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CF Chelverton UK Equity Fund

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CF Chelverton UK Equity Income Fund
a sub-fund of CF Chelverton UK Equity Fund
ACD's Annual Short Report
for the period from 1 December 2006 to 31 December 2007

Investment Objective and Policy

The objective of the CF Chelverton UK Equity Income Fund ('the Fund') 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 Fund will invest primarily in UK companies which aim to provide a high initial dividend; progressive dividend payments, and long-term capital appreciation.

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 Objective as summarised above.

Accounting and Distribution Dates

	Accounting	Distribution
First Interim	–	31 May
Half Year	30 June	31 August
Third Interim	–	30 November
Final	31 December	29 February

Total Expense Ratios

Expense Type	31.12.07 %			
	Retail Income	Institutional Income	Retail Accumulation	Institutional Accumulation
ACD's periodic charge	0.91	0.60	1.25	1.00
Other expenses	0.34	0.40	–	–
Total expense ratios	1.25	1.00	1.25	1.00

Distributions

Share Class	First Interim 31.03.07 pence per share	Half Year 30.06.07 pence per share	Third Interim 30.09.07 pence per share	Final 31.12.07 pence per share	Total
Retail Income	1.0000	1.0000	1.0000	2.7136	5.7136
Institutional Income	1.0000	1.0000	1.0000	2.7247	5.7247
Retail Accumulation	N/A	N/A	1.0000	2.6120	3.6120
Institutional Accumulation	N/A	N/A	1.0000	2.6120	3.6120

Price and Income History

Retail Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2006#	103.72	99.16	–
2007	108.76	82.65	3.0000
2008	–	–	2.7136*

Institutional Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2006#	103.77	99.17	–
2007	109.12	83.23	3.0000
2008	–	–	2.7247*

Retail Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2007##	105.12	83.40	1.0000
2008	–	–	2.6120*

Institutional Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2007##	105.54	83.92	1.0000
2008	–	–	2.6120*

Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
31.12.07	Retail Income	946,001	1,175,133	80.50
	Institutional Income	5,838,318	7,260,402	80.41
	Retail Accumulation	207	250	82.80
	Institutional Accumulation	208	250	83.20

From 1 December 2006.

From 2 July 2007.

* Payable 29 February 2008, in relation to the year ended 31 December 2007.

Performance Record

Total Return Performance to 31 December 2007 %	
	Since launch
CF Chelverton UK Equity Fund	
Retail Income	(13.79)*
Institutional Income	(13.87)*
Retail Accumulation	(17.80)#
Institutional Accumulation	(16.80)#
FTSE Small Cap (Excluding Investment Trust)	(10.91)
	(19.60)

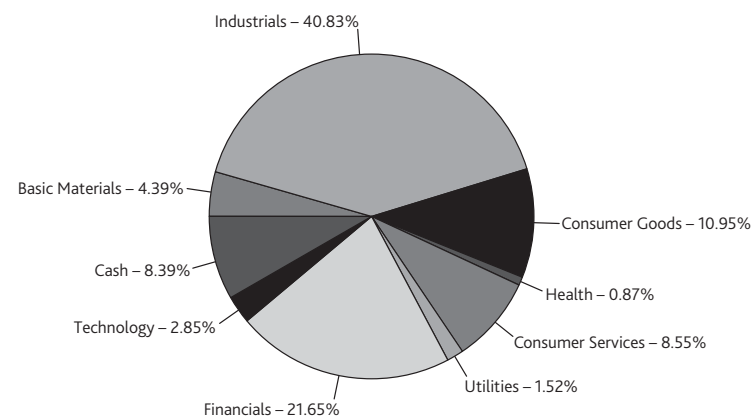
* From 1 December 2006.

From 2 July 2007.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



Major Holdings

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

Holding	% of Fund as at 31.12.07
Avesco Group	4.05
Hilton Food Group	3.95
Braemar Shipping Services	3.30
T Clarke	3.13
Dawson Holdings	3.11
Sanderson Group	2.85
Personal Group Holdings	2.83
Wogen	2.76
TT Electronics	2.58
ATH Resources	2.17

INVESTMENT MANAGER'S REPORT

Investment Review

In the period the Fund returned (13.79)% per Retail Income Share and (13.87)% per Institutional Income Share compared to the FTSE Small Cap ExIT Index (13.17)% and the FTA Allshare Index 9.2%.

The last period has been a difficult one for the Fund as, since the middle of the year, small cap, as an asset class, was in relative decline as a direct reaction to increasing economic concerns. Whilst the first part of the period saw rising markets underpinned by sound corporate results, ultimately the year was defined by the dramatic sell-off and increase in volatility in the final quarter. This sell-off was a reaction to increasing fears of a global recession and was compounded at the smaller end of the market by increasing fears over liquidity, as a result of the problems in the banking sector. We believe that this flight to large cap liquidity, the 'size effect', is a relatively short-term influence as the stocks that we invest in, whilst relatively small in size, have one thing in common – good cash flow and it is this that we believe, over the medium-term is the principle determinant of investment performance and not market cap.

We have seen tangible evidence of rising investor risk premiums as, against a background of rising dividends, our portfolio yield has risen during the past thirteen months from around 4.5% at the peak to just under 7% at the year end. Our investment process only allows us to invest in stocks that yield at least 4% and from a sector perspective, this proved to be a drag on performance last year as we were unable to invest in the best performing areas of oil and gas and mining. We largely avoided the worst of the sell-off in the consumer services and real estate sectors, but we were adversely affected by our exposure to small financials.

Our yield requirements preclude us from investing in the vast majority of IPO's but last year we were able to purchase Hansard Global and Hilton Food.

During the last twelve months your Fund benefited from bids for Hitachi Capital, Salvesen and Alpha Airports. In the earlier part of 2007 some valuations at the larger end of the market were undoubtedly being supported by bid speculation. At the time the trend was for venture capitalists to do large, highly-g geared deals and it is fair to say that, given the current liquidity environment, these deals have been put on hold. However, we believe that we will soon start to see venture capitalists begin to invest some of their substantial funds at the smaller end of the market, where deals will be struck using a higher proportion of equity with a view to increasing gearing when liquidity conditions improve.

As managers we focus on tangible cash flow measures when we determine which stocks we want to buy and sell and we try to invest in stocks that we can hold across the cycle. Occasionally, however, after extreme periods of relative performance, it is appropriate to look for catalysts that may signal a turn in direction. At the moment, whilst it is difficult for us to predict when investor confidence will return we can look to the corporate sector for guidance. History has shown us that after a shakeout we can expect a combination of Director purchases, share buybacks and corporate activity to lead the recovery and begin to highlight relative value. We will benefit when sentiment moves from a fear inspired 'flight to liquidity' to a longer term, investment driven 'flight to cash flow'.

Chelverton Asset Management Limited

Investment Adviser

24 January 2008

Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 9.00am and 5.30pm. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 922 0044. 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 the CF Chelverton UK Equity Income Fund for the period from 1 December 2006 to 31 December 2007. The full Report and Accounts for the Fund is available upon written request to Capita Financial Managers Limited, Beaufort House, 15 St Botolph Street, London EC3A 7HH.

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.