

# PFS BROMPTON UK RECOVERY UNIT TRUST

Annual report 30 June 2011 (Audited)

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## Directory

### Authorised unit trust manager & registrar

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

### Customer service centre

PO Box 10603, Chelmsford, Essex, CM1 9PE  
Telephone: 0845 026 4288  
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E-mail: [pfsuk@phoenixfundservices.com](mailto:pfsuk@phoenixfundservices.com)  
(Authorised and regulated by the Financial Services Authority)

### Directors of the manager

R. Elliott (appointed 11 April 2011)  
S. A. King  
S. D. Mathieson  
J. Rice (appointed 22 February 2011)

### Investment adviser

Brompton Asset Management LLP  
1 Knightsbridge Green  
London  
SW1X 7QA  
(Authorised and regulated by the Financial Services Authority)

### Trustee

The Royal Bank of Scotland Plc  
Trustee and Depository Services  
1st Floor, The Broadstone, 50 South Gyle Crescent  
Edinburgh  
EH12 9UZ  
(Authorised and regulated by the Financial Services Authority)

### Auditor

Shipleys LLP  
Chartered Accountants & Statutory Auditors  
10 Orange Street, Haymarket, London, WC2H 7DQ

## **Investment objective and policy**

To achieve capital growth.

The fund will invest principally in the securities of UK companies quoted on the London Stock Exchange that are experiencing difficult trading or that have growth prospects that are not duly recognised by the market. In addition to ordinary shares the fund may also invest in fixed interest securities, preference shares, debt securities convertible to ordinary stock, money market instruments, deposits and any other permitted asset type deemed appropriate to meet the investment objective. The fund may also invest outside the UK.

## **Investment adviser's report**

For the year from 1 July 2010 to 30 June 2011

### **Performance**

The PFS Brompton UK Recovery Unit Trust gained 22.26% during the year to 30 June 2011, underperforming the FTSE All-Share Total Return Index, which rose 25.63%, while the return on cash was 0.65% as measured by the London Interbank Offered Rate. There was, however, a recovery during the second half of the year, during which the fund returned 3.80% against 2.96% for the FTSE All-Share. This left the return from the fund's July 2002 inception at 116.54%. Over this period, the FTSE All-Share returned 107.99% while cash returned 37.55%.

### **Manager's review**

After weakness over the summer of 2010 as investors fretted about the health of US economic growth, UK equities made consistent progress during the first half of the year under review. One factor was the Federal Reserve's willingness to respond to weak job creation data, which threatened to undermine the US economic recovery. After a series of dovish speeches, Ben Bernanke, the Fed chairman, announced a second programme of quantitative monetary easing in November. This announcement combined with positive economic news at the end of 2010 to raise investors' risk appetites. Other factors included the strength of economic growth in emerging markets.

UK equities made less consistent progress in the second half of the year, however, as a result economic and geopolitical concerns. There was a significant correction in late February and early March followed by a period of more extended weakness in May and June. Initially, markets were weighed down by rising oil prices as Libya descended into civil war. The early spring sell-off then intensified after Japan's earthquake and tsunami caused widespread loss of life and damage to Japan's industrial infrastructure including the Fukushima nuclear power plant. Then, towards the year end, inflationary concerns and the developing eurozone crisis affecting Greece, Ireland and Portugal began to weigh on investor sentiment. The European Central Bank (ECB) and the International Monetary Fund cooperated to provide rescue packages for all three countries. At the same time, however, the ECB felt compelled to respond to rising inflation in the core eurozone countries. Thus, after almost two years of inactivity, it became the first major central bank to tighten monetary policy when it raised its main policy interest rate by a quarter point to 1.25% in April. By contrast, the US and UK central banks remained on hold.

One reason for the Bank of England's exceptionally loose monetary policy was the patchy nature of UK economic growth. After a growth spurt in the second and third quarters of 2010, with UK expansion above the average for the Group of Seven (G7) major industrial nations, the economy contracted by 0.51% in the fourth quarter, with activity compromised by severe weather, and only rebounded by 0.47% in the first quarter of 2011.

## Investment adviser's report

continued

### Manager's review (continued)

The sweet spot in the UK market was among medium-sized companies, with the FTSE250 Index returning 30.71% over the year. By contrast, the big stocks in the FTSE100 Index returned 24.90%, held back by relative weakness in the financial and pharmaceutical sectors, while the FTSE Small Cap Index returned 24.97%. At the sector level, energy stocks did best, returning 39.34%, aided by the 46.39% rise in the price of Brent Crude to \$110.82%, while basic material stocks returned 37.63%. The gain resulted from strong global economic growth, particularly in emerging markets, leading to a 46.45% rise in the price of industrial commodities as measured by Thomson Reuters while gold rose 21.48% to \$1,510.78 per ounce. The other strong sectors were technology, up 36.67%, and industrials, up 29.56%. By contrast, financial and pharmaceutical stocks were conspicuously weak, gaining 13.16% and 16.08% respectively, while consumer services gained 17.37%.

### Portfolio review

Among the fund's larger stocks held throughout the year, BT returned 62.13%, benefiting from increased optimism about its pension fund deficit, while Legal & General, a beneficiary of broader market strength, returned 56.91%. Rio Tinto, up 53.99%, was helped by strong emerging markets economic growth and rising commodity prices, British Land gained 47.13% as confidence returned to the UK commercial property sector while strong oil prices generated a 43.64% return for Royal Dutch Shell. The weaker large cap stocks included the fund's bank holdings, with Lloyds down 8.76% and HSBC up 4.21%, while retail sector problems left Dixons Retail down 32.16% and Sainsbury up 6.91%. In telephony, the demerged groups, Cable & Wireless Communications (C&W Communications) and Cable & Wireless Worldwide (C&W Worldwide), were also conspicuously weak, down 22.41% and 42.34% respectively.

Among the fund's smaller stocks, cyclical manufacturing and support services groups outperformed. Renishaw, the high technology engineer, returned 146.77% while Brammer, the industrial products distributor, and DS Smith, the packaging manufacturer, returned 144.66% and 114.35% respectively. Hogg Robinson, meanwhile, benefited from the cyclical upswing in travel, gaining 140.49%. Among the fund's smaller stock laggards, Serica, the oil explorer, fell 62.75% after poor drilling results, Media Square, the marketing services group, suffered from its high debt levels and fell 60.31% while Oxford BioMedica, the drug discovery company, weakened 39.61% after a deep discount fundraising.

During the year, the fund's initiated new holdings in Royal Bank of Scotland and F&C Asset Management in the financial sector and added Supercart, a recyclable supermarket trolleys supplier, to its holdings of smaller stocks. It also participated in fundraisings for Capital & Counties Properties and Capital Shopping Centres in the property sector and for Oxford BioMedica. In addition, the proceeds of significant fund inflows were used to top up existing holdings in various stocks. The largest additions were in C&W Communications, C&W Worldwide, Dixons, GlaxoSmithKline, Lloyds Banking, Rentokil Initial and Sage.

## Investment adviser's report

continued

### Outlook

The pace of global economic growth was slowing during the first half of 2011 and there were signs of further softness over the summer. Business surveys covering new orders were slightly improved in early July in the US, Japan and the UK but figures were the eurozone were deteriorating. Such trends are likely to be maintained. Money supply trends look healthy in the US, where banks are becoming more confident about lending to industry. Monetary conditions have also improved in Japan, where industry has rebounded strongly from the damage sustained during the earthquake and tsunami in March. Money supply statistics are, however, deteriorating in the eurozone and the smaller countries within the monetary union – Greece, Ireland and Portugal are likely to continue being the most significant sources of economic and financial instability within the developed world.

Inflation, meanwhile, is likely to remain a key concern among investors as a result of rising commodity prices and the lax monetary policies pursued by some leading central banks to restore confidence following the credit crisis. Eurozone inflation has risen significantly above the ECB's comfort zone, leading to a further quarter point rise in its policy rate to 1.5% shortly after the year end despite the developing crisis in the weaker peripheral countries. Inflation in the UK has, meanwhile, remained persistently above the Bank of England's 2% target although the Bank has been unwilling to raise rates for fear of reducing the UK's already anaemic economic growth further.

In such conditions, performance among companies and sectors may diverge significantly, emphasising the critical role of careful stock and sector selection in generating returns.

**Brompton Asset Management LLP**

31 July 2011

**Portfolio statement**

as at 30 June 2011

<b>Holding</b>	<b>Security</b>	<b>Value (Note 1g) £'000</b>	<b>% of total net assets 2011</b>
	<b>Oil &amp; gas (2.61%)</b>		
3,477	Royal Dutch Shell 'B'	76	1.59
87,768	Serica Energy*	20	0.41
		<hr/>	
		96	2.00
	<b>Mining (2.94%)</b>		
2,653	Rio Tinto	117	2.44
		<hr/>	
		117	2.44
	<b>Aerospace &amp; defense (1.67%)</b>		
20,451	BAE Systems	65	1.36
		<hr/>	
		65	1.36
	<b>General industrials (5.76%)</b>		
16,819	Cookson Group	110	2.30
37,106	DS Smith	93	1.94
5,846	Smiths Group	69	1.44
		<hr/>	
		272	5.68
	<b>Electronic &amp; electrical equipment (4.73%)</b>		
18,970	Halma	77	1.67
6,164	Renishaw	109	2.28
40,000	TT Electronics	80	1.67
300,000	Turbo Power Systems	2	0.04
		<hr/>	
		268	5.66
	<b>Industrial engineering (5.03%)</b>		
7,346	IMI	75	1.57
22,782	Melrose	81	1.69
28,181	Northbridge Industrial	75	1.57
		<hr/>	
		231	4.83

## Portfolio statement

continued

Holding	Security	Value (Note 1g) £'000	% of total net assets 2011
	<b>Support services (8.12%)</b>		
30,640	Brammer	97	2.02
31,506	Electrocomponents	85	1.77
174,500	Hogg Robinson Group	115	2.40
289,900	Johnson Services Group	96	2.01
94,374	Rentokil Initial	88	1.84
1,000,000	Supercart*	20	0.42
		<hr/>	
		501	10.46
	<b>Beverages (0.97%)</b>		
1,044	Dr. Pepper Snapple	27	0.56
		<hr/>	
		27	0.56
	<b>Distributors (0.48%)</b>		
24,100	Inchape	100	2.09
		<hr/>	
		100	2.09
	<b>Food producers (1.82%)</b>		
3,803	Uinilever	76	1.59
		<hr/>	
		76	1.59
	<b>Household goods and home construction (5.17%)</b>		
15,600	Bovis Homes Group	67	1.40
22,719	Colefax*	57	1.19
115,000	Michalmersh Brick*	36	0.75
51,792	Redrow	64	1.34
		<hr/>	
		224	4.68
	<b>Health care equipment and services (3.98%)</b>		
488,640	LiDCO Group*	81	1.69
		<hr/>	
		81	1.69
	<b>Pharmaceuticals &amp; biotechnology (2.12%)</b>		
6,921	GlaxoSmithKline	92	1.90
390,255	Oxford Biomedica	23	0.48
		<hr/>	
		115	2.38
		<hr/>	

## Portfolio statement

continued

Holding	Security	Value (Note 1g) £'000	% of total net assets 2011
<b>Food &amp; drug retailers (6.03%)</b>			
203,031	Booker Group	138	2.88
25,593	Morrison (WM) Supermarkets	75	1.57
19,511	Sainsbury (J)	64	1.34
		<hr/>	
		277	5.79
		<hr/>	
<b>General retailers (6.77%)</b>			
22,000	Brown (N)	59	1.23
515,620	Dixon Retail Group	85	1.78
19,083	H&T Group*	66	1.38
27,072	Kingfisher	72	1.50
		<hr/>	
		282	5.89
		<hr/>	
<b>Media (7.26%)</b>			
8,909	British Sky Broadcasting	76	1.59
446,780	Dods Group*	35	0.73
167,000	Media Square*	6	0.13
5,730	Pearson	66	1.38
9,255	WPP	71	1.48
		<hr/>	
		254	5.31
		<hr/>	
<b>Fixed line telecommunications (4.47%)</b>			
42,179	BT Group	84	1.76
122,791	Cable & Wireless Communications	48	1.00
123,291	Cable & Wireless Worldwide	59	1.23
		<hr/>	
		191	3.99
		<hr/>	
<b>Mobile telecommunications (1.56%)</b>			
42,047	Vodafone Group	69	1.44
		<hr/>	
		69	1.44
		<hr/>	
<b>Electricity (0.00%)</b>			
816	Ocean Power Technologies	2	0.04
		<hr/>	
		2	0.04
		<hr/>	

## Portfolio statement

continued

Holding	Security	Value (Note 1g) £'000	% of total net assets 2011
	<b>Banks (4.16%)</b>		
10,933	HSBC	67	1.40
172,749	Lloyds Banking	77	1.61
201,000	Royal Bank of Scotland	74	1.55
		<hr/>	
		218	4.56
	<b>Nonlife insurance (1.41%)</b>		
47,156	RSA Insurance	62	1.30
		<hr/>	
		62	1.30
	<b>Life insurance (3.27%)</b>		
70,665	Legal & General	82	1.71
34,924	Standard Life	72	1.50
		<hr/>	
		154	3.21
	<b>Real estate investment &amp; services (5.33%)</b>		
12,133	British Land	73	1.53
49,279	Capital & Counties Properties	95	1.98
20,613	Capital Shopping Centres	81	1.69
57,500	London & Stamford Property	74	1.55
		<hr/>	
		323	6.75
	<b>General financials (1.38%)</b>		
12,888	International Personal Finance	44	0.92
5,444	Provident Financial Group	51	1.06
		<hr/>	
		95	1.98
	<b>Financial services (0.00%)</b>		
92,000	F&C Asset Management	68	1.42
		<hr/>	
		68	1.42
	<b>Equity investment instruments (1.23%)</b>		
18,088	Henderson Private Equity Investment Trust	50	1.04
414,283	Spark Ventures*	35	0.74
		<hr/>	
		85	1.78

**Portfolio statement**

continued

<b>Holding</b>	<b>Security</b>	<b>Value (Note 1g) £'000</b>	<b>% of total net assets 2011</b>
	<b>Software &amp; computer services (6.17%)</b>		
17,867	IndigoVision Group	49	1.02
1,800	Kofax	62	1.30
58,432	Logica	78	1.63
30,165	Sage Group	86	1.80
21,591	Invensys	69	1.44
		344	7.19
	<b>Technology hardware and equipment (2.46%)</b>		
60,886	Spirent Communications	91	1.90
		91	1.90
	<b>Investment assets (96.90%)</b>	<b>4,688</b>	<b>97.93</b>
	<b>Net other assets (3.10%)</b>	<b>99</b>	<b>2.07</b>
	<b>Net assets</b>	<b>4,787</b>	<b>100.00</b>

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

Unless denoted otherwise, all investments are listed equities.

\*Quoted on the Alternative Investment Market.

## Statement of the manager's responsibilities

The manager 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 manager to prepare financial statements for each financial year which give a true and fair view of the financial position of the Trust and of the revenue and of the net gains on the property of the trust for that year. In preparing the financial statements the Manager 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;
- comply with the trust deed, generally accepted accounting principles and 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 Trust will continue in business.

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

In so far as the manager is aware:

- there is no relevant audit information of which the trust's auditors are unaware; and
- the manager 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 manager

In accordance with the requirements of the COLL Sourcebook, we hereby certify the report on behalf of the managers, Phoenix Fund Services (UK) Limited.

**J M Rice**  
**S D Mathieson**

Directors  
Phoenix Fund Services (UK) Limited  
31 August 2011

## **Statement of the trustee's responsibilities in respect of the trust**

The trustee is responsible for the safekeeping of all of the property of the trust (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 trustee to take reasonable care to ensure that the trust is managed in accordance with the Financial Services Authority's Collective Investment Scheme sourcebook, as amended (the Sourcebook), the trusts trust deed and prospectus, as appropriate, in relation to the pricing of, and dealings in instruments of incorporation and prospectus in relation to the pricing of, and dealings in, units in the trust, the application of income of the trust, and the investment and borrowing powers and restrictions applicable to the trust.

## **Report of the trustee to the unitholders of the PFS Brompton UK Recovery Unit Trust**

Having carried out such procedures as we considered necessary to discharge our responsibilities as trustee of the scheme, it is our opinion based on the information available to us and the explanations provided, that in all material respects the manager:

- (i) has carried out the issue, sale, redemption, cancellation and calculation of the price of the trust's units, and the application of the scheme's income in accordance with the Sourcebook and, where applicable, the trust deed and prospectus, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

**The Royal Bank of Scotland Plc**  
Trustee and depositary services  
31 August 2011

## **Independent auditor's report to the unitholders of PFS Brompton UK Recovery Trust**

We have audited the financial statements of the trust for the period ended 30 June 2011 which comprise the statement of total return, the statement of change in net assets, the balance sheet, the distribution table, the portfolio statement and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein.

This report is made solely to the trust's unitholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes Sourcebook issued by the Financial Services Authority under S.247 of the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the trust's unitholders those matters we are required to state to them in an auditors' 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 trust and the trust's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the manager and the auditors**

The manager's responsibility for preparing the annual report and the financial statements in accordance with applicable law, UK Financial Services Rules and Regulations and UK Accounting Standards (UK Generally Accepted Accounting Practice) is set out in the statement of manager's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the prospectus, the instrument of incorporation, the Statement of Recommended Practice for Financial Statements of Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority. We also report to you whether in our opinion the information given in the manager's report is not consistent with the financial statements, if the Manager has not kept proper accounting records for the trust, if the financial statements are not in agreement with the accounting records for the trust, or if we have not received all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information.

## **Independent auditor's report to the unitholders of PFS Brompton UK Recovery Trust (continued)**

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

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 trust as at 30 June 2011 and of the net revenue and the net gains on the property of the trust for the year then ended;
- the financial statements have been properly prepared in accordance with the prospectus, the instrument of incorporation, the Statement of Recommended Practice for Financial Statements of Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority; and
- the information given in the manager's report is consistent with the financial statements for the period ended 30 June 2011.

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

### **Guy Fisher, Senior Statutory Auditor**

Shipleys LLP  
Chartered Accountants & Statutory Auditors  
31 August 2011

## Comparative tables

### Net asset values

Year as at 30 June	Accumulation units		
	Net Asset Value £'000	No. of units in issue	Net asset value pence per unit
2009	1,899	1,404,966	135.14
2010	2,687	1,542,653	174.40
2011	4,787	2,232,869	214.40

### Price history & distribution record

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

Calendar Year	Accumulation units		
	Highest	Lowest	Net revenue per unit (pence)
2006	207.63	163.90	–
2007	236.38	186.58	1.4256
2008	191.33	112.88	2.7296
2009	182.72	105.41	2.6565
2010	208.71	172.30	0.5536
2011*	218.71	173.97	0.3708

\*At 30 June 2011

### Total Expense Ratio (TER)

Expense type	30 June 2011 %	30 June 2010 %
Managers fee	1.50	1.50
Other expenses	1.16	1.21
<b>Total expense ratio</b>	<b>2.66</b>	<b>2.71</b>

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

### Risk warning

Unit trusts should be regarded as longer-term investments and investors should be aware that the value of units and the income from them can go down as well as up.

## Statement of total return

for the year ended 30 June 2011

	Note	30.06.11		30.06.10	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		832		533
Revenue	3	124		72	
Expenses	4	(116)		(70)	
Finance costs: interest	6	—		—	
Net revenue before taxation		8		2	
Taxation	5	—		—	
Net revenue after taxation			8		2
<b>Total return before distributions</b>			<b>840</b>		<b>535</b>
Finance costs: distributions	6		(8)		(8)
<b>Change in net assets attributable to unitholders from investment activities</b>			<b>832</b>		<b>527</b>

## Statement of change in net assets attributable to unitholders

for the year ended 30 June 2011

	30.06.11		30.06.10	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		<b>2,687</b>		<b>1,899</b>
Amounts receivable on issue of units	1,260		254	
Less:				
Amounts payable on cancellation of units	—		(1)	
		1,260		253
Change in net assets attributable to unitholders from investment activities (see Statement of Total Return above)		832		527
Re-invested income on accumulation units		8		8
<b>Closing net assets attributable to unitholders</b>		<b>4,787</b>		<b>2,687</b>

**Balance sheet**

as at 30 June 2011

	Note	30.06.11		30.06.10	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
<b>Investment assets</b>			4,688		2,604
Debtors	7	27		17	
Bank balances		91		82	
<b>Total other assets</b>			<b>118</b>		<b>99</b>
<b>Total assets</b>			<b>4,806</b>		<b>2,703</b>
<b>LIABILITIES</b>					
<b>Investment liabilities</b>					
Creditors	8	(16)		(16)	
Bank overdrafts		(3)		–	
<b>Total other liabilities</b>			<b>(19)</b>		<b>(16)</b>
<b>Net assets attributable to unitholders</b>			<b>4,787</b>		<b>2,687</b>

## Notes to the financial statements

for the year ended 30 June 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) Recognition of income

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.

Revenue from unquoted securities are recognised when the entitlement to the dividend is established

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

Underwriting commission is taken to revenue and recognised when the issue takes place except where the trust is required to take up some or all of those shares underwritten, in which case the appropriate proportion is deducted from the cost of those shares

#### (c) 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.

#### (d) Treatment of expenses

All expenses, except for those relating to the purchase and sale of investments and stamp duty reserve tax, are charged against revenue for the year on an accruals basis.

## Notes to the financial statements

continued

(e) **Taxation**

Corporation tax is provided at 20% on revenue liable to corporation tax, 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 units is deducted from capital.

(f) **Distribution policy**

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

The policy of the trust is to make dividend accumulations on 31 August and the last day of February each year, where any revenue accumulated is transferred to the capital property of the trust.

(g) **Basis of valuation of investments**

Listed investments are valued at bid prices at close of business 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 adviser taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other relevant factors.

(h) **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.

(i) **Dilution levy**

The manager may require a dilution levy on the sale and redemption of units if, in its opinion, the existing unitholders (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; experiencing large levels of net sales relative to its size; on 'large deals'; in any case where the manager is of the opinion that the interests of remaining unitholders require the imposition of a dilution levy.

**Notes to the financial statements**

continued

<b>2. Net capital gains / (losses)</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
Non-derivative securities	834	533
Transaction charges	(2)	–
<b>Net capital gains</b>	<b>832</b>	<b>533</b>
<b>3. Revenue</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
<b>Revenue from non-derivative investments:</b>		
UK dividends: Ordinary	121	68
Overseas dividends	2	4
Property income dividends	1	–
<b>Total revenue</b>	<b>124</b>	<b>72</b>
<b>4. Expenses</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
Payable to the manager, associates of the manager and agents of either of them:		
Manager's fee	65	38
Administration fee	29	15
	94	53
Payable to the trustee, associates of the trustee and agents of either of them:		
Trustee's fee (including VAT)	1	1
Safe custody and other bank charges	1	–
	2	1
Other expenses:		
Audit fee (including VAT)	7	7
FSA fee	1	–
Legal fees	8	7
Printing costs	4	2
	20	16
<b>Total expenses</b>	<b>116</b>	<b>70</b>

**Notes to the financial statements**

continued

<b>5. Taxation</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
(a) Analysis of charge in the year:		
Overseas tax	–	–
Current tax charge (note 5b)	–	–
<b>Total tax charge</b>	<b>–</b>	<b>–</b>
(b) Factors affecting taxation charge for the year		
Net revenue before taxation	8	2
Corporation tax at 20%	2	–
Effects of:		
UK dividends	(24)	(14)
Surplus management expenses	23	14
Non-taxable overseas dividends	(1)	–
<b>Current tax charge (note 5a)</b>	<b>–</b>	<b>–</b>

## (c) Provision for deferred taxation

At the year end there is a potential deferred tax asset of £58,160 (2010: £35,000) in relation to surplus management expenses. It is unlikely that the trust 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

<b>6. Finance costs</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>

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

**Distributions****Accumulation units**

Final	8	8
	8	8
<b>Finance costs: distributions</b>	<b>8</b>	<b>8</b>
Finance costs: interest	–	–
<b>Total finance costs</b>	<b>8</b>	<b>8</b>
Undistributed income carried forward	–	–
<b>Finance costs: distributions</b>	<b>8</b>	<b>8</b>

<b>7. Debtors</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
Amounts receivable on creations	–	1
Accrued income:		
UK dividends	23	14
Overseas dividends	4	–
Prepaid expenses:		
Management fee	–	2
<b>Total debtors</b>	<b>27</b>	<b>17</b>

**Notes to the financial statements**

continued

<b>8. Creditors</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
<b>Accrued expenses:</b>		
Amounts payable to the manager, associates of the manager and agents of either of them:		
Manager's fee	6	–
Administration fee	2	9
	<hr/> 8	<hr/> 9
Other expenses:		
Audit fee	7	7
Printing and stationary	1	–
	<hr/> 8	<hr/> 7
<b>Total creditors</b>	<hr/> <b>16</b>	<hr/> <b>16</b>

**9. Related party transactions**

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

Trustee and other fees payable to The Royal Bank of Scotland plc are disclosed in note 4 and amounts due at the period end are shown in note 8.

**10. Contingent liabilities and commitments**

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

## Notes to the financial statements

continued

### 11. Derivatives and other financial instruments

In pursuing its investment objectives, the trust 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 trust's 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 trust may also enter into a range of derivative transactions whose purpose is efficient portfolio management. In addition the trust only executes derivative contracts where both the derivative instrument and the counterparty have been approved by the Manager.

These policies have been consistent for both years through which these financial statements relate.

#### **Market price risk**

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the trust 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 trust in the context of all their investments.

The trust's investment portfolio is exposed to market price fluctuations, which are monitored by the manager 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 trust will be exposed.

## Notes to the financial statements

continued

### 11. Derivatives and other financial instruments (continued)

#### Currency risk

Although the trust's capital and income are denominated in sterling, a proportion of the trust's investments have currency exposure and, as a result, the income and capital value of the trust are affected by currency movements.

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

30.06.11	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
<b>Currency</b>			
Sterling	94	4,659	4,753
US dollar	5	29	34
<b>Total</b>	<b>99</b>	<b>4,688</b>	<b>4,787</b>

30.06.10	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
<b>Currency</b>			
Sterling	2,578	83	2,661
US dollar	26	–	26
<b>Total</b>	<b>2,604</b>	<b>83</b>	<b>2,687</b>

#### 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 trust'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.

The tables below detail the interest rate risk profile at the balance sheet date.

30.06.11	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
<b>Currency</b>				
Sterling	91	–	4,682	4,773
US dollar	–	–	33	33
<b>Total</b>	<b>91</b>	<b>–</b>	<b>4,715</b>	<b>4,806</b>

**Notes to the financial statements**

continued

**11. Derivatives and other financial instruments (continued)**

<b>Currency</b>	<b>Floating rate financial liabilities £'000</b>	<b>Financial liabilities not carrying interest £'000</b>	<b>Total £'000</b>
Sterling	3	16	19
<b>Total</b>	<b>3</b>	<b>16</b>	<b>19</b>

**30.06.10**

<b>Currency</b>	<b>Floating rate financial assets £'000</b>	<b>Fixed rate financial assets £'000</b>	<b>Financial assets not carrying interest £'000</b>	<b>Total £'000</b>
Sterling	82	–	2,595	2,677
US dollar	–	–	26	26
<b>Total</b>	<b>82</b>	<b>0</b>	<b>2,621</b>	<b>2,703</b>

<b>Currency</b>	<b>Floating rate financial liabilities £'000</b>	<b>Financial liabilities not carrying interest £'000</b>	<b>Total £'000</b>
Sterling	–	16	16
<b>Total</b>	<b>–</b>	<b>16</b>	<b>16</b>

## Notes to the financial statements

continued

### 11. Derivatives and other financial instruments (continued)

#### 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.

Liquidity risk is the risk that a trust cannot raise sufficient cash to meet its liabilities when due. One of the key factors influencing this will be the ability to sell investments at, or close to, the fair value without a significant loss being realised. Recent market issues following the credit crunch resulted in a significant reduction in liquidity of the bond markets and FRN markets in particular.

Under normal circumstances, a trust 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 trust, the trust 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 units.

The manager manages the trust's cash to ensure they can meet their liabilities. The manager receives daily reports of subscriptions and redemptions enabling the manager to raise cash from the trust's portfolio to meet redemption requests. In addition the manager monitors market liquidity of all securities, with particular focus on the commercial paper and floating rate note markets, seeking to ensure the trust maintains sufficient liquidity to meet known and potential redemption activity. Trust cash balances are monitored daily by the manager and the investment adviser. All of the trust's financial liabilities are payable on demand or in less than one year.

#### Counterparty risk

The risk that the counterparty will not deliver the investments for a purchase or the cash for a sale after the trust has fulfilled its responsibilities which could result in the trust suffering a loss. The investment adviser 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 fair values of the financial instruments disclosed in the balance sheet.

**Notes to the financial statements**

continued

<b>12. Portfolio transaction costs</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>£'000</b>	<b>£'000</b>
Analysis of purchases		
Purchases before transaction costs	1,238	368
Transaction costs:		
Commissions	2	–
Stamp duty and other charges	6	1
	<hr/>	<hr/>
	8	1
	<hr/>	<hr/>
<b>Total purchase cost</b>	<b>1,246</b>	<b>369</b>
<hr/>		
Analysis of sales		
Sales before transaction costs	–	109
Transaction costs:		
Commissions	–	–
Other charges	–	–
	<hr/>	<hr/>
	–	–
	<hr/>	<hr/>
<b>Net sales proceeds</b>	<b>–</b>	<b>109</b>
<hr/>		

## Distribution table

for the year ended 30 June 2011

### Accumulation units

#### Final

Distribution payable 31 August 2011

Units	Revenue	Equalisation	Distribution payable 31.08.11	Distribution paid 31.08.10
Group 1	0.3708	–	0.3708	–
Group 2	0.3708	–	0.3708	–

Group 1 - Units purchased prior to 1 July 2011

Group 2 - Units purchased on or after 1 December 2010 to 30 June 2011

### Accumulation units

#### Interim

Interim allocated 28 February 2011

Units	Revenue	Equalisation	Distribution paid 28.02.11	Distribution paid 28.02.10
Group 1	–	–	–	0.5536
Group 2	–	–	–	0.5536

Group 1 - Units purchased prior to 1 July 2010

Group 2 - Units purchased on or after 1 July 2010 to 31 December 2010

### Equalisation

Equalisation applies only to units purchase during the distribution period (Group 2 units). It represents the accrued revenue included in the purchase price of the units. 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 units for capital gains tax purposes.

## General information

### Authorised status

PFS Brompton UK Recovery Unit Trust (the fund) is an authorised unit trust scheme and UCITS scheme operating under Chapter 5 of COLL. The fund qualifies for certification under the UCITS directive but does not currently have a UCITS certificate. The fund was established on 5 September 2006 and authorised by the FSA on 6 September 2006.

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

Unitholders are not liable for the debts of the fund. Unitholders are not liable to make any further payment after they have paid the price on the purchase of units.

### Investment policy

The Investment objective of the fund is to achieve capital growth.

The investment policy of the fund is to invest principally in the securities of UK companies quoted on the London Stock Exchange that are experiencing difficult trading or that have growth prospects that are not duly recognised by the market. In addition to ordinary shares the fund may also invest in fixed interest securities, preference shares, debt securities convertible to ordinary stock, money market instruments, deposits and any other permitted asset type deemed appropriate to meet the investment objective. The fund may also invest outside the UK.

### Valuation of the trust

The price of a unit is calculated by reference to the net asset value of the trust. The net asset value is currently calculated at 12 noon on each dealing day.

Valuations will be made every dealing day at 12 noon. The manager may determine that any dealing day so defined shall not be a dealing day.

Such a determination would generally only be made in respect of a particular day if that day were a holiday on a stock exchange which was the principal market for a significant proportion of the trust's portfolio of securities (namely, its assets other than cash, deposits and short term paper) or was a holiday elsewhere which impeded the calculation of the fair market value of the portfolio. The manager may carry out additional valuations if they consider it desirable to do so or value the fund's property at a time other than 12 noon where there are circumstances which the manager and the trustee believe that this would be in the interests of unitholders. An additional valuation may be made if the manager believes that the value of the property has varied by 2% or more from that calculated at the previous valuation.

### Units

The trust has one type of unit, Class A accumulation units, available for purchase.

## General information

continued

### Buying and selling units

The dealing office of the manager is open from 9.00 a.m. until 5.00 p.m. on each dealing day to receive requests for the purchase or redemption of units.

Units may be bought directly from the manager or through your professional adviser or other intermediary. An intermediary who deals on your behalf in the fund may be entitled to receive commission from the manager.

Units can be bought either by sending a completed application form to the manager at PO Box 100603, Chelmsford, Essex CM1 9PE, or, under certain circumstances, by telephoning the manager on 0845 026 4288 Fax 0845 2802416. The manager reserves the right to refuse telephone applications. Application forms may be obtained from the manager.

The manager has the right to reject, on reasonable grounds, any application for units in whole or part, and in this event the manager will return any money sent, or the balance of such monies, at the risk of the applicant.

Units will be issued at a price calculated by reference to the next valuation point following receipt of the application.

A contract note giving details of the number and price of units bought will be issued no later than the end of the business day following the later of receipt of the application to buy units and the valuation point by reference to which the price is determined, together with, where appropriate, a notice of the applicant's right to cancel.

Certificates will not be issued in respect of units. Ownership of units will be evidenced by an entry on the register of unitholders.

The minimum initial investment in Class A in the trust is £250,000 and the minimum subsequent investment is £75,000.

Every unitholder has the right to require that the trust redeem his units on any dealing day unless the value of units that a unitholder wishes to redeem will mean that the unitholder will hold units with a value less than the required minimum holding, in which case the unitholder may be required to redeem his entire holding.

Requests to redeem units may be in writing to the manager at PO Box 10603, Chelmsford, Essex CM1 9PE, or by telephone on 0845 026 4288 Fax 0845 2802416.

The units will be redeemed at a price calculated by reference to the next valuation point following receipt of the instruction to redeem.

A contract note giving details of the number and price of units redeemed will be sent to the redeeming unitholder (or the first named unitholder, in the case of joint unitholders) no later than the end of the business day following the later of the request to redeem units and the valuation point by reference to which the price is determined.

## General information

continued

### Buying and selling units (continued)

Unitholders may redeem part of their holding. The manager, however, reserves the right to refuse a redemption request if the value of the units to be redeemed is less than £75,000.

All profits and/or losses that the manager makes when acting as principal in connection with the sale and repurchase of units will be retained by the manager.

The manager is under no obligation to account to the trustee or to the unitholders (or any of them) for any profits made by the manager on the issue of units in a fund or on the re-issue or cancellation of units previously redeemed by the manager.

### Dealing charges

The price per unit at which units are bought or redeemed is the net asset value per unit. Any initial charge or redemption charge is payable in addition to the price. A Stamp Duty Reserve Tax provision may also be levied in addition to the price on the purchase or redemption of units.

The manager may impose a charge on the purchase of units. The current initial charge for Class A units of the fund is 10%. The initial charge is a percentage of the gross subscription amount from a potential unitholder.

No redemption charge is currently imposed.

### Prices

The most recent prices of units are currently available on request by calling 0207 045 0600 on any dealing day or by emailing [info@bromptonam.com](mailto:info@bromptonam.com).

### Other information

The trust deed, the most recent version of the prospectus, the most recent long and short annual and half yearly reports of the trust may be inspected free of charge during normal business hours on any business day at the offices of the manager and the trustee. unitholders may obtain copies of the above documents from the manager and the trustee.

Complaints concerning the operation or marketing of the trust may be referred to the Compliance Officer at Phoenix Fund Services (UK) Ltd, Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW or if you subsequently wish to take your complaint further, direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

Unit trusts should be regarded as longer-term investments and investors should be aware that the value of their units and the income from them can go down as well as up.

## **General information**

continued

### **Distributions and reports**

An annual and interim report and accounts will be prepared in respect of the trust each year. The annual long reports will be made available and published up to four months after the annual accounting date of the fund and interim long reports will be made available and published up to two months following the interim accounting date of the trust. The short reports will be sent to unitholders up to four months after the annual accounting date of the fund and up to two months following the interim accounting date of the trust.

The trust accumulates income on the last day of February and 31 August each year.



Phoenix Fund Services (UK) Ltd.

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