

30 July 2010

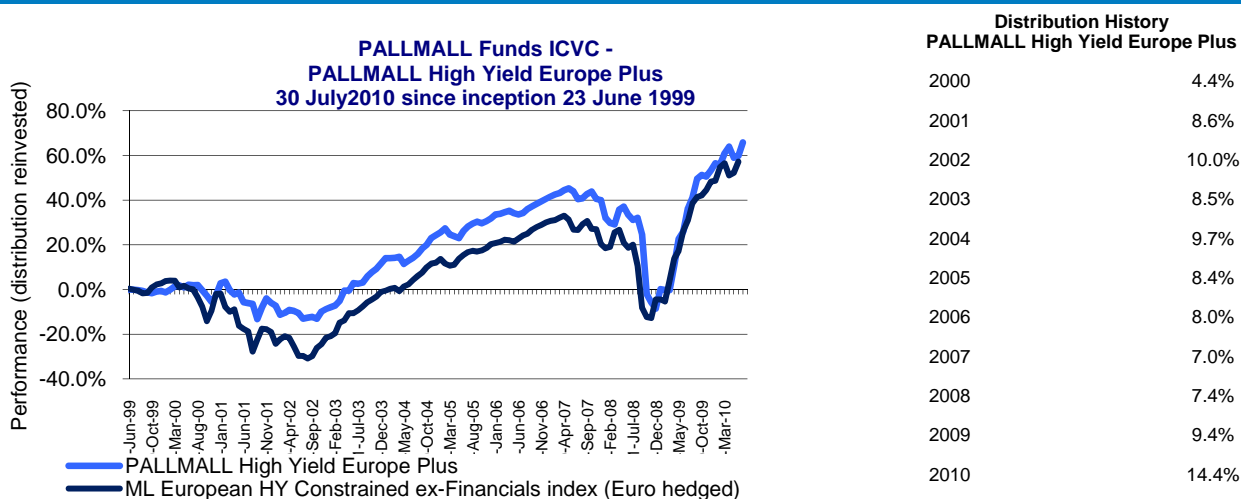
Class A (Inc)	One Month Return	YTD	3 years	5 years	Since Inception	Overall Fund Size
Fund	3.75%	8.17%	18.08%	29.30%	65.81%	€69.9 m
ML Index*	3.29%	8.82%	24.03%	36.21%	57.22%	

*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



Note: Financial year: 1 April – 31 March

Manager's Report July 2010

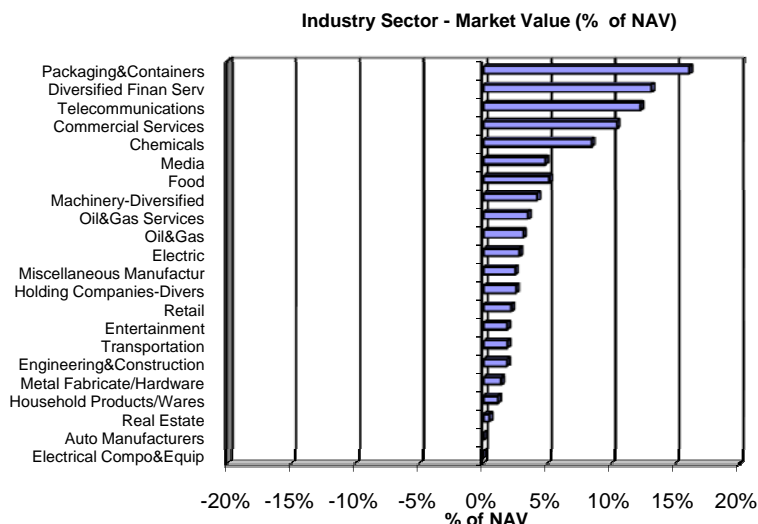
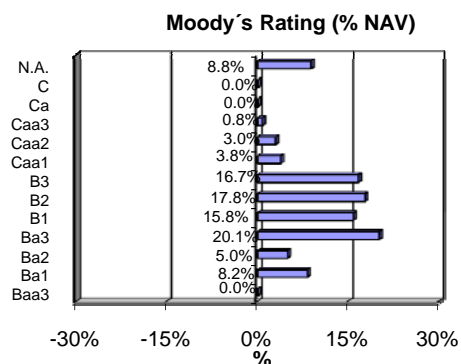
The Moody's European high yield default rate actually rose from 5.8% last month to 6.2% as at end July due to 2 relatively large defaults. However, the trend is for defaults to continue declining in Europe and the global default rate did move lower from 6.1% end of June to 5.5% as at end July. Moody's is forecasting the default rate to decline to 1.8% globally one year out and to 1.1% in Europe.

The spread on the Merrill Lynch European High Yield Non-Financial Constrained Index stands at 564 as at end July. 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)	8.59%	Global Crossing		PALLMALL	ML Europ. HY Constr. Index
Yield (excl. Cash)	7.98%	Ziggo		Standard Deviation	3.31% / 3.61%
Duration	2.88 yrs	Impress		Annualised Risk Free Return	3.00% / 3.00%
Av. Coupon Fund	7.76%	Owens Brockway		Sharpe Ratio	0.50 / 0.31
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

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