## Investment Objective and Policy

The investment object of PFS Downing Active Management Fund is to generate capital growth from a portfolio consisting of companies within the Numis Smaller Companies Indicies[1]. The Fund takes a pro-active private equity approach to investing in quoted smaller companies. Investee companies will typically be capitalised between £20m - £150m. The Fund will aim to hold a concentrated portfolio of 25-30 investments. The Investment Manager aims to identify investments that are valued on low price-cash flow ratios relative to peers, and will undertake rigorous due-diligence, modelled on that of a Private Equity style, to establish the robustness of management teams and company strategy. The Investment Manager will invest when the results of due-diligence highlight strength of management, a corporate strategy that has been largely overlooked by the market and the potential for the company to demonstrate an uplift in valuation of at least 30% in the first year of investment.

## Investment Manager's Report

for the period ended 31 January 2013

### Performance

During the half year to 31 January 2013 the Fund's share price increased by 10.3%. In previous reports we compared our performance to a commonly used benchmark. We were approached during the period with an uncommercial quote in order for us to continue to use this trademarked index. Our focus is on absolute returns and so we are not unduly concerned by this development. We have however compiled our discrete, cumulative and annualised performance below to increase transparency in case you would like to benchmark us.

| | PFS Downing Active Performance Management Fund (net of all expenses - TER) |
|---|---|
| 04/02/11-31/07/11 (6 months) | 0.3 |
| 01/08/11-31/07/12 (12 months) | 4.7 |
| 01/08/12-31/01/13 (6 months) | 10.3 |
| Cumulative Performance | 15.3 |
| Annualised Performance | 7.4 |

Downing assumed the full management of the fund on the 4 February 2011. There was then a period of transition whereby we exited legacy positions and initiated new long term investments. Over 75% of the equity portfolio on the date of handover has been exited and reinvested.

Our annualised return hurdle for new investments is 15%; we have not achieved this as an output from the Fund over the first two years. We are however confident that we hold a portfolio of undervalued assets that have growth potential over and above our 15% hurdle. Despite this, compared to standard UK indices, our performance has been far superior. The Fund's performance over the first two years of our management has been heavily influenced by the initial period of transition.

As we stated in the last annual report, we would like to be judged on the annualised performance generated for shareholders over a 3-5 year period. We are comfortable that to this end, we are on track and we believe we have an exciting period ahead of us.

### Fund Activity

Over this interim period, 1 August 2012 to 31 January 2013, we acquired a top 10 position in Universe Group plc, Norman Broadbent plc and H&T Pawnbrokers plc. H&T Pawnbrokers plc has an equity weighting greater than 5% and so we have introduced this company to you in full later on in this report.

We also materially increased the Fund's holding in Inland Homes plc, again this company now occupies a weighting greater than 5% of the Fund and so we have introduced it later on in this report.

We sold the Fund's position in Hyder Consulting, Regenersis, Stanley Gibbons and Telford Homes.

Hyder Consulting and Regenersis were sub 2% holdings as at the Annual Report. We had however built up material stakes in both Stanley Gibbons and Telford Homes prior to our exit. The rationale behind our

## Investment Manager's Report
continued

decision to sell our holdings in these two companies differs entirely, they were both core holdings to the Fund and so we would like to explain our logic.

**Stanley Gibbons** is arguably the strongest brand in the stamp collecting world. They have significant competitive advantages within this industry and have managed to make 25% Return On Capital Employed ("ROCE") over the last decade. We spent several months analysing the business, its competitors, the industry and the management team. Mike Hall, the CEO, has an exceptional knowledge of the industry, its drivers and is also highly commercial and thorough in his management process.

The business has a very loyal customer base and has several exciting new opportunities that are beginning to come to fruition. The most exciting of which is their online trading platform. Stanley Gibbons own the IP to the SG numbering system, the most widely used reference system for stamps. They have documented their back catalogue electronically and are building an 'eBay' styled trading platform. Traditionally, Stanley Gibbons has been highly capital intensive, requiring incremental capital for increased returns. This trading platform allows Stanley Gibbons to act as an intermediary. The potential earnings if this platform is moderately successful is exciting, given the amount of capital required and risk assumed from this operation.

In December the board decided to raise equity at 195p in order to fund the acquisition of a US trading platform (£500k cash) and for additional development spend. The initial quantum discussed was £4m-£8m, we expressed our concern at such large amounts being raised at a price that we felt undervalued the company. Eventually, £6m was raised, c.£3m was to be spent on the new trading platform with the rest being spent on additional inventory.

Despite the existing business' high return on capital and margin, there is an implicit risk in holding such a high level of inventory. This risk was one of the key elements we identified during our diligence process and was also embedded in our on-going "checklist" that we develop to monitor all our investee companies.

Given this event we were concerned that monies were being raised just because the company "could". In our past experience this has led to management teams being more interested in empire building than building return on capital for shareholders. It is important for us to see continued evidence that management teams are allocating capital for the best risk adjusted return for shareholders and are unaffected by short term earnings; demonstrating transparency in their internal capital allocation process.

Despite our acknowledgment of the potential for the business we could not maintain our equity position within this company having acknowledged our concerns. We duly sold. Our cost price for this holding was 207p and we sold at an average price of 226p.

**Telford Homes** is a regional housebuilder based around the East of London. Having spent considerable time with the management team, studying the business, its local competition and at several of their large development sites, we acquired an equity stake in January 2012 at an average price of 90p. The net asset value of the company at the time was equivalent to 144p per share.

Telford Homes has a number of advantages over larger, national housebuilders. They have a fantastic symbiotic relationship with local councils, during the downturn they managed to win several contracts to build affordable housing which kept the business profitable. The extensive internal knowledge of their particular location gives them an advantage when assessing site potential and when negotiating with sellers. The marketing and sales team at Telford Homes are very strong and they have managed to pre-sell large sections of new developments years in advance of release.

The disadvantage of being a smaller housebuilder is that the allocated central costs restrict the earnings at each development to a larger degree than for builders with a greater number of sites. We estimate that the business has the potential to make 15% ROCE over the long term, but would struggle to exceed this without expanding the number of development sites considerably.

The management team are superb and we believe that they make decisions based on an analysis of the long term risk adjusted return to shareholders. We were comfortable that they would remain a regional housebuilder for the foreseeable future and thus retain their competitive advantage.

We set an intrinsic value for the company at 185p. Housebuilders have a much more predictable business model than most assume. The value of Telford's land bank might fluctuate with rising/falling house prices. However, the most important factor for the long term shareholder is the enduring ROCE potential of the business.

We sold our holding in Telford Homes as its market value approached our calculation of intrinsic value. We have met with the management team several times since selling down our holding and we will keep tracking this business and hope that we have the opportunity to invest in the future if the market value falls within our calculation of our entry price. The Fund made a 91% return from this investment over a one year period.

We currently hold a significant amount of cash in the Fund. During this interim period we added £2.1m of new money to the Fund through new investor contributions. Some of this cash was redeployed within the existing portfolio companies when we were able to purchase additional equity at prices below our calculated entry price. We have also added a few new companies to the portfolio.

We are in no rush to spend this cash and our usual level of diligence is being fully adhered to. When evaluating a company that has a large cash position, we like to understand whether or not it is burning a hole in the management team's pocket. You can be sure that we as fund managers do not intend to have any scars from this type of investment mentality.

Our pipeline for new investment deals is encouraging. We have a handful of companies that are in the latter stages of our diligence process; some of which we have been actively examining for over a year. We have also been building up holdings in a few companies that have not yet appeared within the top 10 table.

Whilst we are disciplined not to invest this cash in a rushed manner, we are hopeful that it will have reduced over the next few months.

**Holdings as at 31 January 2013**

| | Date of first purchase | Current weight* | Book cost per share (pence) | Total dividend per share (pence) | Current mid-market share price (pence) | Total return (incl div) v av net cost |
|---|---|---|---|---|---|---|
| DART GROUP PLC | Jan - 12 | 8.6% | 71 | 2 | 146.5 | 110% |
| H&T GROUP PLC | Sept - 12 | 7.9% | 286 | 3.8 | 291.5 | 3% |
| INLAND HOMES PLC | Feb - 12 | 7.2% | 18 | 1 | 22 | 28% |
| SCISYS PLC | Oct - 11 | 6.7% | 53 | 2 | 69.5 | 35% |
| TRACSIS PLC | Feb - 11 | 6.4% | 66 | 0.5 | 158 | 140% |
| CHINA FOOD COMPANY PLC | Sep-11 | 4.8% | 21 | 0 | 18 | -15% |
| UNIVERSE GROUP PLC | Aug - 12 | 4.2% | 2.8 | 0 | 4.5 | 61% |
| ACCUMULI PLC | Feb - 11 | 3.9% | 7.7 | 0 | 10.5 | 36% |
| LUDORUM PLC | Aug - 11 | 3.7% | 190 | 0 | 125 | -34% |
| NORMAN BROADBENT PLC | Nov - 12 | 2.5% | 35 | 0 | 42.5 | 21% |
| 15 other investments | | 16.2% | | | | |
| Cash | | 28.0% | | | | |

**New Investments with a greater than 5% weighting**

**H&T Pawnbrokers**

Pawnbroking can be traced back over 3,000 years to the Chinese. Christopher Columbus' voyage was funded largely by the proceeds from pawning Queen Isabella of Spain's Jewels!

The infrastructure, customer penetration and regulation of the industry is unique to each country. Pawnbroking has been prevalent in North American and Australia for a number of years. The UK has an underserved market with pent up potential. The UK demographic and customer mentality lends itself well to pawnbroking.

Pawnbrokers typically offer several services: loans against items held as collateral, purchasing gold for cash, unsecured loans and general jewellery retail. The main source of income comes from lending against items held as collateral; generally this collateral comes in the form of jewellery.

A typical loan will involve the customer presenting the pawnbroker with an item of jewellery. The teller will evaluate the item and will offer an amount that they would be willing to lend against the item (H&T currently lend at 66% of the scrap valuation of the item). A monthly interest rate is then calculated based on the credit history, redemption history and loyalty of the customer. Pawnbroking rates in the UK are typically between 6-10% per month, H&T charge between 4-8% per month for their secured loans. Loan terms are predominantly 6 months.

Once an item has been pledged, the customer has several choices:

1) Pay back the loan in full as well as any interest that has been accrued within the 6 month term. They then receive their item back.
2) Pay the accrued interest and extend the loan for another 6 months.
3) Forfeit the item and have their debt wiped off. If the pledge is secured against an item worth greater than £75, the pawnbroker must auction the item. Any surplus cash received beyond the pledge amount and accrued interest is returned to the customer.

A study by the National Pawnbroker Association in 2012 found that c.88% of goods are redeemed. Contrary to popular belief, it is not in the pawnbroker's interests for the goods not to be redeemed.

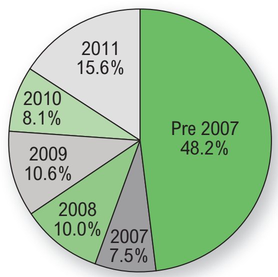
Pawnbroking has been an attractive business sector for several decades as customers can be very loyal and return on capital has the potential to be extremely good. H&T current make over 30% return on capital and have made greater than 15% for over 5 years.

H&T Pawnbrokers was started in 1897 and is the largest player in the UK market with 180 stores and a loan book greater than £50m. The UK market is fragmented with three large players assuming just over 50% of the market; H&T, Albemarle and Bond and Ramseys. H&T is the fifth largest pawnbroker in the world, by size of pledge book. However, H&T has the largest pledge book per store in the world. Each of the four largest pawnbrokers have expressed an interest in entering the UK market via acquisition.

The UK market has been flagged as a 'significantly underserved' market for several years by the four large global pawnbrokers. The UK has a very high population to number of alternative credit retail locations. The US has approximately 15,000 per retail store, Canada 20,000 and the UK 35,000.

H&T have opened c.25 stores per annum for a number of years and have doubled its number of stores operated over the last 5 years. An H&T store requires c.£220k to open and £130k per annum to run. Pledge books take time to build up. Stores that have been open for less than 5 years have an average pledge book of £125k, stores that have been open for greater than 5 years have an average pledge book of £375k.

**Store estate by year of addition**




With just over half of the stores opened in the last five years there is a large amount of latent growth sitting within the current estate.

We undertake risk checklists from both an industry and company specific angle on all of our prospective investments. Some of the risks that we identified and investigated for H&T were related to industry regulation, whether pawnbroking is in a boom period (for activity or margin) and whether the industry or H&T are over geared.

## Investment Manager's Report
continued

The industry is regulated by several bodies. The National Pawnbroking Association has been in existence for over 120 years and exists to safeguard the interests of pawnbrokers and customers alike, producing an operations manual and laying down a code of conduct for its members. The OFT also regulates the industry. The OFT wrote a review of high cost credit in 2010 in which they decided that the lack of pricing pressure in the industry was not best reformed by an interest cap. A review compiled by 'BIS' is to emerge during 2013. We are confident that pricing caps will not be introduced on pawnbroking, however there could well be caps on the entire high cost credit industry. These are likely to be much higher than those found within the pawnbroking industry and so could create an opportunity for pawnbrokers to increase their pay day lending units.

Much of the analyst and investor focus when assessing H&T and other pawnbrokers has been on the effect of gold buying. In 2011, gold buying contributed towards 27% of H&T's gross profit. There is no doubt that the effect of steadily increasing gold prices has greatly helped the fortunes of pawnbrokers. However, we have modelled H&T on a number of scenarios related to gold buying volumes and margins. We believe that the business is sustainable without these potential boom contributions.

The initial capital required to begin pawnbroking is fairly high, however, as the pledge book (amount of money lent) increases, the additional capital required is entirely bank fundable. A bank lends to the pawnbroker at 2-6% per annum, the pawnbroker lends against collateral at a monthly interest rate of 4-10%. If the pawnbroker begins to lose custom, he should be awash with cash as he has not been lending. As long as the quantum of debt is suitably covered by the pledge book and is lent sensibly, all debt could be paid off in this scenario.

We have met the H&T management team in several situations; in our offices, their offices and in store. We believe that the plc board and operational management team are the leading players in the industry and have a steely focus on creating shareholder value.

We believe the pawnbroking sector in the UK offers attractive returns to most sensible operators. We also consider H&T to be best placed to cement a market leading position within a potentially larger UK market.

Our entry price on our holding values the company on a historic earnings multiple of less than 6. We do not evaluate an investment just on multiples such as this; we have compiled a scenario based modelling system for each holding. However, it comes close to showing just how cheap we believe this investment was at cost.

**Inland Homes**
Inland homes is a brownfield regeneration company. It buys land that has had an alternative use and then applies for residential/commercial planning permission.

Inland homes was funded in June 2005 and was floated on AIM in 2007.

At IPO the group had 14 potential sites, accounting for 700 plots as well as a minority interest of 10% in Howarth Homes (regional housebuilder).

The credit crunch and subsequent housing crisis resulted in a £4.8m write down in land inventory. During this period the company executed a fire sale of several developments in order to fund the acquisitions of higher margin new developments and to pay off deferred considerations payable.

The group's strategy has remained consistent: buy brownfield land, push it through the planning process, sell site/build out/mix of the two. All current developments are within the South East of England.

The current management team founded, listed and subsequently sold a similar business called Country and Metropolitan (C&M). This was founded by Stephen Wicks (Inland CEO) in 1990 and was floated in 1999 with a market capitalisation of £7.7m. C&M was sold to Gladedale in 2005 for £77m which represented an 80% premium to C&M NAV.

Inland's current land bank of 1700 residential units consists of 1400 units with full planning consent, 200 awaiting consent and 100 pre-application.

As discussed earlier in this report, housebuilders can make for good investments over the long term. Despite the relatively small scale of Inland's operation, their competitive advantage sits within their expertise in getting brownfield land successfully through the planning process whilst optimising the commercial details of every development. The margin and return on capital potential per site is greatly improved by purchasing land at this stage.

Inland have less than 10 sites and so we are able to track their planning applications, competitors, build out costs, marketing and, average selling prices on a real time basis. We run a model that keeps track of an up to date profit and loss account and balance sheet. We also track macro data such as the monthly house price indices, national and local research on supply and demand, mortgage availability as well as the accounts of other listed housebuilders.

The Inland management team have significant 'skin in the game' and are certainly not looking to build an empire. We believe that all of their decisions are predicated on generating the highest and most sensible return on their investment.

When evaluating the value of a housebuilder there are two components; the land bank (what you own) and potential long term return on capital (money you think you will earn through operations).

Contrary to popular belief, house price increases and decreases does not greatly affect the potential long term return on capital of a housebuilding operation. If house prices increase, they can sell their current land at higher prices, but must then replenish their stock with more expensive land. If house prices decrease they have to take a lower margin on current land but are able to replenish the land bank with cheaper land.

Changes in house prices do have a significant effect on the value of the housebuilder's land bank. Due to the fixed cost nature of building a house, all increases in price flow straight through to the housebuilder; a 5% increase in house prices results in a c.17% increase in land price. We are not and have not made any forecasts as to the direction of houseprices. Our investment is predicated purely on the earnings stream that we have modelled under a host of scenarios.

# Investment Manager's Report
continued

All of the trouble within the housebuilding sector during 2007/2008 occurred due to excessive gearing, whether it be with the consumer or within the housebuilders own capital structure. The majority of the national housebuilders are now conservatively geared or net cash positive.

We purchased our holding in Inland homes at a price which valued their existing land bank at 50% of their market values. We purchased Inland with this downside protection and expect to receive the future discounted cash flow generated from their operations for free.

## Update on investments with weightings greater than 5%

**Dart Group plc**
Dart Group released their interim results during this period. Jet2.com flew 14% more passengers over the 2012 summer than in 2011. Yields and ancillary revenue held up well, however operating margin was slightly down due to increased costs of fuel, maintenance and sub charter costs.

Jet2holidays grew fantastically over 2012, doubling the number of passengers flown and helping to increase total aviation load factors from 89.8% to 91.6%. The additional grab in customer holiday spend helped to increase total yield as well.

The 2013 summer flight schedule has now been released; Jet2 are opening no new bases but are increasing the number of flights to the same destinations. Jet2holidays is again expected to increase the number of passengers substantially over the forthcoming year.

The Group's logistic company, Fowler Welch issued satisfactory results driven by the new ambient business in Manchester. Operational efficiency and a reduction in dual property costs expanded the operating margin of the business.

The Group announced in their interim results that they expect to exceed current market expectations for the full year results to 31t March 2013.

Having analysed the interim report, our proprietary research, market data and following meetings with management, we adjusted our Dart Group model. In our initial model we did not ascribe any value to the Jet2holidays business as it was not yet of a substantial scale. We have now included Jet2holidays into our Group valuation as well as refining our modelling for the rest of the Group.

Our initial valuation of the group was heavily based on the market value sitting at a heavy discount to net asset value. Throughout our investment in Dart Group we have improved our method of tracking the business. The business has added a very profitable division which requires no additional capital, we have learnt a great deal more about the management team and the Group's ROCE has improved significantly.

Dart Group's share price was up 92% in the period.

**SCISYS plc**
SCISYS announced their interim results in the period detailing a drop in revenue – mainly due to the inclusion of very low margin hardware sales in the previous period – but with improved operating profit. The operating margin for the business has expanded for several years. Pre-demerger CODASCISYS entered into a few poorly priced fixed price contracts within the space division. These have now largely flowed through. A steely focus on contract and project management as well as a general move away from large fixed price contracts has helped to minimise these slip ups. The purchase of SCISYS HQ (yielding a ROC of 20% per annum) has also removed cost from the profit and loss statement. Over the period the Group has merged the German and English space divisions which should yield further margin improvements over the coming years.

We spent a full day in SCISYS HQ during the period and met with all of the operational management team. The excitement and culture within the Group is infectious and unique. The PLC board are acutely aware of the need to preserve this culture when considering acquisition.

In the period, SCISYS acquired MakaluMedia. A business that is very similar to the German space business. In fact, they even work from the same office building. The SCISYS team have worked jointly on projects with MakaluMedia for several years and managed to purchase the business for Euro2.3m, we consider this to be a very good price.

In a trading statement dated 21 January 2013, SCISYS announced that they expect to report EBITA consistent with market expectations and to show further operating margin improvement within the full year results to 31 December 2012.

We have full faith in the SCISYS management team and it is rare to find capital allocators that match our investment aspirations quite so closely.

SCISYS's share price was up 26% over the period.

**Tracsis plc**
Tracsis, the provider and developer of software for the rail industry, has been a long term holding for the Fund, having been introduced early in our management of the Fund nearly 2 years ago. Since then the company has grown its net profit after tax from £490k to £2.4m (for the year ended July 2012), and increased its cash (predominantly through cash generation) from £2.5m to £7.5m. Since we first invested the share price has seen an appreciation of c. 140%. It is our initial diligence that we carried out on this company and the innate transparency within the industry that allows us to track its progress and continually monitor this against our assumptions for growth. Tracsis has had over ten positive announcements on trading and contract wins in the last 12 months. We have been able to revert back to our initial modelling to see how this news can affect our target of intrinsic value, and to ensure that the holding can continue to deliver our required return for the Fund. Tracsis has had the help of strong tailwinds from the transformational inward investment into the UK rail network. The UK has the densest network of rail infrastructure in the world, and it has largely been underinvested for decades. Tracsis software and hardware provide solutions with a clear return on investment which are being rolled out by Train Operating Companies who now need to be more accountable to passengers, their employees and shareholders. The Tracsis solutions encompass timetabling optimisations, remote monitoring of signals and passenger counting.

In the interim period Tracsis has made six announcements to the market which includes two awards of contracts and trading updates that exceeded expectations. In addition, the company has paid deferred consideration on one of its acquisitions early, as the acquired company met its earnings target earlier than anticipated. We continue to be holders of the company as we believe the longer term potential for these products and services, led by a strong management team, have only begun to demonstrate their wider potential.

Tracsis' share price was up 28% over the period.

[1] The Investment Objectives have been amended to reflect the Numis Small Companies Index @ 1 February 2013.

# Fund Facts

## Accounting and distribution dates

| | Accounting | Distribution |
|---|---|---|
| Final | 31 July | 30 September |
| Interim | 31 January | 31 March |

## Fund performance

| Class | Net asset value as at 31.01.13 (pence per share) | Net asset value as at 31.07.12 (pence per share) | Net asset value % change |
|---|---|---|---|
| A accumulation | 98.53 | 89.81 | 9.71 |
| B accumulation | 103.97 | 94.41 | 10.13 |

## Net asset values

| Year as at 30 July | Net asset value (£) | No. of shares in issue | Net asset value (pence per share) |
|---|---|---|---|
| **Class A accumulation** | | | |
| 2010 | 4,051 | 5,275 | 76.80 |
| 2011 | 6,524 | 7,399 | 88.17 |
| 2012 | 38,489 | 42,855 | 89.81 |
| 2013^ | 79,015 | 80,198 | 98.53 |
| **Class B accumulation** | | | |
| 2010 | 2,343,855 | 2,950,877 | 79.43 |
| 2011 | 2,712,197 | 2,947,264 | 92.02 |
| 2012 | 2,583,052 | 2,735,879 | 94.41 |
| 2013^ | 5,111,765 | 4,916,654 | 103.97 |

^ As at 31 January 2013

## Price history & distribution record

The table below shows the highest and lowest prices on a calendar year basis in pence per share since launch. Past performance is not necessarily a guide to the future performance

| Year | Highest (pence) | Lowest (pence) | Net distribution (pence per share) |
|---|---|---|---|
| **Class A accumulation** | | | |
| 2008^ | 100.00 | 75.95 | – |
| 2009 | 89.84 | 71.53 | 0.2326 |
| 2010 | 83.81 | 77.13 | – |
| 2011 | 90.47 | 76.94 | – |
| 2012 | 97.03 | 77.54 | – |
| 2013^^ | 100.78 | 96.32 | – |
| **Class B accumulation** | | | |
| 2008^ | 100.00 | 72.09 | – |
| 2009 | 90.60 | 69.06 | 0.3100 |
| 2010 | 85.45 | 79.51 | 0.0093 |
| 2011 | 94.34 | 80.48 | – |
| 2012 | 102.29 | 81.23 | – |
| 2013^^ | 106.31 | 101.58 | – |

^ From 5 September 2008
^^ As at 31 January 2013

# Fund Facts
continued

## Ongoing charges

| Expense type | 31 January 2013^ % |
|---|---|
| **Class A accumulation** | |
| Investment Manager's charge | 1.75 |
| Other expenses | 0.62 |
| Transaction charges | 0.04 |
| **Ongoing charge** | **2.41** |
| **Class B accumulation** | |
| Investment Manager's charge | 1.00 |
| Other expenses | 0.62 |
| Transaction charges | 0.04 |
| **Ongoing charge** | **1.66** |

^ The ongoing charge is annualised based on the fees incurred during the accounting period.

## Synthetic risk & reward indicator

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

**Typically lower rewards, lower risk** ← → **Typically higher rewards, higher risk**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

The Fund is ranked 5 because funds of this type have experienced medium to high rises and falls in value in the past. Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases.

## Risk warning

An investment in an Open Ended Investment Company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the revenue from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

## Sector classification of investments

| Sector | % of fund as at 31.01.13 |
|---|---|
| Technology | 18.24 |
| Consumer services | 17.75 |
| Industrials | 16.09 |
| Financials | 10.81 |
| Consumer goods | 8.09 |
| Net other assets | 29.02 |

| Sector | % of fund as at 31.07.12 |
|---|---|
| Consumer services | 22.44 |
| Industrials | 19.95 |
| Technology | 18.68 |
| Consumer goods | 13.46 |
| Financials | 5.83 |
| Net other assets | 19.64 |

## Major holdings

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

| Holding | % of fund as at 31.01.13 |
|---|---|
| Dart | 8.59 |
| H&T | 7.96 |
| Inland Homes | 7.17 |
| SciSys | 6.71 |
| Tracsis | 6.40 |
| China Food | 4.83 |
| Universe | 4.15 |
| Accumuli | 3.85 |
| Ludorum | 3.64 |
| Games Workshop | 2.47 |

| Holding | % of fund as at 31.07.12 |
|---|---|
| Boomerang Plus | 10.57 |
| Tracsis | 6.98 |
| SciSys | 6.27 |
| Dart | 5.60 |
| Accumuli | 5.43 |
| China Food | 5.35 |
| Telford Homes | 4.59 |
| Stanley Gibbons | 4.27 |
| Ludorum | 4.25 |
| Braemar Shipping Services | 3.25 |

## General information

### Authorised status

PFS Downing Active Management Fund (the 'Company') is incorporated in England and Wales as an ICVC under registration number IC563. Shareholders are not liable for the debts of the Company.

The Company is authorised by the FSA as a UCITS Scheme under the COLL Sourcebook and is an umbrella company for the purposes of the OEIC Regulations with each Fund being a UCITS Scheme. The effective date of the authorisation order made by the FSA was 19 September 2007.

### Buying and selling shares

The dealing office of the Authorised Corporate Director (ACD) is open from 8.30am until 4.30pm on each dealing day to receive request for the purchase or redemption of shares. Shares can be bought either by sending a completed application form to the ACD at PO Box 10879, Chelmsford, Essex CM1 9QW, or by telephoning the ACD on 0845 305 4215 fax 0845 280 0087. Requests to redeem shares may be in writing to the ACD at PO Box 10879, Chelmsford, Essex CM1 9QW, or by telephone on 0845 305 4215 fax 0845 280 0087. Shares will be issued or redeemed at a price calculated by reference to the next valuation point following receipt of the application.

A contract note giving details of the number and price of shares bought or redeemed will be issued no later than the end of business day following the later of receipt of the application to buy shares and the valuation point by reference to which the price is determined.

### Report and accounts

This document is a short report of PFS Downing Active Management Fund for the period ended 31 January 2013. The full Report and Accounts for the Company is available free of charge upon written request to Phoenix Fund Services (UK) Ltd, PO Box 10879, Chelmsford, Essex CM1 9QW.

### 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 period.

### 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 manager reviews the policies for managing these risks in order to follow and achieve the investment objectives.

PHOENIX
Fund Services

## Directory

### Authorised Corporate Director & Registrar

Phoenix Fund Services (UK) Ltd
Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW
Telephone: 01245 398950
Fax: 01245 398951
Website: www.phoenixfundservices.com
(Authorised and regulated by the Financial Services Authority)

### Customer service centre

PO Box 10879, Chelmsford, Essex CM1 9QW
Telephone: 0845 305 4215
Fax: 0845 280 0087
Email: downing@phoenixfundservices.com
(Authorised and regulated by the Financial Services Authority)

### Directors of the Authorised Corporate Director

R.W. Elliot (retired 14 March 2013)
R.W. Leedham
D.W. Munting (appointed 15 February 2013)
A.C. Reed
J.M. Rice

### Investment Manager

Downing LLP
10 Lower Grosvenor Place, London SW1W 0EN
(Authorised and regulated by the Financial Services Authority)

### Depositary

BNY Mellon Trust & Depositary (UK) Ltd
The Bank of New York Mellon Centre
160 Queen Victoria Street, London EC4V 4LA
(Authorised and regulated by the Financial Services Authority)

With effect from 30 September 2012 BNY Mellon Trust & Depositary (UK) Limited ceased to be the Depositary for the Company. National Wesminster Bank Plc was appointed as Depositary effective as at 1 October 2012

National Westminster Bank Plc
Trustee & Depositary Services
Younger Building, 1st Floor
3 Redheughs Avenue, Edinburgh EH12 9RH
(Authorised and regulated by the Financial Services Authority

### Auditor

KPMG Audit Plc
Chartered Accountants & Registered Auditors
15 Canada Square, Canary Wharf, London E14 5GL