Investment Objective and Policy

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 ended 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.

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.

Investment Manager's Report

continued

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.

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 Investment Manager

Fund Facts

Accounting and distribution dates

	Accounting	Distribution
Interim	31 March	31 May
Final	30 September	30 November

Fund performance

Share Class	Net asset value as at 30.09.11 (pence per share)	Net asset value as at 30.09.10 (pence per share)	Net asset value % change
Class A Income	152.73	180.97	(15.60)
Class A Accumulation	154.31	182.37	(15.39)
Class B Income	152.51	179.79	(15.17)
Class B Accumulation	155.64	181.41	(14.20)
Class B USD Income	$2.38	$2.83	(15.90)

Net asset values

		Income Shares			Accumulation Shares		
Share Class	Year as at 30 September	Net asset value (£)	Number of shares in issue	Net asset value (pence per share)	Net asset value (£)	Number 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

Fund Facts
continued

Price history & distribution record

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

Share Class	Year	Income Shares Highest (pence)	Income Shares Lowest (pence)	Income Shares Net revenue per share	Accumulation Shares Highest (pence)	Accumulation Shares Lowest (pence)	Accumulation Shares Net revenue 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.

Total expense ratios

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

30 September 2010	Expense type	%
Class A	Managers Periodic charge	1.50
	Other expenses	1.00
	Total expense ratio	2.50
Class B	Managers Periodic charge	1.00
	Other expenses	0.91
	Total expense ratio	1.91
Class B USD	Managers Periodic charge	1.00
	Other expenses	0.91
	Total expense ratio	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.

Sector spread of investments

Sector	% of Fund as at 30.09.11
Financials	19.57
Consumer Staples	13.79
Information Technology	13.11
Energy	11.23
Consumer Discretionary	10.56
Construction Materials	8.88
Telecommunications	7.74
Industrials	5.14
Utilities	3.15
Healthcare	2.77
Net other assets	4.06

Sector	% of Fund as at 30.09.10
Financials	24.26
Information Technology	13.96
Telecommunications	10.53
Construction Materials	10.41
Energy	10.23
Consumer Discretionary	8.54
Utilities	6.13
Industrials	5.41
Consumer Staples	5.19
Healthcare	3.21
Net other assets	2.13

Fund Facts
continued

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

Holding	% of Fund as at 30.09.11
Taiwan Semiconductor	3.64
Companhia de Saneamento do Estado de Sao Paulo	3.15
Tsingtao Brewery	3.10
Hyundai Mobis	3.02
Tiger Brands	3.02
Millicom International Cellular	2.96
Genting Berhad	2.96
Fomento Economico Mexicano ADR	2.92
Beijing Enterprises	2.89
Sun Pharmaceuticals Industries	2.77

Holding	% of Fund as at 30.09.10
Hyundai Mobis	3.44
LIC Housing Finance	3.42
CNOOC	3.38
Genting Berhad	3.37
Krung Thai Bank	3.21
Sun Pharmaceuticals Industries	3.21
Energy Development	3.11
Huabao International	3.10
Shanghai Industrial	3.06
Millicom International Cellular	3.03

General Information

Authorised Status
PFS Somerset Capital Management Investment Funds ICVC (the "Company") is incorporated in England and Wales as an ICVC 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.

Buying and selling units
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 on 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.

Report and accounts
This document is a short report of PFS Somerset Global Emerging Markets Fund for the year ended 30 September 2011. The full Report and Accounts for the Fund is available upon written request to Phoenix Fund Services (UK) Ltd, PO Box 10282, Chelmsford, Essex CM21 9LJ.

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.

Directory

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Fax: 01245 398951
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(Authorised and regulated by the Financial Services Authority)

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

Investment Manager
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Lead Investment Managers
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Chartered Accountants & Registered Auditors
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PHOENIX
Fund Services