

PFS SOMERSET GLOBAL EMERGING MARKETS FUND

OEIC Fact Sheet - Professional Client Use Only

31 October 2010

Fund Managers



Edward Robertson

Founding partner and Global Emerging Markets fund manager since 1999.



Mark Asquith

Partner and Global Emerging Markets fund manager since 2007.



Jacob Rees-Mogg

Founding partner and Global Emerging Markets fund manager since 1993.

Fund Performance in GBP (B Shares)

	<i>Fund</i>	<i>Index</i>	<i>Outperformance</i>
October 2010	2.60%	1.05%	1.56%
3 Months (Trailing)	13.44%	9.86%	3.58%
6 Months (Trailing)	9.74%	4.91%	4.83%
YTD	22.67%	14.90%	7.77%
2009	36.82%	61.12%	-24.30%
2008	10.08%	8.85%	1.23%
Since Inception	84.75%	101.51%	-16.76%

Fund Objective

Somerset Capital Management is a specialist Global Emerging Market Fund Manager. We manage long only, conviction driven, bottom up, concentrated portfolios. Our aim is to build a portfolio of top quality stocks and to hold them for the long term.

Fund Facts

No of Stocks	39
Structure	OEIC
Fund Size	£8.6 million
Type of Shares	Accumulation or Income
Launch Date	17th November 2008
Index	MSCI Emerging Markets
IMA Sector	Global Emerging Markets
Fund Yield	2.1%

Investment Perspective

"No one thinks of winter when the grass is green!"

A St. Helena Lullaby, Rudyard Kipling

It is always difficult to be certain of turning points in markets. At the height of summer the knowledge that winter will surely come is pushed to one side. However, the seasons are less subject to governmental intervention than markets. In winter more fuel may be added to fires and people may wrap up warmly but the sun cannot be made to shine more. Economies are easier to manipulate. In terms of fuel the Federal Reserve has unlimited supplies of dollars and has decided to announce the release of another \$600bn to add to the \$1.2trillion already dispersed. This may yet keep us warm through the winter.

Monetary policy does seem to be the central tool for governments. In America, the United Kingdom and to a slightly lesser degree the Euro-Zone liquidity is abundantly provided by central banks. This has the effect of propping up local asset prices but in the absence of a closed economy the cash leaks out to the benefit of overseas asset prices. It is particularly flowing towards emerging markets. This Western money is not alone as oil prices remain at reasonable levels so the sovereign wealth funds of the Gulf States have trillions to invest. Their preference, once again, is for emerging markets.

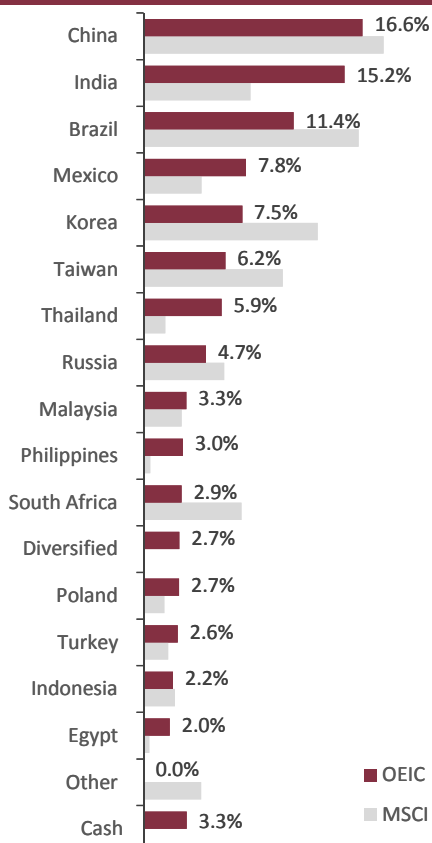
As always every silver lining has a cloud and the cumulonimbus over our markets is this excess of liquidity. Several countries are taking steps to soak it up. Hence, Brazil imposes a 2% transaction tax on foreign equity inflows. Thailand has moved to change the tax regime for its bonds while India has introduced higher loan to value limits for domestic mortgages. This produces a dichotomy of loose monetary policy in the West creating tighter policy elsewhere. This leads to firmer pressure on currencies with the dollar weakening almost universally which almost certainly overwhelms any measures put in place to limit the liquidity flows. Investors begin to see shorting the dollar as a one way bet and so can access the abundant American cash flows circumventing domestic tightening. Almost exactly the same thing happened in Asia in the 1990s. Although it ended in a crash the bubble took six years to inflate.

Thus, it is clear that the grass is green, lush and prepared for a test match. Winter must be considered but we are probably in June rather than September. The key will be to remember this if markets do move into a liquidity fuelled bubble rather than trying to pretend this time it is different, it will not be.

As usual October saw a plethora of quarterly results which it is worth highlighting. Hyundai Mobis, Posco, Union Bank of India and Mobinil were all slightly disappointing. Hyundai Mobis was a little below expectation as Hyundai and Kia sold down their inventory which required fewer components but this is no more than a quarterly flux which will help the next quarter. The stock was a strong contributor to your portfolio over the month. Posco was affected by high raw material prices, it saw long term contracts expire and re-set at a higher level. Union Bank of India took substantial write-offs in respect of agricultural loans that had gone sour some time ago. However, its net interest margin rose and the underlying results were strong. Mobinil was hit by strong competition but its average revenue per user (ARPU) held up well in the circumstances.

(continued overleaf)

Geographical Breakdown (%)



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Dealing Summary

Settlement	T+4	
Min Retail	£1,000	
Min Institutional	£20,000	
Valuation Point	12:00hrs (noon)	
Dealing Number	0845 026 4282	
Dealing Fax	0845 299 1178	
ACD	Phoenix Fund Services	
Fees	<i>Inst</i>	<i>Retail</i>
Initial	0.0%	5.0%
Annual	1.0%	1.5%
Price (Acc.)	184.75	183.94

Fund Codes

Citicode	DTN1
SEDOL ACC Retail	B3F27B1
SEDOL ACC Inst	B3KL3W6
SEDOL INC Retail	B4XX4Z6
SEDOL INC Inst	B4XX519
Lipper ID	65140716

Investment Perspective continued....

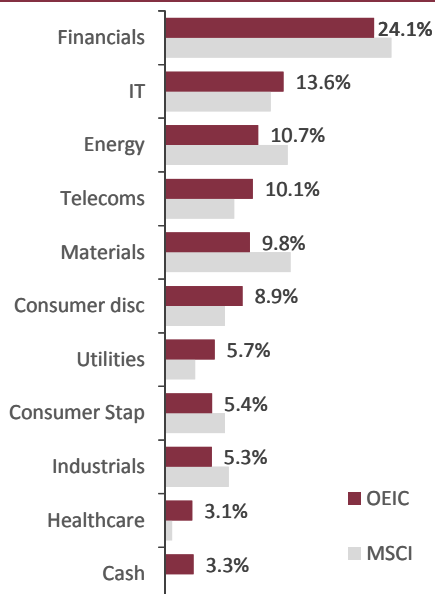
Korea was a similar picture albeit a more developed one. Companies which used to be four to five times geared are now no more than 30%. P/Es remain at the low double digit level and there is growth both domestically and internationally. Although Orion seems too expensive it is much cheaper than directly listed Chinese consumption stocks and with over 50% of its business from outside Korea, mainly from China, it may be a future opportunity. Hyundai Mobis which was one of the top performers in this fund, has benefitted from the success of its group. More importantly, from an analytical point of view, its performance has followed the thesis we laid down when we bought it over a year ago.

Other than Hyundai Mobis the top contributors to this month's results were Energy Development Corporation (EDC) of the Philippines, it rose by 35% and LIC Housing which was up by a quarter. EDC was helped by foreign interest in the Philippines geo thermal electricity industry and the likelihood of further opportunities in its core business. LIC rose partly with the Indian market but also in anticipation of strong growth prior to October's results – 30% net profit growth is forecast.

On an absolute basis there were no detractors during the month which is a sentence which cannot often be written. The relatively weaker stocks were utility type investments including telecoms which add to the overall balance of the Fund. Results will begin their normal deluge at the end of October but September had limited news flow other than a disappointing monthly sales decline from Mediatek and not as buoyant same store sales growth as hoped from Walmex. As far as Mediatek is concerned we expect poor third quarter results but with a recovery thereafter. The message of the month is clear. The force of nature that we have banged on about since the early 1990s is truly powerful and the stocks are there to match it. While it is always wrong to get too carried away and stock selection must remain prudent there are still opportunities even after this impressive rally.

Edward Roberston, Mark Asquith and Jacob Rees-Mogg

Sector Breakdown (%)



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The Investment Manager is Somerset Capital Management LLP, which is authorised and regulated by the Financial Services Authority. Registered Office: 28 Ely Place, London EC1N 6TD. All sources are Somerset Capital Management unless otherwise stated.

Top Ten Holdings

Stock	Country	% NAV
Hyundai Mobis	Korea	3.4%
Genting Berhad	Malaysia	3.3%
Krung Thai Bank (F)	Thailand	3.2%
Soho China	China	3.2%
CNOOC Ltd	China	3.2%
FEMSA	Mexico	3.1%
Sun Pharmaceutical	India	3.1%
Energy Development Corp	Philippines	3.0%
MTN Group	South Africa	2.9%
Banco Do Brasil	Brazil	2.9%
Total		31.3%

For Further and Daily Dealing Information

For further information on our investment process, The Fund or to arrange a meeting with the Somerset Capital investment team please contact Oliver Crawley. To place an order please contact Phoenix Fund Services on the number below.

Somerset Capital Management

Oliver Crawley
Tel 020 7499 1815
oliver@somersetcm.com

To place an order

Phoenix Fund Services
Tel 0845 026 4282
Fax 0845 299 1178

Other important information:

The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investment in emerging markets can involve greater risk than is customarily associated with more mature markets which means greater price movements, both positive and negative, can be expected. Please read the Prospectus before making an investment. The market capitalisation data refers to the weightings in Somerset Capital's model portfolio - these may differ from the weightings in the Fund. All sources: Somerset Capital Management LLP unless otherwise stated. Fund assets are given at 4 November 2010.

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