PHOENIX
Fund Services

PFS Somerset Capital Management Investment Funds ICVC

Annual Report 30 September 2011 (Audited)

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Authorised Corporate Director & Registrar
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(Authorised and regulated by the Financial Services Authority)

Directors of the ACD
A. C. Reed (appointed 1 November 2011)
R. Elliott (appointed 11 April 2011)
S. A. King
S. D. Mathieson (retired 31 October 2011)
J. M. Rice (appointed 22 February 2011)

Investment Manager
Somerset Capital Management LLP
Third Floor, 146 Buckingham Palace Road,
London, SW1W 9TR
(Authorised and regulated by the Financial Services Authority)

Lead Investment Managers
Mark Asquith
Edward Lam
Edward Robertson

Depositary
National Westminster Bank Plc
Trustee & Depositary Services
1st Floor, The Broadstone, 50 South Gyle Crescent
Edinburgh EH12 9UZ
(Authorised and regulated by the Financial Services Authority)

Auditor
KPMG
Chartered Accountants & Registered Auditors
15 Canada Square,
London, EC14 5GL

Statement of the Authorised Corporate Director's Responsibilities

The ACD is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. The Financial Services Authority's Collective Investment Schemes Sourcebook ("the COLL Sourcebook") requires the ACD to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue/expenses and of the net gains/losses on the property of the Company for that year. In preparing the financial statements the ACD is required to:

- select suitable accounting policies, as described in the attached financial statements, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures, which are required to be disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The ACD is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable it to ensure that the financial statements comply with the COLL Sourcebook. The ACD is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the ACD is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the ACD has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Certification of Accounts by the Authorised Corporate Director

In accordance with the requirements of the OEIC Regulations and COLL, we hereby certify the Report on behalf of the ACD, Phoenix Fund Services (UK) Limited.

A. C. Reed
R. Elliot
Directors
Phoenix Fund Services (UK) Limited
16 December 2011

Statement of the Depositary's Responsibilities in Respect of the Company

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible movable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the COLL Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the 'OEIC Regulations') and the Company's Instrument of Incorporation, and prospectus in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company, and the investment and borrowing powers of the Company.

Report of the Depositary to the Shareholders of the PFS Somerset Capital Management Investment Funds (ICVC)

Having carried out such procedures as we considered necessary to discharge our responsibilities as depositary of the Company, it is our opinion based on the information available to us and the explanations provided, that in all material respects the Company, acting through the authorised corporate director:

(i) has carried out the issue, sale, redemption, cancellation and calculation of the price of the Company's shares, and the application of the Company's income in accordance with the Sourcebook and, where applicable, the OEIC Regulations, the instrument of incorporation and prospectus of the Company, and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

National Westminster Bank
Trustee and Depositary Services
16 December 2011

Independent Auditor's Report to the Shareholders of PFS Somerset Capital Management Investment Funds ICVC ('the Company')

We have audited the financial statements of the Company for the year ended 30 September 2011 set out on pages 6 to 69. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Services Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Authorised Corporate Director ('the ACD') Phoenix Fund Services (UK) Limited and the auditor

As explained more fully in the Statement of ACD's Responsibilities set out on page 2, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Company as at 30 September 2011 and of its net revenue and net capital losses/net capital gains on the property of the Company for the year then ended; and
- have been prepared in accordance with the requirements of the Instrument of Incorporation, Statement of Recommended Practice relating to Authorised Funds and the COLL Rules.

Opinion on other matters prescribed by the COLL Rules

In our opinion the information given in the Authorised Corporate Directors' Report is consistent with the financial statements.

We have received all of the information and explanations which we consider necessary for the purposes of the audit.

Independent Auditor's Report to the Shareholders of PFS Somerset Capital Management Investment Funds ICVC ('the Company') (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records.

Ravi Lamba

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

16 December 2011

Aggregated Statement of Total Return

for the period ended 30 September 2011

	Note	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
Income					
Net capital (losses)/gains	2		(12,160,283)		2,322,699
Revenue	3	2,195,436		264,848	
Expenses	4	(969,444)		(219,583)	
Finance costs: interest	6	(292)		(184)	
Net revenue before taxation		1,225,700		45,081	
Taxation	5	(226,667)		(25,444)	
Net revenue after taxation			999,033		19,637
Total return before distributions			**(11,161,250)**		**2,342,336**
Finance costs: distributions	6		(1,191,273)		(50,797)
Change in net assets attributable to shareholders from investment activities			**£(12,352,523)**		**£2,291,539**

Aggregated Statement of Change in Net Assets Attributable to Shareholders

for the period ended 30 September 2011

	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
Opening net assets attributable to shareholders		**16,656,474**		**7,009,170**
Amounts received on issue of shares	77,400,565		12,706,163	
Less: Amounts paid on cancellation of shares	(5,731,178)		(5,394,850)	
		71,669,387		7,311,313
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(12,352,523)		2,291,539
Retained distribution on accumulation shares		906,134		44,452
Unclaimed distributions		646		–
Closing net assets attributable to shareholders		**£76,880,118**		**£16,656,474**

Aggregated Balance Sheet

as at 30 September 2011

	Note	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
ASSETS					
Investment assets			**68,240,994**		**16,100,651**
Debtors	7	2,250,996		4,024,648	
Bank balances		8,146,390		644,539	
Total other assets			**10,397,386**		**4,669,187**
Total assets			**£78,638,380**		**£20,769,838**
LIABILITIES					
Creditors	8	(1,252,070)		(4,019,049)	
Distribution payable on income shares		(506,192)		(57,542)	
Bank overdrafts		–		(36,773)	
Total other liabilities			**(1,758,262)**		**(4,113,364)**
Net assets attributable to shareholders			**£76,880,118**		**£16,656,474**

Notes to the Aggregated Financial Statements

for the period ended 30 September 2011

1. Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice ("SORP") for Financial Statements of Authorised Funds issued by the Investment Management Association in October 2010.

(b) Basis of aggregation

The aggregate financial statements represent the sum of the individual Sub-Funds within the umbrella company.

(c) Recognition of revenue

Revenue is included in the Statement of Total Return on the following basis:

Dividends on quoted equities and preference shares are recognised when the securities are quoted ex-dividend.

Interest on bank and other cash deposits is recognised on an accruals basis.

All revenue includes withholding taxes but excludes irrecoverable tax credits.

(d) Treatment of stock and special dividends

The ordinary element of stocks received in lieu of cash dividends is credited to capital in the first instance followed by a transfer to revenue of the cash equivalent being offered and this forms part of the distributable revenue.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. The tax accounting treatment follows the treatment of the principal amount.

(e) Treatment of expenses

All expenses, except for those relating to the purchase and sale of investments performance fee charges (if any) and stamp duty reserve tax, are charged against revenue for the year on an accruals basis for PFS Somerset Global Emerging Markets Fund and PFS Somerset Emerging Markets Small Cap Fund.

The annual management fee for PFS Somerset Emerging Markets Dividend Growth Fund is charged against capital for the year on an accrual basis.

(f) Apportionment of revenue and expenses to multiple share classes:

With the exception of the Manager's periodic charge, which is directly attributable to individual share classes, all revenue and expenses are apportioned to the Sub-Fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the revenue or expense is recognised.

Notes to the Aggregated Financial Statements
continued

(g) Taxation

Corporation tax is provided at 20% on revenue, after deduction of expenses.

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

Stamp duty reserve tax suffered on surrender of shares is deducted from capital.

(h) Distribution policy

The net revenue after taxation, as disclosed in the financial statements, after adjustment for items of a capital nature, is distributable to Shareholders as dividend distributions. Any revenue deficit is deducted from capital.

Interim distributions may be made at the Investment Manager's discretion and the balance of revenue is distributed in accordance with the regulations.

Distributions not claimed within a six year period will be forfeited and added back to the capital property of the Sub-Fund

(i) Basis of valuation of investments

Listed investments are valued at closing bid prices on the last business day of the accounting year excluding any accrued interest in the case of fixed interest securities.

Unlisted or suspended investments are valued by the Investment Manager taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other relevant factors.

(j) Exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing exchange rates ruling on that date.

(k) Dilution levy

The ACD may require a dilution levy on the sale and redemption of shares if, in its opinion, the existing shareholders (for redemptions) might otherwise be adversely affected. In particular, the dilution levy may be charged in the following circumstances: where the scheme property is in continual decline; on a Sub-Fund experiencing large levels of net sales relative to its size; on 'large deals'; in any case where the ACD is of the opinion that the interests of remaining shareholders require the imposition of a dilution levy.

Notes to the Aggregated Financial Statements

continued

2 Net Capital (Losses)/Gains

	30.09.11 £	30.09.10 £
Non-derivative securities	(11,841,934)	2,134,049
Currency (losses)/gains	(45,665)	262,783
Transaction charges	(272,684)	(74,133)
Net capital (losses)/gains	**£(12,160,283)**	**£2,322,699**

3 Revenue

	30.09.11 £	30.09.10 £
Overseas dividends	2,195,232	264,843
Bank interest	204	5
Total revenue	**£2,195,436**	**£264,848**

Notes to the Aggregated Financial Statements

continued

4 Expenses	**30.09.11 £**	**30.09.10 £**
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	108,843	47,012
Registration fees	14,137	11,608
	122,980	58,620
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them:		
Investment Manager's fee	643,842	96,773
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees (including VAT)	39,833	17,544
Safe custody and other bank charges	55,954	8,932
	95,787	26,476
Other expenses:		
Audit fee (including VAT)	24,305	10,523
Professional fees	5,955	–
FSA fee	415	1,408
Legal fees	54,582	25,783
Printing costs	21,578	–
	106,835	37,714
Total expenses	**£969,444**	**£219,583**

Notes to the Aggregated Financial Statements

continued

5 Taxation

	30.09.11 £	30.09.10 £
(a) Analysis of charge in the period		
Overseas tax	226,667	25,444
Total tax charge (note 5b)	**£226,667**	**£25,444**

(b) Factors affecting current tax charge for the period	£	£
Net revenue before taxation	1,225,700	45,081
Corporation tax at 20%	245,140	9,016
Effects of:		
Surplus management expenses	193,907	43,953
Overseas tax	226,667	25,444
Non-taxable overseas earnings	(439,047)	(52,969)
Current tax charge for the period (note 5a)	**£226,667**	**£25,444**

(c) Deferred Tax

At the period end there is a potential deferred tax asset of £242,478 in relation to surplus management expenses. It is unlikely that the Sub-Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recongnised in the period.

6 Finance Costs

Distributions

The distributions take account of income received on the creation of shares and income deducted on cancellation of shares and comprise:

	30.09.11 £	30.09.10 £
Distributions		
Interim	237,982	
Final	1,314,013	101,994
	1,551,995	101,994
Revenue deducted on cancellation of shares	62,810	261
Revenue received on issue of shares	(423,532)	(51,458)
Finance costs: Distributions	**1,191,273**	**50,797**
Finance costs: interest	292	184
Total finance costs	**£1,191,565**	**£50,981**

Notes to the Aggregated Financial Statements

continued

6 Finance Costs

continued

	30.09.11 £	30.09.10 £
Reconciliation of net revenue after taxation to net distributions:		
Net revenue after taxation per statement of total return	999,033	19,637
Expenses charged to capital	191,862	29,729
Revenue deficit	460	–
Undistributed revenue brought forward	15	1,446
Undistributed revenue carried forward	(97)	(15)
Finance costs: Distributions	**£1,191,273**	**£50,797**

7 Debtors

	30.09.11 £	30.09.10 £
Amounts receivable for creation of shares	1,260,069	3,295,032
Currency deals outstanding	904,036	664,801
Sales awaiting settlement	32,394	41,516
Dividends receivable	54,327	20,638
Overseas tax recoverable	170	191
Prepaid expenses:		
Printing costs	–	2,470
Total debtors	**£2,250,996**	**£4,024,648**

Notes to the Aggregated Financial Statements

continued

8 **Creditors**	**30.09.11**	**30.09.10**
	£	**£**
Amounts payable for cancellation of shares	6,530	1,875,494
Purchases awaiting settlement	194,199	1,365,568
Currency deals outstanding	904,532	665,464
Accrued expenses:		
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	23,523	27,721
Registration fees	2,083	2,521
	25,606	30,242
Payable to the Investment Manager, associates of the Investment Manager, and agents of either of them:		
Investment Manager's fee	72,444	48,406
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	3,459	7,854
Transaction charges payable	–	8,805
Safe custody and other bank charges	16,065	4,056
	19,524	20,715
Other expenses:		
FSA fee	735	1,160
Printing cost	4,200	–
Audit fee (including VAT)	24,300	12,000
	29,235	13,160
Total creditors	**£1,252,070**	**£4,019,049**

Notes to the Aggregated Financial Statements

continued

9. Related Party Transactions

Authorised Corporate Director and other fees payable to Phoenix Fund Services (UK) Limited (the ACD) are disclosed in note 4 and amounts due at the period end are shown in note 8.

Management fees payable to Somerset Capital Management LLP (the Investment Manager) are disclosed in note 4 and amounts due at the period end are shown in note 8.

Depositary and other fees payable to National Westminster Bank plc are disclosed in note 4 and amounts due at the period end are shown in note 8.

Somerset Capital Management had the following shares in the PFS Somerset Global Emerging Fund:

Class B Income shares	Held at 30.09.11	Change in period	Held at 30.09.10
Somerset Capital Management	16,906	16,906	–

10. Contingent Liabilities and Commitments

Details of contingent liabilities or outstanding commitments are set out in the notes to the accounts for the relevant Sub-Fund.

11. Derivatives and other Financial Instruments

In pursuing their investment objectives, the Sub-Funds may hold a number of financial instruments. These financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from the Sub-Funds' operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued revenue.

The main risks arising from financial instruments and the ACD's policies for managing these risks are stated below. These policies have been applied throughout the period under review.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Sub-Fund might suffer through holding market positions in the face of price movements. This means the value of an investors' holding may go down as well as up and an investor may not recover the amount invested. Investors should consider the degree of exposure of the Sub-Fund in the context of all their investments.

The Sub-Funds' investment portfolios are exposed to market price fluctuations, which are monitored by the ACD as per the policies as set out in the Prospectus. The investment guidelines and investment and borrowing powers set out in the Instrument of Incorporation, the Prospectus and in the Financial Services Authorities Collective Investment Schemes Sourcebook describe the nature of the market risk to which the Sub-Fund will be exposed.

Notes to the Aggregated Financial Statements

continued

11. Derivatives and other Financial Instruments (continued)

Currency risk

Although the Sub-Funds capital and revenue are denominated in sterling, a proportion of the Sub-Funds investments have currency exposure and, as a result, the revenue and capital value of the Sub-Funds are affected by currency movements.

Foreign currency risk is the risk that the value of the Sub-Funds' investments will fluctuate as a result of changes in foreign currency exchange rates. For those Sub-Funds where a proportion of the net assets of the Sub-Fund is denominated in currencies other than sterling, the balance sheet can be affected by movements in exchange rates. The ACD monitors the foreign currency exposure of the Sub-Funds and may seek to manage exposure to currency movements by using forward exchange contracts or by hedging the sterling value of investments that are priced in other currencies.

Details of foreign currency risk profile per Sub-Fund is set out in the notes to the accounts of the relevant Sub-Fund.

Interest rate risk

Interest rate risk, being the risk that the value of investments will fluctuate as a result of interest rate changes. The majority of the Sub-Fund's assets comprise equity shares which neither pay interest nor have a maturity date.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Liquidity risk

There is little exposure to credit or cash flow risk. There are no net borrowings or unlisted securities and so little exposure to liquidity risk.

Under normal circumstances, a Sub-Fund will remain close to fully invested. However, where circumstances require: either because a view of illiquid securities markets or high levels of redemptions in the Sub-Fund, the Sub-Fund may hold cash and/or more liquid assets. Temporary higher liquidity levels may also arise during the carrying out of a change in asset allocation policy, or following a large issue of shares.

The ACD manages the Sub-Fund's cash to ensure they can meet their liabilities. The ACD receives daily reports of subscriptions and redemptions enabling the ACD to raise cash from the Sub-Funds' portfolio in order to meet redemption requests. In addition the ACD monitors market liquidity of all securities, with particular focus on the CP and FRN markets, seeking to ensure the Sub-Funds maintain sufficient liquidity to meet known and potential redemption activity. Sub-Fund cash balances are monitored daily by the ACD and the Investment Adviser/Manager. All of the Sub-Funds' financial liabilities are payable on demand or in less than one year.

Notes to the Aggregated Financial Statements

continued

11. Derivatives and other Financial Instruments (continued)

Counterparty risk

The risk that the counterparty will not deliver the investments for a purchase or the cash for a sale after the Sub-Fund has fulfilled it's responsibilities which could result in the Sub-Fund suffering a loss. The Investment Manager minimises the risk by conducting trades through only the most reputable counter parties.

Fair value of financial assets and liabilities

There is no material difference between the carrying values and the fair values of the financial instruments disclosed in the balance sheet.

12. Portfolio Transaction Costs

Details of portfolio transaction costs are set out in the notes to the accounts for the relevant Sub-Fund.

Investment Objective and Policy

for the year to 30 September 2011

The Sub-Fund seeks to achieve capital appreciation by mainly investing in an actively managed portfolio of emerging market securities.

The portfolio will consist principally of quoted equity securities, issued by companies established or operating in emerging market countries, principally in Asia, Eastern Europe, the Middle East, Africa and Latin America.

The Sub-Fund may also invest at the Investment Manager's discretion in other transferable securities, money market instruments, cash and near cash, depositary receipts, derivative instruments and forward transactions, deposits, and derivatives for the purpose of hedging or efficient portfolio management. The Sub-Fund may also invest in shares in other collective investment schemes however, investment by the Sub-Fund in other Schemes will be limited to a maximum of 10% of the scheme property of the Fund. Use may also be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted under applicable FSA Rules.

The Company permits the use of derivatives for investment purposes by the Sub-Fund, however, this policy is not currently applied and may not be applied without giving the required 60 day notice to Shareholders. If derivatives are used for the purpose of meeting the investment objective of the Sub-Fund it is not intended that the use of derivatives would significantly raise the risk profile but this cannot be guaranteed and the risk profile may increase as a result of a change in the investment policy for derivatives.

The Sub-Fund is permitted to invest 5% or more of its scheme property warrants. Such investments may increase the volatility of the Sub-Fund and therefore may adversely affect its risk profile.

Investment Manager's Report

for the year to 30 September 2011

The return was -13.36% against -15.75% for the MSCI Emerging Markets Index. Whilst activity was limited throughout this period, we did make a number of changes. One stock was sold in Q4 2010, LIC Housing Finance in India, as we realised that there was potential for further asset quality deterioration and we were not prepared to hold on with this risk overhanging the stock. Overall, we achieved a good return on the position. The stock was replaced by Ports Design, the high-end clothing manufacturer and retailer. We have long been impressed by the company's strong brand equity and ability to raise selling prices. Relative weakness in the stock during 2009 made the valuation look attractive when compared to other high-end retailers in China. We were also waiting for the company's completion of its store rationalisation programme which had been impeding sales growth. In South Africa, Tiger Brands was repurchased for its strong basket of brands which delivers pricing power and high returns. We are also excited by its increasing penetration in Sub-Saharan Africa.

By contrast, we made a number of changes to the Fund in Q1 2011. Our first move was to sell Weg, the manufacturer of electric motors and other industrial machinery in Brazil. The stock had performed well in the fourth quarter because of belief in the market that the company would benefit from Petrobras' $224bn, five-year CAPEX plan. While Weg may experience some sales growth off the back of this plan, the stock had rallied strongly and we took the opportunity to sell out at 28x price earnings (P/E). In Turkey we decided to sell Akbank as we are concerned that the Turkish financial system looks somewhat overstretched. While Akbank is better-run than most of the local banks, we think the sector as a whole is at risk. After disappointing results in the fourth quarter, we also sold MediaTek. We were expecting the company to be able to reverse the average selling price deterioration which had been a trend throughout 2010. However, owing to heightening competition at the lower-end and a failure to move up the value chain and meaningfully to penetrate the smart devices segment, dominated by the likes of Qualcomm, MediaTek continues to be squeezed.

Investment Manager's Report
continued

Despite our negative view on Turkey's financial system, we remain positive on parts of the consumer sector. We added Anadolu Efes, a beverage manufacturer with an enviable monopolistic position in the Turkish beer market and a stake in the regional Coca-Cola franchise. As a replacement for MediaTek in Taiwan, we bought Chinatrust Financial which we view as the best private bank to benefit from a recovery in domestic demand owing to its strong corporate and credit card franchise. Beijing Enterprises was added in China mostly for its stable gas transmission and distribution business, a sector we view as highly attractive in the long-term given China's aim to triple gas consumption by 2015. Likewise bought for its defensive qualities was Yuhan Corp, a well-run pharmaceuticals company in Korea with increasing exposure to China through its Yuhan-Kimberly subsidiary. In Russia we began adding a position in Lukoil in order to take out further insurance against an oil price spike in the event of escalating Middle Eastern unrest.

In Q2 2011 trading activity was limited to the purchase of two new positions. The first of these was Tsingtao Brewery in China. We have always been impressed by the "Tsingtao" brand and the large market share it has grasped in the provinces where beer drinking is most popular (Shandong and Guangdong). We believe that the company can continue to gain market share from regional breweries as the industry consolidates. We also have confidence that higher raw material costs can be passed on owing to the strength of the brand. We bought a position when we thought the stock's discount to its historical P/E valuation was wide enough. The second addition was Shinhan Financial Group in Korea. The Group's reputation for excellent corporate governance was severely shaken last year by a well-publicised power struggle between three members of top management which culminated in allegations of embezzlement and breaches of duty. The Group responded by restructuring the management team and board of directors as well as implementing a rigorous plan to improve transparency. Shinhan's underlying assets, most notably Shinhan Bank and Shinhan Card, remain highly attractive and undervalued at 1.0x P/B for the Group. We entered the stock on the basis that the new CEO will refocus on enhancing shareholder value.

Over the course of the Q3 2011, we sold five positions. In July, we decided to exit Energy Development Corp in the Philippines. We visited the company in May and having adjusted our earnings forecasts following that meeting, we came to the conclusion that the stock was too expensive compared to its peers. Union Bank of India was sold because of concerns that non-performing loans were creeping up above a comfortable level. In Korea, we sold Yuhan Corp because the rebound in prescription drug sales that we were expecting following the government's tighter anti-rebate rules never unfolded. Furthermore, the Ministry of Health announced plans to cut drug prices from March 2012 and although the full impact of this on Yuhan is impossible to determine at this stage, in our experience it is best to avoid an unfriendly regulator. Huabao was sold when management downgraded FY12 guidance owing to a slowdown in the consolidation of the tobacco industry. In Brazil, we sold Banco do Brasil since we were worried about the Brazilian banking system in general given its high loans-to-deposits ratio.

Investment Manager's Report
continued

To replace the stocks sold in Brazil, we started building a position in BM&F Bovespa, the Brazilian stock exchange. These businesses are naturally attractive on account of being monopolies with virtually insurmountable barriers to entry. Furthermore, we feel that the Brazilian exchange is particularly well-managed and still underutilised. In India, we bought Maruti Suzuki, a stock that we have been following for a while but which has only recently come down to an attractive level on valuations. We believe the company is extremely well positioned for a new stage of growth in the Indian passenger car market. It has a market share of approximately 50%, a strong brand and an extensive dealership presence. First Pacific was the final addition during the quarter. This Hong Kong-listed conglomerate has a portfolio of attractive assets in Southeast Asia. The largest contribution comes from Philippine Long Distance Telecom, a company which is no longer growing earnings at double-digit rates but retains a dominant position in the market which it will capitalise on when broadband takes off in the Philippines. First Pacific derives its growth from the other three subsidiaries - Indofood, Metro Pacific and Philex Mining. We visited all the subsidiaries when in Manila in May and decided to invest in the parent because of its significant discount to NAV.

China, Europe and the United States all pose threats to the current macro-economic outlook. In China Q3 GDP grew at 9.1% which is marginally lower than the 9.5% achieved in the second quarter. This would provide reassurances were it not for two factors. First is the general unreliability of Chinese economic data. These releases tend to be in line with Government forecasts and diverge according to policy decisions in a way that is suspiciously neat. Second, the breakdown of the GDP figure indicates that the investment component of GDP is skewed towards property development. About one fifth is from this source which is clearly slowing. The floor area under construction is up 30% on last year while sales have only risen by 13%. As the Government wishes to slow this market it is clearly succeeding and may want to relax restrictions. However, such a slowdown feeds through to commodities and the construction industry which will have a global impact as growth in China has been setting prices. This ought to help reduce global inflation allowing for a general easing of monetary policy especially in those emerging markets such as India which are troubled by high inflation. Thus a slowdown in China could help stabilise other emerging markets and a new cycle could be about to begin.

By Edward Robertson
Lead Fund Manager

15 December 2011

Portfolio Statement

as at 30 September 2011

Holding	Security	Market Value £	% of total net assets 2011
	Consumer Discretionary (8.54%)		
127,600	Genting Berhad	233,479	2.96
1,283	Hyundai Mobis	238,399	3.02
13,542	Maruti Suzuki India	192,232	2.43
171,294	Ports Design	169,499	2.15
		833,609	10.56
	Consumer Staples (5.19%)		
5,547	Fomento Economico Mexicano ADR	230,810	2.92
69,120	Tsingtao Brewery	244,514	3.10
26,852	Anadolu Efes Biracilik	198,375	2.51
14,268	Tiger Brands	238,573	3.02
120,000	Wal-Mart de Mexico Series 'V'	177,126	2.24
		1,089,398	13.79
	Energy (10.23%)		
174,115	CNOOC	186,073	2.36
6,022	Lukoil	196,378	2.49
46,639	OAO Rosneft Oil Company GDR	175,742	2.22
55,648	Petronet LNG	116,630	1.48
73,600	PTT Exploration & Production (Foreign)	212,026	2.68
		886,849	11.23
	Financials (24.26%)		
6,840	Bank Pekao	178,125	2.26
41,348	BM&F Bovespa SA	124,257	1.57
364,060	China Construction Bank 'H'	143,497	1.82
535,960	Chinatrust Financial Holding	205,469	2.60
382,000	First Pacific	217,348	2.75
93,000	Grupo Financiero Banorte	175,907	2.23
484,900	Krung Thai Bank	154,209	1.95
8,771	Shinhan Financial	200,496	2.54
355,798	Soho China	145,815	1.85
		1,545,123	19.57
	Healthcare (3.21%)		
36,139	Sun Pharmaceuticals Industries	219,080	2.77

Portfolio Statement

continued

Holding	Security	Market Value £	% of total net assets 2011
	Industrials (5.41%)		
70,000	Beijing Enterprises	228,579	2.89
97,842	Shanghai Industrial	177,497	2.25
		406,076	5.14
	Information Technology (13.96%)		
14,933	Cielo	214,103	2.71
82,920	Hon Hai Precision	120,693	1.53
6,226	Infosys	206,712	2.62
1,667	NHN	206,198	2.61
194,920	Taiwan Semiconductor	287,408	3.64
		1,035,114	13.11
	Construction Materials (10.41%)		
51,359	Duratex	152,743	1.93
5,647	Grasim Industries	173,333	2.19
1,000	POSCO	201,889	2.56
288,221	Semen Gresik	173,651	2.20
		701,616	8.88
	Telecommunications (10.53%)		
3,658	Millicom International Cellular	234,025	2.96
21,323	Mobile Telesystems ADR	168,225	2.13
19,931	MTN Group	209,252	2.65
		611,502	7.74
	Utilities (6.13%)		
16,550	Companhia de Saneamento do Estado de Sao Paulo	249,078	3.15
	Investment assets (97.87%)	**7,577,445**	**95.94**
	Net other assets (2.13%)	**320,830**	**4.06**
	Net assets	**7,898,275**	**100.00**

All investments are ordinary shares or stock units on a regulated securities market unless otherwise stated.

The percentages in brackets show the equivalent % holdings as at 30 September 2010

Comparative Tables

Net asset value per share

Year as at 30 September	Income Shares			Accumulation Shares		
	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)
Class A						
2009	4,805	3,444	139.52	123,547	88,539	139.54
2010	56,226	31,069	180.97	272,897	149,640	182.37
2011	39,654	25,963	152.73	285,265	184,859	154.31
Class B						
2009	45,116	32,343	139.49	6,835,702	4,900,346	139.49
2010	2,546,353	1,416,301	179.79	5,499,965	3,031,865	181.41
2011	2,483,681	1,628,582	152.51	5,030,093	3,231,920	155.64
Class B USD						
2010	$110,703	39,075	$2.83	N/A	N/A	N/A
2011	$92,817	39,075	$2.38	N/A	N/A	N/A

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	Income Shares			Accumulation Shares		
	Highest (pence)	Lowest (pence)	Net revenue (pence per share)	Highest (pence)	Lowest (pence)	Net revenue (pence per share)
Class A^^						
2008	109.99	103.95	–	109.99	103.95	–
2009	150.93	116.16	1.0470	152.10	93.77	1.0470
2010	191.95	140.01	0.3760	193.94	141.09	0.3789
2011^	194.01	148.93	–	196.03	150.48	–
Class B^^^						
2008	110.08	93.17	–	110.08	93.17	–
2009	150.85	117.33	1.2250	152.20	93.67	1.2250
2010	191.68	140.13	0.9290	194.35	141.39	0.9374
2011^	193.75	149.68	0.9933	196.45	151.76	1.0071
Class B USD^^^^						
2010	$3.03	$2.28	1.4639c	N/A	N/A	N/A
2011^	$3.11	$2.33	1.5375c	N/A	N/A	N/A

^ To 30 September 2011.
^^ Class A Income and Accumulation shares were launched 16 December 2008.
^^^ Class B Income and Accumulation shares were launched 17 November 2008.
^^^^ Class B USD Income shares were launched 21 April 2010.

Comparative Tables

continued

Total expense ratios

Expense type	30 September 2011 %	30 September 2010 %
Class A		
Managers Periodic charge	1.50	1.50
Other expenses	0.86	1.00
Total expense ratio	**2.36**	**2.50**
Class B		
Managers Periodic charge	1.00	1.00
Other expenses	0.89	0.91
Total expense ratio	**1.89**	**1.91**
Class B USD		
Managers Periodic charge	1.00	1.00
Other expenses	0.84	0.91
Total expense ratio	**1.84**	**1.91^**

The total expense ratio is annualised based on the fees incurred during the accounting period.

Risk Warning

An investment in an Investment Company with 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.

Statement of Total Return

for the year ended 30 September 2011

	Note	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
Income					
Net capital (losses)/gains	2		(1,346,835)		1,873,747
Revenue	3	227,168		181,475	
Expenses	4	(171,158)		(130,252)	
Finance costs: interest	6	91		(108)	
Net revenue before taxation		56,101		51,115	
Taxation	5	(15,131)		(15,945)	
Net revenue after taxation			40,970		35,170
Total return before distributions			**(1,305,865)**		**1,908,917**
Finance costs: distributions	6		(47,357)		(36,612)
Change in net assets attributable to shareholders from investment activities			**£(1,353,222)**		**£1,872,305**

Statement of Change in Net Assets Attributable to Shareholders

for the year ended 30 September 2011

	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
Opening net assets attributable to shareholders		**8,445,695**		**7,009,170**
Amounts received on issue of shares	2,796,299		3,007,041	
Less: Amounts paid on cancellation of shares	(2,023,046)		(3,471,809)	
		773,253		(464,768)
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(1,353,222)		1,872,305
Retained distribution on accumulation shares		32,549		28,988
Closing net assets attributable to shareholders		**£7,898,275**		**£8,445,695**

Balance Sheet

as at 30 September 2011

	Note	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
ASSETS					
Investment assets			**7,577,445**		**8,266,203**
Debtors	7	79,634		128,861	
Bank balances		448,715		163,567	
Total other assets			**528,349**		**292,428**
Total assets			**£8,105,794**		**£8,558,631**
LIABILITIES					
Creditors	8	(190,957)		(99,299)	
Distribution payable on income shares		(16,562)		(13,637)	
Total other liabilities			**(207,519)**		**(112,936)**
Net assets attributable to shareholders			**£7,898,275**		**£8,445,695**

Notes to the Financial Statements
for the year ended 30 September 2011

1. Accounting Policies

The Sub-Fund's financial statements have been prepared on the same basis as the Aggregated Financial Statements.

2 Net Capital (Losses)/Gains

	30.09.11 £	30.09.10 £
Non-derivative securities	(1,329,142)	1,635,634
Currency gains	25,513	273,386
Transaction charges	(43,206)	(35,273)
Net capital (losses)/gains	**£(1,346,835)**	**£1,873,747**

3 Revenue

	30.09.11 £	30.09.10 £
Overseas dividends	227,113	181,473
Bank interest	55	2
Total revenue	**£227,168**	**£181,475**

Notes to the Financial Statements

continued

4 Expenses	30.09.11 £	30.09.10 £
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	24,577	28,686
Registration fees	4,575	7,202
	29,152	35,888
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them:		
Investment Manager's fee	90,155	67,044
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees (including VAT)	12,034	11,685
Safe custody and other bank charges	9,127	6,218
	21,161	17,903
Other expenses:		
Audit fee (including VAT)	8,105	4,523
Professional fees	5,955	–
FSA rebate/fee	(75)	848
Legal fees	7,417	4,046
Printing costs	9,288	–
	30,690	9,417
Total expenses	**£171,158**	**£130,252**

Notes to the Financial Statements

continued

5 Taxation

	30.09.11 £	30.09.10 £
(a) Analysis of charge in the year		
Overseas tax	15,131	15,945
Current tax charge (note 5b)	**£15,131**	**£15,945**

(b) Factors affecting taxation charge for the year		
Net revenue before taxation	56,101	51,115
Corporation tax at 20%	11,220	10,223
Effects of:		
Surplus management expenses	34,203	26,072
Overseas tax	15,131	15,945
Non-taxable overseas earnings	(45,423)	(36,295)
Current tax charge (note 5a)	**£15,131**	**£15,945**

(c) Deferred Tax

At the year end there is a potential deferred tax asset of £64,893 (2010: £30,690) in relation to surplus management expenses. It is unlikely that the Sub-Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the year.

Notes to the Financial Statements

continued

6 Finance Costs

		30.09.11	30.09.10
		£	£

The distributions take account of revenue received on the creation of shares and revenue deducted on cancellation of shares, and comprise:

		30.09.11 £	30.09.10 £
Distributions			
Final			
Income Shares			
Class 'A'	Final	–	117
Class 'B'	Final	16,177	13,157
Class 'B' USD	Final	385	363
Accumulation Shares			
Class 'A'	Final	–	567
Class 'B'	Final	32,549	28,421
		49,111	42,625
Revenue deducted on cancellation of shares		18	2
Revenue received on issue of shares		(1,772)	(6,015)
Finance costs: Distributions		**47,357**	**36,612**
Finance costs: interest		(91)	108
Total finance costs		**£47,266**	**£36,720**

Reconciliation of net revenue after taxation to net distributions:

	30.09.11 £	30.09.10 £
Net revenue after taxation per statement of total return	40,970	35,170
Expenses charged to capital	5,955	–
Revenue deficit on Class A shares	431	–
Undistributed revenue brought forward	4	1,446
Undistributed revenue carried forward	(3)	(4)
Finance costs: Distributions	**£47,357**	**£36,612**

Notes to the Financial Statements

continued

7 Debtors

	30.09.11 £	30.09.10 £
Amounts receivable for creation of shares	–	63,458
Currency deals outstanding	42,784	5,739
Sales awaiting settlement	32,394	41,516
Dividends receivable	4,456	15,678
Prepaid expenses:		
Printing costs	–	2,470
Total debtors	**£79,634**	**£128,861**

8 Creditors

	30.09.11 £	30.09.10 £
Amounts payable for cancellation of shares	821	2
Purchases awaiting settlement	117,044	42,296
Currency deals outstanding	42,632	5,756
Accrued expenses:		
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	4,512	11,632
Registration fees	411	1,260
	4,923	12,892
Payable to the Investment Manager, associates of the Investment Manager, and agents of either of them:		
Investment Manager's fee	6,655	23,164
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	986	3,927
Transaction charges payable	–	2,580
Safe custody and other bank charges	2,151	2,082
	3,137	8,589
Other expenses:		
FSA fee	245	600
Printing costs	1,400	–
Audit fee (including VAT)	14,100	6,000
	15,745	6,600
Total creditors	**£190,957**	**£99,299**

Notes to the Financial Statements

continued

9 Related Party Transactions

Details relating to the Sub-Fund are shown in note 9 of the Aggregated Notes to the Financial Statements on page 15.

10 Contingent Liabilities

There were no contingent liabilities or outstanding commitments at the balance sheet date (2010: nil).

11 Derivatives and other Financial Instruments

The main risks arising from the Sub-Funds holding of financial instruments together with the ACD's policies for managing these risks are disclosed in note 11 of the Aggregated Notes to the Financial Statements on page 15.

Currency risk

The table below details the foreign currency risk profile at the balance sheet date.

30.09.11

Currency	**Monetary exposures £**	**Non-monetary exposures £**	**Total £**
Brazilian real	(14,011)	740,180	726,169
Hong Kong dollar	(2,467)	1,512,823	1,510,356
Indian rupee	8,925	907,987	916,912
Indonesian rupiah	–	173,651	173,651
Korean won	24	846,982	847,006
Malaysian ringgit	(8,421)	233,479	225,058
Mexican peso	–	353,033	353,033
Polish zloty	–	178,125	178,125
Pounds sterling	268,150	–	268,150
South African rand	–	447,825	447,825
Swedish krona	–	234,025	234,025
Taiwan dollar	82,617	613,570	696,187
Thai baht	–	366,235	366,235
Turkish lira	–	198,375	198,375
United States dollar	(13,987)	771,155	757,168
	£320,830	**£7,577,445**	**£7,898,275**

Notes to the Financial Statements

continued

11. Derivatives and other Financial Instruments (continued)

30.09.10

Currency	Monetary exposures £	Non-monetary exposures £	Total £
Brazilian real	18,902	990,778	1,009,680
Egyptian pound	–	174,522	174,522
Hong Kong dollar	2,068	1,396,807	1,398,875
Indian rupee	–	194,507	194,507
Indonesian rupiah	1,646	1,369,624	1,371,270
Korean won	–	654,561	654,561
Malaysian ringgit	712	284,346	285,058
Mexican peso	–	354,778	354,778
Philippine peso	–	263,270	263,270
Polish zloty	–	212,024	212,024
Pounds sterling	133,502	–	133,502
South African rand	–	255,348	255,348
Taiwan dollar	9,290	539,537	548,827
Thai baht	–	492,418	492,418
Turkish lira	–	221,192	221,192
United States dollar	13,372	862,491	875,863
	£179,492	**£8,266,203**	**£8,445,695**

Notes to the Financial Statements

continued

12. Portfolio Transaction Costs

	30.09.11 £	30.09.10 £
Analysis of purchases		
Purchases before transaction costs	5,291,796	4,968,788
Transaction costs:		
Commissions	11,579	10,721
Stamp Duty and other charges	3,040	3,140
	14,619	13,861
Total purchase cost	**£5,306,415**	**£4,982,649**
Analysis of sales		
Sales before transaction costs	4,767,386	5,504,291
Transaction costs:		
Commissions	(11,763)	(9,287)
Other charges	(6,569)	(4,585)
	(18,332)	(13,872)
Net sales proceeds	**£4,749,054**	**£5,490,419**

Distribution Tables

for the year ended 30 September 2011

Income Share Distribution

Final payable 30 November 2011

Class	Shares	Net Revenue	Equalisation	Distribution Payable 30.11.11	Distribution Paid 30.11.10
'A'	Group 1	–	–	–	0.3760
	Group 2	–	–	–	0.3760
'B'	Group 1	0.9933	–	0.9933	0.9290
	Group 2	0.1645	0.8288	0.9933	0.9290
'B' USD$	Group 1	1.5375	–	1.5375	1.4639
	Group 2	–	1.5375	1.5375	1.4639

Accumulation Share Distribution

Final payable 30 November 2011

Class	Shares	Net Revenue	Equalisation	Distribution Payable 30.11.11	Distribution Paid 30.11.10
'A'	Group 1	–	–	–	0.3789
	Group 2	–	–	–	0.3789
'B'	Group 1	1.0071	–	1.0071	0.9374
	Group 2	1.0059	0.0012	1.0071	0.9374

Group 1 - Shares purchased prior to 1 October 2010
Group 2 - Shares purchased on or after 1 October 2010 to 30 September 2011

Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It represents accrued revenue included in the purchase price of the Shares. After averaging, it is returned with the distribution as a capital repayment. It is not liable to income tax but must be deducted from the cost of the Shares for capital gains tax purposes.

Investment Objective and Policy

for the year to 30 September 2011

The Sub-Fund seeks to achieve capital appreciation and income growth by mainly investing in an actively managed portfolio of dividend-paying emerging market securities.

The portfolio will consist principally of quoted equity securities, issued by companies established or operating in emerging market countries, principally in Asia, Eastern Europe, the Middle East, Africa and Latin America.

The Sub-Fund may also invest at the Manager's discretion in other transferable securities, money market instruments, cash and near cash, depositary receipts, derivative instruments and forward transactions, deposits, derivatives for the purpose of hedging or efficient portfolio management and shares in other collective investment schemes - however, investment by the Sub-Fund in other property schemes will be limited to a maximum of 10% of the scheme of the fund. Use may also be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted under applicable FSA Rules.

The Company permits the use of derivatives for investment purposes by the Sub-Fund, however, this policy is not currently applied and may not be applied without giving the required 60 day notice to Shareholders. If derivatives are used for the purpose of meeting the investment objective of the Sub-Fund it is not intended that the use of derivatives would significantly raise the risk profile but this cannot be guaranteed and the risk profile may increase as a result of a change in the investment policy for derivatives.

The Sub-Fund is permitted to invest 5% or more of its scheme property warrants. Such investments may increase the volatility of the Sub-Fund and therefore may adversely affect its risk profile.

Investment Manager's Report

for the year to 30 September 2011

The Fund performed well in relative though not absolute terms in the 12 months to 30 September 2011. The accumulation share class NAV fell 7.1% in sterling terms whereas the comparable MSCI Emerging Markets Total Return Index fell 15.8%. Therefore, though the Fund lost ground in absolute terms, it has for this period and contingently at least, gained just over 8% relative to the index. For the hawks of relative performance the key for the longer term now is how much of this relative performance we maintain or give back in the following year as risk appetites adjust and company results come through. For dividend hunters the Fund has paid out a respectable net yield of approximately 3.5% over the last 12 months. The outlook for dividend growth is weaker in the next 12 months than it was in the last 12 months, but in the long run it remains the aim of the Fund to target companies that can provide substantial growth in future dividend payments.

In terms of the composition of performance the Fund has not been without volatility but overall it has been less volatile than the market. The exception to this was January when the Fund’s accumulation share class fell 8.5% whereas the comparable Index fell only 5.4% during a period of outflows from emerging markets. In this period, November 2010 to January 2011 a major cause of relative underperformance was the Fund’s lack of weighting in commodity stocks (we own no energy and no raw materials stocks). Meanwhile Brent oil prices moved from the around US$85 per barrel to just over US$100 per barrel between November and January and the only two sectors that were showing an absolute positive performance in our universe for this three month period was energy and basic materials. Another major factor in the performance in this period is likely to have been inflows. In November and December of 2011 we received substantial in flows as a percentage of the Fund which meant that the performance of the underlying stocks held in the Fund were not reflected in the Fund’s performance. The trading of in flows are likely to have been a major headwind to performance since inception since the Fund has doubled in size five times and it is possible that the effect of inflows since inception has been to retard

Investment Manager's Report

continued

the Fund's performance by as much as 5%. In this respect the Fund has certainly benefited from the fact that inflows as a percentage of the fund have been relatively tame since February.

In the latter half of the reporting year, as markets deteriorated, the Fund proved to be reasonably well positioned and benefitted from a combination of being: a) in consistent dividend yielding stocks, such as telecoms and selected utilities b) moved out of higher risk exposure, away from markets like Turkey early in the calendar year c) in good stocks whose companies seem able to grow their earnings even in the context of a slowdown in global growth d) in contrarian sectors and countries. The first point is strategic and should not need much elaboration: the Fund always aims to buy into high quality companies with higher yields and sustainable and growing dividends. The second factor was been driven by observations and data points suggesting that emerging (and global) markets credit cycles had reached a conclusion and have moved, at least temporarily, into a downward trend. The reduction in exposure to Turkey, with its excessively high current account deficit at the beginning of 2011 was only one of a few resulting tactic shifts: we also reduced exposure to Brazil and China and remained shy of India for related though not identical macro reasons. There were also one or two exceptional stocks in the Fund whose earnings and share prices have continued to grow through the period. NCsoft, the Korean online games producer, was not only the best performing stock in the terrible month of August but is up 51% in Sterling terms since the beginning of the year. It is not a 'classic' dividend stock, in that it has a low dividend yield, nevertheless it generates a very high return on capital and will have a new game coming out at Christmas to boost its revenue stream. More generally the Fund has benefited from contrarian positioning: towards telecom stocks which have underperformed over the last 3 years, towards South Africa and Taiwan which are generally consensus underweight markets, and away from Brazil, India and China, which were consensus overweight markets.

Other than NCSoft, stocks that have contributed significantly in the last 12 months include Cielo and Tiger Brands. Cielo is the credit card issuer in Brazil which takes a transaction fee for the use of its machines. Though there is a regulatory overhang in the sector because of the regulation of fees, the use of plastic is growing rapidly in Brazil and the stock had been depressed. These factors along with the high return business model allowed the stock to perform well during the year (up 20% in GBP). The worst performing stocks include Mobinil, the Egyptian mobile phone operator and Mobile Telesystems, the Russian mobile operator. Mobinil has had a very difficult two years, with over competition, a tender for minority shares falling through and finally the Egyptian revolution. The stock's prospects look somewhat better now, if only because so much bad news has been discounted. Mobile Telesystems in Russia has suffered in large part because of its exposure to the Russian currency and concerns over Russian corporate governance standards in general. The position has been under review for some time and remains so; the positive thing about Mobile Telesystems it is that it is our only Russian holding.

Our outlook for the next 12 months remains negative, as it has been since we thought the credit cycle rolled over in June or July. Though 'Europe' is most talked about problem by investors, it should, in my view be seen in its wider context: a peaking interest rate cycle, global capital constraints and slowing global growth (if not recession). The issues now perhaps more likely to 'move' markets, if they happen, are a sharp slowdown in Chinese growth or a recession in the U.S. economy. Meanwhile there are still highly significant amounts of both corporate and sovereign debt to be refinanced in the next 1-2 years, which makes us cautious. Our caution is tempered now by the fact that valuations have fallen, in some cases, to attractive levels, but in general our view of this is that it is likely to make the next 12 months more volatile, not less.

By Edward Lam
Lead Investment Manager

Portfolio Statement

as at 30 September 2011

Holding	Security	Market Value £	% of total net assets 2011
	Consumer Discretionary (10.52%)		
89,606	Foschini	600,317	2.44
	Consumer Staples (19.44%)		
79,310	Anadolu Efes Biracilik	585,920	2.38
123,275	Compania Cervecerais Unidas	816,322	3.31
14,348	KT & G	571,521	2.32
44,600	Natura Cosmeticos	492,471	2.00
81,350	Shoprite Holdings	736,634	2.99
92,500	Souza Cruz	600,417	2.43
38,019	Tiger Brands	635,709	2.58
		4,438,994	18.01
	Financials (9.93%)		
20,877	Bank Pekao	543,672	2.21
455,353	National Bank of Abu Dhabi	843,571	3.42
268,200	Public Bank Berhad Common	657,921	2.67
238,300	Siam Commercial Bank	519,175	2.11
249,703	Sanlam	537,757	2.18
		3,102,096	12.59
	Healthcare (0.64%)		
515,200	Top Glove Corporation Berhad	421,624	1.71
	Industrials (1.43%)		
	Information Technology (19.13%)		
598,000	AAC Technologies Holdings	834,343	3.39
39,300	Cielo	563,467	2.29
608,000	E Ink Holdings	820,929	3.33
34,827	HTC	502,517	2.04
98,015	Mediatek	695,771	2.82
5,334	NCSoft	976,598	3.96
86,557	Taiwan Semiconductor Mfg Spons ADR	634,537	2.58
1,747,239	Travelsky Technology	491,303	1.99
		5,519,465	22.40
	Construction Materials (2.21%)		
1,245,245	Semen Gresik	750,252	3.04

Portfolio Statement

continued

Holding	Security	Market Value £	% of total net assets 2011
	Telecommunications (19.23%)		
132,000	China Mobile	838,667	3.40
46,743	MTN Group	490,747	1.99
48,792	Maroc Telecom	536,931	2.18
10,241	Millicom International Cellular	655,180	2.66
52,394	Mobile Telesystems ADR	413,354	1.68
20,448	Mobinil	204,839	0.83
17,050	Philippine Long Distance Telephone	549,186	2.23
1,355,000	PT Telekomunikasi Indonesia	747,110	3.03
		4,436,014	18.00
	Utilities (12.89%)		
80,600	AES Tiete	654,455	2.65
62,159	Enersis ADR	674,739	2.74
699,961	Inversiones Aguas Metropolitanas	610,290	2.48
		1,939,484	7.87
	Investment assets (95.42%)	**21,208,246**	**86.06**
	Net other assets (4.58%)	**3,434,363**	**13.94**
	Net assets	**24,642,609**	**100.00**

All investments are ordinary shares or stock units on regulated securities market unless otherwise stated.

The percentages in brackets show the equivalent % holdings as at 30 September 2010.

Comparative Tables

Net asset value per share

Year as at 30 September	Income Shares			Accumulation Shares		
	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)
Class A						
2010	6,060,656	5,694,541	106.43	2,150,123	2,005,707	107.20
2011	18,775,901	19,654,357	95.53	5,034,547	5,179,353	97.20
Class B						
2011	790,524	950,000	83.21	41,637	49,980	83.31

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	Income Shares			Accumulation Shares		
	Highest (pence)	Lowest (pence)	Net revenue (pence per share)	Highest (pence)	Lowest (pence)	Net revenue (pence per share)
Class A^^						
2010	111.34	93.68	0.7710	112.45	93.68	0.7710
2011^	111.70	95.89	3.4289	112.81	97.57	3.4852
Class B^^^						
2011^	100.55	94.26	0.0890	97.53	94.21	–

^ To 30 September 2011.
^^ Class A Income and Accumulation shares where launched 29 March 2010.
^^^ Class B Income shares were launched 16 September 2011 and B Accumulation shares where launched 22 September 2011.

Comparative Tables

continued

Total expense ratios

Expense type	30 September 2011 %	30 September 2010^ %
Class A		
Managers Periodic charge	1.00	1.00
Other expenses	0.60	0.60
Total expense ratio	**1.60**	**1.60**
Class B^		
Managers Periodic charge	1.00	–
Other expenses	0.10	–
Total expense ratio	**1.10**	**–**

^ The total expense ratio is annualised based on the fees incurred during the accounting period.

Risk Warning

An investment in an Investment Company with 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.

Statement of Total Return

for the period ended 30 September 2011

	Note	01.10.10 to 30.09.11 £	£	29.03.10 to 30.09.10 £	£
Income					
Net capital (losses)/gains	2		(2,108,928)		448,952
Revenue	3	815,723		83,373	
Expenses	4	(297,816)		(89,331)	
Finance costs: interest	6	(43)		(76)	
Net revenue/(expense) before taxation		517,864		(6,034)	
Taxation	5	(88,632)		(9,499)	
Net revenue/(expense) after taxation			429,232		(15,533)
Total return before distributions			**(1,679,696)**		**433,419**
Finance costs: distributions	6		(615,155)		(14,185)
Change in net assets attributable to shareholders from investment activities			**£(2,294,851)**		**£419,234**

Statement of Change in Net Assets Attributable to Shareholders

for the period ended 30 September 2011

	01.10.10 to 30.09.11 £	£	29.03.10 to 30.09.10 £	£
Opening net assets attributable to shareholders		**8,210,779**		**–**
Amounts received on issue of shares	21,345,396		9,699,122	
Less: Amounts paid on cancellation of shares	(2,775,375)		(1,923,041)	
		18,570,021		7,776,081
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(2,294,851)		419,234
Retained distribution on accumulation shares		156,014		15,464
Unclaimed distributions		646		–
Closing net assets attributable to shareholders		**£24,642,609**		**£8,210,779**

Balance Sheet

as at 30 September 2011

	Note	30.09.11 £	30.09.11 £	30.09.10 £	30.09.10 £
ASSETS					
Investment assets			**21,208,246**		**7,834,448**
Debtors	7	1,895,324		3,895,787	
Bank balances		2,944,104		480,972	
Total other assets			**4,839,428**		**4,376,759**
Total assets			**£26,047,674**		**£12,211,207**
LIABILITIES					
Creditors	8	(915,435)		(3,919,750)	
Distribution payable on income shares		(489,630)		(43,905)	
Bank overdrafts		–		(36,773)	
Total other liabilities			**(1,405,065)**		**(4,000,428)**
Net assets attributable to shareholders			**£24,642,609**		**£8,210,779**

Notes to the Financial Statements
for the period ended 30 September 2011

1. Accounting Policies

The Sub-Fund's financial statements have been prepared on the same basis as the Aggregated Financial Statements.

2 Net Capital (Losses)/Gains

	01.10.10 to 30.09.11 £	29.03.10 to 30.09.10 £
Non-derivative securities	(1,889,178)	498,415
Currency losses	(154,731)	(10,603)
Transaction charges	(65,019)	(38,860)
Net capital (losses)/gains	**£(2,108,928)**	**£448,952**

3 Revenue

	01.10.10 to 30.09.11 £	29.03.10 to 30.09.10 £
Overseas dividends	815,668	83,370
Bank interest	55	3
Total revenue	**£815,723**	**£83,373**

Notes to the Financial Statements

continued

4 **Expenses**	**01.10.10 to 30.09.11 £**	**29.03.10 to 30.09.10 £**
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	48,770	18,326
Registration fees	5,000	4,406
	53,770	22,732
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them:		
Investment Manager's fee	185,907	29,729
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees (including VAT)	12,087	5,859
Safe custody and other bank charges	19,946	2,714
	32,033	8,573
Other expenses:		
Audit fee (including VAT)	8,100	6,000
FSA fee	(35)	560
Legal fees	8,305	21,737
Printing costs	9,736	–
	26,106	28,297
Total expenses	**£297,816**	**£89,331**

Notes to the Financial Statements

continued

5 **Taxation**	**01.10.10 to 30.09.11 £**	**29.03.10 to 30.09.10 £**
(a) Analysis of charge in the period		
Overseas tax	88,632	9,499
Current tax charge (note 5b)	**£88,632**	**£9,499**
(b) Factors affecting taxation charge for the period		
Net revenue before taxation	517,864	(6,034)
Corporation tax at 20%	103,573	(1,207)
Effects of:		
Surplus management expenses	59,561	17,881
Overseas tax	88,632	9,499
Non-taxable overseas earnings	(163,134)	(16,674)
Current tax charge (note 5a)	**£88,632**	**£9,499**

(c) Deferred Tax

At the period end there is a potential deferred tax asset of £77,442 in relation to surplus management expenses. It is unlikely that the Sub-Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the period.

Notes to the Financial Statements

continued

6 Finance Costs

		01.10.10 to 30.09.11 £	29.03.10 to 30.09.10 £
The distributions take account of revenue received on the creation of shares and revenue deducted on cancellation of shares, and comprise:			
Distributions			
Income Shares			
Class 'A'	Interim	139,669	–
Class 'A'	Final	488,784	43,905
Class 'B'	Final	846	–
Accumulation Shares			
Class 'A'	Interim	24,956	–
Class 'A'	Final	131,058	15,464
		785,313	59,369
Revenue deducted on cancellation of shares		57,126	259
Revenue received on issue of shares		(227,284)	(45,443)
Finance costs: Distributions		**615,155**	**14,185**
Finance costs: Interest		43	76
Total finance costs		**£615,198**	**£14,261**

Reconciliation of net revenue after taxation to net distributions:

Net revenue/(expense) after taxation per statement of total return	429,232	(15,533)
Expenses charged to capital	185,907	29,729
Revenue deficit on B Accumulation shares	29	–
Undistributed revenue brought forward	11	–
Undistributed revenue carried forward	(24)	(11)
Finance costs: Distributions	**£615,155**	**£14,185**

Notes to the Financial Statements

continued

7 Debtors

	30.09.11 £	30.09.10 £
Amounts receivable for creation of shares	1,008,668	3,231,574
Currency deals outstanding	861,252	659,062
Dividends receivable	25,234	4,960
Overseas tax recoverable	170	191
Total debtors	**£1,895,324**	**£3,895,787**

8 Creditors

	30.09.11 £	30.09.10 £
Amounts payable for cancellation of shares	5,709	1,875,492
Purchases awaiting settlement	–	1,323,272
Currency deals outstanding	861,900	659,708
Accrued expenses:		
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	10,358	16,089
Registration fees	836	1,261
	11,194	17,350
Payable to the Investment Manager, associates of the Investment Manager, and agents of either of them:		
Investment Manager's fee	20,316	25,242
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	966	3,927
Transaction charges payable	–	6,225
Safe custody and other bank charges	5,605	1,974
	6,571	12,126
Other expenses:		
FSA fee	245	560
Printing costs	1,400	–
Audit fee (including vat)	8,100	6,000
	9,745	6,560
Total creditors	**£915,435**	**£3,919,750**

Notes to the Financial Statements

continued

9 Related Party Transactions

Details relating to the Sub-Fund are shown in note 9 of the Aggregated Notes to the Financial Statements on page 15.

10 Contingent Liabilities

There were no contingent liabilities or outstanding commitments at the balance sheet date (2010:nil).

11 Derivatives and other Financial Instruments

The main risks arising from the Sub-Funds holding of financial instruments together with the ACD's policies for managing these risks are disclosed in note 11 of the Aggregated Notes to the Financial Statements on page 15.

Currency risk

The table below details the foreign currency risk profile at the balance sheet date.

30.09.11

Currency	Monetary exposures £	Non-monetary exposures £	Total £
Arab Emirates dirham	–	843,571	843,571
Brazilian real	15,847	2,310,810	2,326,657
Chilean peso	–	1,426,612	1,426,612
Egyptian pound	–	204,839	204,839
Euro	1,722,504	–	1,722,504
Hong Kong dollar	24,337	2,164,313	2,188,650
Indonesian rupiah	–	1,497,362	1,497,362
Korean won	–	1,548,119	1,548,119
Malaysian ringgit	–	1,079,545	1,079,545
Morroccan dirham	–	536,931	536,931
Philippine peso	170	549,186	549,356
Polish zloty	–	543,672	543,672
Pounds sterling	1,603,961	–	1,603,961
South African rand	–	3,001,164	3,001,164
Swedish krona	–	655,180	655,180
Taiwan dollar	5,176	2,019,217	2,024,393
Thai baht	–	519,175	519,175
Turkish lira	–	585,920	585,920
US dollar	62,368	1,722,630	1,784,998
	£3,434,363	**£21,208,246**	**£24,642,609**

Notes to the Financial Statements

continued

11. Derivatives and other Financial Instruments (continued)

30.09.10

Currency	**Monetary exposures £**	**Non-monetary exposures £**	**Total £**
Brazilian real	(117,723)	1,167,222	1,049,499
Chilean peso	(124,312)	602,053	477,741
Egyptian pound	–	130,153	130,153
Hong Kong dollar	3,727	816,180	819,907
Indonesian rupiah	(82,538)	401,868	319,330
Korean won	–	306,482	306,482
Morroccan dirham	(83,322)	303,745	220,423
Philippine peso	–	223,207	223,207
Polish zloty	853	364,178	365,031
Pounds sterling	1,056,290	–	1,056,290
South African rand	(83,752)	1,284,750	1,200,998
Taiwan dollar	3,922	456,281	460,203
Thai baht	–	191,245	191,245
Turkish lira	(83,434)	689,200	605,766
United States dollar	(113,380)	897,884	784,504
	£376,331	**£7,834,448**	**£8,210,779**

Notes to the Financial Statements

continued

12. Portfolio Transaction Costs

	01.10.10 to 30.09.11 £	29.03.10 to 30.09.10 £
Analysis of purchases		
Purchases before transaction costs	18,864,939	7,350,463
Transaction costs:		
Commissions	40,492	15,963
Stamp Duty and other charges	11,479	–
	51,971	15,963
Total purchase cost	**£18,916,910**	**£7,366,426**
Analysis of sales		
Sales before transaction costs	3,563,412	26,445
Transaction costs:		
Commissions	(8,918)	(132)
Other charges	(1,390)	(7)
	(10,308)	(139)
Net sales proceeds	**£3,553,104**	**£26,306**

Distribution Tables

for the period ended 30 September 2011

Income Share Distribution

Final payable 30 November 2011

Class	Shares	Net Revenue	Equalisation	Distribution Payable 30.11.11	Distribution Paid 30.11.10
'A'	Group 1 Group 2	2.4869 0.7493	– 1.7376	2.4869 2.4869	0.7710 0.7710
'B'	Group 1 Group 2	0.0890 0.0890	– –	0.0890 0.0890	– –

Group 1 - Shares purchased prior to 1 April 2011
Group 2 - Shares purchased on or after 1 April 2011 and on or before 30 September 2011

Interim paid 31 May 2011

Class	Shares	Net Revenue	Equalisation	Distribution Paid 31.05.11	Distribution Paid 31.05.10
'A'	Group 1 Group 2	0.9420 0.4479	– 0.4941	0.9420 0.9420	– –
'B'	Group 1 Group 2	– –	– –	– –	– –

Group 1 - Shares purchased prior to 1 October 2010
Group 2 - Shares purchased on or after 1 October 2010 and before 31 March 2011

Distribution Tables

continued

Accumulation Share Distribution

Final payable 30 November 2011

Class	Shares	Net Revenue	Equalisation	Distribution Payable 30.11.11	Distribution Paid 30.11.10
'A'	Group 1	2.5304	–	2.5304	0.7710
	Group 2	0.3074	2.2230	2.5304	0.7710
'B'	Group 1	–	–	–	–
	Group 2	–	–	–	–

Group 1 - Shares purchased prior to 1 April 2011
Group 2 - Shares purchased on or after 1 April 2011 and on or before 30 September 2011

Interim paid 31 May 2011

Class	Shares	Net Revenue	Equalisation	Distribution Paid 31.05.11	Distribution Paid 31.05.10
'A'	Group 1	0.9548	–	0.9548	–
	Group 2	0.8161	0.1387	0.9548	–
'B'	Group 1	–	–	–	–
	Group 2	–	–	–	–

Group 1 - Shares purchased prior to 1 October 2010
Group 2 - Shares purchased on or after 1 October 2010 and before 31 March 2011

Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It represents accrued revenue included in the purchase price of the Shares. After averaging, it is returned with the distribution as a capital repayment. It is not liable to income tax but must be deducted from the cost of the Shares for capital gains tax purposes.

Investment Objective and Policy

for the period to 30 September 2011

The objective of the Sub-fund is to achieve long term capital appreciation.

The Sub-Fund seeks capital appreciation by investing in an actively managed portfolio composed principally of quoted equity securities, issued by companies established or operating in emerging market countries, principally in Asia, Eastern Europe, the Middle East, Africa and Latin America and whose market capitalisation does not exceed US$2.5 billion at the time of the investment. The Sub-Fund may also invest in other investment funds in order to gain exposure to specific markets or the expertise of specific managers.

The Sub-Fund generally seeks to maintain a diversified portfolio in order to reduce its dependence on specific companies or industry sectors. The Sub-Fund may invest in cash and near cash, and in shares in other collective investment schemes, however, investment by the Sub-Fund in other schemes will be limited to a maximum of 10% of the scheme property of the Sub-Fund.

The Company permits the use of derivatives for investment purposes by the Sub-Fund, however, this policy is not currently applied and may not be applied without giving the required 60 day notice to Shareholders. If derivatives are used for the purpose of meeting the investment objective of the Sub-Fund it is not intended that the use of derivatives would significantly raise the risk profile but this cannot be guaranteed and the risk profile may increase as a result of a change in the investment policy for derivatives.

The Sub-Fund is permitted to invest 5% or more of its scheme property warrants. Such investments may increase the volatility of the Sub-Fund and therefore may adversely affect its risk profile.

Investment Manager's Report

for the period to 30 September 2011

The Somerset Emerging Markets Small Cap Fund, which launched on 1st November 2010, performed in line with the index over the eleven months to its Year End, 30th September 2011. In GBP terms, the net return since Fund inception was -18.56% versus -17.60% for the MSCI Emerging Markets Index. Activity during this period was limited to around 2-3 buys and sells per quarter – in line with the strategy’s long term average. It is helpful at this stage to consider some of the long term themes and some of the stocks both bought and disposed of from the Fund.

Inflationary concerns intensified during late 2010 and Q1 2011 leading to underperformance in emerging markets compared to the developed regions. Oil reached $125 which raised the spectre of a 2008 style collapse. However, we do not think this the most likely scenario as earnings and credit conditions are fundamentally different from three years ago. The relative outperformance of developed versus GEM is probably entering its latter stages, but absolute performance could remain weak. Although fund valuations at 11.5x 2011 price earnings (P/E) are reasonably attractive, both price and earnings momentum have been strong in recent years. For that reason we have continued to cut some of the more aggressive positions and added some cheap defensive stocks throughout the period in question. This is likely to be the end of our defensive and value adjustments and we are now looking to buy the best companies on our watchlist when they come in range.

Saraiva, the Brazilian publisher and bookseller, is an example of a stock we have held since the inception of the Fund on the expectation of higher margins post the renovation of its acquired Siciliano stores. The stock has done well in anticipation of this but we were concerned that the margin gain has been diluted by diversification into online retailing which involves selling electronics and other lower margin goods. The contrast with Navneet, the other education publisher we hold, was instructive. Top companies can clearly and repeatedly state and capitalise on their core competitive advantage (in Navneet’s case its content and contacts); this advantage should not require high capital

Investment Manager's Report

continued

or additional funding. Saraiva seems to have forgotten about creating content and has become a distributor/retailer and finally an internet trading organisation, selling other people's goods. One of the other things we had liked about Saraiva was the fact that management were incentivised on 'cash value added' whereby the management were rewarded on the cash they generated over the cost of capital. What seems to have happened however, perhaps coincidentally, is that their cost of capital hasbeen lowered through increased debt funding including lowest cost BNDES funds. The latter is a hidden risk of too much Brazilian corporate funding in our view. Since the stock had reached 22x p/e and we considered these negatives not fully priced in, we sold the stock. This is just one example of acting where valuations has become excessive, and we identified value elsewhere.

Another stock sold in Q1 2011 was Otokar. This Turkish commercial vehicles and defence manufacturer was a company the analysts were very keen should be in the Fund although I remember being less enthusiastic at the time of purchase, largely because the lumpiness and volatility of orders made the company's cashflow very hard to predict. Profitability in some years could be quite high for its industry but it was always hard to know when. The most compelling reason to own it was its historically low asset turnover and indeed it turned out to have been well timed as profits look likely to double to the end of 2011. If they do this however, the stock will still be trading on 15x earnings which, given its industry, is expensive in our view. After a tremendous run we decided to take profits.

Adel Kalemilik, a Turkish stationary manufacturer that has Faber Castell and the Anadolu group as strategic investors was purchased for different reasons. Very cheap and completely uncovered it came up on a screening with very attractive metrics including a 26% return on assets for only 9x p/e and a 40% dividend payout policy. Selling pencils, pens, watercolours and paints into the office and education sectors of a fast growing economy like Turkey is an attractive business model. What has become apparent to us, to our surprise, is the level of skilled labour required to manufacture a traditional pencil. This poses a significant barrier to entry in the form of labour cost and supply.

Another interesting purchase made for the Fund was V.I.P Industries, a leading Indian luggage brand, established in 1968. They sell all types of luggage including briefcases, backpacks and uprights. They did quite well for 20 years then diversified into other businesses but these mostly failed so were closed down. Now they're just focused on luggage. The company used to make 8-9% operating margins and this has now moved to 15% owing to cost control and operating leverage as well as an increase in the mix of soft luggage. They expect 200bp expansion in margins over the next two years even with commodity pressure. They expect 20% growth for the next 3-4 years (18% this year) owing to their distribution and branding efforts. They launched three new brands during 2011.

As we look forward into 2012, the main concern with Global Emerging Markets remains China. Chinese valuations reached 2008 trough levels in September of this year, which we felt was unjustified and led us to add to positions on weakness. The understandable concerns centre on corporate governance, corruption, a housing bubble and social / political unrest. China needs the rule of law. The key difference between China and The West, is that China has an Income Statement problem, whilst The West has a Balance Sheet problem. The latter is much worse. In addition, China is allowing wage inflation at the expense of export margins. This is the much called for re-gearing of the Chinese economy towards consumption. Few people are pointing to this as a positive.

In conclusion, the Small Cap universe remains inefficient, uncovered and under-owned qualities a stock picker rates highly. Opportunities continue to emerge.

Mark Asquith
Lead Investment Manager

Portfolio Statement

as at 30 September 2011

Holding	Security	Market Value £	% of total net assets 2011
	Consumer Discretionery		
2,089,100	BEC World	1,585,456	3.57
218,130	City Lodge Hotels	1,085,137	2.44
588,000	Giant Manufacturing	1,399,587	3.16
153,869	Lewis Group	858,343	1.94
1,678,000	Minth	987,946	2.23
1,726,763	Navneet Publications India	1,439,473	3.25
1,514,796	Ports Design	1,498,920	3.38
180,700	The Foschini Group	1,210,602	2.73
125,425	V.I.P. Industries	1,495,615	3.37
		11,561,079	26.07
	Consumer Staples		
8,000,900	Alliance Global Group	1,094,746	2.47
1,299,940	Grupo Herdez SAB-Series	1,466,234	3.31
76,397	Kernel Holding	913,533	2.06
		3,474,513	7.84
	Financials		
235,541	Banco ABC Brasil	761,596	1.72
1,977,000	Capitaretal China Trust	1,134,584	2.56
191,465	Federal Bank	924,032	2.08
2,755,525	IGB Corporation	1,008,396	2.28
296,838	JSE	1,516,983	3.42
39,111,000	Panin Financial	305,619	0.69
943,980	Parque Arauco	985,110	2.22
2,880,895	Pruksa Real Estate	844,799	1.91
1,292,916	Security Bank	1,655,180	3.73
2,612,492	Union National Bank Abhu Dhabi	1,378,889	3.11
		10,515,188	23.72
	Healthcare		
102,882	Cremer	510,906	1.15
508,463	FDC	600,146	1.35
7,828,000	Sino Biopharmaceutical	1,420,092	3.20
153,000	ST Shine Optical	1,208,556	2.73
1,580,405	Top Glove	1,293,356	2.92
		5,033,056	11.35

Portfolio Statement
continued

Holding	Security	Market Value £	% of total net assets 2011
	Industrials		
94,525	Adel Kalemcilik	858,221	1.93
7,445,100	AKR Corporindo	1,291,315	2.91
506,875	Raubex	526,979	1.19
91,100	Tegma Gestao Logistica	642,680	1.45
159,130	Valid Solucoes	1,053,823	2.38
		4,373,018	9.86
	Information Technology		
1,437,000	E Ink	1,940,256	4.38
2,119,400	Hana Microelectronics	730,915	1.65
4,449,260	Travelsky Technology	1,251,080	2.82
		3,922,251	8.85
	Materials		
1,252,424	Heldelbergoement India	576,198	1.30
	Investment assets	**39,455,303**	**88.99**
	Net other assets	**4,883,931**	**11.01**
	Net assets	**44,339,234**	**100.00**

All investments are ordinary shares or stock units on a regulated securities market unless otherwise stated.

Comparative Tables

Net asset value per share

Year as at 30 September	GBP B Accumulation shares		
	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)
2011	6,675,219	8,225,952	81.15

Year as at 30 September	EUR B Accumulation shares		
	Net asset value (€)	No. of shares in issue	Net asset value (€ cents per share)
2011	13,541,383	16,602,827	81.56

Year as at 30 September	USD B Accumulation shares		
	Net asset value ($)	No. of shares in issue	Net asset value ($ cents per share)
2011	40,505,087	51,709,937	78.33

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	GBP B Accumulation shares		
	Highest (pence)	Lowest (pence)	Net revenue (pence per share)
2010^	101.40	96.01	–
2011^^	102.31	80.51	1.6842

Year	EUR B Accumulation shares		
	Highest (€cents)	Lowest (€cents)	Net revenue (€cents per share)
2010^	103.02	98.90	–
2011^^	104.83	80.16	1.4170

Year	USD B Accumulation shares		
	Highest ($cents)	Lowest ($cents)	Net revenue ($cents per share)
2010^	101.84	94.19	–
2011^^	99.11	77.42	1.3569

^ From launch 1 November 2010 to 31 December 2010.
^^ To 30 September 2011.

Comparative Tables

continued

Total expense ratios

Expense type	30 September 2011^ %
GBP B Accumulation	
Managers periodic charge	1.25
Other expenses	0.47
Total expense ratio	**1.72**
EUR B Accumulation	
Managers periodic charge	1.25
Other expenses	0.36
Total expense ratio	**1.61**
USD B Accumulation	
Managers periodic charge	1.25
Other expenses	0.34
Total expense ratio	**1.59**

^ The total expense ratio is annualised based on the fees incurred during the accounting period.

Risk Warning

An investment in an Investment Company with 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.

Statement of Total Return

for the period 1 November 2010 to 30 September 2011

	Note		01.11.10 to 30.09.11
		£	£
Income			
Net capital losses	2		(8,704,520)
Revenue	3	1,152,545	
Expenses	4	(500,470)	
Finance costs: interest	6	(340)	
Net revenue before taxation		651,735	
Taxation	5	(122,904)	
Net revenue after taxation			528,831
Total return before distributions			**(8,175,689)**
Finance costs: distributions	6		(528,761)
Change in net assets attributable to shareholders from investment activities			**£(8,704,450)**

Statement of Change in Net Assets Attributable to Shareholders

for the period 1 November 2010 to 30 September 2011

		01.11.10 to 30.09.11
	£	£
Opening net assets attributable to shareholders		**–**
Amounts received on issue of shares	53,258,870	
Less: Amounts paid on cancellation of shares	(932,757)	
		52,326,113
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		(8,704,450)
Retained distribution on accumulation shares		717,571
Closing net assets attributable to shareholders		**£44,339,234**

Balance Sheet

as at 30 September 2011

	Note	30.09.11 £	30.09.11 £
ASSETS			
Investment assets			**39,455,303**
Debtors	7	276,038	
Bank balances		4,753,571	
Total other assets			**5,029,609**
Total assets			**£44,484,912**
LIABILITIES			
Creditors	8	(145,678)	
Total other liabilities			**(145,678)**
Net assets attributable to shareholders			**£44,339,234**

Notes to the Financial Statements

for the period 1 November 2010 to 30 September 2011

1. Accounting Policies

The Sub-Fund's financial statements have been prepared on the same basis as the Aggregated Financial Statements.

2 Net Capital Losses

	01.11.2010 to 30.09.2011 £
Non-derivative securities	(8,623,614)
Currency gains	83,553
Transaction charges	(164,459)
Net capital losses	**£(8,704,520)**

3 Revenue

	01.11.2010 to 30.09.2011 £
Overseas dividends	1,152,451
Bank interest	94
Total revenue	**£1,152,545**

Notes to the Financial Statements

continued

4 Expenses

	01.11.2010 to 30.09.2011 £
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:	
ACD's fee	35,496
Registration fees	4,562
	40,058
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them:	
Investment Manager's fee	367,780
Payable to the Depositary, associates of the Depositary, and agents of either of them:	
Depositary's fees (including VAT)	15,712
Safe custody and other bank charges	26,881
	42,593
Other expenses:	
Audit fee (including VAT)	8,100
FSA fee	525
Legal fees	38,860
Printing costs	2,554
	50,039
Total expenses	**£500,470**

Notes to the Financial Statements

continued

5 **Taxation**	**01.11.2010 to 30.09.2011 £**
(a) Analysis of charge in the period	
Overseas tax	122,904
Current tax charge (note 5b)	**£122,904**

(b) Factors affecting taxation charge for the period	**£**
Net revenue before taxation	651,735
Corporation tax at 20%	130,347
Effects of:	
Surplus management expenses	100,143
Overseas tax	122,904
Non-taxable overseas earnings	(230,490)
Current tax charge (note 5a)	**£122,904**

(c) Deferred Tax

At the period end there is a potential deferred tax asset of £100,143 in relation to surplus management expenses. It is unlikely that the Sub-Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the period.

Notes to the Financial Statements

continued

6 Finance Costs

		01.11.2010 to 30.09.2011 £
The distributions take account of revenue received on the creation of shares and revenue deducted on cancellation of shares, and comprise:		
Distributions		
Accumulation Shares		
Class 'B' GBP	Interim	7,819
Class 'B' EUR	Interim	27,788
Class 'B' USD	Interim	37,750
Class 'B' GBP	Final	117,508
Class 'B' EUR	Final	175,906
Class 'B' USD	Final	350,800
		717,571
Revenue deducted on cancellation of shares		5,666
Revenue received on issue of shares		(194,476)
Finance costs: Distributions		**528,761**
Finance costs: interest		340
Total finance costs		**£529,101**

Reconciliation of net revenue after taxation to net distributions:

Net revenue after taxation per statement of total return	528,831
Undistributed revenue carried forward	(70)
Finance costs: Distributions	**£528,761**

Notes to the Financial Statements

continued

7 Debtors

	30.09.11 £
Amounts receivable for creation of shares	251,401
Dividends receivable	24,637
Total debtors	**£276,038**

8 Creditors

	30.09.11 £
Purchases awaiting settlement	77,155
Accrued expenses:	
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:	
ACD's fee	8,653
Registration fees	836
	9,489
Payable to the Investment Manager, associates of the Investment Manager, and agents of either of them:	
Investment Manager's fee	45,473
Payable to the Depositary, associates of the Depositary, and agents of either of them:	
Depositary's fees	1,507
Safe custody and other bank charges	8,309
	9,816
Other expenses:	
FSA fee	245
Printing costs	1,400
Audit fee (including VAT)	2,100
	3,745
Total creditors	**£145,678**

Notes to the Financial Statements

continued

9 Related Party Transactions

Details relating to the Sub-Fund are shown in note 9 of the Aggregated Notes to the Financial Statements on page 15.

10 Contingent Liabilities

There were no contingent liabilities or outstanding commitments at the balance sheet date.

11 Derivatives and other Financial Instruments

The main risks arising from the Sub-Funds holding of financial instruments together with the ACD's policies for managing these risks are disclosed in note 11 of the Aggregated Notes to the Financial Statements on page 15.

Currency risk

The table below details the foreign currency risk profile at the balance sheet date.

30.09.11

Currency	Monetary exposures £	Non-monetary exposures £	Total £
Brazilian real	4,213	2,969,006	2,973,219
Chilean peso	-	985,110	985,110
Emirati dirham	-	1,378,889	1,378,889
Hong Kong dollar	(77,155)	5,158,038	5,080,883
Indian rupee	41,647	5,035,464	5,077,111
Indonesian rupiah	-	1,596,932	1,596,932
Maylasian ringett	20,745	2,301,752	2,322,497
Mexican peso	-	1,466,234	1,466,234
Philippine peso	-	2,749,926	2,749,926
Polish zloty	-	913,533	913,533
Pounds sterling	3,875,555	-	3,875,555
Singapore dollar	-	1,134,584	1,134,584
South African rand	-	5,198,045	5,198,045
Taiwan dollar	21,502	4,548,399	4,569,901
Thai baht	-	3,161,170	3,161,170
Turkish lira	-	858,221	858,221
US dollar	997,424	-	997,424
	£4,883,931	**£39,455,303**	**£44,339,234**

Notes to the Financial Statements

continued

12. Portfolio Transaction Costs

	01.11.10 to 30.09.11 £
Analysis of purchases	
Purchases before transaction costs	66,983,100
Transaction costs:	
Commissions	89,663
Stamp Duty and other charges	44,289
	133,952
Total purchase cost	**£67,117,052**
Analysis of sales	
Sales before transaction costs	19,281,741
Transaction costs:	
Commissions	(24,113)
Other charges	(14,365)
	(38,478)
Net sales proceeds	**£19,243,263**

Distribution Tables

for the period ended 30 September 2011

Accumulation Share Distribution

Final payable 30 November 2011

Class	Shares	Net Revenue	Equalisation	Distribution payable 30.11.11
B GBP	Group 1 Group 2	1.4285 0.3924	– 1.0361	1.4285 1.4285
B EUR	Group 1 Group 2	1.2302 1.2302	– –	1.2302 1.2302
B USD	Group 1 Group 2	1.0568 0.3847	– 0.6721	1.0568 1.0568

Group 1 - Shares purchased prior to 1 April 2011
Group 2 - Shares purchased on or after 1 April 2011 and on or before 30 September 2011

Accumulation Share Distribution

Interim paid 31 May 2011

Class	Shares	Net Revenue	Equalisation	Distribution Paid 31.05.11
B GBP	Group 1 Group 2	0.2557 0.2555	– 0.0002	0.2557 0.2557
B EUR	Group 1 Group 2	0.1868 0.1868	– –	0.1868 0.1868
B USD	Group 1 Group 2	0.3001 0.2987	– 0.0014	0.3001 0.3001

Group 2 - Shares purchased on or after 1 November 2010 and before 31 March 2011.

Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It represents accrued revenue included in the purchase price of the Shares. After averaging, it is returned with the distribution as a capital repayment. It is not liable to income tax but must be deducted from the cost of the Shares for capital gains tax purposes.

General Information

Authorised Status

PS Somerset Capital Investment Funds ISAC (the “Company”) is incorporated in England and Wales as an ISAC under registration number IC000713. The 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 17 October 2008.

Head Office

Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW

Address for Service

The Head Office is the address in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it.

Base Currency

The base currency of the Company is Pounds Sterling.

Share Capital

The minimum share capital of the Company is £1 and the maximum is £100,000,000,000.

Shares in the Company have no par value. The share capital of the Company at all times equals the sum of the net asset values of each of the Sub-Funds.

Structure of the Company

PS Somerset Capital Management Investment Funds ISAC is structured as an umbrella company. Provision exists for an unlimited number of Sub-Funds, and at the date of this Report, the Sub-Funds launched within the OEIC are shown below:

PS Somerset Global Dividend Growth Fund
PS Somerset Global Emerging Markets Fund
PS Somerset Emerging Markets Small Cap Fund

Classes of Shares

The Company can issue different classes of shares in respect of any Sub-Fund.

Holders of Income shares are entitled to be paid the revenue attributable to such shares in respect of each annual accounting period.

Holders of Accumulation shares are not entitled to be paid the revenue attributable to such shares, but that revenue is retained and accumulated for the benefit of shareholders and is reflected in the price of shares.

General Information
continued

Valuation Point

The Scheme Property of the Company and each Fund will normally be valued at 12:00 mid day on each Dealing Day for the purpose of calculating the price at which Shares in the Company may be issued, sold, repurchased or redeemed.

The ACD reserves the right to revalue the Company or any Sub-Fund at any time if it considers it desirable to do so, with the Depositary's approval.

Buying and Selling of Shares

The ACD will accept orders for the purchase and sale of shares on normal business days between 8:30am and 4:30pm. Instructions to buy or sell shares may either be in writing to:

PO Box 10282, Chelmsford, Essex, CM1 9LJ
Or by telephone to:
0845 026 4282

A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Pricing Basis

There is a single price for buying, selling and switching shares in a Sub-Fund which represents the Net Asset Value of the Sub-Fund concerned. The share price is calculated on a forward pricing basis that is at the next valuation point after the purchase or redemption is deemed to be accepted by the ACD and can be extracted from prior final accounts.

The prices of Shares are published daily on the Investment Management Association website at www.investmentuk.org and in the Financial Times. Neither, the ACD nor the Company can be held responsible for any errors in the publication of the prices. The Shares in the Company will be issued and redeemed on a forward pricing basis which means that the price will not necessarily be the same as the published price.

Other Information

The Instrument of Incorporation, Prospectus, Simplified Prospectus and the most recent interim and annual reports may be inspected at the office of the ACD which is also the Head Office of the Company and copies may be obtained upon application. Shareholders who have any complaints about the operation of the Company should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

General Information

continued

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 income 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. As a Sub-Funds is not a legal entity, if the assets of one Sub-Funds are insufficient to meet the liabilities attributable to it, the ACD may re-allocate such liabilities between the Sub-Funds then in existence in a manner which is fair to shareholders generally. This re-allocation will normally be performed on the basis of the respective net asset values of the Sub-Funds.

Phoenix Fund Services (UK) Ltd.
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