

PFS SOMERSET GLOBAL EMERGING MARKETS FUND

Interim short report 31 March 2011
(unaudited)

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Auditors

Shipleys LLP
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10 Orange Street, Haymarket, London WC2H 7DQ

Investment Objective & Policy

For the half year from 01 October 2010 to 31 March 2011

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.

Managers' Review

Interim Report for the Somerset Global Emerging Markets Fund OEIC

Activity within the Fund over the six months to 31st March 2011 remained below our long term average. However, it is worth considering the stock purchases and disposals in turn before turning to our strategy and outlook for the remainder of the year.

LIC Housing Finance in India was sold owing to corporate governance concerns. Whilst we had achieved a good return on the position, an investigation into the actions of the Chief Executive in accepting bribes from a number of property developers to whom LIC had extended loans despite their failure to meet the company's annual lending guidelines were a cause for concern. We also believed that that there was potential for further asset quality deterioration and we were not prepared to hold on with this risk overhanging the stock.

In China, we added 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 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. From this year onwards, Ports will increase its network by 10% a year and stands to benefit from the growth potential of China's luxury-apparel market. In South Africa, Tiger Brands was purchased 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.

Union Bank of India sold off over Q1 2011 along with other large Indian banks on asset quality concerns. The bank's second quarter results, for the year to March 2011, did show an increase in pension-related provisions. However, in our view, the balance sheet remains strong compared to its local peers and the bank's ability to achieve high loans growth gives us a positive outlook. Shanghai Industrial was another laggard amid the fear of further tightening in the Chinese property sector and as inflationary concerns began to trouble investors.

Managers' Review

continued

Performance during Q4 2010 was led by Banorte which became the third largest bank in Mexico through the acquisition of IXE Grupo Financiero in November. The market reacted positively to this transaction owing to the potential synergies, valued by management at \$1.3 billion, and the extended geographical reach. Weg was another to perform well in the fourth quarter, driven by the conviction among investors that Brazil's CAPEX cycle was starting to turn in the company's favour. In particular, there was a realisation that Weg could benefit more than expected from the \$225 billion investment programme announced by Petrobras. This positive momentum drove the stock to almost 30x P/E, near its historical high, and so the decision was taken to sell the position. The full position was sold in January 2011. Elsewhere, CNOOC benefited from the strength in the oil price and TSMC performed well because of the strong demand and high utilisation rate anticipated for 2011, this was consistent with improved sentiment in the technology field.

There were several other changes to the Fund. In Turkey we sold Akbank owing to concerns 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. With margin pressure looking set to continue at least until the third quarter, we decided there was little upside in holding on to the position.

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. We also 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.

As alluded to above, MediaTek reported disappointing results which showed a failure to move up the value chain as expected. The stock was sold off during Q1 2011 as a result and was the worst performing stock in the Fund. Ports Design was another weak performer because of fears in the market that it would not be able to maintain its high prices in the face of strong competition from international brands. Conversely, we believe that the company has strong brand equity and will be able to maintain or even increase ASPs slightly this year in order to pass on higher raw materials and labour costs. Hon Hai's poor performance over this period came mostly in March when the earthquake in Japan prompted fears of supply chain disruptions. Given Hon Hai's 40% global market share, the company is bound to be affected but its strong customer relationships and scale economies should allow it to continue to deliver in the long-term.

Managers' Review

continued

The top performers were led by Rosneft which benefited from the rising oil price and talk of a tie-up with BP in the Arctic. Hyundai Mobis performed well off the back of continued confidence in new car sales at affiliated car-makers, Hyundai Motor and Kia. The unfortunate events in Japan only served to bolster investors' positive outlook for Korean auto exports this year. SOHO China was another stock to outperform, driven by news of further land acquisitions in Shanghai where the property developer now has five exciting projects.

Monetary policy still dominates investors' thinking. China has tightened significantly with a further increase in the reserve ratio requirement (RRR) rumoured to be imminent. It would be the tenth since the beginning of 2010 and has been accompanied by interest rates rising to 6.31%. At the same time the developed economies, other than the European Central Bank, have continued with easy money. The Japanese Central Bank has reportedly injected \$300bn into the domestic economy to assist demand after the earthquake. To give an idea of the scale of this action it took the Federal Reserve six weeks to do what the Bank of Japan has done in ten days. There is also now some discussion about whether the Federal Reserve will implement a QE3 programme and although this is not a consensus view it is no longer considered impossible.

The decision by the Bank of Japan means that the carry trade is once more in action with excess liquidity making its way to asset markets. This has buoyed emerging markets which are now at a 10% premium to mature ones. This ought to sound a note of caution. Monetary tightening in emerging markets is not over. China has not succeeded in cooling its property market but now has a real interest rate of 1.4%. India, Korea and Russia all still have negative real rates and are suffering from food inflation. As food makes up more of the CPI basket in lower income countries this is a particular problem. Efforts to tackle inflation include high interest rates, subsidies and price controls. Subsidies tend to be counter-productive because they deflate prices while inflating government activity which boosts prices again. Price controls are effectively a tax on corporations and a margins squeeze is likely. The other route that is being used as an anti inflationary tool is allowing the currency to appreciate. This is happening in Chile (the peso is up 5.5% this year), South Korea (the won is up 4.5% in a month), Brazil (a 6.5% rise in three weeks) and even in China the RMB has risen by 1% so far this year. This reduces the cost of raw materials but raises the dollar cost of exports. It reverses the long period of export led deflation enjoyed by the West from the early 1990s.

In spite of recent market strength the overall outlook is not especially benign. Liquidity from the developed markets is abundant which is inflating asset values and corrective activity has been taken to prevent an inflation re-spurt; however, these actions dampen the competitiveness of emerging markets at a particular cost to corporate profits. As valuations were already above the developed markets it is hard to see why they should go further.

Managers' Review

continued

The strategy is a variant of 'don't fight the Fed'. Policy makers in emerging markets have made their intentions fairly clear. China is uncharacteristically pellucid. It wants to stop the property bubble, increase wages and stop inflation. This means residential property investment is at risk and the market view that it has avoided government action is likely to prove mistaken. Exporters' profit margins are going to be squeezed unless they can charge their own customer higher prices which is difficult with low growth in the West. Additionally, staple producers will see higher input costs without the ability to pass them through to consumers as they become subject to price controls. Other consumer stocks will benefit from wage rises and increased demand. So the macro pushes investors to careful stock selection not just in China but elsewhere.

Lead Manager, Edward Robertson

Fund Facts

Accounting and distribution dates

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

Net Asset Values

Year	Income Shares			Accumulation Shares		
	Net Asset Value £	No. of shares in issue	Net Asset Value Pence per share	Net Asset Value £	No. 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
Class 'A' 2010	56,226	31,069	180.97	272,897	149,640	182.37
Class 'A' 2011*	66,300	35,718	185.62	397,169	213,296	186.21
Class 'B' 2009	45,116	32,343	139.49	6,835,702	4,900,346	139.49
Class 'B' 2010	2,546,353	1,416,301	179.79	5,499,965	3,031,865	181.41
Class 'B' 2011*	2,622,868	1,417,239	185.07	5,964,152	3,178,378	187.65
Class 'B' USD						
2010	\$110,703	39,075	\$2.83	N/A	N/A	N/A
2011*	\$115,921	39,075	\$2.97	N/A	N/A	N/A

*As at 31 March 2011

Price 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	Income Shares		Accumulation Shares	
	Highest	Lowest	Highest	Lowest
Class 'A' 2008	109.99	103.95	109.99	103.95
Class 'A' 2009	150.93	116.16	152.10	93.77
Class 'A' 2010	191.95	140.01	193.94	141.09
Class 'A' 2011*	191.95	140.01	193.94	141.09
Class 'B' 2008	110.08	93.17	110.08	93.17
Class 'B' 2009	150.85	117.33	152.20	93.67
Class 'B' 2010*	191.68	140.13	194.35	141.39
Class 'B' 2011*	193.75	168.18	196.45	170.52
Class 'B' USD				
2010	3.03US£	2.72US£	N/A	N/A
2011*	3.00US£	2.28US£	N/A	N/A

*As at 31 March 2011

Fund Facts (continued)

Distribution Record

Year	Income Shares	Accumulation Shares
	Net income per share p	Net income per share p
Class 'A' 2009	1.0470	1.0470
Class 'A' 2010	0.3760	0.3789
Class 'A' 2011*	0.0000	0.0000
Class 'B' 2009	1.2250	1.2250
Class 'B' 2010	0.9290	0.9374
Class 'B' 2011*	0.0000	0.0000
Class 'B' USD 2010	1.4639USØ	N/A
2011*	0.0000	N/A

*There is no distribution payable for the period under review.

Total Expense Ratio

	31 March 2011 %	30 September 2010 %
Class 'A' Manager's periodic charge	1.50	1.50
Class 'A' Other expenses	1.00	0.70
Total expense ratio	2.50	2.20
Class 'B' Manager's periodic charge	1.00	1.00
Class 'B' Other expenses	0.91	0.84
Total expense ratio	1.91	1.84

Prices and yields as at 1 April 2011 (first XD dealing date)

	Income Shares		Accumulation Shares	
	Price pence per share	Yield %	Price pence per share	Yield %
Class 'A'	180.51	0.21	182.38	0.21
Class 'B'	180.60	0.51	183.11	0.51
Class 'B' USD	\$2.86	0.51	N/A	N/A

Fund Facts (continued)

Sector spread of investments

As at 31.03.11

Oil & Gas	10.05%
Telecommunications Services	9.48%
Construction & Building Materials	6.67%
Software & Computer Services	5.00%
Electronic & Electrical Equipment	4.92%
Beverages	4.79%
Pharmaceuticals	4.74%
General Retailers	4.55%
Automobiles	3.27%
Water	3.25%
Investment Companies	2.94%
Steel & Other Metals	2.72%
Chemicals	2.71%
Real Estate	2.68%
Electricity	2.33%
Gas Distribution	2.33%
Food Producers & Processors	2.23%
Tobacco	2.22%
Speciality & Other Finance	1.97%
Diversified Industrials	1.94%
Net other assets	2.76%

As at 30.09.10

Financials	26.85%
IT	11.39%
Telecoms	10.53%
Materials	10.41%
Energy	10.20%
Consumer Discretionaries	8.54%
Utilities	6.14%
Industrials	5.41%
Consumer Staples	5.19%
Healthcare	3.21%
Net other assets	2.13%

Major Holdings

The top ten holdings at the period are shown below.

Holding	% of Fund as at 31.03.11	Holding	% of Fund as at 30.09.10
CNOOC	3.40	Hyundai Mobis	3.44
Hyundai Mobis	3.27	LIC Housing Finance	3.42
Companhia de Saneamento do Estado de Sao Paulo	3.25	CNOOC	3.38
Genting Berhad	2.94	Genting	3.37
PTT Exploration & Production	2.87	Krung Thai Bank PCL (Foreign)	3.22
OAQ Rosneft Oil	2.80	Sun Pharmaceuticals Industries	3.21
Mobile Telesystems	2.79	Energy Development	3.12
Taiwan Semiconductor	2.77	Huabao International Holdings	3.10
Krung Thai Bank	2.75	Shanghai Industrial holdings	3.06
POSCO	2.72	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 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 2010. 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 as summarised on page 2.



Phoenix Fund Services (UK) Ltd.

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