



Investment Objective and Policy

The objective of the Company is to provide a progressive income stream and achieve long-term capital growth by investing primarily in a portfolio of fully listed and AIM traded UK equities.

The Company will invest primarily in UK companies which aim to provide a high initial dividend; progressive dividend payments, and long-term capital appreciation.

The asset classes in which the Company is permitted to invest includes transferable securities, money market instruments, cash and near cash and deposits as permitted for UCITS schemes under COLL and in accordance with the Company's investment powers as summarised in the prospectus.

Investment Adviser's Report

for the year ended 31 December 2013

Last year the Fund returned 40.92% (on a total return basis) compared to an average of 24.68% for the IMA UK Equity Income sector as a whole. (Source LIPPER NAV to NAV A income shares)

Looking back over the past twelve months the positive momentum in the domestic equity market began as a reaction to a perceived overvaluation in other asset classes and a growing confidence amongst investors that we were over the worst as far as the UK economy was concerned. In the first instance new funds were attracted to a combination of 'quality' earnings on one hand and to cash flow and dividend yield on the other. As estimates for UK GDP growth continued to grow there was a positive size bias in favour of small and mid cap stocks which are relatively more dependent on the UK economy than their larger counterparts. Our fund has had the benefit of the outperformance of small and mid caps combined with the continued attraction of Companies with good dividend yields.

Another positive for our portfolio was the better than expected dividend growth in the last twelve months which continues the trend of the past few years. Interestingly however this was not the case at the earnings level where the general tone was of muted growth and even in the last quarter of the year the number of earnings downgrades outnumbered upgrades. Importantly however anecdotal evidence suggests that the outlook for the companies that we invest in is now starting to improve and two recent deals, the purchase of Lonne Holdings

by Brammer and the purchase of Cinema City by Cineworld underline an improving confidence at Board level.

We have continued to benefit from strong fund inflows in the last period and have used the flexibility afforded to us as small and mid cap income investors to invest in a broad range of new companies across sixteen different sectors as well as adding to our existing holdings. In the media sector we have bought Bloomsbury Publishing, UBM and Centaur Media and we have added exposure to the property sector for the first time in a number of years by buying Segro, Hansteen and Tritax Big Box, the latter being the only IPO that we invested in in the year. We bought Greggs and Debenhams after earnings setbacks and have added an oil stock to the portfolio for the first time with the purchase of Soco International. On the sell side we have recently sold Greencore, and Firstgroup, amongst others, after periods of strong performance and reduced our holding in Talk Talk. We reluctantly had to accept a cash offer for our holding in Abbey Protection and we supported a fund raising by Acal to make an acquisition.

Outlook

As income investors when we are looking for new ideas we tend to downgrade the relative importance of short term earnings moves and concentrate on the medium term prospects for dividend growth. In reality however the two are linked as it is the earnings growth today that will fund our dividend growth tomorrow and one key indicator to us of an improving outlook for earnings is a pick up in cap ex spend by the corporate sector. For the first time in a number of years it now appears that there is sufficient confidence at Board level to underpin a sustained

Investment Adviser's Report

continued

upturn in the cap ex cycle. This should provide a boost to economic activity after, arguably, a number of years of underinvestment and we are at a point in the cycle when corporate balance sheets are extremely strong.

With the increasing fund flows into domestic equities and the strong performance of share prices, we now need earnings upgrades to take market levels beyond their current trading ranges. In the short term there appears to be a 'reality gap'

between the increasingly bullish top down macro growth forecasts and the rather more restrained bottom up outlook as evidenced by a wide range of recent trading updates. Whilst we are confident that corporate profitability will improve this year the majority of trading updates in the past few weeks have not led to upgrades and the timing of the increases is uncertain and may not be until the second half of the year. In response to this we took the decision in the last quarter to move the underlying equity yield of the fund back up to around four percent from around three point seven percent by concentrating new funds into some higher yielding opportunities.

Fund Facts

Accounting and distribution dates

	Accounting	Distribution Pay date
First Interim	–	31 May
Second Interim	30 June	31 August
Third Interim	–	30 November
Final	31 December	28 February

Fund performance

	Net asset value as at 31.12.13 (pence per share)	Net asset value as at 31.12.12 (pence per share)	Net asset value % change
A Accumulation	148.61	105.12	41.37
B Accumulation	159.67	112.21	42.30
A Income	99.32	73.85	34.49
B Income	102.89	76.00	35.38

Net asset values

Year as at 31 December	Income shares			Accumulation shares		
	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)
A						
2011	3,209,790	5,305,044	60.50	408,640	503,287	81.19
2012	5,341,653	7,233,398	73.85	1,537,429	1,462,602	105.12
2013	30,735,897	30,946,552	99.32	17,769,122	11,957,184	148.61
B						
2011	27,991,649	45,210,364	61.91	1,365,449	1,584,149	86.19
2012	43,426,225	57,140,192	76.00	2,853,051	2,542,558	112.21
2013	152,032,401	147,755,450	102.89	24,556,825	15,380,114	159.67

Price history & distribution record

The table below shows the highest buying and lowest selling prices on a calendar year basis in pence per share for five full calendar years. Past performance is not necessarily a guide to the future performance.

Year	Income shares			Accumulation shares		
	Highest (pence)	Lowest (pence)	Net distribution (pence per share)	Highest (pence)	Lowest (pence)	Net distribution (pence per share)
A						
2009	56.88	37.02	3.9300	65.59	41.84	4.4397
2010	71.67	54.18	3.6932	87.90	64.20	4.3399
2011	73.03	60.47	3.9656	92.63	78.58	4.9271
2012	76.02	61.14	4.4404	105.76	82.03	5.9152
2013	101.67	75.32	4.4000	149.17	107.20	6.2477
2014 [^]	–	–	1.9672	–	–	2.8862
B						
2009	57.40	37.31	4.0933	68.21	42.94	4.5345
2010	72.78	54.73	3.7173	92.64	67.21	4.5215
2011	74.34	61.80	4.0031	98.08	83.32	5.1433
2012	78.29	62.56	4.4905	112.89	87.08	6.2029
2013	105.40	77.48	4.5118	160.24	114.40	6.6385
2014 [^]	–	–	2.1211	–	–	3.2249

[^] Distribution payable on 28 February 2014

Fund Facts

continued

Ongoing charge

Expense type	31 December 2013 %
A	
Investment Adviser's charge	1.50
Other expenses	0.31
Transaction charges	0.00
Ongoing charge	1.81
B	
Investment Adviser's charge	0.75
Other expenses	0.31
Transaction charges	0.00
Ongoing charge	1.06

Synthetic risk & reward indicator

The risk and reward indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the risk and reward indicator.



The Fund is ranked at 5 because Funds of this type have experienced medium to high rises and falls in value in the past. Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases.

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 31.12.13	Sector	% of Fund as at 31.12.12
Industrials	29.67	Industrials	38.93
Financials	25.67	Consumer Services	22.52
Consumer Services	22.94	Financials	15.97
Technology	4.93	Consumer Goods	6.24
Consumer Goods	4.76	Technology	4.55
Telecommunications	2.51	Telecommunications	3.40
Utilities	1.92	Utilities	0.93
Oil & Gas	1.33	Net other assets	7.46
Net other assets	6.27		

Major holdings

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

Holding	% of Fund as at 31.12.13	Holding	% of Fund as at 31.12.12
Premier Farnell	1.82	Smiths News	2.20
Galliford Try	1.79	Keller	2.02
Phoenix Group	1.69	TUI Travel	1.99
Smiths News	1.68	Brown (N)	1.91
Dairy Crest	1.60	Greencore	1.91
Domino Printing Sciences	1.56	Talk Talk Telecom	1.86
Go-Ahead	1.54	Chesnara	1.78
WH Smith	1.52	Micro Focus	1.72
Informa	1.50	Galliford Try	1.68
Fidessa	1.47	Beazley	1.65

General Information

Authorised status

PFS Chelverton UK Equity Income Fund (the "Company") is structured as an Investment Company with Variable Capital ("ICVC"), under regulation 12 (Authorisation) of the OEIC Regulations (Open-Ended Investment Companies Regulations 2001 (SI 2001/1228)).

The Company does not intend to have an interest in immovable property.

The Company is authorised by the FCA as a UCITS Scheme under the COLL Sourcebook. The effective date of the authorisation order made by the FCA was 4 April 2006.

The Company was incorporated in England and Wales on 04 April 2006 under registration number IC000431. The Shareholders are not liable for the debts of the Company.

The base currency of the fund is sterling. All units issued are denominated in pence sterling.

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 units may either be in writing to: PO Box 11007, Chelmsford, Essex, CM1 9RR or by telephone on 0845 305 4217.

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 Chelverton UK Equity Income Fund for the year ended 31 December 2013. The full Report and Accounts for the Fund is available upon written request to Phoenix Fund Services (UK) Ltd, PO Box 11007, Chelmsford, Essex CM1 9RR

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

Authorised Corporate Director & registrar

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Fax: 01245 398951
Website: www.phoenixfundservices.com
(Authorised and regulated by the Financial Conduct Authority)

Customer service centre

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(Authorised and regulated by the Financial Conduct Authority)

Directors of the ACD

R.W. Elliot (Retired 14 March 2013)
P.J. Foley-Brickley (appointed 8 January 2014)
R.W. Leedham
D.W. Munting (appointed 15 February 2013)
A.C. Reed
J.M. Rice (retired 30 April 2013)
D.C. Tibble (appointed 1 May 2013)

Investment adviser

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Fund Managers

David Horner
David Taylor

Depositary

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Trustee & Depositary Services
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Auditor

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Chartered Accountants & Registered Auditors
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