

PFS DOWNING ACTIVE MANAGEMENT FUND

(formerly CF Acuity Real Active Management Fund)

Annual short report 31 July 2011

Directory

Authorised Corporate Director & Registrar (Appointed 1 February 2011)

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Directors of the ACD

J. M. Rice (appointed 22 February 2011)
R. Elliott (appointed 11 April 2011)
S. A. King
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Investment Manager

Downing LLP
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Depository

BNY Mellon Trust & Depository (UK) Ltd
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Auditor

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

Investment Objective and Policy

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

Investment Strategy

The PFS Downing Active Management Fund (“The Fund”) aims to provide capital gains to its shareholders from investment in smaller company shares quoted on the UK markets. It has an activist private equity style that it applies to companies with market capitalisations under £150 million at the time of investment.

The Fund changed Investment Manager from Acuity Capital to Downing LLP (Downing) in early December 2010 and also changed Authorised Corporate Director (ACD) in February 2011. The Fund has changed its name to PFS Downing Active Management to reflect these changes. To find out more about these changes, Downing and the investment team looking after your Fund you should visit www.downing.co.uk or telephone 0207 416 7780. Monthly factsheets providing an update on the investment activity, can be found on the Downing website.

Risk Profile

The Fund has little exposure to currency, 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. As the Fund invests in smaller companies and AIM listed securities, Investors should be prepared to accept a higher degree of liquidity risk than for a fund with a broader investment mandate. The main risks it faces from its financial instruments are market price and interest rate risk. The Manager reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

Investment Manager's Report

for the year ended 31 July 2011

Investment Review

During the year the Fund increased in value by 14% compared to an uplift of 22% in the benchmark – the blended FTSE AIM All Share Index and FTSE Small Cap (60:40 respectively). In the period, the Fund changed ACD and began to be managed by the new Manager, Downing, in February 2011. Since Downing's appointment the Fund outperformed the benchmark index by 1%, which was down 5%.

The outperformance against the benchmark since the Fund has been managed by Downing reflects the active management of the portfolio with six outright disposals, eight new investments and profits being taken in seven current investments. The activity in the portfolio will be maintained, however the core holdings have now been established and therefore turnover of stocks within the portfolio is likely to be less going forward.

The new investments introduced to the portfolio include Tracsis, in which Downing client funds hold c. 9% of the equity. Tracsis is a software provider in the transport sector, providing rail optimisation solutions to the rail sector. It has a healthy cash generation and is acquisitive, having recently acquired MPEC, a small competitor. Since acquisition the share price of Tracsis has appreciated by 52% and it is now one of the top 5 holdings in the Fund. Accumuli is also a new investment introduced by Downing. Again Downing funds account for c. 9% of the equity in this company, which provides network security solutions to corporates. Downing funds participated in a placing alongside management and other shareholders, which facilitated the acquisition of three companies in the sector.

These investments are typical of the fund strategy; taking time to undertake diligence on the underlying businesses, identifying where the market has overlooked the opportunity and strategy and investing alongside other Downing client funds to create a holding with a degree of influence.

Other performers in the period included Regeneris (new holding +20%), and Northbridge Industrial (new holding +44%). Meanwhile, legacy holding, Abbeycrest, the jewellery manufacturer and distributor, faced financing issues and fell 66% in the year. Downing is working with management to find a solution to the working capital issues, or will continue to seek liquidity for the Fund's residual holding.

Disposals in the period included London Capital Group, Capital Pub Group, RSM Tenon, Sport Media and Gresham House, while some profits were taken in Hamworthy, Craneware, May Gurney and Interior Services Group.

Outlook

Between the end of the year and the time of this report being written (August 2011), world stock markets have suffered some of the largest falls in recent years, reflective of a downgrade of the US economy by ratings agencies and concerns over European debt. However, despite falls of more than 10% in indices, the Fund has remained relatively resilient, having taken profits in time and increased its cash holding from 7% to 17%. A continued strategy of assessing the cash generation and the strategy of underlying investments, and taking time to undertake due-diligence should allow the Fund to take opportunity from any further stock market volatility.

Comparative Tables

Net asset values

As at 31 July	Net asset value (£)	No. of shares in issue	Net asset value (pence per share)
Class A accumulation			
2009	5,203	6,908	75.32
2010	4,051	5,275	76.80
2011	6,524	7,399	88.17
Class B accumulation			
2009	2,918,493	3,848,731	75.83
2010	2,343,855	2,950,877	79.43
2011	2,712,197	2,947,264	92.02

Price and distribution history

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

Year	Highest (pence)	Lowest (pence)	Net revenue per share (pence)
Class A accumulation			
2008 [^]	100.00	75.95	-
2009	89.84	71.53	0.2326
2010	83.81	77.13	-
2011 ^{^^}	88.83	82.27	-
Class B accumulation			
2008 [^]	100.00	72.09	-
2009	90.60	69.06	0.3100
2010	85.45	79.51	0.0093
2011 ^{^^}	92.36	85.67	-

[^] From 5 September 2008

^{^^} To 31 July 2011

Total expense ratio (TER)

	Expense Type	31 July 2011 %	31 July 2010 %
Class A accumulation	Investment Manager's charge	1.76	1.75
	Other expenses	1.11	0.83
	Total expense ratio	2.87	2.58
Class B accumulation	Investment Manager's charge	0.88	0.75
	Other expenses	1.11	0.83
	Total expense ratio	1.99	1.58

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.

PFS DOWNING ACTIVE MANAGEMENT FUND

Fund facts

continued

Sector classification of investments

All sectors in percentage order are shown below

Sector	% of Fund as at 31.07.11	% of Fund as at 31.07.10
Industrials	38.28	36.02
Technology	19.30	6.83
Financials	13.38	14.80
Consumer Goods	4.25	6.17
Health Care	3.77	0.00
Consumer Services	2.26	23.74
Basic Materials	1.92	0.00
Net other assets	16.84	12.44
	100.00	100.00

Major holdings

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

Holding	% of Fund as at 31.07.11	Holding	% of Fund as at 31.07.10
Tracsis	6.40	Shed Media	7.33
Plastics Capital	5.66	Capital Pub Company	6.84
Accumuli	5.66	Cello Group	6.80
Northbridge Industrial Services	5.25	Abbeycrest	6.17
Idox	4.98	Hamworthy	5.71
RWS Holdings	4.56	Tenon Group	5.22
Regenersis	4.55	Braemar Shipping Services	4.97
Nichols	4.25	May Gurney Integrated Services	4.39
Craneware	4.08	Interior Services Group	4.24
Braemar Shipping Services	4.03	Hyder Consulting	3.97

General Information

Buying and selling shares

The dealing office of the Manager is open from 8.30 am to 4.30pm on each dealing day to receive requests for the purchase or redemption of shares. Shares can be bought either by sending a completed application form to the Manager at PO Box 10879, Chelmsford, Essex, CM1 9QW, or by telephoning the Manager on 0845 305 4215 or Fax on 0845 280 0087.

Requests to redeem shares may be made in writing to the Manager at PO Box 10879, Chelmsford, Essex CM1 9QW, or by telephone on 0845 305 4215, or Fax on 0845 280 0087. Shares will be issued or redeemed at a price calculated by reference to the next valuation point following receipt of the application.

A contract note giving details of the number and price of shares bought or redeemed will be issued 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 the PFS Downing Active Management Fund for the year ended 31 July 2011. The full report and accounts for the Fund is available free of charge upon written request to Phoenix Fund Services (UK) Limited, PO Box 10879, Chelmsford, Essex, CM1 9QW.

Other information

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



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