

CF Canlife Bond Unit Trust
Manager's Annual Short Report
for the year ended 15 February 2010

Investment Objective and Policy

The CF Canlife Bond Unit Trust ('the Trust') aims to maximise returns and to provide a half-yearly income mainly from investment in sterling-denominated fixed interest securities. The Trust will not invest in companies which manufacture products containing tobacco. It is not intended that the Trust will have an interest in any immovable property or tangible movable property.

Risk Profile

The Trust 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 Manager 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	15 August	15 October
Final	15 February	15 April

Total Expense Ratio

Expense Type	15.02.10 %	15.02.09 %
Manager's periodic charge	1.00	1.00
Other expenses	0.08	0.09
Total expense ratio	1.08	1.09

Portfolio Turnover Rate

	15.02.10 %	15.02.09 %
Portfolio turnover rate	25.35	66.69

Distributions

Unit Class	Interim 15.08.09 pence per unit	Final 15.02.10 pence per unit
Income	4.3156	4.2766

Price and Income History

Income units

Calendar Year	Highest Buying Price P	Lowest Selling Price P	Distribution per unit P
2005	210.79	189.71	8.8463
2006	214.04	186.61	8.3702
2007	198.08	174.77	7.8119
2008	193.45	163.92	7.5710
2009	203.42	170.92	8.4057
2010*	203.45	188.98	4.2766

* 15 February 2010.

Net Asset Value

Date	Net Asset Value £	Units in Issue	Net Asset Value pence per unit
15.02.08	68,981,342	39,504,279	174.62
15.02.09	78,928,696	44,981,254	175.47
15.02.10	122,109,503	65,970,055	185.10

Trust Performance to 15 February 2010 (%)

	1 year	3 years	5 years
CF Canlife Bond Unit Trust	10.38	14.13	16.38

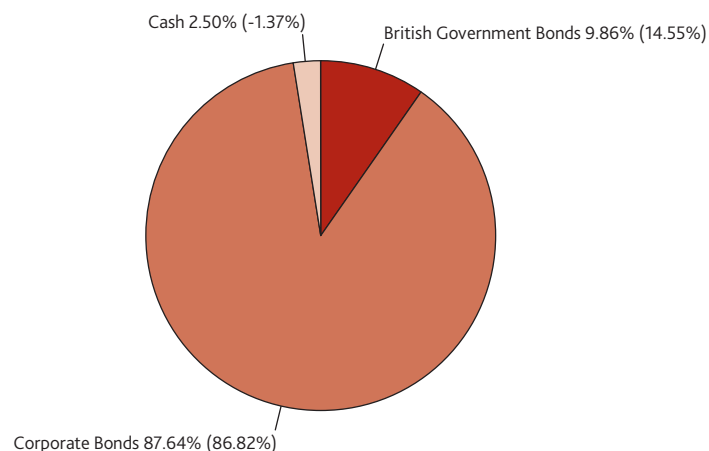
The performance of the Trust is based on the net asset value per Income unit with income reinvested.

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.

INVESTMENT MANAGER'S REPORT

Sector Spread of Investments



The figures in brackets show allocations at 15 February 2009.

Major Holdings

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

Holding	% of Trust as at 15.02.10	Holding	% of Trust as at 15.02.09
Tesco 5.5% 2019	2.53	Treasury 4.25% 2055	4.59
Iberdrola Finanzas 7.375% 2024	2.53	Tesco 5.5% 2019	3.89
GE Capital UK 6.75% 2018	2.24	Iberdrola Finanzas Sau 7.375% 2024	3.64
Treasury 4.25% 2055	2.16	Treasury 4.25% 2046	3.52
Southern Gas Networks 4.875% 2020	2.12	GE Capital UK 6.75% 2018	3.06
Pfizer 6.5% 2038	2.03	Southern Gas Networks 4.875% 2020	2.97
United Utilities 6.125% 2015	1.99	GDF Suez 7% 2028	2.82
Treasury 4.25% 2049	1.95	Telefonica Emisiones 5.375% 2018	2.47
GDF Suez 7% 2028	1.92	Land Securities 5.292% 2015	2.45
Treasury 4% 2016	1.90	Centrica 7% 2018	2.39

The Economy and Market

With a meltdown from the most serious financial crisis since the Great Depression successfully avoided, optimism returned to the markets and risky assets rallied sharply in 2009. Government bonds on the other hand lost their safe haven appeal and declined in value. Substantial fiscal and monetary stimulus, coupled with a recovery in the rest of the world, helped economic activity make a comeback bringing the recession in major economies to an end. The downside of this however was the dramatic deterioration evidenced in public finances.

The UK economy returned to modest growth in the last quarter of 2009 after six quarters in recession. After contracting by an estimated 4.8% in 2009, the economy is, according to consensus forecasts, likely to grow by 1.4% in 2010. Interest rates have been stable at 0.5% since March, and continued to support economic activity, as has the Bank of England's £200 billion quantitative easing programme (buying of securities with the creation of new money). UK inflation fell to a low of 1.1% last September, but has risen sharply since, which has been partly attributed to the past depreciation of sterling. It has climbed further this January to 3.5% reflecting the rise in VAT (value added tax) but longer term, the large amount of slack in the economy should help bring the rate down to around 2%.

Gilt prices fell in 2009 as general weakness in international bond markets set in. Heavy supply and the surge in government borrowing, estimated at 12.6% of Gross Domestic Product (GDP), dampened investor sentiment. However, buying by the Bank of England, was a strong support for the market. The move by one rating agency to put the UK's triple A sovereign rating on negative outlook contributed to market weakness, especially in the light of downgrades in peripheral European countries, and the escalation of sovereign risk concerns which caused heavy selling in those markets.

The return of the favourable environment for risk saw corporate bonds achieve a stellar performance in 2009 as credit spreads which had reached record wides during the crisis narrowed sharply. The market benefited from very strong demand from retail investors who with little return on cash, were attracted by the high absolute yields on offer. Institutional asset allocation also accounted for a significant amount of demand during the year. Record amounts of new issuance came to the market often at attractive spread levels over gilts, but most times issues were oversubscribed, in a further testament to the strength of the market. The rally was initially led by defensive names, but as these became more expensive, the hunt for yield spread to lower quality bonds. The financial sector which offered spreads at historic wide levels and absolute yields in double figures also saw a sharp turnaround, leading to substantial gains in bank bonds especially those less well rated. However the biggest beneficiary of the rally in credit turned out to be the high yield market, massively outperforming both equities and investment grade bonds, as an easier refinancing environment and record high yields offered the biggest scope for gains.

Activity

With corporate bond spreads at record wides at the start of 2009, we believed the potential for gains was substantial. Thus our activity focussed on ensuring that the Trust was appropriately positioned to benefit from a tightening of spreads while remaining invested in high quality bonds. Having increased the weight of corporate bonds versus gilts to over 80% of the Trust at the end of 2008 which was maintained in 2009, we also increased exposure to longer dated corporate bonds which offered a larger scope for gains. The Trust saw substantial inflows of new money, and with the secondary market offering less generous spreads, we concentrated on investing the new money in new issues which came at attractive spreads. This proved to be a very rewarding strategy as new issues very often came at cheap levels to the market, which quickly resulted in significant capital gains. Several new names were added via the new issue market. Among these were Roche, Pfizer, Gaz de France, Vattenfall, Statoil, BP and AT&T. New issues in the London Stock Exchange, John Lewis, RWE and BAA, gave us the opportunity to add to our existing holdings in those names. Small purchases of financial bonds were also made. In terms of its duration versus the benchmark, the Trust maintained a neutral position most of last year, but this was reduced to below that of the benchmark as we became more cautious on gilts towards the end of the year.

After two years of outstanding performance, our Trust lagged in 2009 due to its underexposure in lower quality credits, which massively outperformed investment grade. Our Trust's total return on a bid to bid with net income re-invested amounted to 10.4%.

Outlook

Major economies are expected to continue to recover in 2010, but at a weak pace. With many governments unable to repeat the substantial fiscal support given in 2009, and consumers expected to be cautious, there are still major downside risks to the recovery. Inflation is expected to stay subdued. Still, to safeguard longer term price stability, Central Banks which have flooded the markets with liquidity as a result of the crisis, are likely to gradually start withdrawing it. Interest rates are likely to be lifted higher, but rises will be small. In the UK we expect interest rates to rise by 0.25% towards the end of 2010. Election uncertainty, heavy supply, the end of quantitative easing, a tightening of monetary policy and the risk of a sovereign downgrade are likely to cause gilt yields to rise and thus returns from corporate bonds are likely to reflect weakness in gilt prices. With credit spreads closing a large part of the widening caused by the crisis, the scope for further tightening and hence gains is limited. Asset allocation is likely to continue to favour corporate bonds as an asset class, but with yields less appealing, demand from retail investors is expected to be much lower. Supply should also be lower, but still the demand supply balance is likely to worsen. Even though the economic environment is gradually improving and default rates are likely to move lower, a return of risk aversion and renewed selling of equities could pose a risk for investment grade credit. Our view is that although equities could weaken, we do not envisage a major panic. Sovereign risk concerns which have been blamed for recent weakness should also gradually ease off. Thus we expect corporate spreads to remain in a narrow trading range close to current levels.

Canada Life Asset Management Limited

Investment Manager
19 February 2010

Buying and Selling Units

The Manager will accept orders to deal in the units on normal business days between 8.30am and 5.30pm. Instructions to buy or sell units may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 922 0044. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Reports and Accounts

This document is a short report of the CF Canlife Bond Unit Trust for the year ended 15 February 2010. The full Report and Accounts for the Trust is available free of charge upon written request to Capita Financial Managers Limited, Ibex House, 42 – 47 Minorities, London EC3N 1DX.

Other Information

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

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