

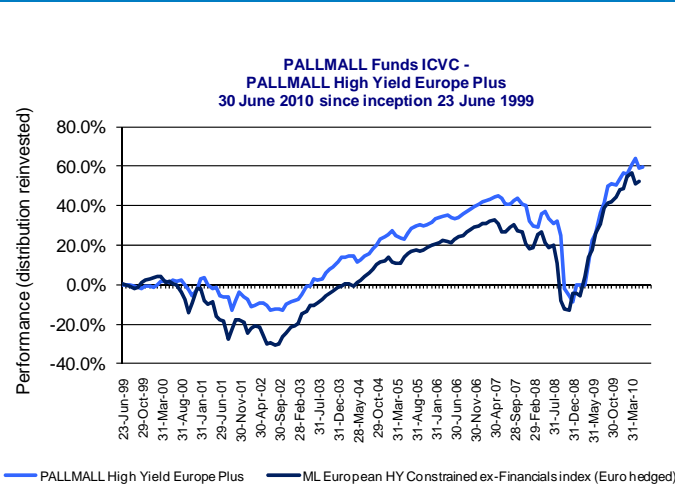
Class A (Inc)	One Month Return	YTD	3 years	5 years	Since Inception	Overall Fund Size
Fund	0.51%	4.26%	11.09%	26.65%	59.82%	€64 m
ML Index*	0.76%	5.35%	15.98%	33.86%	52.21%	

*ML Europ. Curr. HY ex Financials Constrained Index (Euro hedged)

Investment Objectives

The investment objective is to achieve primarily a high level of income and in addition capital appreciation through investment in a broad range of securities listed on eligible markets. The investment policy is to invest primarily in European high yield securities. The investments will predominantly be a wide range of fixed income securities which will also include for example lower quality corporate and sovereign debt securities and convertible debt.

Performance vs ML Europ. Curr. HY Constr. Index since June 99



Distribution History PALLMALL High Yield Europe Plus

2000	4.4%
2001	8.6%
2002	10.0%
2003	8.5%
2004	9.7%
2005	8.4%
2006	8.0%
2007	7.0%
2008	7.4%
2009	9.4%
2010	14.4%

Note: Financial year: 1 April – 31 March

Manager's Report June 2010

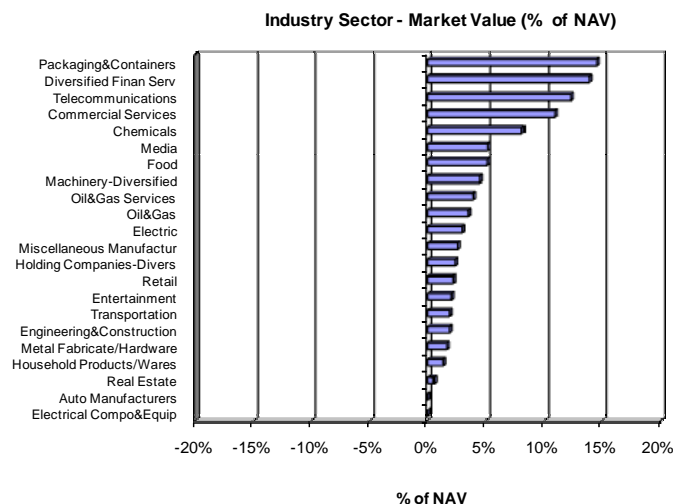
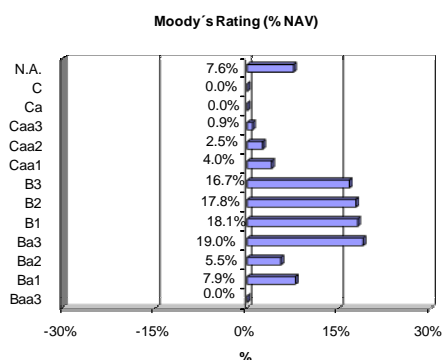
The Moody's global high yield default rate declined further from 7.6% end of May to 6.1% end of June. In Europe the rate has declined to 5.8% from 6.8% a month ago. Moody's expects these rates to decline further to around 2% one year from now. This forecast appears realistic, with corporate fundamentals remaining strong and as balance sheet deleveraging continues.

The spread on the Merrill Lynch European High Yield Non-Financial Constrained Index stands at 641 as at end June. From this level, albeit with slower economic growth expected this year, there is good potential for further spread tightening. However, volatility can be expected in the near term due lingering investor uncertainty about the economic backdrop.

European high yield currently presents itself as an attractive asset class on a relative basis, in particular in fixed income. With economic growth slowing from recent higher rates and limited pressures on capacity, inflation expectations should remain subdued. While this may limit the scope for government bond yields to rise sharply in the near future, investors are likely to look for higher yields in spread markets. Investment grade corporate bonds trading near record low yields make high yield bonds relatively more attractive. With default rates falling high yield spreads have scope to narrow.

Fund Data and Risk Analysis

Fund Data		Top 5 holdings		Risk Analysis (since inception)	
Yield (incl. Cash)	8.65%	Ziggo		PALLMALL	ML Europ. HY Constr. Index
Yield (excl. Cash)	8.95%	Agco		Standard Deviation	3.31% / 3.61%
Duration	3.20 yrs	Iron Mountain		Annualised Risk Free Return	3.02% / 3.02%
Av. Coupon Fund	7.97%	Global Crossing		Sharpe Ratio	0.40 / 0.24
Av. Coupon Bonds	8.33%	Avis		Maximum Drawdown (one month)	-21.34% / -16.99%



Fund Details

Fund Name:	PALLMALL Funds ICVC - PALLMALL High Yield Europe Plus Fund
Fund Structure:	Open ended investment company with variable capital (ICVC)
ISIN Code:	GB0007368888 – class A (Inc) – distributing – Launched: 23 June 1999 GB00B4RVTC84 – class A (Acc) – accumulation – Launched: 25 March 2010
Bloomberg:	PMHYEPI LN Equity - class A (Inc) PMHYEPA LN Equity - class A (Acc)
Fund Manager:	Pall Mall Investment Management Limited
Management Fee:	0.75% p.a.
Launch Date:	23 June 1999
Depository:	The Royal Bank of Scotland
Custodian, Administrator:	Brown Brothers Harriman
Auditors:	Baker Tilly
Paying and Information Agent:	WestLB, Düsseldorf
Valuation:	Daily, 19 hrs London time
Subscription and Redemption:	Daily, before 12.00 pm (London time) Pall Mall Investment Management Ltd Tel: 0044 20 7590 5994; Fax: 0044 20 7590 5998
Investment Management Team:	Curt Schibli, Jonathan Goble, Chris Brils, Oliver Chamberlain, Jason Late, Alvaro Mata
Awards:	S&P AA-Rating; Morningstar 5 Star Ranking; Lipper Leader
Contact	

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