PHOENIX
Fund Services

PFS BROMPTON UK RECOVERY UNIT TRUST

Short report 30 June 2011 (Audited)

Directory

Authorised unit trust manager & registrar
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Directors of the manager
R. Elliott (appointed 11 April 2011)
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Investment adviser
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Auditor
Shipleys LLP
Chartered Accountants & Statutery 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

Fund facts

Accounting & distribution dates

	Accounting	Distribution
Final	30 June	31 August
Interim	31 December	28 February

Fund size

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

Performance record

	Performance to 30 June 2011 (%)		
	6 Months	1 Year	5 Years
Accumulation units	3.71	22.93	0.00

Source: Phoenix Fund Services (UK) Limited, net total return.
The performance of the fund is based on the net asset value per accumulation unit.

Price history

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.

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

Fund facts
continued

Total expense ratio (TER)

Expense Type	30 June 2011 %	30 June 2010 %
Managers fee	1.50	1.50
Other expenses	1.16	1.21
Total expense ratio	**2.66**	**2.71**

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.

Fund facts
continued

Sector spread of investments at 30 June 2011

Oil & gas	2.00%	(2.61%)
Mining	2.44%	(2.94%)
Aerospace & defence	1.36%	(1.67%)
General industrial	5.68%	(5.76%)
Electronic & electrical equipment	5.66%	(4.73%)
Industrial engineering	4.83%	(5.03%)
Support services	10.46%	(8.12%)
Beverages	0.56%	(0.97%)
Distributors	2.09%	(0.48%)
Food producers	1.59%	(1.82%)
Household gGoods and home construction	4.68%	(5.17%)
Health care equipment and services	1.69%	(3.98%)
Pharmaceuticals & biotechnology	2.38%	(2.12%)
Food & drug retailers	5.79%	(6.03%)
General retailers	5.89%	(6.77%)
Media	5.31%	(7.26%)
Fixed line telecommunications	3.99%	(4.47%)
Mobile Telecommunications	1.44%	(1.56%)
Electricity	0.04%	(0.00%)
Banks	4.56%	(4.16%)
Nonlife insurance	1.30%	(1.41%)
Life insurance	3.21%	(3.27%)
Real estate investment & services	6.75%	(5.33%)
General financials	1.98%	(1.38%)
Financial services	1.42%	(0.00%)
Equity investment instruments	1.78%	(1.23%)
Software & computer services	7.19%	(6.17%)
Technology hardware & equipment	1.90%	(2.46%)

The figures in brackets show allocations as at 30 June 2010.

Major holdings
The top 10 holdings at the end of each year are shown below.

Holding	% of fund as at 30.06.11
Booker Group	2.88
Rio Tinto	2.44
Hogg Robinson Group	2.40
Cookson Group	2.30
Renishaw	2.28
Inchape	2.09
Brammer	2.02
Johnson Services Group	2.01
Capital & Counties Properties	1.98
DS Smith	1.94

Holding	% of fund as at 30.06.10
Lidco	3.98
Rio Tinto	2.94
Spirent Communications	2.46
Cookson	2.42
British Sky Broadcasting	2.31
Rentokil Initial	2.31
Kingfisher	2.12
BT	2.05
Halma	1.94
Pearson	1.90

General information

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 can be bought either by sending a completed application form to the manager at PO Box 10603, Chelmsford, Essex CM1 9PE, or by telephoning the manager on 0845 026 4288 Fax 0845 280 2416. 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 280 2416. Units will be issued or redeemed at a price calculated by reference to the next valuation point following receipt of the application.

A contract note giving details of the number and price of units bought or redeemed 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.

Report and accounts

This document is a short report of the PFS Brompton UK Recovery Unit Trust for the year ended 31 August 2011. The full financial statement for the fund is available free of charge upon written request to Phoenix Fund Services (UK) Limited, PO Box 10603, Chelmsford, Essex, CM1 9PE.

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.