Investment Objective and Policy

The Sub-Fund seeks to achieve capital appreciation and income growth by mainly investing in an actively managed portfolio of dividend-paying 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 Manager's discretion in other transferable securities, money market instruments, cash and near cash, depositary receipts, derivative instruments and forward transactions, deposits, derivatives for the purpose of hedging of efficient portfolio management and shares in other collective investment schemes, however, investment by the sub fund in other property schemes will be limited to a maximum of 10% of the scheme 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 Fund performed well in relative though not absolute terms in the 12 months to 30 September 2011. The accumulation share class NAV fell 7.1% in sterling terms whereas the comparable MSCI Emerging Markets Total Return Index fell 15.8%. Therefore, though the Fund lost ground in absolute terms, it has for this period and contingently at least, gained just over 8% relative to the index. For the hawks of relative performance the key for the longer term now is how much of this relative performance we maintain or give back in the following year as risk appetites adjust and company results come through. For dividend hunters the Fund has paid out a respectable net yield of approximately 3.5% over the last 12 months. The outlook for dividend growth is weaker in the next 12 months than it was in the last 12 months, but in the long run it remains the aim of the Fund to target companies that can provide substantial growth in future dividend payments.

In terms of the composition of performance the Fund has not been without volatility but overall it has been less volatile than the market. The exception to this was January when the Fund's accumulation share class fell 8.5% whereas the comparable Index fell only 5.4% during a period of outflows from emerging markets. In this period, November 2010 to January 2011 a major cause of relative underperformance was the Fund's lack of weighting in commodity stocks (we own no energy and no raw materials stocks). Meanwhile Brent oil prices moved from the around U$85 per barrel to just over U$100 per barrel between November and January and the only two sectors that were showing an absolute positive performance in our universe for this three month period was energy and basic materials. Another major factor in the performance in this period is likely to have been inflows. In November and December of 2011 we received substantial in flows as a percentage of the Fund which meant that the performance of the underlying stocks held in the Fund were not reflected in the Fund's performance. The trading of in flows are likely to have been a major headwind to performance since inception since the Fund has doubled in size five times and it is possible that the effect of inflows since inception has been to retard the Fund's performance by as much as 5%. In this respect the Fund has certainly benefited from the fact that inflows as a percentage of the fund have been relatively tame since February.

In the latter half of the reporting year, as markets deteriorated, the Fund proved to be reasonably well positioned and benefitted from a combination of being: a) in consistent dividend yielding stocks, such as telecoms and selected utilities b) moved out of higher risk exposure, away from markets like Turkey early in the calendar year c) in good stocks whose companies seem able to grow their earnings even in the context of a slowdown in global

Investment Manager's Report

continued

growth d) in contrarian sectors and countries. The first point is strategic and should not need much elaboration: the Fund always aims to buy into high quality companies with higher yields and sustainable and growing dividends. The second factor was been driven by observations and data points suggesting that emerging (and global) markets credit cycles had reached a conclusion and have moved, at least temporarily, into a downward trend. The reduction in exposure to Turkey, with its excessively high current account deficit at the beginning of 2011 was only one of a few resulting tactic shifts: we also reduced exposure to Brazil and China and remained shy of India for related though not identical macro reasons. There were also one or two exceptional stocks in the Fund whose earnings and share prices have continued to grow through the period. NCsoft, the Korean online games producer, was not only the best performing stock in the terrible month of August but is up 51% in Sterling terms since the beginning of the year. It is not a 'classic' dividend stock, in that it has a low dividend yield, nevertheless it generates a very high return on capital and will have a new game coming out at Christmas to boost its revenue stream. More generally the Fund has benefited from contrarian positioning: towards telecom stocks which have underperformed over the last 3 years, towards South Africa and Taiwan which are generally consensus underweight markets, and away from Brazil, India and China, which were consensus overweight markets.

Other than NCSoft, stocks that have contributed significantly in the last 12 months include Cielo and Tiger Brands. Cielo is the credit card issuer in Brazil which takes a transaction fee for the use of its machines. Though there is a regulatory overhang in the sector because of the regulation of fees, the use of plastic is growing rapidly in Brazil and the stock had been depressed. These factors along with the high return business model allowed the stock to perform well during the year (up 20% in GBP). The worst performing stocks include Mobinil, the Egyptian mobile phone operator and Mobile Telesystems, the Russian mobile operator. Mobinil has had a very difficult two years, with over competition, a tender for minority shares falling through and finally the Egyptian revolution. The stock's prospects look somewhat better now, if only because so much bad news has been discounted. Mobile Telesystems in Russia has suffered in large part because of its exposure to the Russian currency and concerns over Russian corporate governance standards in general. The position has been under review for some time and remains so; the positive thing about Mobile Telesystems it is that it is our only Russian holding.

Our outlook for the next 12 months remains negative, as it has been since we thought the credit cycle rolled over in June or July. Though 'Europe' is most talked about problem by investors, it should, in my view be seen in its wider context: a peaking interest rate cycle, global capital constraints and slowing global growth (if not recession). The issues now perhaps more likely to 'move' markets, if they happen, are a sharp slowdown in Chinese growth or a recession in the U.S. economy. Meanwhile there are still highly significant amounts of both corporate and sovereign debt to be refinanced in the next 1-2 years, which makes us cautious. Our caution is tempered now by the fact that valuations have fallen, in some cases, to attractive levels, but in general our view of this is that it is likely to make the next 12 months more volatile, not less.

By Edward Lam
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 Shares	95.53	106.43	(10.24)
Accumulation Shares	97.20	107.20	(9.33)

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	2010	6,060,656	5,694,541	106.43	2,150,123	2,005,707	107.20
	2011	18,775,901	19,654,357	95.53	5,034,547	5,179,353	97.20
Class B	2011	790,524	950,000	83.21	41,637	49,980	83.31

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.

		Income Shares			Accumulation Shares		
Share Class	Year	Highest (pence)	Lowest (pence)	Net revenue per share	Highest (pence)	Lowest (pence)	Net revenue per share
Class A^^	2010	111.34	93.68	0.7710	112.45	93.68	0.7710
	2011^	111.70	95.89	3.4289	112.81	97.57	3.4852
Class B^^^	2011^	100.55	94.26	0.0890	97.53	94.21	–

^ As at 30 September 2011.
^^ Class A Income and Accumulation shares were launched 29 March 2010.
^^^ Class B Income shares were launched 16 September 2011 and B Accumulation shares were launched 22 September 2011.

Total expense ratios

30 September 2011	Expense type	%
Class A	Managers Periodic charge Other expenses	1.00 0.60
	Total expense ratio	1.60
Class B	Managers Periodic charge Other expenses	1.00 0.10
	Total expense ratio	1.10

30 September 2010	Expense type	%
Class A	Managers Periodic charge Other expenses	1.00 0.60
	Total expense ratio	1.60

^ 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
All sectors in percentage order are shown below.

Sector	% of Fund as at 30.09.11
Information Technology	22.40
Consumer Staples	18.01
Telecommunications	18.00
Financials	12.59
Utilities	7.87
Construction Materials	3.04
Consumer Discretionary	2.44
Healthcare	1.71
Net other assets	13.94

Sector	% of Fund as at 30.09.10
Consumer Staples	19.44
Telecommunications	19.23
Information Technology	19.13
Utilities	12.89
Consumer Discretionary	10.52
Financials	9.93
Construction Materials	2.21
Industrials	1.43
Healthcare	0.64
Net other assets	4.58

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
NCSoft	3.96
National Bank of Abu Dhabi	3.42
China Mobile	3.40
AAC Technologies Holdings	3.39
E Ink Holdings	3.33
Compania Cervecerais Unidas	3.31
Semen Gresik	3.04
PT Telekomunikasi Indonesia	3.03
Shoprite Holdings	2.99
Mediatek	2.82

Holding	% of Fund as at 30.09.10
Maroc Telecom	3.70
Enersis ADR	3.60
Inversiones Aguas Metropolitanas	3.51
Cielo	3.49
Shoprite Holdings	3.49
Natura Cosmeticos	3.47
Compania Cervecerais Unidas	3.37
Foschini	3.35
AES Tiete Pref.	2.90
Akbank	2.86

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 Emerging Markets Dividend Growth Fund for the period 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.

PHOENIX
Fund Services

Directory

Authorised Corporate Director & 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 10282, Chelmsford, Essex, CM1 9LJ
Telephone: 0845 026 4282
Fax: 0845 299 1178
E-mail: SomersetCM@phoenixfundservices.com
(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
Somerset Capital Management LLP
Third Floor, 146 Buckingham Palace Road, London, SW1W 9TR
(Authorised and regulated by the Financial Services Authority)

Lead Investment Managers
Mark Asquith, Edward Lam and Edward Robertson

Depositary
National Westminster Bank Plc
Trustee & Depositary Services
1st Floor, The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ
(Authorised and regulated by the Financial Services Authority)

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