



**PHOENIX**  
Fund Services

**PFS Chelverton UK Equity Income Fund**

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Annual Report 31 December 2013 (Audited)

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## Directory

### Authorised Corporate Director (ACD) & Registrar

Phoenix Fund Services (UK) Ltd  
Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW  
Telephone: 01245 398950  
Fax: 01245 398951  
Website: [www.phoenixfundservices.com](http://www.phoenixfundservices.com)  
(Authorised and regulated by the Financial Conduct Authority)

### Customer Service Centre

PO Box 11007, Chelmsford, Essex CM1 9RR  
Telephone: 0845 305 4217  
Fax: 0845 280 0188  
E-mail: [Chelverton@phoenixfundservices.com](mailto:Chelverton@phoenixfundservices.com)  
(Authorised and regulated by the Financial Conduct Authority)

### Directors of the Authorised Corporate Director

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

Chelverton Asset Management Limited  
12b George Street, Bath BA1 2EH  
(Authorised and regulated by the Financial Conduct Authority)

### Fund Managers

David Horner  
David Taylor

### Depositary

National Westminster Bank Plc  
Trustee & Depositary Services  
Younger Building, 1st Floor, 3 Redheughs Avenue, Edinburgh EH12 9RH  
(Authorised and regulated by the Financial Conduct Authority)

### Auditor

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

## 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.

## Investment Adviser's Report

continued

### 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 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.

## Portfolio Statement

as at 31 December 2013

Holding	Security	Market value £	% of total net assets 2013
	<b>OIL &amp; GAS 1.33% (0.00%)</b>		
	<b>Oil &amp; Gas Producers 1.33% (0.00%)</b>		
761,662	Soco International	3,001,710	1.33
	<b>INDUSTRIALS 29.67% (38.93%)</b>		
	<b>Construction &amp; Materials 7.06% (6.98%)</b>		
451,000	Alumasc	563,750	0.25
345,200	Galliford Try	4,035,388	1.79
175,899	Keller	2,014,044	0.89
168,114	Kier	3,074,805	1.37
3,535,771	Low & Bonar	2,536,916	1.13
950,000	Marshalls	1,674,375	0.74
265,042	Morgan Sindall	2,001,067	0.89
		15,900,345	7.06
	<b>Aerospace &amp; Defence 1.10% (1.04%)</b>		
900,000	Cobham	2,467,800	1.10
	<b>General Industrials 0.92% (3.37%)</b>		
350,000	RPC	2,065,000	0.92
	<b>Electronic &amp; Electrical Equipment 2.49% (2.41%)</b>		
459,604	Domino Printing Sciences	3,515,971	1.56
1,067,903	TT Electronics	2,103,769	0.93
		5,619,740	2.49
	<b>Industrial Engineering 1.36% (2.37%)</b>		
100,000	Castings	426,500	0.19
509,750	Hill & Smith	2,627,761	1.17
		3,054,261	1.36
	<b>Industrial Transportation 2.49% (2.88%)</b>		
780,551	BBA Aviation	2,502,447	1.11
560,200	Braemar Shipping Services	3,109,110	1.38
		5,611,557	2.49

## Portfolio Statement

continued

Holding	Security	Market value £	% of total net assets 2013
<b>Support Services 14.25% (19.88%)</b>			
650,000	Acal	2,135,250	0.95
150,000	Atkins (WS)	2,118,000	0.94
362,866	Brammer	1,632,897	0.73
860,995	Electrocomponents	2,398,732	1.06
1,350,000	Harvey Nash	1,350,000	0.60
326,026	Interserve	2,031,142	0.90
431,000	ISG	1,133,530	0.50
310,426	Menzies (John)	2,197,816	0.98
1,850,000	Premier Farnell	4,103,300	1.82
158,500	RWS	1,458,200	0.65
1,600,850	Smiths News	3,778,006	1.68
727,139	Sthree	2,603,158	1.16
1,633,593	St. Ives	2,789,360	1.24
351,000	VP	2,337,660	1.04
		<b>32,067,051</b>	<b>14.25</b>
<b>CONSUMER GOODS 4.76% (6.24%)</b>			
<b>Food Producers 2.45% (6.24%)</b>			
665,534	Dairy Crest	3,593,884	1.60
450,000	Hilton Food	1,918,125	0.85
		<b>5,512,009</b>	<b>2.45</b>
<b>Household Goods &amp; Home Construction 1.07% (0.00%)</b>			
619,133	Headlam	2,414,619	1.07
<b>Leisure Goods 1.24% (0.00%)</b>			
405,000	Games Workshop	2,796,525	1.24
<b>CONSUMER SERVICES 22.94% (22.52%)</b>			
<b>Food &amp; Drug Retailers 0.86% (0.00%)</b>			
450,000	Greggs	1,937,250	0.86
<b>General Retailers 3.69% (4.48%)</b>			
340,000	Brown (N)	1,808,800	0.80
3,250,000	Debenhams	2,372,500	1.06
577,562	Lookers	698,850	0.31
342,473	WH Smith	3,424,730	1.52
		<b>8,304,880</b>	<b>3.69</b>

## Portfolio Statement

continued

Holding	Security	Market value £	% of total net assets 2013
<b>Media 8.83% (7.13%)</b>			
417,500	4Imprint	2,790,988	1.24
132,014	Avesco	290,431	0.13
1,055,000	Bloomsbury Publishing	1,859,438	0.83
3,828,345	Centaur Media	2,239,582	0.99
590,000	Informa	3,377,750	1.50
700,000	Mecom	602,000	0.27
538,100	Tarsus	1,271,261	0.57
375,000	UBM	2,450,625	1.09
1,260,463	UTV Media	2,709,995	1.20
950,000	Wilmington	2,282,375	1.01
		<hr/>	
		19,874,445	8.83
<hr/>			
<b>Travel &amp; Leisure 9.56% (10.91%)</b>			
620,842	Cineworld	2,348,335	1.05
912,500	FirstGroup	1,127,850	0.50
197,310	Go-Ahead	3,468,710	1.54
225,000	Greene King	1,981,125	0.88
700,000	GVC	2,471,000	1.10
1,850,000	Ladbrokes	3,305,950	1.47
2,250,000	Marston's	3,226,500	1.43
900,000	National Express	2,472,300	1.10
187,576	Restaurant Group	1,110,450	0.49
		<hr/>	
		21,512,220	9.56
<hr/>			
<b>TELECOMMUNICATIONS 2.51% (3.40%)</b>			
<b>Fixed Line Telecommunications 2.51% (3.40%)</b>			
2,676,870	Kcom	2,591,210	1.15
1,000,000	TalkTalk Telecom	3,060,000	1.36
		<hr/>	
		5,651,210	2.51
<hr/>			



## Portfolio Statement

continued

Holding	Security	Market value £	% of total net assets 2013
	<b>UTILITIES 1.92% (0.93%)</b>		
	<b>Gas, Water &amp; Multiutilities 1.92% (0.93%)</b>		
70,500	Dee Valley	1,036,350	0.46
500,000	Pennon	3,292,500	1.46
		<hr/>	
		4,328,850	1.92
	<b>FINANCIALS 25.67% (15.97%)</b>		
	<b>Non-Life Insurance 8.02% (5.10%)</b>		
1,776,000	Abbey Protection	1,989,120	0.88
685,215	Amlin	3,134,173	1.39
889,214	Beazley	2,411,548	1.07
775,000	eSure	1,908,050	0.85
300,000	Lancashire	2,428,500	1.08
298,780	Novae	1,867,375	0.83
518,643	Personal Group	2,444,105	1.09
1,050,000	Randall & Quilter	1,858,500	0.83
		<hr/>	
		18,041,371	8.02
	<b>Life Insurance 3.71% (2.56%)</b>		
886,809	Chesnara	2,837,789	1.26
1,800,000	Hansard Global	1,728,000	0.76
525,000	Phoenix Group	3,798,375	1.69
		<hr/>	
		8,364,164	3.71
	<b>Real Estate Investment Trusts 3.60% (0.00%)</b>		
2,350,000	Hansteen	2,538,000	1.13
900,000	Segro	3,005,100	1.33
2,500,000	Tritax Big Box	2,556,250	1.14
		<hr/>	
		8,099,350	3.60

## Portfolio Statement

continued

Holding	Security	Market value £	% of total net assets 2013
<b>Financial Services 10.34% (8.31%)</b>			
775,000	Ashmore	3,110,075	1.38
487,562	Brewin Dolphin	1,487,064	0.66
10,960,800	Charlemagne Capital	1,507,110	0.67
195,000	Close Brothers	2,671,500	1.19
3,250,000	Greenwich Loan Income	1,649,375	0.73
725,000	Icap	3,274,100	1.46
666,843	Intermediate Capital	2,793,405	1.24
625,000	Investec	2,732,500	1.21
705,000	Numis	1,857,675	0.83
446,106	Polar Capital	2,187,035	0.97
		<b>23,269,839</b>	<b>10.34</b>
<b>TECHNOLOGY 4.93% (4.55%)</b>			
<b>Software &amp; Computer Services 4.93% (4.55%)</b>			
277,079	Computacenter	1,745,598	0.78
147,267	Fidessa	3,317,926	1.47
341,194	Micro Focus	2,613,546	1.16
921,309	Phoenix IT	1,227,644	0.55
1,900,000	RM	2,185,000	0.97
		<b>11,089,714</b>	<b>4.93</b>
	<b>Investment assets</b>	<b>210,983,910</b>	<b>93.73</b>
	<b>Net other assets</b>	<b>14,110,335</b>	<b>6.27</b>
	<b>Net assets</b>	<b>225,094,245</b>	<b>100.00</b>

All investments are ordinary shares or stock units on a regulated securities market unless otherwise stated. The percentages in brackets show the equivalent % holdings as at 31.12.12

## Comparative Tables

### Net asset values per share

Year as at 31 December	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)
<b>A</b>						
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>B</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)
<b>A</b>						
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 <sup>^</sup>	–	–	1.9672	–	–	2.8862
<b>B</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 <sup>^</sup>	–	–	2.1211	–	–	3.2249

<sup>^</sup> Distribution payable 28 February 2014

## Comparative Tables

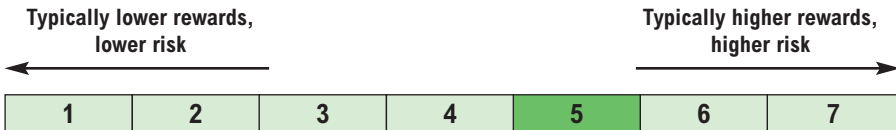
continued

### Ongoing charge

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

### 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 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. The indicator does not take into account the following risks of investing in this Fund:

- Smaller company shares can be more difficult to buy and sell as they may trade infrequently, in small volumes and their share price may fluctuate more than that of a larger company.
- The level of targeted income is not guaranteed and may not be achieved.
- For further risk information please see the prospectus.

### Risk warning

An investment in an 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.

## Statement of the Authorised Corporate Director's Responsibilities

The ACD is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practices.

The Financial Conduct Authority's Collective Investment Schemes sourcebook ("the COLL sourcebook") requires the ACD to prepare financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue and of the net gains on the property of the Company for that year. In preparing the financial statements the ACD is required to:

- select suitable accounting policies, as described in the attached financial statements, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures, which are required to be disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The ACD is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable it to ensure that the financial statements comply with the COLL Sourcebook. The ACD is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the ACD is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and in so far as the ACD is aware:
- the ACD has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## Certification of the Annual Report by the Authorised Corporate Director

In accordance with the requirements of the OEIC Regulations and COLL, we hereby certify the Report on behalf of the ACD, Phoenix Fund Services (UK) Ltd.

**R.W. Leedham**

**D.W. Munting**

Directors

Phoenix Fund Services (UK) Ltd

21 February 2014

## Statement of the Depositary's Responsibilities in Respect of the Company

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible movable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, (the 'OEIC Regulations'), the Company's instrument of incorporation and prospectus in relation to the pricing of, and dealings in, shares in the Company, the application of revenue of the Company, and the investment and borrowing powers and restrictions applicable to the Company.

## Report of the Depositary to the Shareholders of the Company for the Year Ended 31 December 2013

Having carried out such procedures as we considered necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- (i) has carried out the issue, sale, redemption, cancellation and calculation of the price of the Company's shares, and the application of the Company's revenue in accordance with COLL and, where applicable, the OEIC Regulations, the instrument of incorporation and prospectus of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

### **National Westminster Bank Plc**

Trustee and Depositary Services

21 February 2014

## Independent auditor's report to the shareholders of PFS Chelverton UK Equity Income Fund ('the Company')

We have audited the financial statements of the Company for the year ended 31 December 2013 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Shareholders, the Balance Sheet together with the related notes and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's shareholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Conduct Authority under the Open-Ended Investment Companies Regulations 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Authorised Corporate Director ('the ACD') Phoenix Fund Services (UK) Ltd and the auditor

As explained more fully in the Statement of ACD's Responsibilities set out on page 11, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Company as at 31 December 2013 and of its net revenue and net capital gains on the property of the Company for the year then ended; and
- have been prepared in accordance with the requirements of the Instrument of Incorporation, Statement of Recommended Practice relating to Authorised Funds and the COLL Rules.

### Opinion on other matters prescribed by the COLL Rules

In our opinion the information given in the Authorised Corporate Directors' Report is consistent with the financial statements.

We have received all of the information and explanations which we consider necessary for the purposes of the audit.

## **Independent auditor's report to the shareholders of PFS Chelverton UK Equity Income Fund ('the Company')**

continued

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records.

**Ravi Lamba**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

15 Canada Square, Canary Wharf, London E14 5GL

21 February 2014



## Statement of Total Return

for the year ended 31 December 2013

	Note	31.12.13		31.12.12	
		£	£	£	£
Income					
Net capital gains	2		32,153,722		8,328,486
Revenue	3	5,699,738		2,338,745	
Expenses	4	(1,404,756)		(466,210)	
Finance costs: interest	6	—		—	
Net revenue before taxation		4,294,982		1,872,535	
Taxation	5	(7,200)		(7,033)	
Net revenue after taxation			4,287,782		1,865,502
<b>Total return before distributions</b>			<b>36,441,504</b>		<b>10,193,988</b>
Finance costs: distributions	6		(5,692,406)		(2,331,699)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>30,749,098</b>		<b>7,862,289</b>

## Statement of Change in Net Assets Attributable to Shareholders

for the year ended 31 December 2013

	31.12.13		31.12.12	
	£	£	£	£
<b>Opening net assets attributable to shareholders</b>		<b>53,158,358</b>		<b>32,975,528</b>
Amounts received on issue of shares	161,417,578		19,015,546	
Less: Amounts paid on cancellation of shares	(21,487,290)		(6,841,901)	
		139,930,288		12,173,645
Dilution levy applied		39,011		—
Stamp duty reserve tax		(76,401)		(19,267)
Change in net assets attributable to shareholders from investment activities (see Statement of Total Return above)		30,749,098		7,862,289
Retained distribution on accumulation shares		1,293,891		166,163
<b>Closing net assets attributable to shareholders</b>		<b>225,094,245</b>		<b>53,158,358</b>

**Balance Sheet**

as at 31 December 2013

	Note	31.12.13		31.12.12	
		£	£	£	£
<b>ASSETS</b>					
<b>Investment assets</b>		<b>210,983,910</b>		<b>49,193,083</b>	
Debtors	7	4,025,376		2,472,854	
Bank balances	9	<u>16,713,136</u>		<u>2,782,617</u>	
<b>Total other assets</b>		<b>20,738,512</b>		<b>5,255,471</b>	
<b>Total assets</b>		<b>231,722,422</b>		<b>54,448,554</b>	
<b>LIABILITIES</b>					
<b>Investment liabilities</b>		-		-	
Creditors	8	(2,885,356)		(125,525)	
Distribution payable on income shares		<u>(3,742,821)</u>		<u>(1,164,671)</u>	
<b>Total other liabilities</b>		<b>(6,628,177)</b>		<b>(1,290,196)</b>	
<b>Net assets attributable to shareholders</b>		<b>225,094,245</b>		<b>53,158,358</b>	

## Notes to the Financial Statements

for the year ended 31 December 2013

### 1. Accounting Policies

#### (a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice ("SORP") for Financial Statements of Authorised Funds issued by the Investment Management Association in October 2010.

#### (b) Recognition of revenue

Revenue is included in the Statement of Total Return on the following basis:

Dividends on quoted equities and preference shares are recognised when the securities are quoted ex-dividend.

Interest on bank and other cash deposits is recognised on an accruals basis.

All revenue includes withholding taxes but excludes irrecoverable tax credits.

#### (c) Treatment of stock and special dividends

The ordinary element of stocks received in lieu of cash dividends is credited to capital in the first instance followed by a transfer to revenue of the cash equivalent being offered and this forms part of the distributable revenue.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. The tax accounting treatment follows the treatment of the principal amount.

#### (d) Treatment of expenses

All expenses, except for those relating to the purchase and sale of investments and stamp duty reserve tax, are charged against capital for the year on an accruals basis, for the purpose of enhancing revenue. This in turn may constrain the capital growth of the Fund.

#### (e) Apportionment of revenue and expenses to multiple share classes

With the exception of the Manager's periodic charge, which is directly attributable to individual shares classes, all revenue and expenses are apportioned to the shares classes pro-rata to the value of the net assets of the relevant share class on the day that the revenue or expense is recognised.

#### (f) Taxation

Corporation tax is provided at 20% on revenue, after deduction of expenses.

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

Stamp duty reserve tax suffered on surrender of shares is deducted from capital.

## Notes to the Financial Statements

continued

### (g) Distribution policy

The net revenue after taxation, as disclosed in the financial statements, after adjustment for items of a capital nature, is distributable to shareholders as dividend distributions. Any revenue deficit is funded from capital.

Interim distributions may be made at the Investment Adviser's discretion and the balance of revenue is distributed in accordance with the regulations.

Distributions not claimed within a six year period will be forfeited and added back to the capital of the Fund.

### (h) Basis of valuation of investments

Listed investments are valued at closing bid prices on the last business day of the accounting year, excluding any accrued interest in the case of fixed interest securities.

Unlisted or suspended investments are valued by the Investment Adviser taking into account, where appropriate, latest dealing prices, valuations from reliable sources, financial performance and other relevant factors.

### (i) Exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing exchange rates ruling on that date.

### (j) Dilution levy

The ACD may require a dilution levy on the sale and redemption of shares if, in its opinion, the existing shareholders (for redemptions) might otherwise be adversely affected. In particular, the dilution levy may be charged in the following circumstances: where the scheme property is in continual decline; on a Fund experiencing large levels of net sales relative to its size; on 'large deals'; in any case where the ACD is of the opinion that the interests of remaining shareholders require the imposition of a dilution levy.

## Notes to the Financial Statements

continued

<b>2 Net capital gains</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
Non-derivative securities	32,156,167	8,329,386
Currency gains	–	15
Transaction charges	(2,445)	(915)
<b>Net capital gains</b>	<b>32,153,722</b>	<b>8,328,486</b>
<b>3 Revenue</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
UK dividends: Ordinary	4,881,431	1,936,312
Non-taxable overseas income	818,307	402,433
<b>Total revenue</b>	<b>5,699,738</b>	<b>2,338,745</b>

## Notes to the Financial Statements

continued

<b>4 Expenses</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
Payable to the Authorised Corporate Director (ACD), associates of the ACD, and agents of either of them:		
ACD's fee	263,173	91,341
Registration fees	13,197	22,200
	<u>276,370</u>	<u>113,541</u>
Payable to the Investment Adviser, associates of the Investment Adviser and agents of either of them:		
Investment Adviser's fee	1,042,539	317,581
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fee (including VAT)	65,591	22,724
Safe custody and other bank charges	2,864	644
	<u>68,455</u>	<u>23,368</u>
Other expenses:		
Audit fee (including VAT)	6,060	5,700
Audit fee (including VAT): taxation services	1,596	1,500
FCA fees	394	–
Listing fees	108	360
Legal fees	3,528	1,458
Printing costs	5,706	2,702
	<u>17,392</u>	<u>11,720</u>
<b>Total expenses</b>	<b><u>1,404,756</u></b>	<b><u>466,210</u></b>

## Notes to the Financial Statements

continued

<b>5 Taxation</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
(a) Analysis of charge in the year		
Overseas tax	7,200	7,033
<b>Current tax charge (note 5b)</b>	<b>7,200</b>	<b>7,033</b>
<hr/>		
(b) Factors affecting taxation charge for the year		
Net revenue before taxation	4,294,982	1,872,535
Corporation tax at 20%	858,996	374,507
Effects of:		
UK dividends	(976,286)	(387,262)
Movement in surplus management expenses	280,951	93,242
Overseas tax expensed	7,200	7,033
Non-taxable overseas earnings	(163,661)	(80,487)
<b>Current tax charge (note 5a)</b>	<b>7,200</b>	<b>7,033</b>

### (c) Deferred tax

At the year end there is a potential deferred tax asset of £518,006 (2012: £237,055) in relation to surplus management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the year.

## Notes to the Financial Statements

continued

### 6 Finance costs

#### Distributions

The distributions take account of revenue received on the creation of Shares and revenue deducted on the cancellation of Shares, and comprise:

		<b>31.12.13</b>	<b>31.12.12</b>
		<b>£</b>	<b>£</b>
First interim distribution	31/03/13	561,017	347,835
Second interim distribution	30/06/13	1,044,332	474,453
Third interim distribution	30/09/13	1,618,907	518,402
Final distribution	31/12/13	4,583,923	1,266,253
		<b>7,808,179</b>	<b>2,606,943</b>
Revenue deducted on cancellation of shares		314,725	100,808
Revenue received on issue of shares		(2,430,498)	(376,052)
<b>Finance costs: distributions</b>		<b>5,692,406</b>	<b>2,331,699</b>
Finance costs: interest		–	–
<b>Total finance costs</b>		<b>5,692,406</b>	<b>2,331,699</b>

#### Reconciliation of net revenue after taxation to net distributions:

Net revenue after taxation per statement of total return	4,287,783	1,865,502
Expenses transferred to capital	1,404,756	466,210
Undistributed income brought forward	41	28
Undistributed income carried forward	(174)	(41)
<b>Finance costs: distributions</b>	<b>5,692,406</b>	<b>2,331,699</b>

### 7 Debtors

	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
Amounts receivable on creations	3,390,985	2,298,438
Dividends receivable	634,391	174,416
<b>Total debtors</b>	<b>4,025,376</b>	<b>2,472,854</b>



## Notes to the Financial Statements

continued

<b>8 Creditors</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
Purchases awaiting settlement	1,302,673	–
Amounts payable on cancellations	1,389,773	114,977
<b>Accrued expenses:</b>		
Amounts payable to the Investment Adviser, associates of the Investment Adviser and agents of either of them:		
Investment Adviser's fee	169,422	–
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fee	11,021	–
Safe custody and other bank charges	917	248
	11,938	248
Other expenses:		
Audit fee	6,060	5,700
Audit fee: taxation services	3,096	3,000
Listing fee	394	–
Printing costs	2,000	1,600
	11,550	10,300
<b>Total creditors</b>	<b>2,885,356</b>	<b>125,525</b>
<b>9. Cash and bank balances</b>	<b>31.12.13</b>	<b>31.12.12</b>
	<b>£</b>	<b>£</b>
Cash and bank balances	16,713,136	2,782,617
<b>Cash and bank balances</b>	<b>16,713,136</b>	<b>2,782,617</b>

## Notes to the Financial Statements

continued

### 10. Related party transactions

Authorised Corporate Director and other fees payable to Phoenix Fund Services (UK) Ltd (the ACD) are disclosed in note 4 and amounts due at the year end are shown in note 8.

Management fees payable to Chelverton Asset Management Limited (the Investment Advisor) are disclosed in note 4 and amounts due at the year end are shown in note 8.

Depository and other fees payable to National Westminster Bank Plc are disclosed in note 4 and amounts due at the year end are shown in note 8.

### 11. Contingent liabilities

There were no contingent liabilities or outstanding commitments at the balance sheet date. (2012: none)

### 12. Derivatives and other financial instruments

In pursuing its investment objectives, the Fund may hold a number of financial instruments. These financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from the Funds' operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued revenue.

The main risks arising from financial instruments and the ACD's policies for managing these risks are stated below. These policies have been applied throughout the year under review.

#### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. This means the value of an investors' holding may go down as well as up and an investor may not recover the amount invested. Investors should consider the degree of exposure of the Fund in the context of all their investments.

The Fund's investment portfolio is exposed to market price fluctuations, which are monitored by the ACD as per the policies as set out in the Prospectus. The investment guidelines and investment and borrowing powers set out in the Instrument of Incorporation, the Prospectus and in the Financial Conduct Authority's Collective Investment Schemes Sourcebook describe the nature of the market risk to which the Fund will be exposed.

#### Currency risk

The Fund's capital and revenue value of the Fund's investments are denominated in sterling and therefore the financial statements are not subject to the risk of currency movements.

#### Interest rate risk

Interest rate risk, being the risk that the value of investments will fluctuate as a result of interest rate changes. The majority of the Fund's assets comprise equity shares which neither pay interest nor have a maturity date.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

## Notes to the Financial Statements

continued

### 12. Derivatives and other financial instruments (continued)

#### Credit risk

Credit risk arises from two main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, there is counterparty risk, which is the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities, which could result in the Fund suffering a loss. The value of securities issued by such companies may fall as a result of the perceived increase in credit risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit credit risk.

#### Liquidity risk

There is little exposure to credit or cash flow risk. There are no net borrowings or unlisted securities and so little exposure to liquidity risk.

Liquidity risk is the risk that a Fund cannot raise sufficient cash to meet its liabilities when due. One of the key factors influencing this will be the ability to sell investments at, or close to, the fair value without a significant loss being realised.

Under normal circumstances, a Fund will remain close to fully invested. However, where circumstances require: either because a view of illiquid securities markets or high levels of redemptions in the Fund, the Fund may hold cash and/or more liquid assets. Temporary higher liquidity levels may also arise during the carrying out of a change in asset allocation policy, or following a large issue of shares.

The ACD manages the Fund's cash to ensure they can meet their liabilities. The ACD receives daily reports of subscriptions and redemptions enabling the ACD to raise cash from the Fund's portfolio in order to meet redemption requests. In addition the ACD monitors market liquidity of all securities, seeking to ensure the Fund maintains sufficient liquidity to meet known and potential redemption activity. Fund cash balances are monitored daily by the ACD and the Investment Adviser. All of the Fund's financial liabilities are payable on demand or in less than one year.

#### Counterparty risk

The risk that the counterparty will not deliver the investments for a purchase or the cash for a sale after the Fund has fulfilled its responsibilities which could result in the fund suffering a loss. The Investment Adviser minimises the risk by conducting trades through only the most reputable counter parties.

#### Fair value of financial assets and liabilities

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet.

## Notes to the Financial Statements

continued

### 13. Portfolio transaction costs

	31.12.13 £	31.12.12 £
Analysis of purchases		
Purchases before transaction costs	139,703,762	20,223,173
Transaction costs:		
Commissions	410,737	67,588
Stamp duty and other charges	581,962	100,318
	<u>992,699</u>	<u>167,906</u>
<b>Total purchase cost</b>	<b>140,696,461</b>	<b>20,391,079</b>
Analysis of sales		
Sales before transaction costs	11,092,158	10,758,444
Transaction costs:		
Commissions	(30,343)	(32,182)
Other charges	(22)	(59)
	<u>(30,365)</u>	<u>(32,241)</u>
<b>Net sales proceeds</b>	<b>11,061,793</b>	<b>10,726,203</b>

## Distribution Tables

for the year ended 31 December 2013

### Income Share Distributions

Share class	Distribution	Shares	Net Revenue	Equalisation	Distribution Payable 2013	Distribution Paid 2012
A	First interim	Group 1	0.6900	–	0.6900	0.6700
		Group 2	0.2881	0.4019	0.6900	0.6700
	Second interim	Group 1	1.0000	–	1.0000	0.9000
		Group 2	–	1.0000	1.0000	0.9000
	Third interim	Group 1	1.0000	–	1.0000	0.9000
		Group 2	–	1.0000	1.0000	0.9000
	Final	Group 1	1.9672	–	1.9672	1.7100
		Group 2	0.4034	1.5638	1.9672	1.7100
B	First interim	Group 1	0.6900	–	0.6900	0.6700
		Group 2	0.4000	0.2900	0.6900	0.6700
	Second interim	Group 1	1.0000	–	1.0000	0.9000
		Group 2	–	1.0000	1.0000	0.9000
	Third interim	Group 1	1.0000	–	1.0000	0.9000
		Group 2	–	1.0000	1.0000	0.9000
	Final	Group 1	2.1211	–	2.1211	1.8218
		Group 2	0.4135	1.7076	2.1211	1.8218

## Distribution Tables

continued

### Accumulation Share Distributions

Share class	Distribution	Shares	Net Revenue	Equalisation	Amount reinvested 2013	Amount reinvested 2012	
A	First interim	Group 1	0.9820	–	0.9820	0.8989	
		Group 2	0.5608	0.4212	0.9820	0.8989	
	Second interim	Group 1	1.4350	–	–	1.4350	1.2193
		Group 2	–	1.4350	1.4350	1.4350	1.2193
	Third interim	Group 1	1.4518	–	–	1.4518	1.2363
		Group 2	–	1.4518	1.4518	1.4518	1.2363
	Final	Group 1	2.8862	–	–	2.8862	2.3789
		Group 2	0.8105	2.0757	2.0757	2.8862	2.3789
B	First interim	Group 1	1.0186	–	1.0186	0.9325	
		Group 2	0.4518	0.5668	1.0186	0.9325	
	Second interim	Group 1	1.4881	–	–	1.4881	1.2647
		Group 2	–	1.4881	1.4881	1.4881	1.2647
	Third interim	Group 1	1.5050	–	–	1.5050	1.2818
		Group 2	–	1.5050	1.5050	1.5050	1.2818
	Final	Group 1	3.2249	–	–	3.2249	2.6268
		Group 2	0.7034	2.5215	2.5215	3.2249	2.6268

### Further information

First interim period: 01.01.13 – 31.03.13

Second interim period: 01.04.13 – 30.06.13

Third interim period: 01.07.13 – 30.09.13

Final period: 01.10.13 – 31.12.13

Group 1: Shares purchased prior to a distribution period

Group 2: Shares purchased during a distribution period

### Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It represents accrued revenue included in the purchase price of the shares. After averaging, it is returned with the distribution as a capital repayment. It is not liable to income tax but must be deducted from the cost of the shares for capital gains tax purposes.

## General Information

### **Authorised status and structure of the Company**

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 and regulated in the UK by the Financial Conduct Authority ("FCA") as a UCITS Retail Scheme under the COLL Sourcebook.

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.

### **Head Office**

Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW

### **Address for Service**

The Head Office is the address in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it.

### **Base Currency**

The base currency of the Company is Pounds Sterling.

### **Share Capital**

The minimum share capital of the Company is £1 and the maximum is £100,000,000,000. Shares in the Company have no par value. The share capital of the Company at all times equals the sum of the net asset value of the Fund.

### **Classes of Shares**

The Company currently has the following classes of shares available for investment:

A shares

B shares

The Company can issue different classes of shares in respect of the Fund.

The Company may issue both Income and Accumulation Shares.

Holders of Income shares are entitled to be paid the revenue attributable to such shares in respect of each annual accounting period in the currency of the relevant share class.

Holders of Accumulation shares are not entitled to be paid the revenue attributable to such shares, but that revenue is retained and accumulated for the benefit of shareholders and is reflected in the price of shares.

## General Information

continued

### Valuation Point

The Fund will normally be valued at 12:00 mid day on each dealing day for the purpose of calculating the price at which shares in the Company may be issued, sold, repurchased or redeemed.

The ACD reserves the right to revalue the Company at any time if it considers it desirable to do so, with the Depositary's approval.

### Buying and Selling of Shares

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 11007, Chelmsford, Essex CM1 9RR

Or by telephone to:

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.

### Pricing Basis

There is a single price for buying, selling and switching shares in a Fund which represents the Net Asset Value of the Fund concerned. The share price is calculated on a forward pricing basis, that is at the next Valuation Point after the purchase or redemption is deemed to be accepted by the ACD.

The prices of shares are published daily on the Investment Management Association website at [www.fundlistings.com](http://www.fundlistings.com) and on the Financial Times website at [www.ft.com](http://www.ft.com). Neither, the ACD nor the Company can be held responsible for any errors in the publication of the prices. The shares in the Company will be issued and redeemed on a forward pricing basis which means that the price will not necessarily be the same as the published price.

### Significant Information

On 7 May 2013 the shareclasses were renamed, "Retail" has been replaced with "A" and "Institutional" has been replaced with "B".

### Other Information

The Instrument of Incorporation, Prospectus, Key Investor Information Document and the most recent interim and annual reports may be inspected at the office of the ACD which is also the Head Office of the Company and copies may be obtained upon application. Shareholders who have any complaints about the operation of the Company should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

### Risk Warning

An investment in an 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 income 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.





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