



Investment objective and policy

The investment objective of the PFS Brompton UK Recovery Unit Trust (the fund) is 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 manager's report

for the period from 1 July 2011 to 31 December 2011

Performance

The six months to 31 December 2011 was a disappointing period for the PFS Brompton UK Recovery Unit Trust, which fell 16.75% while the FTSE All-Share Total Return Index fell 6.24%. The return on cash was 0.36% as measured by the London Interbank Offered Rate. At the period end, the gain from the fund's July 2002 inception was 80.26% compared with the FTSE All-Share's 95.01% return while cash returned 38.05%. The principal reason for the fund's underperformance over the second half of 2011 was its small and mid-cap bias. During the six months, the FTSE 250 and FTSE Small Cap Total Return Indices fell 14.11% and 14.90% respectively.

Manager's review

The eurozone crisis was one of the two main drivers of stockmarkets over the period under review. Despite the creation of a temporary European Financial Stability Facility (EFSF) in May, investors grew increasingly concerned about the health of the southern members of the eurozone, particularly Greece and Portugal. A second rescue package was agreed for Greece yet this did not prevent contagion, with investors selling bonds issued by other weaker eurozone countries. The European Central Bank (ECB) responded by buying Spanish and Italian bonds but confidence was short-lived and shares fell again in late September. The other significant negative influence on markets was the bout of political brinkmanship in the US Congress over the country's fiscal position at a time when economic growth showed signs of faltering.

There was, however, a partial recovery in the final quarter of 2011 as measures were introduced to restore global economic confidence. The first came in late September in the US, where the Federal Reserve launched 'Operation Twist', which involved switching from short-dated into longer-dated bonds with the aim of reducing long-term interest rates. In early October, the Bank of England injected a further £75 billion into the UK economy through quantitative easing while the ECB began making emergency loans to eurozone banks. Over subsequent weeks, eurozone leaders built on a Franco-German accord to provide further emergency finance to Greece, to reschedule Greek debt and to order the eurozone's banks to raise fresh capital. Finally, in early December, eurozone members agreed what they claimed was a comprehensive agreement to tackle the region's public finances. This involved new tax and budget rules, the early creation of permanent European Stability Mechanism to replace the EFSF and extra European Union funding for the International Monetary Fund to help stricken eurozone members.

The ECB, having raised its policy interest rate by a quarter point to 1.5% in July, reversed the cut in November in response to the deteriorating economic conditions and cut a further quarter point in December. While some peripheral eurozone countries were contracting in the second half of 2011, economic conditions in other parts of the world surprised investors by their strength, notably in Japan, which recovered strongly from its tsunami earlier in the year, and in the US. UK growth, meanwhile, recovered partially after muted conditions earlier in the year. Such trends were reflected in the currency markets, where the euro fell 10.46% against the dollar and 7.50% against sterling.

Investment manager's report

continued

The market decline was concentrated in two sectors. Basic materials retreated 22.62%, suffering from declining commodity prices, which fell 19.96% as measured by Thomson Reuters' industrial commodities index as investors grew increasingly nervous about economic growth prospects in 2012. Financials fell 21.17% amid fears of the contagion effect on British banks of the travails of their eurozone counterparts. Industrials and consumer services were also relatively weak, down 6.85% and 6.34% respectively. Traditionally defensive areas, however, generated positive returns over the period, with healthcare stocks advancing 7.31% and telecommunications 6.53% ahead.

Portfolio review

Among the fund's larger stocks, resilience was provided by the holdings in healthcare, telecommunications and energy. GlaxoSmithKline and Royal Dutch Shell both advanced 13.04% while Vodafone returned 12.62%. Food retailing also showed its defensive qualities, with Wm Morrison Supermarkets and Booker up 10.79% and 9.86% respectively. The weakest large cap and mid cap stocks included Cable & Wireless Worldwide and Dixons Retail, down 62.86% and 41.65% respectively after profit warnings. Financial sector troubles, meanwhile, affected two of the fund's bank holdings, Royal Bank of Scotland and Lloyds Banking, down 47.53% and 47.13% respectively.

Among the smaller stocks, IndigoVision returned 20.25% after reporting a recovery in sales and a bid approach that may involve the company being taken private while Henderson Private Equity Investment Trust returned 16.42% after announcing a tender offer to shareholders as part of its phased asset realisation process. The weaker smaller stocks included Kofax, down 46.73%, and Oxford BioMedica, down 44.44%.

During the period, the fund took new positions in Quercus Publishing, one of the UK's fastest growing independent book publishers, and in Metrodome, a film and television rights ownership and

distribution business. In addition, the fund added to a number of existing holdings. The largest additions were in BAE Systems, British Sky Broadcasting and IndigoVision.

Outlook

Global economic growth was recovering in late 2011 and this trend is likely to be maintained in early 2012 for various reasons. First, the inflation-adjusted money supply in the Group of Seven (G7) main industrial nations and in the big emerging market economies, typically a precursor of economic growth, was growing robustly at the year end. Secondly, forward-looking business confidence indicators such as new order intentions were reviving after the deterioration earlier in 2011. Thirdly, consumer goods demand growth in the G7 economies was supporting industrial activity. Lastly, the ECB was engaged in a significant injection of liquidity into the eurozone banking system.

There were, however, troubling regional differences within the overall activity levels, with the strength of US business confidence and its money supply trends contrasting with weakness in the eurozone. Within the eurozone, money supply trends at the start of the year were signalling that the region as a whole would grow weakly in early 2012 rather than contract. There were, however, big differences between monetary conditions in the core eurozone countries of northern Europe and the peripheral countries in the south.

In response to the deepening eurozone debt crisis over the summer and autumn of 2011, investors' risk aversion rose to levels equal to those seen in early 2009 and during the depth of dotcom bust in early 2003. There was, however, a partial recovery in risk appetite towards the year end but optimism in early 2012 will depend on the degree to which economic confidence returns to the eurozone to balance a likely easing of momentum in the US. In such circumstances, relative performance among stocks and sectors is likely to diverge significantly, emphasising the role of careful security selection in generating returns.

Fund facts

Accounting and distribution dates

	Accounting	Distribution
Final	30 June	31 August
Interim	31 December	N/A

Fund performance

Class	Net asset value at 31.12.11 (pence per unit)	Net asset value at 30.06.11 (pence per unit)	Net asset value % change
Accumulation	179.27	214.40	(16.39)

Net asset values

At 30 June	Accumulation units		
	Net asset value (£)	No. of units in issue	Net asset value (pence per share)
2009	1,898,666	1,404,966	135.14
2010	2,690,437	1,542,653	174.40
2011	4,787,298	2,232,869	214.40
2011*	4,024,565	2,244,944	179.27

* 31 December 2011

Fund facts

continued

Price history & distribution record

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

Year	Accumulation units		Net distribution (pence per unit)
	Highest (pence)	Lowest (pence)	
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	221.45	171.09	0.3708

Allocations of income are made in respect of any income available in the annual accounting period.

Total expense ratios

Expense type	31 December 2011* %
Manager's fee	1.50
Other expenses	1.07
Total expense ratio	2.57

Expense type	30 June 2011 %
Manager's fee	1.50
Other expenses	1.16
Total expense ratio	2.66

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

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 and as well as up.

Sector spread of investments at 31.12.11

	%
Support services	9.31
Food & drug retailers	7.27
Software & computer services	7.06
Real estate investment & services	6.80
Media	6.41
General retailers	5.71
General industrial	5.28
Electronic & electrical equipment	4.46
Industrial engineering	4.35
Household goods & home construction	4.35
Fixed line communications	3.66
Life insurance	3.63
Banks	3.45
Financial services	3.30
Pharmaceuticals & biotechnology	2.86
Oil & gas	2.52
Mining	2.06
Food producers & processors	2.04
Equity investment instruments	1.94
Healthcare equipment and services	1.88
Mobile telecommunications	1.87
Aerospace & defence	1.79
Technology hardware & equipment	1.77
Distributors	1.75
Nonlife insurance	1.23
Beverages	0.66
Construction & materials	0.51
Electricity	0.03
Net other assets	2.02

Sector spread of investments at 30.06.11

	%
Support services	10.46
Software & computer services	7.19
Real estate Investment & services	6.75
General retailers	5.89
Food & drug retailers	5.79
General industrial	5.68
Electronic & electrical equipment	5.60
Media	5.31
Industrial engineering	4.83
Banks	4.56
Fixed line communications	3.99
Household goods & home construction	3.93
Financial services	3.40
Life insurance	3.21
Mining	2.44
Pharmaceuticals & biotechnology	2.40
Distributors	2.09
Oil & gas	2.00
Technology hardware & equipment	1.90
Equity investment instruments	1.78
Healthcare equipment and services	1.69
Food producers & processors	1.59
Mobile telecommunications	1.44
Aerospace & defence	1.36
Nonlife insurance	1.30
Construction & material	0.75
Beverages	0.56
Electricity	0.04
Net other assets	2.07

Fund facts

continued

Major holdings

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

Holding	% of fund as at 31.12.11	Holding	% of fund as at 30.06.11
Booker	3.73	Booker	2.88
GlaxoSmithKline	2.53	Rio Tinto	2.44
Hogg Robinson	2.45	Hogg Robinson	2.40
Capital & Counties Properties	2.26	Cookson	2.30
Sage	2.20	Renishaw	2.28
Cookson	2.13	Inchape	2.09
Royal Dutch Shell 'B' Shares	2.12	Brammer	2.02
Wm Morrison Supermarkets	2.07	Johnson Services	2.01
Rio Tinto	2.06	Capital & Counties Properties	1.98
Unilever	2.04	DS Smith	1.94

General information

Authorised status

The 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 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.

Unitholder are not liable for the debts of the fund.

Buying and selling units

The dealing office of the manager is open from 8.30am until 4.30pm 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 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 PFS Brompton UK Recovery Unit Trust for the period ended 31 December 2011. The full Report and Accounts for the Fund is available upon written request to Phoenix Fund Services (UK) Ltd, PO Box 10603, Chelmsford, Essex CM21 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.

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 manager reviews the policies for managing these risks in order to follow and achieve the investment objectives.

Directory

Authorised unit trust manager & registrar

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Directors of the manager

R.W. Elliott
S.A. King
S.D. Mathieson (retired 31 October 2011)
A.C. Reed (appointed 1 November 2011)
J.M. Rice

Investment manager

Brompton Asset Management LLP
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(Authorised and regulated by the Financial Services Authority)

Trustee

National Westminster Bank Plc
Trustee & Depository Services
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Auditor

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Chartered Accountants & Registered Auditors
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