



PHOENIX
Fund Services

PFS Chelverton UK Equity Income Fund

Short Report 31 December 2014

Directory

Authorised Corporate Director (ACD) & Registrar

Phoenix Fund Services (UK) Ltd
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Directors of the Authorised Corporate Director

P.J. Foley-Brickley (appointed 8 January 2014)
D. Jones (appointed 1 April 2014)
R.W. Leedham
D.W. Munting
A.C. Reed (retired 31 March 2014)
D.C. Tibble

Investment Adviser

Chelverton Asset Management Limited
12b George Street, Bath BA1 2EH
(Authorised and regulated by the Financial Conduct Authority)

Fund Managers

David Horner
David Taylor

Depositary

National Westminster Bank Plc
Trustee & Depositary Services
135 Bishopsgate, London EC2M 3UR
(Authorised and regulated by the Financial Conduct Authority)

Auditor

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

Investment Objective and Policy

The objective of the Fund is to provide a progressive income stream and achieve long-term capital growth by investing primarily in a portfolio of fully listed and AIM traded UK equities.

The Fund will invest primarily in UK companies which aim to provide a high initial dividend; progressive dividend payments, and long-term capital appreciation. The asset classes in which the Fund is permitted to invest includes transferable securities, money market instruments, cash and near cash and deposits as permitted for UCITS schemes under COLL and in accordance with the Fund's investment powers as summarised in the Prospectus.

Investment Adviser's Report

for the year ended 31 December 2014

In the last year the Fund produced a total return of 0.33% (on a total return basis) compared to an average of 2.81% for the IMA UK Equity Income sector as a whole. (Source: Lipper Valuation NAV to NAV A accumulation shares).

The major disappointment for us last year was that in a year of strong domestic GDP growth UK small caps underperformed. There have been a number of excuses for this including a worsening geopolitical environment and a worsening technical situation caused by negative investor fund flows and increased cash calls, and there is a degree of truth in both of these. We believe however that the real reason for the underperformance is that the strong upwards momentum in the domestic economy at the macro level did not translate into corporate earnings growth. Bottom up growth expectations got ahead of themselves, small and midcap earnings then constantly disappointed through the course of the year and we ended the year with downgrades outnumbering upgrades.

At the start of last year expectations were for a double digit percentage increase in UK small cap earnings which did not materialise despite the fact that the economy as a whole was so buoyant. On a positive note dividend growth remained strong and we took the opportunity to increase the yield on our underlying portfolio from just under 4% to over 4.5% in response to the earnings misses. In essence we were increasing the yield to heighten the defensive characteristics in the Sub-fund whilst retaining a fully invested portfolio. Importantly this now gives us substantial scope to deliver good capital returns by running our winners in a more 'risk on' market if sentiment improves whilst also delivering a good dividend.

At the stock level we had a mixture of winners and losers with 4Imprint, Micro Focus and Marshalls, amongst others, performing well in the second half of the year and Brown (N), Menzies (John) and Foxtons for example performing poorly after profit warnings. As ever in a cautious market the price reaction to bad news was more extreme than the reaction to good news. We added one further IPO to our portfolio, Epwin, which makes six for the year and it is pleasing to see that the new issue market continues to offer opportunities to income investors. Towards the year end we backed a number of our existing holdings, RPC, Connect, Chesnara and UBM in fund raisings to make acquisitions and we see this as a continuing feature for the coming year. In a market with no sustained sector or style leadership we sold one building company, Keller and bought another, Berkeley, sold a financial, Investec and bought Jupiter Fund Management and switched Tritax Big Box, a property company into Mucklow (A&J). We therefore retained a relatively balanced portfolio within the parameters of our investment process.

Investment Adviser's Report

continued

Outlook

At the moment the 'UK small cap plc' that we see appears to be in good health, generating cash with strong balance sheets. This has been the case for some time now and has led to a growing number of investors looking to invest in stocks in our universe for their income characteristics which is a pleasing recognition of their underlying quality. As we look forward UK small cap valuations now look relatively attractive and with some commentators expecting negative earnings growth for the sector as a whole we believe that aggregate earnings expectations can finally be beaten. With approximately sixty percent gearing to a robust domestic economy set to benefit from a falling oil price, rising real incomes and a pickup in corporate capital expenditure any positive change in investor sentiment will be good news for our portfolio.

We would caution however that the timing of any small cap bounce may be second half weighted due to the impending General Election. The reality is that whatever form the new government takes there should be little change for the stocks that we invest in. In the period leading up to the election however as uncertainty is heightened we expect increased market volatility and a period of relative underperformance for sectors such as housing where history suggests a dramatic fall in transactions ahead of voting followed by a strong bounce back afterwards.

Comparative Tables

Accounting and distribution dates

	Accounting	Distribution
First Interim	–	31 May
Second Interim	30 June	31 August
Third Interim	–	30 November
Final	31 December	28 February

Change in net assets per share

	A Income			A Accumulation		
	2014 p	2013 p	2012 p	2014 p	2013 p	2012 p
Opening net asset value per share	99.32	73.85	60.50	148.61	105.12	81.19
Return before operating charges [^]	1.93	31.75	18.81	2.87	45.83	25.68
Operating Charges	-1.71	-1.62	-1.28	-2.60	-2.34	-1.75
Return after operating charges [^]	0.22	30.13	17.53	0.27	43.49	23.93
Distributions on income shares	-4.70	-4.66	-4.18	n/a	n/a	n/a
Closing net asset value per share	94.84	99.32	73.85	148.88	148.61	105.12
Retained distributions on accumulation shares	n/a	n/a	n/a	7.15	6.76	5.73
[^] After direct transaction costs of	-0.38	-0.76	-0.34	-0.57	-1.10	-0.47
Performance						
Return after charges	0.22%	40.80%	28.98%	0.18%	41.37%	29.47%
Other Information						
Closing net asset value	19,298,656	30,735,897	5,341,653	10,072,267	17,769,122	1,537,429
Closing number of shares	20,348,720	30,946,552	7,233,398	6,765,451	11,957,184	1,462,602
Operating Charges [†]	1.73%	1.81%	1.88%	1.73%	1.81%	1.88%
Direct transaction costs	-0.38%	-0.85%	-0.50%	-0.38%	-0.85%	-0.50%

[†] The operating charge includes Investment Managers charge of 1.50%

Price history

Calendar year	A Income		A Accumulation	
	Highest p	Lowest p	Highest p	Lowest p
2010	71.67	54.18	87.90	64.20
2011	73.03	60.47	92.63	78.58
2012	76.02	61.14	105.76	82.03
2013	101.67	75.32	149.17	107.20
2014	103.66	89.50	155.48	137.74

Comparative Tables

continued

Change in net assets per share (continued)

	B Income			B Accumulation		
	2014 p	2013 p	2012 p	2014 p	2013 p	2012 p
Opening net asset value per share	102.89	76.00	61.91	159.67	112.21	86.19
Return before operating charges [^]	1.98	32.68	19.17	3.04	48.92	27.14
Operating Charges	-1.01	-0.98	-0.79	-1.59	-1.46	-1.12
Return after operating charges [^]	0.97	31.70	18.38	1.45	47.46	26.02
Distributions on income shares	-4.89	-4.81	-4.29	n/a	n/a	n/a
Closing net asset value per share	98.97	102.89	76.00	161.12	159.67	112.21
Retained distributions on accumulation shares	n/a	n/a	n/a	7.71	7.24	6.11
[^] After direct transaction costs of	-0.39	-0.78	-0.35	-0.61	-1.17	-0.50
Performance						
Return after charges	0.94%	41.71%	29.69%	0.91%	42.30%	30.19%
Other Information						
Closing net asset value	242,225,313	152,032,401	43,426,225	73,994,458	24,556,825	2,853,051
Closing number of shares	244,738,898	147,755,450	57,140,192	45,925,033	15,380,114	2,542,558
Operating Charges [†]	0.98%	1.06%	1.13%	0.98%	1.06%	1.13%
Direct transaction costs	-0.38%	-0.85%	-0.50%	-0.38%	-0.85%	-0.50%

[†] The operating charge includes Investment Managers charge of 0.75%

Price history

Calendar year	B Income		B Accumulation	
	Highest p	Lowest p	Highest p	Lowest p
2010	72.78	54.73	92.64	67.21
2011	74.34	61.80	98.08	83.32
2012	78.29	62.56	112.89	87.08
2013	105.40	77.48	160.24	114.40
2014	107.50	93.35	167.57	148.83

Direct transaction costs include fees, commissions, transfer taxes and duties in the purchasing and selling of investments, which are offset (where applicable) against any dilution levies charged within the year. The figures used within the table have been calculated against the average Net Asset Value for the year.

Operating charges include indirect costs incurred in the maintenance and running of the Fund, as disclosed (but not limited to) the expenses within the long form accounts. The figures used within the table have been calculated against the average Net Asset Value for the year.

Comparative Tables

continued

Risk and reward profile

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

Typically lower rewards, lower risk				Typically higher rewards, higher risk		
1	2	3	4	5	6	7

The Fund is ranked 5 because funds of this type have experienced medium to high rises and falls in value in the past. Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases. The indicator does not take into account the following risks of investing in this Fund:

- Smaller company shares can be more difficult to buy and sell as they may trade infrequently, in small volumes and their share price may fluctuate more than that of a larger company.
- The level of targeted income is not guaranteed and may not be achieved.
- For further risk information please see the prospectus.

Risk warning

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

Sector spread of investments

All sectors in percentage order are shown below

Sector	% of Fund as at 31.12.14
Industrials	30.36
Financials	24.04
Consumer Services	24.92
Consumer Goods	6.00
Technology	5.43
Telecommunications	2.05
Utilities	1.76
Oil & Gas	1.24
Net other assets	4.20

Sector	% of Fund as at 31.12.13
Industrials	29.67
Financials	25.67
Consumer Services	22.94
Technology	4.93
Consumer Goods	4.76
Telecommunications	2.51
Utilities	1.92
Oil & Gas	1.33
Net other assets	6.27

Major holdings

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

Holding	% of Fund as at 31.12.14
WH Smith	2.06
Galliford Try	1.95
Phoenix	1.95
Dairy Crest	1.73
Cineworld	1.68
Connect	1.61
Intermediate Capital	1.53
Brown (N)	1.50
Kier	1.46
Micro Focus	1.44

Holding	% of Fund as at 31.12.13
Premier Farnell	1.82
Galliford Try	1.79
Phoenix	1.69
Smith News	1.68
Dairy Crest	1.60
Domino Printing Sciences	1.56
Go-Ahead	1.54
WH Smith	1.52
Informa	1.50
Fidessa	1.47

General Information

Authorised Status

PFS Chelverton UK Equity Fund (the "Company") is structured as an Investment Company with Variable Capital ("ICVC"), under regulation 12 (Authorisation) of the OEIC Regulations (Open-Ended Investment Companies Regulations 2001 (SI 2001/1228)).

The Company does not intend to have an interest in immovable property.

The Company is authorised and regulated in the UK by the Financial Conduct Authority ("FCA") as a UCITS Retail Scheme under the COLL Sourcebook. The effective date of the authorisation order made by the FCA was 4 April 2006.

The Company was incorporated in England and Wales on 04 April 2006 under registration number IC000431. The Shareholders are not liable for the debts of the Company.

The base currency of the fund is sterling. All units issued are denominated in pence sterling.

Buying and selling units

The ACD will accept orders for the purchase and sale of units on normal business days between 8.30am and 4.30pm. Instructions to buy or sell units may either be in writing to: PO Box 11007, Chelmsford, Essex CM1 9RR Or by telephone on 0845 305 4217.

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

Report and accounts

This document is a short report of PFS Chelverton UK Equity Income Fund for the year ended 2014. The full Report and Accounts for the Fund is available upon written request to Phoenix Fund Services (UK) Ltd, PO Box 11007, Chelmsford, Essex CM1 9RR

Other information

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

Risk Profile

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

