

# Short Report to Unitholders

May 2007



# Contents

	<b>Page</b>
<b>Annual Short Report for the period 11 March 2006 to 10 March 2007</b>	
Lincoln Emerging Markets Trust	1
Lincoln Far East Trust	2
Lincoln Global Trust	3
Lincoln Income Trust	4
Lincoln Internet Tollkeeper Trust	5
Lincoln Japan Trust	6
<b>Annual Short Report for the period 11 April 2006 to 10 March 2007</b>	
Lincoln Corporate Bond Trust	7
<b>Interim Short Report for the period 11 September 2006 to 10 March 2007</b>	
Lincoln Cash Trust	8
Lincoln European Trust	9
Lincoln Growth Trust	10
Lincoln Managed Trust	11
Lincoln North American Trust	12
Lincoln Opportunities Trust	13

## **Trust status**

All trusts are Authorised Unit Trust Schemes under section 243 of the Financial Services and Markets Act 2000. All schemes are categorised as UCITS schemes, apart from the Lincoln Managed Trust which is categorised as a non-UCITS retail scheme.

## **New Collective Investment Schemes (COLL) Sourcebook**

Effective from 31 May 2006, Lincoln Unit Trust Managers Limited has managed the funds in accordance with the Financial Services Authority's New Collective Investment Schemes (COLL) Sourcebook. This replaced the Collective Investment Schemes (CIS) Sourcebook, which became obsolete on 11 February 2007.

# Lincoln Emerging Markets Trust

## Investment objective and policy

The objective of the trust is to invest in emerging markets with a view to obtaining capital growth. The trust will invest mainly in securities of companies incorporated or headquartered in emerging markets countries wherever they are listed, or in companies quoted in emerging market countries.

Emerging markets countries will typically be those included within the Morgan Stanley Capital International (MSCI) Emerging Markets Free Index. The trust will typically hold between 60 and 80 securities, but may also invest in collective investment schemes.

The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.

## Fund performance

During the period under review, the MSCI Emerging Markets returned an increase of 9.4%, on a total return basis in sterling terms. In comparison, the net asset value in pence per unit of the Lincoln Emerging Markets Trust rose by 5.34%, inclusive of income. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

The main highlights of the strategy being adopted for the portfolio are:

- A strong value stock orientation.
- Underweight exposure to India and China, where valuations are unappealing.
- Underweight exposure to Russia, where valuations are unattractive, especially when adjusted for corporate governance and political risks.
- Overweight exposure to select Asian markets in South-East Asia such as Taiwan and Malaysia, where attractive company valuations should be supported by undervalued currencies.
- Overweight exposure to the telecoms sector, where strong free cash flows support high dividend yields, while underweight in energy, where stock prices seem to ignore eventual cyclical downturn in oil prices as supply rises above demand.

## Market outlook

Our positive outlook for the next five years relies on the superior long-term growth opportunities in emerging markets from better demographics, lower starting productivity levels, control over supplies of key natural resources and the sheer inefficiency of the emerging markets (which rewards careful research).

Our portfolio is as usual focused on investments that combine attractive valuations with downside protection characteristics. Therefore, on balance, we believe that there is still an attractive long-term return outlook for the asset class, and important features that justify continued exposure to emerging markets even after the last few years' exceptional returns.

*This commentary has been provided by the fund manager, Mondrian Investment Partners Limited. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Neither of the resolutions was carried. The investment objective and policy remains unchanged.

## Fund information

Launch date	8 June 2004
Fund size	£57.54m
Fund manager	Mondrian Investment Partners Limited
Fund sector	Global Emerging Markets
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.5%
Yield	1.69% net
Total expense ratio	1.615% (1.630% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2004*	125.6	97.04	0.0000
2005	174.9	125.1	1.5542
2006	190.8	154.2	3.2120
2007**	200.1	183.7	3.8491

\* 8 June 2004 to 31 December 2004.

\*\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
Taiwan Semicon	3.01	Taiwan Semicon	2.81
SIAM Cement NVDR	2.74	Petrol Brasileiros Spon ADR Prf	2.80
Mega Financial Holdings	2.68	Maxis Communications Berhad	2.74
Samsung Electronic Prf	2.41	Samsung Electronic Prf	2.22
Chunghwa Telecom	2.40	Votorantim Celulos Spon ADR Prf	2.14

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
Taiwan	16.34	Brazil	14.36
South Korea	15.15	South Korea	13.35
Brazil	12.07	Taiwan	11.82
South Africa	11.23	South Africa	11.76
Malaysia	7.66	Malaysia	9.17
Thailand	6.08	Thailand	6.94
Israel	5.84	Mexico	6.04
Mexico	5.54	China	3.49
China	2.68	Russia	3.27
Turkey	2.52	Hong Kong	3.17
Hong Kong	2.41	Israel	2.74
Other	12.48	Other	13.89

# Lincoln Far East Trust

## Investment objective and policy

The objective of the trust is to provide income and obtain capital growth. The trust will invest predominantly in transferable securities of companies incorporated, headquartered and/or having a substantial presence in the Far East and Australasia, excluding Japan.

Far East countries will typically be those included within the Morgan Stanley Capital International (MSCI) AC Asia Pacific ex Japan Index. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.*

## Fund performance

During the period under review, the MSCI AC Asia Pacific ex-Japan returned an increase of 13.9%, on a total return basis in sterling terms. In comparison, the net asset value in pence per unit of the Lincoln Far East Trust rose by 5.33%, inclusive of income. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

Over the year, as markets continued to increase, we have sought to reduce or sell positions in markets like China, or sectors, such as commodities, that have been the largest beneficiaries. In China, we have also reduced our exposure due to some of the portfolio holdings exceeding our fair value including Guangshen Rail and a reduction of China Telecom. Private equity participation in the Asia Pacific markets has also been a feature, and we have used strength in selected securities to lighten our position in Coles Group and sell Qantas, both in Australia.

We have continued to increase our weighting to the attractively valued Taiwanese market over the year, both adding to existing holdings on weakness and also initiating new positions in Mega Financial, Lite-On Technology and Mediatek. We have retained our overweight position within markets such as Malaysia and Thailand which we believe offer attractive value.

## Market outlook

We believe that the Asia Pacific markets in aggregate continue to offer reasonably good value for the longer term investor. However, given strong returns during the past 12 months, selected markets, such as China and India now appear closer to fair value. In contrast, some of the markets which lagged the benchmark during 2006, such as Taiwan and Korea, appear attractively valued. We have therefore been positioning the portfolio to take advantage of these valuation disparities.

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## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	1 October 1983
Fund size	£209.99m
Fund manager	Mondrian Investment Partners Limited
Fund sector	Far East excluding Japan
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.25%
Yield	2.08% net
Total expense ratio	1.346% (1.341% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	43.01	33.67	0.5199
2003	46.93	33.32	0.7676
2004	53.17	43.03	0.9363
2005	65.03	52.03	1.1917
2006	68.55	58.00	1.4338
2007*	70.97	67.14	1.5673

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
Telstra Corp	3.40	National Australia Bank	3.28
Hong Kong Electric Holdings	3.19	Hong Kong Electric Holdings	3.15
National Australia Bank	3.16	Fosters Group	3.03
Fosters Group	2.48	Hang Lung Development	3.02
President Chain Stores	2.47	KT Corp ADR	2.96

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
Australia	22.71	Australia	20.13
South Korea	16.79	Hong Kong	18.32
Hong Kong	16.05	South Korea	16.13
Taiwan	15.24	Taiwan	11.92
Singapore	9.02	Singapore	9.47
Malaysia	7.63	Malaysia	6.88
Thailand	6.80	Thailand	6.67
China	2.79	New Zealand	3.69
New Zealand	1.68	China	3.42
Other	1.29	Other	3.37

# Lincoln Global Trust

## Investment objective and policy

The objective of the trust is investment worldwide with a view to obtaining capital growth.

The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.

## Fund performance

During the year under review, the FTSE World Index rose by 5.6% on a total return basis in sterling terms. In comparison, the net asset value in pence per unit for the Lincoln Global Trust increased by 2.15%. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

A major contributor to performance was Bank of Cyprus. The company's results were above market expectations, which triggered an upgrade, whilst increased 'offshore' business from Eastern European customers and merger speculation provided further positive momentum to the stock's price. Norwegian telecoms operator, Telenor, also contributed to performance on the back of strong earnings growth, particularly in Eastern European markets, and from the profitable sale of its non-core satellite business. Detractors from performance included Japanese credit card company, CreditSaison, which was negatively affected by the government's decision to reduce the maximum credit interest rate. Advanced Micro Devices also detracted from performance; however the trust took advantage of the share price weakness and added to its position, in the expectation that its competitive advantage will lead to enhanced company earnings.

## Market outlook

Whilst geopolitical concerns will not be far from investors' thoughts, there are good grounds for optimism in global equity markets in the short to medium term. The US corporate sector in general is widely believed to be in good shape, with strong liquidity. Worries about interest rates and inflation have moderated and US property market woes appear more regional than national, helping consumer sentiment.

European markets are also viewed as fundamentally sound, with corporate strength generating further prospects of merger and acquisition activity. The UK base rate increased to 5.25% in January and the Euro rate was lifted to 3.75% at the end of the review period, surprising some economists in view of the reduced inflationary pressures. The Japanese stock market is also seen as offering attractive opportunities now that the economy is settling down after years of stagnation and banking sector troubles. Globally, companies with pricing power and solid long-term growth prospects should outperform.

*This commentary has been provided by the fund manager, Goldman Sachs Asset Management International. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Fund information

Launch date	22 May 1986
Fund size	£31.09m
Fund manager	Goldman Sachs Asset Management International
Fund sector	Global Growth
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.25%
Yield	0.34% net
Total expense ratio	1.349% (1.355% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	114.7	71.86	0.0000
2003	93.60	69.68	0.0000
2004	94.95	83.26	0.0000
2005	115.0	88.68	0.5057
2006	124.1	104.4	0.4068
2007*	124.2	117.3	0.6785

\* 1 January 2007 to 10 March 2007.

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## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
Bank of Cyprus Public Company	2.30	Bank of America	2.72
Cisco Systems	2.28	Total	2.65
ConocoPhillips	2.28	ConocoPhillips	2.08
E.ON	1.90	Microsoft Corp	2.03
Electronic Arts	1.90	American International Group	1.92

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
United States	31.91	United States	33.26
Japan	10.39	Japan	14.58
United Kingdom	9.63	United Kingdom	11.39
Germany	6.27	France	5.73
France	5.48	South Korea	3.30
Switzerland	3.51	Germany	2.89
South Korea	3.00	Netherlands	2.76
Spain	2.93	Hong Kong	2.20
Cyprus	2.30	Italy	1.91
Other	24.58	Other	21.98

# Lincoln Income Trust

## Investment objective and policy

The objective of the trust is to provide income and obtain capital growth.

The trust will invest predominantly in transferable securities of UK listed and/or UK domiciled companies. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also, in special circumstances, to hedge against price fluctuations.*

## Fund performance

During the year under review, the FTSE All-Share index returned 12.3%. In comparison, the net asset value in pence per unit for the Lincoln Income Trust rose by 9.5%, inclusive of income. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

During the period, we added a number of new stocks to the portfolio. Amongst these were Smiths Group, which has an attractive portfolio in high-value aerospace and medical businesses, and SABMiller, an international brewer that has developed a number of strong positions in various emerging markets. In Europe, we initiated holdings in France Telecom, Deutsche Telecom and Telefonica. UK telecoms companies are currently less attractive than their European peers and we sold the holding in Vodafone to fund these purchases.

In the small & mid-cap area, we introduced Spirax-Sarco, which is the world leader in using steam and water in industrial processes and De La Rue, which is the world's largest commercial security printer and papermaker, producing over 150 national currencies, together with the manufacture of cash handling equipment.

Pilkington, BOC and AB Ports all left the portfolio during the period following acquisitions. We made a number of disposals over the year, each on valuation grounds. We sold Brambles, National Grid, Royal & Sun Alliance, Legal & General, AGA Foodservice, and Pennon.

## Market outlook

The UK's economy remains in good shape, although higher interest rates have slowed the pace of activity somewhat. The recent correction in global equity markets serves as a reminder of risk in the equity asset class.

Our analysis shows that a number of UK market sectors offer attractive valuations. Examples of these include the oil and banking sectors. Conversely, the utility and materials sectors have started to look expensive, and we have reduced exposure to these areas of the market.

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## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- i) To delete the geographical restriction within the Trust Deed.
- ii) To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	1 July 1982
Fund size	£51.26m
Fund manager	Mondrian Investment Partners Limited
Fund sector	UK Equity Income
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.50% from 1.3.07 (formerly 1.25%)
Yield	3.74% net
Total expense ratio	1.483% (1.508% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May, 10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	71.60	51.64	1.9422
2003	61.80	45.93	1.7197
2004	67.81	59.28	2.4344
2005	77.23	66.92	3.0178
2006	87.50	76.25	3.3047
2007*	90.89	85.38	1.4639

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
GlaxoSmithKline	6.06	GlaxoSmithKline	7.57
BP	6.05	BP	6.42
HBOS	6.01	HBOS	6.28
Royal Bank of Scotland Group	5.99	Lloyds TSB Group	5.94
Lloyds TSB Group	5.87	Royal Dutch Shell 'B'	5.01

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
Financial groups	26.53	Financial groups	27.15
Resources	14.84	Cyclical services	14.39
Non-cyclical consumer goods	14.42	Non-cyclical consumer goods	14.34
Cyclical services	11.57	Resources	13.82
General industrials	9.34	Utilities	9.93
Utilities	8.88	General industrials	6.23
Non-cyclical services	5.12	Non-cyclical services	5.70
Cyclical consumer goods	4.38	Basic industries	5.12
Basic industries	3.93	Cyclical consumer goods	3.23
Other	0.99	Other	0.09

# Lincoln Internet Tollkeeper Trust

## Investment objective and policy

The objective of the trust is to invest in equity shares of growth businesses that provide access, content, infrastructure, and services for the internet and are positioned to benefit from the growth of the internet with a view to providing income and capital growth.

The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also, in special circumstances, to hedge against price fluctuations.

## Fund performance

For the year under review, the net asset value per unit in pence of the Lincoln Internet Tollkeeper Trust fell by 6.3%. In comparison, the technology NASDAQ index fell by 4.6% in sterling terms. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

Among the portfolio's top performers was Research In Motion, whose BlackBerry® Pearl product and continued subscriber growth helped enhance growth prospects. Compact microchip supplier, Tessera Technologies, was also a contributor to performance, thanks to a new royalty contract with NXP and the introduction of one of the world's thinnest wafer-level chip-size packaging technologies with optical applications including camera phones. Dolby Laboratories was another top contributor on the strength of higher licensing revenues. One detractor was XM Satellite Radio, where subscriber forecasts were cut, but a merger with rival Sirius may be in prospect. Purchases during the period included China-focused internet search engine Baidu.com, internet communications innovator, Citrix Systems and online personal health insurance broker, eHealthInsurance.

## Market outlook

Prospects remain good for US technology stocks that have been carefully selected on the basis of thorough analysis of current performance and future prospects, particularly long-term prospects of steadily increasing royalty or subscription income derived from innovative ideas or products. Though not immune from factors that may affect global stock market sentiment, many companies within the sector look set for solid growth as their newest offerings are rolled out.

Following a series of increases in US interest rates, the cost of corporate borrowing has risen substantially. Technology companies that generate free cash flow to fund future development without resorting to expensive sources of finance have a distinct advantage and should potentially outperform companies that are more heavily burdened with debt. Another influence on some technology stock prices may be prospective take over interest from the corporate sector or private equity funds.

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## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Fund information

Launch date	27 March 2000
Fund size	£3.43m
Fund manager	Goldman Sachs Asset Management International
Fund sector	Technology & Telecoms
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.75%
Yield	0% net
Total expense ratio	2.489% (2.513% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	42.65	17.96	0.0000
2003	30.65	20.72	0.0000
2004	29.80	24.92	0.0000
2005	34.30	25.80	0.0000
2006	35.84	27.17	0.0000
2007*	33.88	31.48	0.0000

\* 1 January 2007 to 10 March 2007.

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## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
FormFactor	5.64	Tessera Technologies	4.69
Activision	5.64	Microsoft Corp	4.62
Tessera Technologies	5.48	American Tower 'A'	4.16
American Tower 'A'	5.13	Electronic Arts	4.09
Linear Technology	4.75	Linear Technology	4.08

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
Technology	52.81	Technology	60.83
Media & communications	27.95	Media & communications	27.43
Business services	18.82	Business services	10.84
Other	0.42	Other	0.90

# Lincoln Japan Trust

## Investment objective and policy

The objective of the trust is to obtain capital growth.

The trust will invest predominantly in transferable securities of Japanese listed and/or Japanese domiciled companies. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.*

## Fund performance

During the year under review, the TOPIX index fell by 4.6% in sterling terms. In comparison, the net asset value in pence per unit of the Lincoln Japan Trust fell by 4.77%. (It should be noted that as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

Throughout the period, the investment manager maintained a quantitative investment strategy, with the trust near-fully invested in about 200 constituent stocks of the benchmark index. The objective is to achieve out performance over the longer term. Investment decisions are based on the evaluation of stocks relative to industry peers using criteria that fall under six headings: valuation, profitability, earnings quality, management impact, momentum, and analyst sentiment.

The year's out performance was mainly attributable to the 'valuation' and 'profitability' criteria. Nippon Steel Corporation, JFE Holdings, Honda Motor Co and Nippon Telegraph & Telephone, where the trust was overweight, were top contributors to excess returns. An underweight position in Mizuho Financial Group also contributed positively as its share price fell. Conversely, an underweight position in Toyota Motor Corporation was a significant detractor. The biggest detractor, however, was an IT company, Alpine Electronics, in which the trust was overweight relative to the benchmark.

## Market outlook

Japan's economy continues to emerge, albeit tentatively, from the hangover of stagnation, collapsing asset values and banking crises that followed the spectacular but unsustainable growth seen in the 1970s and 1980s. Many economic commentators believe that the economy will grow during 2007, but there remains room for debate about the rate of recovery following the years of deflation. The Japanese inflation rate remains very low. Many investors now believe that the Japanese stock market offers some attractive opportunities.

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## Risk profile

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The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	22 May 1986
Fund size	£116.08m
Fund manager	Goldman Sachs Asset Management International
Fund sector	Japan
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.25%
Yield	0% net
Total expense ratio	1.313% (1.319% as at 10 March 2006)
Accounting dates	10 March (annual), 10 September (interim)
Distribution date	10 May

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	65.08	43.71	0.0000
2003	56.23	40.26	0.0000
2004	58.45	47.84	0.0000
2005	72.91	48.94	0.0000
2006	78.37	62.23	0.0000
2007*	70.40	64.44	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 March 2006	%
Mitsubishi UFJ Financial	4.22	Matsushita Electric Industrial	3.59
Canon	3.92	Nippon Steel	3.26
Nippon Telegraph & Telephone	3.71	Honda Motor	3.19
Nippon Steel	3.64	Sumitomo Mitsui Financial Group	3.13
Matsushita Electric Industrial	3.39	Nippon Telegraph & Telephone	3.12

## Classification of investments

As at 10 March 2007	%	As at 10 March 2006	%
Electrical machinery/components	10.52	Electrical machinery/components	11.42
Banking	8.34	Services/commerce	9.64
Steel/metal products	8.14	Banking	8.53
Financial groups	7.46	Transportation/heavy industry	7.55
Transportation/heavy industry	7.45	Chemicals/textiles	6.76
Chemicals/textiles	6.81	Financial groups	6.43
Electric power & gas	6.28	Wholesale	5.86
Services/commerce	5.68	Steel/metal products	5.80
Telecommunications	5.50	Electric power & gas	5.76
Machinery	5.38	Land/sea transport	5.63
Other	28.44	Other	26.62

# Lincoln Corporate Bond Trust

## Investment objective and policy

The objective of the trust is to invest predominantly in UK corporate bonds with the aim of generating income. This may include the use of non-investment grade bonds. At least 80% of the trust's funds will be invested in bonds rated BBB – or higher by Standard and Poors or Baa3 or higher by Moodys. At least 80% of the assets of the trust will be denominated in Sterling.

The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.

## Fund performance

During the eleven months under review, the IMA UK Corporate Bond peer group returned an increase of 0.7%. In comparison, the net asset value in pence per unit for the Lincoln Corporate Bond Trust rose by 1.5%, after adjusting for distributions. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

This performance was assisted by a strategy of selective overweight investment in higher-yielding BBB bond issues. The trust was also overweight in the property and casualty insurance sector, but its underweight position in the relatively buoyant industrial sector was a moderately negative performance factor.

With regards to specific holdings, the trust exited Royal & Sun Alliance Insurance to crystallise gains aided by the insurer's plan to sell off its US subsidiary burdened by asbestos-related claims. A surfeit of new issues in the financial sector led the trust to seek prospectively higher returns in the subordinated market, including investment in sterling issues by major Japanese bank Sumitomo and regional bank Resona, which has reduced its debt to the Japanese government. Investment in European issuer Telecom Italia has been disappointing, however the holding has been maintained as we believe it is one of the cheapest securities in the industry.

## Market outlook

Towards the end of the review period, there was some easing of concerns about the direction of UK inflation and interest rates. Lower household energy prices should nudge inflation down towards official target levels and support retail spending. House price rises have moderated, but with signs of a seasonal resurgence. Despite low unemployment, labour costs have not escalated, influenced by a ready supply of migrant workers.

The global stock market correction at the end of February also brought concern to the corporate bond market, but the picture looked more settled at the end of the review period. Bond market professionals envisage some spread widening and the trust has adopted a cautious stance. The trust's investment managers believe that holdings of bonds, albeit subordinated, in relatively secure constituents of the financial sector provide an attractive balance of risk and reward. Opportunities for exploiting yield curve factors remain limited.

*This commentary has been provided by the fund manager, Goldman Sachs Asset Management International. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Change of accounting period

Effective from 10 March 2007, the accounting dates have changed. The annual period now ends on 10 March, and the interim period now ends on 10 September each year.

## Effective yield

From 11 March 2007, in order to comply with the Statement of Recommended Practice relating to Authorised Funds, accounts and future distributions will be prepared on an Effective Yield basis. Any premium/discount on the purchase of a bond is brought into the income account and amortised over the time to maturity. Effectively, capital movements are brought into the income account and distributed as income. These movements could increase or reduce the amount available for distribution.

## Fund information

Launch date	12 March 2001
Fund size	£51.07m
Fund manager	Goldman Sachs Asset Management International
Fund sector	UK Corporate Bond
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	3.5%/1.1%
Yield	5.49% gross income yield
Total expense ratio	1.178% (1.172% as at 10 April 2006)
Accounting dates	10 March (annual), 10 September (interim)*
Distribution dates	10 February, 10 May, 10 August and 10 November

\* See 'Change of accounting period'.

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past 11 months. The result has then been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income**
2002	105.2	99.46	5.1834
2003	110.3	102.1	4.7852
2004	109.4	102.8	4.5216
2005	111.1	106.5	4.5075
2006	113.0	105.7	4.2521
2007*	107.1	104.7	1.0695

\* 1 January 2007 to 10 March 2007.

\*\* This is the net rate which applies to non-corporate unitholders only. Corporate unitholders, who receive the distribution gross, will need to refer to the tax vouchers produced at those times.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%
Treasury 4.25% Stk 07/03/36	10.92
Treasury 4.25% Stk 07/03/11	4.46
Network Rail Infrastr Finance 4.75% Nts 22/01/24	3.34
BCI US Funding Trust Gtd 8.25% Frn Perp	2.19
HBOS Treasury Services 4.875% Emtn 20/12/24	2.08

As at 10 April 2006	%
Treasury 4.25% Stk 07/03/36	9.10
Network Rail Infrastr Finance 4.75% Nts 22/01/24	3.38
Monumental Global Funding 4.625% Nts 18/01/13	2.79
Gen Elec Cap Corp 5.25% Nts 10/12/13	2.46
Cumbernauld Funding 2003 4.55% Bds 15/08/14	2.39

## Classification of investments

As at 10 March 2007	%	As at 10 April 2006	%
Corporate bonds	80.78	Corporate bonds	83.25
Gilts	15.38	Gilts	12.55
High yield bonds	3.47	High yield bonds	2.98
High yield sicavs	0.89	High yield sicavs	0.81
Other	(0.52)	Other	0.41

# Lincoln Cash Trust

## Investment objective and policy

The objective of the trust is to provide a high rate of income to unitholders.

The Manager's policy for achieving this is by investment in the UK financial sector in cash deposits and other money market instruments. The trust will be actively managed to achieve as high a level of current income as is consistent with security of capital and liquidity.

## Fund performance

Over the six-month period to 10 March 2007, the Lincoln Cash Trust achieved a return of 1.8% which was broadly comparable with the performance of its peer group, the IMA money market sector, which returned 1.52%. The trust's remit dictates that its income levels fluctuate in line with sterling interest rates, so the return for the six months benefited from the effects of the UK base rate increases instigated by the Bank of England's Monetary Policy Committee before and during the review period. To minimise exposure to risk, the trust's funds are placed on short term deposit with a carefully selected spread of leading financial institutions. The Managers adhere to a maximum deposit period of two weeks.

## Market outlook

Underpinned by some strong corporate fundamentals, UK and global stock market confidence is likely to remain fragile on account of both economic and geopolitical factors. With overseas interest rates still tending to rise, the markets have been widely anticipating another increase in the UK base rate, even though lower utility bills should soon help to reduce inflationary pressures. House prices are forecast to rise further during 2007, with demand substantially outstripping supply.

February's inflation numbers were released some days after the end of the reporting period and intensified the expectation of at least one more 0.25% increase in the UK base rate in the coming months. The annual figure of 2.8% for the Consumer Prices Index (4.6% for the Retail Prices Index) remained uncomfortably close to the limit of target tolerances.

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## Risk profile

By the very nature of its activities, the trust's investments are exposed to fluctuations in the interest rate. The Manager applies monthly checks to ensure compliance with the Investment and Borrowing Powers to mitigate the risk of excessive exposure to any specific type of deposit or issuer.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, market price risk or foreign currency risk.

## Fund information

Launch date	9 August 1990
Fund size	£7.39m
Fund manager	Goldman Sachs Asset Management International
Fund sector	Money Market
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	0%/0.40%
Yield	4.73% gross
Total expense ratio	0.519% (0.524% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income**
2002	51.74	50.00	1.7589
2003	51.32	50.00	2.0680
2004	51.37	50.01	1.3704
2005	51.66	50.01	1.6645
2006	51.60	50.00	1.6052
2007*	50.90	50.55	0.0000

\* 1 January 2007 to 10 March 2007.

\*\* This is the net distribution rate which applies to non-corporate unitholders only. Corporate unitholders, who receive the distribution gross will need to refer to the tax vouchers received at those times.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Breakdown of UK deposits

As at 10 March 2007	%	As at 10 September 2006	%
Deutsche Bank	16.93	Deutsche Bank	16.95
Dexia BIL	16.93	Dexia BIL	16.95
JP Morgan Chase Bank	16.93	JP Morgan Chase Bank	16.95
Rabobank	16.93	Rabobank	16.95
Barclays Bank	15.58	Barclays Bank	15.61
Dresdner Bank	13.54	Dresdner Bank	14.92
Other	3.16	Other	1.67

# Lincoln European Trust

## Investment objective and policy

The objective of the trust is to obtain capital growth.

In pursuing its objective, the trust will invest predominantly in transferable securities of European listed and/or European domiciled companies. European countries will typically be those included within the FTSE Europe ex UK index. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.*

## Fund performance

During the six months under review, the Lincoln European Trust achieved a return of nearly 3% over its benchmark, the FTSE Europe ex-UK Index, which rose by 12.8%. In comparison, the net asset value in pence per unit of the Lincoln European Trust rose by 15.7%. During the period, the managers maintained their quantitative investment strategy.

The objective is to achieve outperformance over the longer term through investment decisions based upon evaluation of stocks relative to industry peers using criteria that fall under six headings: valuation, profitability, earnings quality, management impact, momentum and analyst sentiment. The half-year's out performance was mainly attributable to the 'valuation', 'momentum' and 'earnings quality' criteria.

Towards the end of the review period, the trust was overweight in consumer discretionary, energy, industrials and information technology categories and underweight in consumer staples, health care and utilities. The biggest contributors to the excess returns of the portfolio during the period were Air France-KLM, Electrolux, Deutsche Lufthansa, Endesa and Fiat. Detractors to relative performance included BNP Paribas, Roche and E.ON.

## Market outlook

Geopolitical and economic worries are expected to weigh heavily on the minds of investors, potentially causing periodic market jitters, but there are grounds for optimism about the course of European and global equity markets in the short to medium term. Despite difficulties at Airbus and their implications for jobs and the wider euro-zone economy, the European corporate sector is viewed as fundamentally very sound.

This positive view of corporate health is likely to help perpetuate recent levels of mergers and acquisitions activity and push some stocks higher. However, ongoing concerns remain about inflation, an upwardly mobile euro-zone interest rate of 3.75% and the consequent possibility of an economic slowdown. On balance, European market prospects are widely assessed as favourable, with caveats about the possible impact of global factors.

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## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	22 May 1986
Fund size	£22.00m
Fund manager	Goldman Sachs Asset Management International
Fund sector	European excluding UK
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.25%
Yield	0.88% net
Total expense ratio	1.469% (1.501% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	156.6	100.6	0.0000
2003	136.7	94.02	1.9866
2004	157.2	129.0	0.8292
2005	190.7	153.2	3.2011
2006	220.6	181.0	2.0133
2007*	236.6	218.8	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 September 2006	%
BNP Paribas	4.15	BNP Paribas	4.75
Roche Holdings Genusscheine	3.36	Roche Holdings Genusscheine	4.06
Deutsche Bank Regd	3.16	Deutsche Bank Regd	3.19
Total	2.98	Endesa	3.15
Vivendi Universal	2.97	E.ON	3.14

## Classification of investments

As at 10 March 2007	%	As at 10 September 2006	%
France	23.94	France	23.26
Germany	16.27	Germany	16.01
Switzerland	13.73	Switzerland	14.90
Italy	9.51	Italy	10.24
Spain	8.97	Spain	9.66
Netherlands	7.77	Netherlands	8.39
Sweden	6.33	Sweden	5.56
Finland	2.29	Finland	2.73
Belgium	2.00	Belgium	2.13
Other	9.19	Other	7.12

# Lincoln Growth Trust

## Investment objective and policy

The objective of the trust is to obtain capital growth.

The trust will invest predominantly in transferable securities of UK listed and/or UK domiciled companies. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also, in special circumstances, to hedge against price fluctuations.*

## Fund performance

Over the six months to 10 March 2007, the Lincoln Growth Trust achieved a return of 12.59%, compared to 12.30% for the benchmark, the FTSE All Share Index. The trust was overweight in the Industrials and Consumer Services sectors, and underweight in the Utilities and Oil & Gas sectors.

British American Tobacco was a new stock bought by the trust. The company has good management and cash generative qualities, as well as strong earnings growth potential in the emerging markets of Eastern Europe and Asia. During the period, we sold out of the integrated circuit supplier, Wolfson Microelectronics, due to lost conviction in sales growth and a drop in profits. We also sold out of Travis Perkins the builders' merchant, as the stock had reached our target price.

An underweight position in BP, which underperformed, contributed to fund performance versus the benchmark. Game Group, the software and video game retailer, also contributed to performance on the back of bid speculation and strong pre-Christmas sales, which increased profits.

## Market outlook

The ongoing recovery of the UK stock market, as with global markets, is likely to remain fragile, even though some adverse influences on UK investor confidence have faded during the first three months of 2007. Markets still widely anticipate an increase in the base rate, in advance of a period of greater interest rate stability.

The trust's Managers see positive market prospects for the upcoming period, with the activities of private equity funds continuing to feature, despite anxiety from trade unions and parts of government on these private equity deals. From the UK economic data released in early 2007, a substantially higher Purchasing Managers' Index for February augured well for the corporate sector. This should feed through helpfully to an already robust corporate sector, although lower commodity prices will limit earnings growth for companies in that area of the market.

*This commentary has been provided by the fund manager, Goldman Sachs Asset Management International. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- i) To delete the geographical restriction within the Trust Deed.
- ii) To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	1 July 1982
Fund size	£78.12m
Fund manager	Goldman Sachs Asset Management International
Fund sector	UK All Companies
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.25%
Yield	2.04% net
Total expense ratio	1.390% (1.411% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	74.58	51.61	0.9414
2003	63.31	46.71	0.9244
2004	67.95	60.81	1.0215
2005	79.56	67.24	1.0897
2006	90.51	78.75	1.8776
2007*	95.03	88.82	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 September 2006	%
Vodafone Group	5.20	GlaxoSmithKline	6.22
GlaxoSmithKline	4.93	HSBC Holdings	5.27
Royal Bank of Scotland Group	4.83	BP	5.08
HSBC Holdings	4.35	Royal Bank of Scotland Group	4.75
BP	3.84	Vodafone Group	4.70

## Classification of investments

As at 10 March 2007	%	As at 10 September 2006	%
Financial groups	29.80	Financial groups	30.67
Cyclical services	22.30	Cyclical services	21.60
Resources	18.11	Resources	19.13
Non-cyclical consumer goods	13.83	Non-cyclical consumer goods	10.28
General industrials	5.48	General industrials	6.33
Non-cyclical services	5.20	Non-cyclical services	4.70
Basic industries	3.07	Basic industries	4.59
Other	2.21	Other	2.70

# Lincoln Managed Trust

## Investment objective and policy

The objective of the trust is to achieve capital growth over the medium to longer term.

The Manager's policy for achieving this objective is by investment in a selection of other authorised collective investment schemes as permitted for non-UCITS retail schemes. The trust may invest in all parts of the world and in all economic sectors.

## Fund performance

The trust invests in a mixture of global equities, corporate bonds and cash, primarily through specialist Lincoln funds. Through a quantitative asset allocation strategy, based upon complex market dynamics and correlations, the trust may run overweight or underweight positions in each asset class and also geographically. During the six months under review, the FTSE World index returned 7.8% on a total return basis in sterling terms. In comparison, the net asset value in pence per unit of the Lincoln Managed Trust rose by 7.99%.

In the fourth quarter of 2006, world equity markets enjoyed a bullish phase. During this period, the trust held a broadly neutral position in equities versus bonds by comparison to its peer group. The trust was significantly overweight in UK equities, which contributed to relative performance, but was moderately underweight in European equities while Continental bourses were seeing good gains.

During January 2007, the cash position increased as fixed-interest holdings and the overweight position in UK equities were reduced. The overall reduction in the equity overweight position mitigated the impact upon the trust of a global equity sell-off in late February, leaving the portfolio relatively close to peer group weightings at the period end.

## Market outlook

There remain sound reasons for optimism about the future course of global equity markets although concerns about geopolitical issues and economic growth prospects may impose hesitancy upon the markets' progress. The US corporate sector is widely believed to be in fair shape, with good liquidity and strong international competitiveness. Worries about interest rates and inflation have moderated, helping US consumer sentiment.

European market prospects are widely assessed as favourable, with corporate confidence boosting the expectation of further mergers and acquisitions activity. The Japanese stock market is also seen as offering selective opportunities as the economy continues to recover from its years of stagnation and banking sector problems.

*This commentary has been provided by the fund manager, Goldman Sachs Asset Management International. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risk the trust faces through the holding of financial instruments is market price risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, foreign currency risk, or interest rate risk.

## Unitholders' meeting

The unitholders of the Lincoln Managed Trust met on 8 November 2006 to vote upon the following resolutions:

- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.
  - To increase the annual management charge (AMC) to 1.5% per annum.
- The first resolution was carried. The new investment objective and policy can be found above.

The resolution to increase the AMC was not carried. The AMC remains unchanged at 0.5%, applicable only to the net asset value of externally managed funds.

## Fund information

Launch date	23 April 1990
Fund size	£5.70m
Fund manager	Goldman Sachs Asset Management International
Fund sector	Balanced Managed
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/0.18% <sup>†</sup>
Yield	1.58% net
Total expense ratio	0.523% (0.537% as at 10 September 2006)
Synthetic TER	1.758% (1.644% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

<sup>†</sup> An AMC of 0.5% is only applicable to the net asset value of externally managed assets.

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. In addition to these, costs are also incurred by the assets of the trust. A synthetic TER incorporates these hidden costs.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	83.65	62.65	1.6332
2003	74.27	58.13	1.8570
2004	80.51	72.75	1.0404
2005	94.07	79.64	1.2855
2006	102.1	91.77	1.6318
2007*	105.9	101.3	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Breakdown of investments

As at 10 March 2007	%	As at 10 September 2006	%
Lincoln Growth	16.87	Lincoln Growth	17.96
Gartmore UK Index (Income)	14.29	Gartmore UK Index (Income)	13.43
Lincoln Income	11.50	Lincoln Income	12.90
Lincoln European	10.48	Lincoln European	8.58
Jupiter UK Growth	9.19	Jupiter UK Growth	8.27
Lincoln North American	7.93	Lincoln Corporate Bond	8.10
Lincoln Corporate Bond	6.41	Lincoln North American	7.30
Lincoln Japan	4.80	Lincoln Japan	5.42
Lincoln Far East	3.32	Lincoln Far East	3.80
Schroder Gilt & Fixed Interest (Income)	2.98	Schroder Gilt & Fixed Interest (Income)	3.10
HSBC Income	2.89	HSBC Income	2.80
Baring Global Bond	2.79	Lincoln Emerging Markets	2.52
Lincoln Emerging Markets	2.30	Baring Global Bond	1.65
Other	4.25	Other	4.17

# Lincoln North American Trust

## Investment objective and policy

The objective of the trust is to obtain capital growth.

The trust will invest predominantly in transferable securities of North American listed and/or North American domiciled companies. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also to hedge against the risk of currency loss only when a view is taken that such a hedge would be to the advantage of the fund and, in special circumstances, to hedge against price fluctuations.*

## Fund performance

The portfolio posted strong absolute performance in dollar terms, and outperformed the S&P 500 index for the six-month period ended 10 March 2007. This positive performance was adversely affected upon conversion to sterling values.

During the six months under review, the S&P 500 gained 5%, on a total return basis in sterling terms. In comparison, the net asset value in pence per unit of the Lincoln North American Trust rose by 4.87%.

Returns were positively impacted by stock selection in the Basic Materials, Business Services and Consumer Discretionary sectors. Stocks contributing to out performance include overweight positions in Steel Dynamics Inc - a manufacturer of carbon steel products, Coach Inc - a designer of leather and mixed material products and Goodrich Corporation - a supplier to the aerospace and defence industries.

Stock selection in the Healthcare, Consumer Staples and Credit Cyclical sectors negatively contributed to performance. Specifically, underweight positions in strongly performing stocks AT&T Inc - a telecommunications services provider, and Goldman Sachs Inc - a leading investment bank.

## Market outlook

The US equity market started the New Year where it left off, on a positive note with expectations that the economy would continue to moderate in an orderly fashion. It did hit a "speed bump", however, in February on concerns of a rapid US and global economic downturn. Despite this, we remain encouraged by a strong employment environment and corporate capital allocation, as evidenced by continued dividend increases and share repurchase activity. In addition, we believe the Merger & Acquisitions (M&A) environment remains robust and should support valuations, as private equity and large-capitalisation buyers remain active. The market is clearly concerned about a more benign economic backdrop and a sharp slowing of GDP growth in 2007. This, however, may prompt the Federal Reserve into action and could provide for an interest rate cut later in 2007.

*This commentary has been provided by the fund manager, Delaware Investment Advisors Limited. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	1 October 1983
Fund size	£84.07m
Fund manager	Delaware Investment Advisors Limited
Fund sector	North American
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5.25%/1.50% from 1.3.07 (formerly 1.25%)
Yield	0% net
Total expense ratio	1.332% (1.333% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	214.0	126.2	0.0000
2003	165.7	126.1	0.0000
2004	162.2	145.5	0.0000
2005	190.5	152.7	0.0000
2006	190.7	166.9	0.0000
2007*	189.5	178.5	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 September 2006	%
Citigroup	2.13	Exxon Mobil Corp	2.96
Exxon Mobil Corp	1.88	Citigroup	2.95
Procter & Gamble	1.83	Bank of America Corp	2.94
Johnson & Johnson	1.83	General Electric Co of America	2.69
American International Group	1.80	Microsoft Corp	2.61

## Classification of investments

As at 10 March 2007	%	As at 10 September 2006	%
Financial groups	22.16	Financial groups	24.17
Technology	15.64	Technology	17.33
Capital goods	11.33	Healthcare	11.38
Healthcare	10.17	Energy	8.86
Consumer discretionary	7.05	Capital goods	8.60
Consumer staples	6.15	Consumer staples	7.50
Business services	6.01	Consumer discretionary	4.54
Basic materials	5.93	Media	3.28
Energy	5.70	Utilities	2.74
Communications	2.75	Basic materials	2.70
Media	2.41	Communications	2.16
Other	4.70	Other	6.74

# Lincoln Opportunities Trust

## Investment objective and policy

The objective of the trust is to obtain capital growth.

The trust will invest predominantly in transferable securities of medium and small capitalisation UK listed and/or UK domiciled companies. The portfolio will be more concentrated than usual in terms of numbers of stocks, and will have a higher than average tracking error versus its benchmark index. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

*The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also, in special circumstances, to hedge against price fluctuations.*

## Fund performance

Over the six months to 10 March 2007, the net asset value in pence per unit increased by 23.9% for the Lincoln Opportunities Trust. In comparison, the FTSE All Share ex-100 ex-IT Index rose by 20.4%. The trust ended the period overweight in the Industrial and Financial sectors, and underweight in the Technology and Oil & Gas sectors.

Stocks acquired during the period included Schroders Plc, its prospects enhanced by restructuring and refocusing under new management. Another new stock purchase was Catlin Group, a property and casualty insurer seen as undervalued because of an unduly negative market view of catastrophe insurance risk, and where synergic gains are expected from a take-over of Wellington Underwriters. The trust sold its holdings in builders' merchant, Travis Perkins, and finance company, Cattles Holdings, both having reached their target price.

A leading contributor to the trust's out performance was software and video game retailer, Game Group, buoyed by a combination of rising profits, bid speculation and strong pre-Christmas sales of X-Box and Nintendo products. My Travel, the travel service provider, also contributed to performance, having announced a merger of equals with Thomas Cook to aid competitiveness with low-cost operators. The main detractors were Wolfson Microelectronics, after profits and sales prospects deteriorated, and Sibir Energy, hit by equipment failure and lower oil prices.

## Market outlook

The trust's Managers maintain a positive outlook for 2007, particularly for small cap companies with good fundamentals and a record of increasing profitability. Investment success in this segment of the market will continue to be dependent upon sound valuation techniques and careful, informed stock selection. Absolute returns may be dependent on the state of equity markets, however, geopolitical issues and economic growth prospects will remain important for investors, but the trust's focus and investment strategy underpin the objective of outperforming in relative terms.

*This commentary has been provided by the fund manager, Goldman Sachs Asset Management International. The opinions stated should not be treated as advice or recommendations to carry out transactions in securities regulated under the Financial Services and Markets Act 2000.*

## Risk profile

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

The Manager does not consider that the trust has significant exposure to credit risk, liquidity risk, or interest rate risk.

## Unitholders' meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- To delete the geographical restriction within the Trust Deed.
- To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found above.

## Fund information

Launch date	1 October 2001
Fund size	£533.82m
Fund manager	Goldman Sachs Asset Management International
Fund sector	UK All Companies
Minimum investment	£500 lump sum or £25 a month
Initial charge /AMC	5%/1.5%
Yield	0.59% net
Total expense ratio	1.520% (1.524% as at 10 September 2006)
Accounting dates	10 March (interim), 10 September (annual)
Distribution date	10 November

## Total expense ratio (TER)

The TER represents the total annual operating expenses of the scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The latest TER is calculated using values from the past six months. The result has been annualised for comparison purposes.

## Price history and income record (in pence per unit)

Calendar year	Highest price	Lowest price	Net income
2002	122.4	78.29	0.0000
2003	110.0	73.81	0.9084
2004	127.1	109.1	0.6777
2005	149.8	121.6	0.9216
2006	194.2	150.0	1.2005
2007*	207.1	192.6	0.0000

\* 1 January 2007 to 10 March 2007.

The price of units may go down as well as up and you may not get back the amount originally invested. Past performance should not be taken as a guide to the future.

## Top five holdings

As at 10 March 2007	%	As at 10 September 2006	%
Punch Taverns	3.43	Resolution	5.55
Cobham	3.41	Punch Taverns	4.38
Derwent Valley Holdings	3.09	Homeserve	2.98
Intertek Group	3.03	Intertek Group	2.78
Mitie Group	2.99	Cattles	2.76

## Classification of investments

As at 10 March 2007	%	As at 10 September 2006	%
Cyclical services	38.84	Cyclical services	45.26
Financial groups	26.38	Financial groups	23.47
Basic industries	12.27	Basic industries	11.25
General industrials	11.89	General industrials	12.39
Cyclical consumer goods	6.03	Information technology	3.96
Resources	1.65	Cyclical consumer goods	1.54
Other	2.94	Other	2.13

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ND Kent  
M Tallett-Williams  
HM Turner

**Head of LUTM:**

JA Coombes

**Investment Managers:**

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One Commerce Square  
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8 Canada Square  
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Bristol BS1 2A

**Registrar:**

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Gloucester GL4 3RZ

**Reports and Accounts**

The full Prospectus, Simplified Prospectus, full reports and accounts, and the Short Report (replacing the Short Form Report) are all available upon request to the Manager. Copies of these, apart from the full Prospectus, can also be found on the internet by accessing [www.lutm.co.uk](http://www.lutm.co.uk).

Issued by Lincoln Unit Trust Managers Limited, incorporated in England registration number 1651703, registered office Barnett Way, Barnwood, Gloucester GL4 3RZ. Telephone 01452 374965, Dealers 01452 374970, Fax 01452 374700, [www.lutm.co.uk](http://www.lutm.co.uk). Lincoln Unit Trust Managers Limited is authorised and regulated by the Financial Services Authority and is a member of the Lincoln Financial Group and the Investment Management Association. Any information offered will relate to the life assurance, pension and unit trust products of the Lincoln Financial Group. No personal financial advice or recommendations will be given. Calls may be monitored and recorded for security and training purposes.