

SARACEN INVESTMENT FUNDS ICVC

Saracen Growth Fund

a sub-fund of Saracen Investment Funds ICVC

ACD's Annual Short Report

for the year ended 31 December 2008

Investment Objective and Policy

During the period covered by this Report, the investment objective and policy of Saracen Growth Fund ("SGF") was as set out below.

The investment objective of SGF is to achieve a long term total return on the invested assets at a higher rate than the total return on the FTSE All-Share Index. To meet this objective, the ACD will carefully select and invest in a diversified portfolio of primarily United Kingdom equity securities which provide the potential for long term growth. SGF may also invest in overseas securities. SGF may also invest in cash and near cash, deposits and collective investment schemes. In most cases this is likely to occur only where the ACD considers that equity share prices have become overvalued.

The ACD employs a value-based approach, using both quantitative and qualitative techniques to achieve the above objective. Risk is carefully controlled through diversification and rigorous analysis. In addition to the objective of maximising returns, the ACD also seeks to protect the capital of investors in SGF.

Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

Accounting and Distribution Dates

	Accounting	Distribution
Interim	30 June	-
Final	31 December	31 March

Total Expense Ratios

Expense Type	31.12.08 %	31.12.07 %
Alpha	1.71	1.70
Beta	1.21	1.20

Distributions

Share Class	Annual 31.12.08 pence per share
Alpha	3.2051
Beta	6.6391

Price and Income History

Alpha shares

Calendar Year	Highest Price P	Lowest Price P
2004	166.49	122.95
2005	203.89	166.58
2006	267.16	206.96
2007	294.38	259.87
2008	270.72	140.29

Beta shares

Calendar Year	Highest Price P	Lowest Price P
2004	250.72	184.14
2005	308.55	250.87
2006	404.04	313.20
2007	451.50	398.17
2008	415.59	216.31

Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
31.12.04	Alpha	1,922,184	1,154,742	166.46
	Beta	17,232,386	6,874,735	250.66
31.12.05	Alpha	5,580,693	2,736,573	203.93
	Beta	29,847,716	9,671,325	308.62
31.12.06	Alpha	13,150,236	4,973,050	264.43
	Beta	101,652,208	25,169,174	403.88
31.12.07	Alpha	30,393,950	11,349,674	267.80
	Beta	177,840,782	43,262,642	411.07
31.12.08	Alpha	10,900,120	7,434,714	146.61
	Beta	68,309,617	30,202,168	226.17

Fund Performance to 31 December 2008 (%)

	1 year	3 years	5 years	Since launch*
Saracen Growth Fund				
Alpha share	-44.6	-26.9	+21.7	+117.0**
Beta share	-44.3	-25.5	+25.4	+129.9
FTSE All-share Index	-29.9	-13.8	+18.6	+5.1

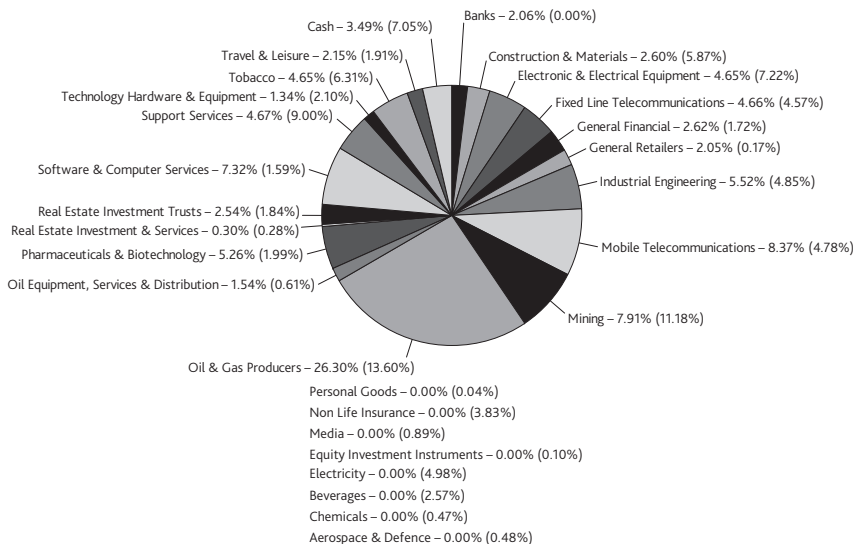
* Launch date 8 March 1999.

** A notional price that reflects the potential position of the Alpha Shares had they been created at the same time as the Beta Shares on 8 March 1999.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



The figures in brackets show allocations at 31 December 2007.

Major Holdings

The top ten holdings at the end of each period are shown below.

Holding	% of Fund as at 31.12.08	Holding	% of Fund as at 31.12.07
BP	8.53	Imperial Tobacco Group	6.31
Vodafone Group	8.37	Xstrata	5.36
Royal Dutch Shell 'B'	8.02	BP	5.14
Invensys	6.12	International Power	4.98
GlaxoSmithKline	5.26	Vodafone Group	4.78
BG Group	4.72	Romag Holdings	4.60
BT Group	4.66	BT Group	4.57
Imperial Tobacco Group	4.65	Royal Dutch Shell 'B'	4.46
Weir Group (The)	4.34	Royal & Sun Alliance Insurance Group	3.83
Anglo Pacific Group	2.91	Weir Group (The)	3.53

INVESTMENT MANAGER'S REPORT

Saracen Fund Managers Limited, the Authorised Corporate Director (ACD) of Saracen Investment Funds ICVC (the Company), is pleased to present the Annual Report and Financial Statements of the Company for the year to 31 December 2008.

This report has been prepared to comply with the disclosure requirements of the Statement of Recommended Practice (SORP) relating to the Financial Statements of Authorised Funds, as issued by the Investment Management Association (IMA) in December 2005.

Investment Objective & Policy

During the period covered by this Report, the investment objective and policy of SGF was as set out below.

The investment objective of SGF is to achieve a long term total return on the invested assets at a higher rate than the total return on the FTSE All-Share Index (ASI). To meet this objective, the ACD carefully selects and invests in a diversified portfolio of primarily United Kingdom equity securities that provide the potential for long term growth. SGF may also invest in certain overseas securities and may, from time to time, hold liquid assets such as cash or short term money market instruments in the circumstances permitted by the Financial Services Authority Regulations. In most cases this is likely to occur only where the ACD considers that equity share prices have become overvalued.

The ACD employs a value-based approach, using both quantitative and qualitative techniques to achieve the above objective. Risk is carefully controlled through diversification and rigorous analysis.

Investment Review

As years go, 2008 was one of the worst that market participants have experienced. We wrote in last year's Review that the chances were the UK would avoid a recession, however, this proved to be incorrect. Like many commentators, we underestimated the effects on the real economy of the massive leverage in the financial system, the severe problems in the global banking system and the adverse impact this would have on the real economy.

Although the first six months of the period under review resulted in Saracen Growth Fund outperforming the FTSE All Share Index (Total Return), the benchmark index itself produced a negative return. As the second half of the period under review progressed, it became clear how dire the situation was for the UK economy and equities.

The sub-prime crisis resulted in a major credit contraction and, ultimately, to the demise of several of the largest and best known banks in the world. Liquidity virtually dried up and governments throughout the world were forced to attempt to halt the crisis and stimulate economies principally by Central Banks lowering interest rates and pumping money into the system.

The effect on equity markets was little short of catastrophic and the benchmark index declined 29.9%, while the Alpha Shares decreased by 44.6% and the Beta Shares decreased by 44.3%. The reasons for this underperformance will be explained in greater detail below, as will why we think Saracen Growth is very well positioned for the future.

Portfolio Review

To begin, we would like to explain what worked for the Fund last year, followed by a more detailed explanation of what contributed to the underperformance. Firstly, your Fund had no exposure for most of the period to the banking sector. Towards the end of the year, however, we had dipped a toe in the water (with hindsight we were too early) and had taken a small holding in HBOS in anticipation of its takeover by Lloyds TSB. Secondly your Fund had no exposure to housebuilders and a very underweight stance in general retail as we believed, correctly, that the above sectors were overvalued given the deteriorating economic background. As Saracen Growth Fund had no exposure to these sectors, you would be right in asking what adversely affected investment performance in the second half of the year and, more particularly, the last quarter of the period under review.

Many of the top performers in the portfolio in the first half of the year produced negative returns which were worse than the decline in the benchmark index during the second half. The majority of these poorly performing shares were some of the largest companies in the UK, a number of which were the Fund's principal holdings. This included, for example, Xstrata, BT, Weir Group, International Power, Imperial Tobacco, BP, Royal Dutch Shell and Vodafone. We think you will agree that a number of the above companies would not have been in the frame as large underperformers at the beginning of the period under review. In fact, many of the above named companies outperformed in the first half of last year, and then underperformed to a greater extent in the second half. We believed (and still do) that, with one or two exceptions, most of these companies are inexpensive but investment fundamentals did not seem to matter last year as many investment managers were forced sellers of highly liquid shares to meet investor redemptions.

On a more positive note, the Fund benefited from the takeover of Scottish & Newcastle by the consortium of Carlsberg and Heineken and by the sale of Lonmin at a profit prior to the demise of the bid from Xstrata. The investment in Connaught was sold at a substantial premium to the original purchase price with the money reinvested in Mears Group. Both companies compete in the social housing arena but we believe the investment rating of Mears is more attractive.

Prospects

Last year was a dreadful year for UK equity fund managers and their clients. Forecasts made on almost anything e.g. oil prices, Sterling, the economy, even halfway through the year, proved to be almost useless as a tool in valuation models. Even now we believe that equity analysts' forecasts for corporate earnings are too high given the poor outlook for the UK economy. Therefore, the question uppermost in investors' minds is why invest in UK equities?

It is very easy to continue to be pessimistic on UK equities when we are bombarded by negative newsflow in the media. It should be remembered, however, that it was less than nine months ago when the newsflow was virtually all positive. The media generally reflects the current mood of investors and focuses principally on what has happened rather than attempting to look forward on what may happen in the future. It would be foolish of us to ignore the negative news on the economy, house prices, credit conditions, oil prices, Sterling, unemployment etc but these factors are known. Furthermore, investor confidence is at rock bottom, with investment in Government and Corporate bonds and gold being preferred over equities. This risk aversion is perhaps understandable given the shocks to the financial system but will it provide investors with good return in the next three to five years? We think not.

Markets are pricing in deflation over the medium to long term but given that the UK Government is prepared to print money to help solve the present crisis, our fear would be that over any reasonable time horizon, inflation will be the enemy of investors, not deflation. Given this scenario, above average investment returns are likely to be achieved by investing in real assets such as equities.

Prospects (*continued*)

The fear of many investors is that the market will take another lurch downwards and, at present, this fear far outweighs the prospect of a sharp rise in UK equity markets. Make no mistake, there is an abundance of cash sitting on the sidelines potentially available for investment in UK equities. In our opinion, it will be impossible for any investor, including ourselves, to call the bottom of the market. What we do know, however, is that fundamentals will reassert themselves and given that several of the Fund's principal holdings are selling on ridiculously inexpensive ratings, the rise in the UK equity market will probably surprise many investors.

Stockmarkets tend to look beyond current conditions or in the vernacular, bull markets climb a wall of worry. We leave you with the very sensible quote from the legendary US investor, Warren Buffet – "Be fearful when others are greedy, and greedy when others are fearful".

Once again, fellow shareholders, thank you for your support. It is very much appreciated.

Saracen Fund Managers Ltd

Investment Manager

27 March 2009

Buying and Selling Shares

Shares may be bought and sold on any business day by application in writing to Saracen Fund Managers Limited, c/o 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on +44 (0) 113 224 6000 between 9.00am and 5.30pm.

All transactions will be dealt on a forward pricing basis, i.e. at the next valuation point following receipt of your application. Contract notes are issued for all purchases and sales of shares and will be posted within 24 hours of the next valuation point following receipt of your application.

Reports and Accounts

This document is a short report of the The Saracen Growth Fund for the year ended 31 December 2008. The full Report and Accounts for the Fund can be downloaded from our website, www.saracenfundmanagers.com, or is available upon request to Saracen Fund Managers Limited, Burlington House, 183 Bath Street, Glasgow G2 4HU.

Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the year.

SARACEN INVESTMENT FUNDS ICVC

THE COMPANY

Saracen Investment Funds ICVC

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