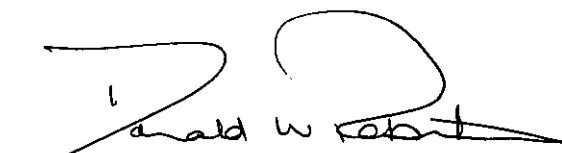
Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2005 £	Fees 2004 £
J C H Brumwell (Chairman)	13,500	13,500
J S H H Motion	9,000	9,000
R M Paul	9,000	9,000
J B Wilson	9,000	9,000
	40,500	40,500

Company performance

The graph opposite compares the total return (assuming any dividends are reinvested) to Ordinary Shareholders for the last five financial years to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. The Index has been chosen as it represents a comparable broad equity market index.



By Order of the Board,
SVM Asset Management Limited
Secretaries
Edinburgh

7 March 2006

Independent Auditors' Report *to the Members of Life Offices Opportunities Trust plc*

We have audited the financial statements of Life Offices Opportunities Trust plc for the year ended 31 December 2005 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, Accounting Policies and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Highlights, Chairman's Statement, Managers' Review, Investment Portfolio, Shareholder Information, Board of Directors, Report of the Directors, unaudited part of Directors' Remuneration Report and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report *to the Members of Life Offices Opportunities Trust plc*

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

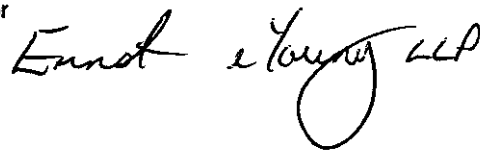
In our opinion, the financial statements:

- give a true and fair view, in accordance with United Kingdom General Acceptance Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its results for the year then ended; and
- the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
Edinburgh

7 March 2006



Statement of Total Return *for the year to 31 December 2005*

	Notes	Revenue £000	Capital £000	Total £000
Gain on sale of investments	4, 9	–	619	619
Movement in unrealised appreciation on investments	4, 9	–	2,229	2,229
		–	2,848	2,848
Income	1	10	–	10
Investment management fees		–	(342)	(342)
Other expenses	2	(129)	(214)	(343)
Return before interest and taxation		(119)	2,292	2,173
Bank overdraft interest		–	(760)	(760)
Return on ordinary activities before tax		(119)	1,532	1,413
Taxation	3	–	–	–
Transfer from reserves	9	(119)	1,532	1,413
Return per Ordinary Share	12	(0.51p)	6.51p	6.00p

The Revenue column of this statement is the Profit and Loss Account of the Company

The Accounting Policies and the Notes on pages 20 to 25 form part of these Financial Statements

Statement of Total Return *for the year to 31 December 2004*

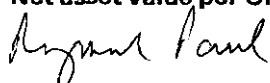
	<i>Notes</i>	Revenue £000	Capital £000	Total £000
Gain on sale of investments		–	294	294
Movement in unrealised appreciation on investments		–	(216)	(216)
		–	78	78
Income	<i>1</i>	7	–	7
Investment management fees		–	(335)	(335)
Other expenses	<i>2</i>	(120)	(224)	(344)
Return before interest and taxation		(113)	(481)	(594)
Bank overdraft interest		–	(753)	(753)
Return on ordinary activities before taxation		(113)	(1,234)	(1,347)
Taxation	<i>3</i>	–	–	–
Transfer from reserves		(113)	(1,234)	(1,347)
Return per Ordinary Share	<i>12</i>	(0.48p)	(5.24p)	(5.72p)

The Revenue column of this statement is the Profit and Loss Account of the Company

The Accounting Policies and the Notes on pages 20 to 25 form part of these Financial Statements

Balance Sheet *as at 31 December 2005*

	<i>Notes</i>	2005 £000	2004 £000
Fixed Assets			
Investments at fair value through profit or loss	4	42,675	41,193
Current Assets			
Debtors	5	198	135
Creditors: amounts falling due within one year	6	(13,734)	(13,602)
Net current liabilities		(13,536)	(13,467)
Total net assets		29,139	27,726
Capital and Reserves			
Share capital	8	17,662	17,662
Special reserve	9	5,859	5,859
Capital redemption reserve	9	638	638
Capital reserve – realised	9	(5,905)	(5,208)
Capital reserve – unrealised	9	11,703	9,474
Revenue reserve	9	(818)	(699)
Total shareholders' funds		29,139	27,726
Net asset value per Ordinary Share	12	123.73p	117.73p



Raymond M Paul
Director

7 March 2006

The Accounting Policies and the Notes on pages 20 to 25 form part of these Financial Statements

Cash Flow Statement *for the year to 31 December 2005*

	<i>Notes</i>	2005 £000	2004 £000
Reconciliation of revenue before interest and taxation to net operating cash flows			
Revenue before interest and taxation		(119)	(113)
Investment management fees charged to capital		(342)	(335)
Policy advisory fees charged to capital		(214)	(224)
Movement in debtors		–	2
Movement in creditors		24	(4)
Net cash outflow from operating activities		(651)	(674)
Returns on investment and servicing of finance			
Interest paid		(760)	(753)
Capital expenditure and financial investment			
Purchases of fixed asset investments		(802)	(1,107)
Sales of fixed asset investments		2,105	1,237
		1,303	130
Decrease in cash		(108)	(1,297)
Reconciliation of Net Cash Flow to Movement in Net Debt	11		
Decrease in cash		(108)	(1,297)
Net debt as at 1 January		(13,281)	(11,984)
Net debt as at 31 December		(13,389)	(13,281)
Net debt comprises bank overdrafts and the bank loan (note 6)			

The Accounting Policies and the Notes on pages 20 to 25 form part of these Financial Statements

Accounting Policies

Basis of Preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The financial statements are prepared in accordance with applicable accounting standards and with the 2003 Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ("SORP").

Comparative figures for 2004 are for the Company only following the disposal in the year of the subsidiary undertaking.

Income

Income is included in the Statement of Total Return on an accruals basis. Deposit interest is included on an accruals basis.

Expenses and Interest

Expenses and interest payable are dealt with on an accruals basis.

Investment Management, Policy Advisory Fees and Finance Costs

The investment management, policy advisory fees (fees paid to Beale Dobie for the administration and valuation of the endowment policies), and finance costs have been allocated 100 per cent to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio. The terms of the investment management agreement are detailed in the Report of the Directors on page 8.

Fixed Assets – Investments

The Company's investments have been categorised as "Fair value through profit or loss".

Endowment policies are recognised as assets only when contract notes in respect of their purchase are issued. Endowment policies have been valued using a method which projects an estimated maturity value for

each policy by reference to bonus rates of endowment policies prevailing at the balance sheet date. Using standard actuarial formulae, an appropriate internal rate of return is then applied to the projected maturity value and future premium liabilities to give the present value of the policies. No allowances for mortality have been made. Premiums are accounted for on a paid basis and are treated as an increase to the cost of investments.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

Capital Reserve – Realised

Gains and losses on realisations of fixed asset investments are dealt with in this reserve. Transaction costs on purchases and sales of fixed asset investments are also dealt with in this reserve. The investment management fees, policy advisory fees and finance costs, together with any tax relief, are also taken to this reserve.

Capital Reserve – Unrealised

Increases and decreases in the valuation of fixed asset investments are dealt with in this reserve.

Notes to the Financial Statements

	2005 £000	2004 £000
1. Income		
UK investment income	8	–
Interest on short term deposits	2	7
	10	7
2. Other Expenses		
Revenue		
General expenses	69	60
Directors' fees	41	41
Auditors' remuneration – audit services	18	18
Auditors' remuneration – non audit services	1	1
	129	120
Capital		
Policy advisory fees	214	224
	343	344
3. Taxation		
Current taxation	–	–
Deferred taxation	–	–
Total taxation charge for the year	–	–
The taxation assessed for the year is different from the standard rate of corporation tax in the UK. The differences are noted below:		
Revenue before taxation	(119)	(113)
Theoretical tax at UK corporation tax (30%)	(36)	(34)
Excess management expenses	36	34
Current taxation charge for the year	–	–

At 31 December 2005, the Company had unutilised management expenses of £9,838,000 (2004 – £8,403,000). No deferred tax asset has been recognised on the unutilised management expenses as it is unlikely that there will be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

Notes to the Financial Statements

	2005 £000	2004 £000
4. Fixed Assets – Investments at fair value through profit or loss		
Valuation as at 1 January	41,193	41,093
Unrealised appreciation as at 1 January	(9,474)	(9,690)
Cost as at 1 January	31,719	31,403
Additions at cost (premiums)	739	1,107
Sale proceeds	(2,105)	(1,085)
Net gain on sale of investments	619	294
Cost as at 31 December	30,972	31,719
Unrealised appreciation as at 31 December	11,703	9,474
Valuation as at 31 December	42,675	41,193
Net gain on sale of investments	619	294
Previously recognised as unrealised appreciation	(521)	(249)
Realised	98	45
Movement in unrealised appreciation	2,750	33
Total gains on investments	2,848	78

There were no transaction costs incurred either during this year or in the previous year.

During the year the Company's subsidiary undertaking, LOOT Dealing Limited, which had been dormant for a number of years, was disposed of for a nominal amount.

	2005 £000	2004 £000
5. Debtors		
Due from investments realised	159	102
Taxation recoverable within one year	1	1
Other debtors	38	32
	198	135

Notes to the Financial Statements

	2005 £000	2004 £000
6. Creditors: amounts falling due within one year		
Bank overdraft	3,389	3,281
Bank loan	10,000	10,000
Investment management fees	87	83
Amounts due to subsidiary undertakings	—	9
Other creditors	258	229
	13,734	13,602

The bank loan, which matures on 31 December 2006, is secured in the form of a floating charge over all the assets of the Company and incurs an interest rate of 5.82% per annum.

	2005 £000
7. Commitments	
Future premiums payable in respect of endowment policies held are as follows:	
Due within one year	1,102
Due after more than one year	538
	1,640

	Number of ordinary 75p shares	£000
8. Share Capital		
Authorised		
As at 1 January and 31 December 2005	25,000,000	18,750
Allotted, issued and fully paid		
As at 1 January and 31 December 2005	23,550,000	17,662

Notes to the Financial Statements

	Share Capital £000	Special Reserve £000	Capital Redemption Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
9. Reserves						
As at 1 January 2005	17,662	5,859	638	(5,208)	9,474	(699)
Gain on sale of investments	—	—	—	619	—	—
Expenses charged to capital	—	—	—	(1,316)	—	—
Movement in unrealised investment appreciation	—	—	—	—	2,229	—
Transfer from revenue account	—	—	—	—	—	(119)
As at 31 December 2005	17,662	5,859	638	(5,905)	11,703	(818)

The special reserve can be used by the Company for any purpose permitted by the Companies Act 1985.

	2005 £000	2004 £000
10. Reconciliation of Movements in Shareholders' Funds		
Revenue attributable to shareholders	(119)	(113)
Other recognised gains and losses for the year	1,532	(1,234)
	1,413	(1,347)
Opening shareholders' funds	27,726	29,073
Closing shareholders' funds	29,139	27,726

Shareholders' funds are wholly attributable to equity shareholders.

	As at 1 January 2005 £000	Cash Flows £000	As at 31 December 2005 £000
11. Analysis of Changes in Net Debt			
Bank overdraft	(3,281)	(108)	(3,389)
Bank loan	(10,000)	—	(10,000)
	(13,281)	(108)	(13,389)

12. Returns per share

Return per share is based on a weighted average of 23,550,000 (2004 – 23,550,000) ordinary shares in issue during the year. Capital return per share is based on net capital gain during the year of £1,532,000 (2004 – loss of £1,234,000). Revenue return per share is based on the revenue loss after taxation for the year of £119,000 (2004 – £113,000).

The net asset values per share are based on the net assets of the Company (2005 – £29,139,000, 2004 – £27,735,000) divided by the number of shares in issue as shown in Note 8.

Notes to the Financial Statements

13. Financial Instruments – FRS 25 Disclosures

Financial Instruments

The Company's investment policy is to hold fixed asset investments in the form of with-profit life assurance policies (note 4) and cash balances with gearing being provided by a bank loan and a bank overdraft. All financial instruments are denominated in Sterling. Gearing is utilised in order to enhance asset value. The Company does not invest in fixed rate securities other than where the Company has substantial cash resources. In this situation, the Company has typically held short dated UK Government Securities. There were no fixed rate securities held at 31 December 2005 (2004 – nil). Fixed asset investments are valued as detailed in the Company's accounting policies. All cash balances are held on a variable rate call account generally yielding a higher rate of interest than that available for fixed interest securities. The benchmark rate which determines the interest received on cash balances and paid on overdrafts is the bank base rate which was 4.50% as at 31 December 2005 (2004 – 4.75%). Short term gearing is undertaken through a variable rate bank overdraft (note 6) and long term gearing through a fixed interest bank loan. There are no undrawn committed borrowing facilities. The terms of the loan are detailed in note 6. Short term debtors and creditors are excluded from this disclosure. The fair value is not materially different from the carrying value of all financial assets and liabilities.

Risk Management

The major risks inherent within the Company are market risk, liquidity risk and interest rate risk. The Company has an established environment for the management of these risks which are continually monitored by the Managers. Appropriate guidelines for the management of the investments, gearing and financial instruments have been established by the Board of Directors. Specifically, gearing is forecast to be not more than 50% of total assets with the fixed rate element accounting for the majority of the total gearing. The Company does not use currency hedging or derivatives within its portfolio.

Market risk exists where bonuses change materially during the life of the fixed asset investments and the terminal value is less than originally anticipated. Liquidity risk exists where the Company is a forced seller of the fixed asset investments at times where there may not be sufficient demand for these assets. Interest rate risk exists where the returns generated from the investments are less than the cost of borrowing.

14. Related Party Transactions

Material related party transactions have been disclosed in the Management section in the Report of the Directors. During the year, the Company paid investment management fees of £342,000 (2004 – £335,000) to SVM Management Limited. As at 31 December 2005, the Company owed SVM £87,000 (2004 – £83,000) for outstanding fees.

15. Post Balance Sheet Events

There have been no significant post balance sheet events.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Life Offices Opportunities Trust plc will be held at The Caledonian Hilton Hotel, Edinburgh on Tuesday 11 April 2006 at 12 noon for the following purposes:

Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 2005 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr J C H Brumwell, who has reached the age of 70, as a Director.
3. To re-appoint Mr J S H H Motion, who has reached the age of 70, as a Director.
4. To re-appoint Mr R M Paul, who retires by rotation, as a Director.
5. To re-appoint Mr J B Wilson, who retires by rotation, as a Director.
6. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.
7. To approve the Directors' Remuneration Report.

Special Resolutions

8. To empower the Directors pursuant to section 95 of the Act, to allot equity securities for cash, pursuant to the authority conferred by the previous Resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities attributable to the interests of all shareholders are proportionate (as nearly as practicable) to their respective holdings of ordinary shares (but subject to such exclusions or other arrangements as the

Directors may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and

- (b) other than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £1,087,500;

and shall expire on the date of the next annual general meeting of the Company after the passing of this Resolution, save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.

9. To authorise the Company generally and unconditionally pursuant to section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) on the London Stock Exchange of any of its ordinary shares provided that:
 - (a) the maximum number of shares hereby authorised to be purchased is less than 15% of the issued share capital of the Company as at the date of this resolution;
 - (b) the minimum price (exclusive of expenses) which may be paid for a share shall be 75 pence;
 - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily

Notice of Annual General Meeting

Official List of the London Stock Exchange)
for the shares for the five business days
immediately preceding the date of purchase;
and

- (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 11 July 2007 or at the conclusion of the next general meeting of the Company (whichever is the earlier) save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By Order of the Board
SVM Asset Management Limited
Secretaries

7 March 2006

Only shareholders are entitled to attend and vote at the meeting. Any shareholder may appoint one or more proxies, who need not be shareholders, to attend and vote on a poll instead of him or her. A form of proxy is enclosed.

Shareholder Information

Contact Information

If you have any questions or need more information on the Company, you can contact us in the following ways:

SVM Asset Management
7 Castle Street
Edinburgh EH2 3AH
Tel: 0131 226 7660
Web: www.svmonline.co.uk

Regularly update information including the Company share price, net asset value and quarterly factsheets are available on a dedicated page on the SVM website at www.svmonline.co.uk

If you already hold shares through the SVM Investment Trust Savings Scheme:
SVM Asset Management Limited
Block C, Western House
Peterborough Business Park
Lynchwood
Peterborough PE2 6BP
Tel: 0845 358 1108

If you own shares in your own name, the Registrar's website at www.computershare.co.uk allows you to check your holding, display its current value and amend your details. Alternatively, you may contact the Registrar on: 0870 702 0010.

Registrars

Computershare Investor Services plc
Lochside House, 7 Lochside Avenue,
Edinburgh Park,
Edinburgh EH12 9D1

Registered Number

162841

Stockbrokers

HSBC Securities

Policy Advisors

Beale Dobie & Company Limited

Investing in Life Office Opportunities Trust

There are a variety of ways to invest in the Company. Shares can be easily traded on the stock market. However, regular savings can also be made through the SVM Investment Trust Savings Scheme. The minimum lump sum investment is £200 and monthly savings from £50. Investments can also be made as gifts for children or other adults.

For more information or brochures call 0131 226 7660. Alternatively, application packs can be downloaded from www.svmonline.co.uk

Duration of the Company

Under the Articles of Association, an Extraordinary General Meeting will be convened in 2008 to decide on the future of the Company.

Investment Managers and Secretaries

Registered Office
SVM Asset Management Limited
7 Castle Street,
Edinburgh EH2 3AH

Auditors

Ernst & Young LLP
Ten George Street,
Edinburgh EH2 2DZ

Bankers

The Royal Bank of Scotland plc
Bank of New York

INVESTMENT MANAGERS AND SECRETARIES

Investment Managers and Registered Office

SVM Asset Management Limited

6th Floor, 7 Castle Street

Edinburgh EH2 3AH

Telephone: +44 (0)131 226 6699

Facsimile: +44 (0) 226 7799

email: info@svmonline.co.uk

Web: www.svmonline.co.uk

SVM Asset Management Limited ("SVM") were appointed as Managers and Secretaries to the Company in 1996. SVM were established in 1990 to provide investment management services to institutional and other clients using value management methods. SVM is authorised and regulated by the Financial Services Authority. SVM now manages in excess of £750 million in a range of funds and client accounts. In addition to Life Offices Opportunities Trust, these accounts include SVM Global Fund, SVM UK Active Fund, SVM UK Emerging Fund, pension funds, investment linked insurance funds, offshore funds and SVM Funds ICVC.