March 2010

Chelverton UK Equity Income Fund

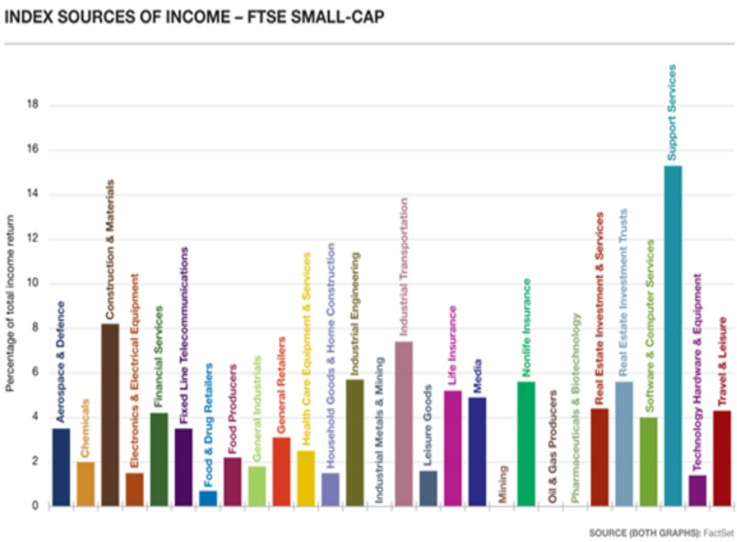
- **UK equity income fund focused on generating a growing income and capital growth by investing only in UK mid and small cap companies**
- **Combines the disciplines of equity income investing with the pricing inefficiencies of smaller companies**
- **Income is derived from a portfolio of UK equities that are all outside of the FTSE100**
- **An expected yield of over 6.0%***
- **Managed by experienced specialist managers, David Horner and David Taylor**

*Based on actual dividends paid in 2009, divided by the unit price at the end of February 2010

The Growing Concentration of Sources of Income from UK Equities

At a time of exceptionally low interest rates, equity income takes on increased importance. This has come at a time, post the financial crisis of 2008, when the universe of income-generating stocks has become much more concentrated. Given that many banks, which were previously a reliable source of dividend income, have now been precluded from making payouts for the foreseeable future, equity income has become increasingly dominated by the so-called “Big 5” stocks; BP, Royal Dutch Shell, HSBC, Vodafone and GlaxoSmithKline. According to a recent report by Capita Registrars these five companies paid in 2009 a total of £26.9bn in dividends, which represented almost 50% of the total dividends paid in the year by the whole UK equity market (In 2007 that figure was 35%). Traditional UK equity income investors face increasing concentration risk.

Investors seeking greater diversification could of course look overseas and are increasingly doing so, however this route will subject their income stream to the vagaries of the currency markets. Diversification can also be achieved by moving down the capitalisation scale, where there are a greater number of companies paying sizeable and well-covered dividends. Unlike the large-cap income-payers, these opportunities are spread over a wide range of industries. For example, there are over 20 sectors in the FTSE Small Cap index which provide significant levels of income. Interestingly, none of the significant dividend-payers are in Oil & Gas, Banks or Pharmaceuticals, thereby further confirming the diversification benefits provided by a wider spread down the capitalisation scale.



Fund Top Holdings

Chesnara	Beazley	Macfarlane
Diploma	Hansard Global	Dee Valley
Braemar Shipping Services	Senior	Brammer
Office2Office	Abbey Protection	Premier Farnell
Cineworld	Restaurant Group	Avesco
Fiberweb	Jarvis Securities	Hilton Foods
Melrose	Moneysupermarket	Interserve

Fund Manager Comments

As has been well documented, the past two years has seen an unprecedented fall in the level of income paid out by 'UK plc' as a direct consequence of the liquidity crisis and the economic recession. This affected small and large companies alike and created an unusual situation in that a lot finance directors were able to cut dividends with impunity in the belief that it wouldn't affect their share price when everyone else was doing it as well. We take an alternative view which is that those companies that have continued to pay, and indeed grow their payouts, in these turbulent times will ultimately be handsomely rewarded in an environment where income is becoming more scarce. To continue to pay dividends through the past two years hints at a level of balance sheet strength, a lack of excessive gearing and degree of cash-flow management that will be rewarded as investors focus once again on basics.

Our investment process is focused on identifying those stocks across a wide range of sectors outside of the FTSE 100 where the dividend prospects are not reflected in valuations. Where companies have had to cut, we look for those directors that have a propensity to reinstate payments as quickly as possible and who agree with us about the powerful message a dividend can send to investors. Earnings based valuations driven by unsustainable levels of gearing are now consigned to history and we believe that in a more risk averse world, cash will once again be King.

In the table below we can look at our fund against the FTSE 100, as at the end of February 2010, on a number of valuation parameters. As managers of a small and mid cap income fund with a premium payout, we feel comfortable with a level of dividend covered just under twice by earnings. In fact this is, we believe, an appropriate level for the long term. The relative price/earnings discount looks to fall next year as a disproportionate part of the FTSE 100 earnings growth is forecast to come from banks and oil stocks, sectors to which our fund currently has no exposure.

Portfolio Valuation Characteristics	Chelverton UK Equity Income Fund	FTSE 100 †
P/E Consensus 2010 Earnings	**9.2x**	12.1x
P/E Consensus 2011 Earnings	**8.4x**	9.8x
2010 estimated dividend yield	**6.0%**	3.7%
2010 estimated underlying dividend cover	**1.86x**	2.2x

Source: Chelverton Asset Management, †Investec

Performance	3 months	6 months	1 year	3 years
Chelverton UK Equity Income Fund	4.87%	7.93%	56.80%	-32.03%
IMA UK Equity Income Sector	2.87%	6.82%	37.94%	-14.22%
Rank	2/89	28/88	4/84	69/73
Quartile	**1st**	**2nd**	**1st**	**4th**

Source: Financial Express, bid to bid with net income reinvested to 28/02/2010

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Quick Facts	
Structure	*UK OEIC*
Dividend Frequency	*Quarterly*
Annual Management Fee	*Institutional: 0.75%*
Dealing Frequency	*Daily*
Valuation Point	*12 noon*
Launch Date	*December 2006*
Administrator	*Capital Financial Administrators Ltd*