

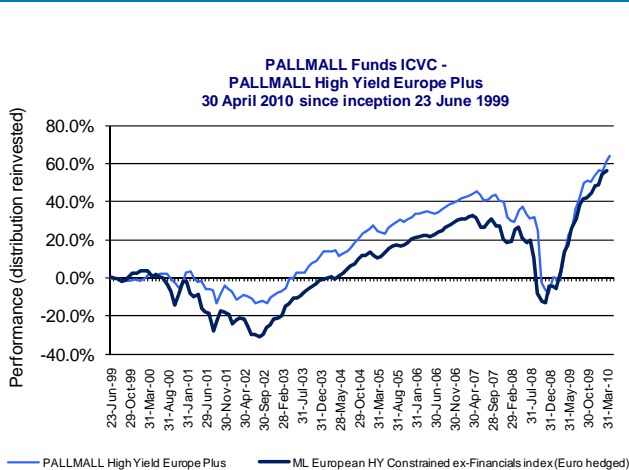
Class A (Inc)	One Month Return	YTD	3 years	5 years	Since Inception	Overall Fund Size
Fund	1.81%	6.97%	13.52%	32.43%	63.96%	€62.2m
<b>ML Index*</b>	<b>1.16%</b>	<b>8.31%</b>	<b>18.43%</b>	<b>41.41%</b>	<b>56.48%</b>	

\*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 April 2010

The Moody's global high yield default rate declined further from 10.0% end of March to 9.0% end of April. Moody's expects this rate to decline further to 2.0% one year from now. We are more conservative, but agree that the default rate can still fall significantly from the current level. High yield issuers in general are benefiting from improving balance sheets as well as cash flow generation.

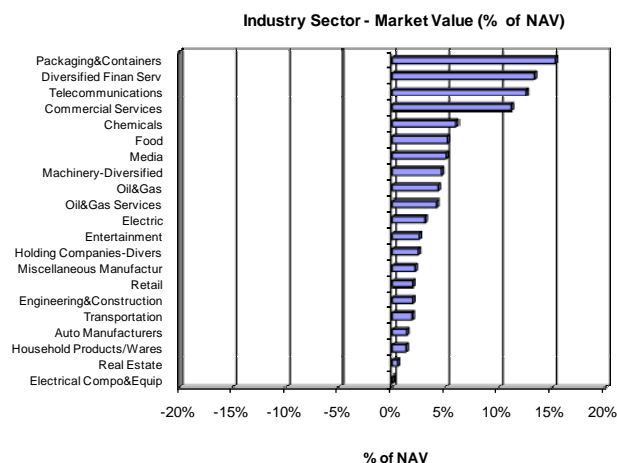
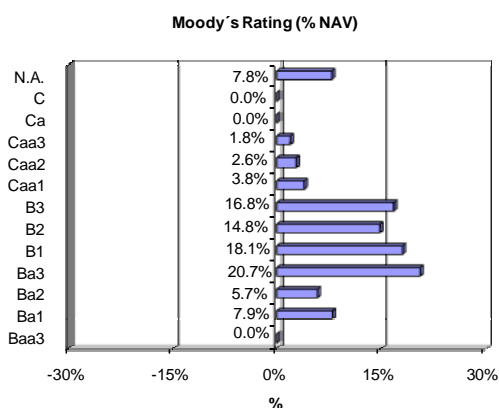
With this in mind the European high yield market still presents good value. The spread on the Merrill Lynch European High Yield Non-Financial Constrained Index stands at 514 as of end of April. From this level with a modest economic recovery expected this year there is good potential for further spread tightening. However, with sovereign risk again making headlines and the risk of escalation of this issue, volatility can be expected in the near term. We would regard any significant spread widening as a potential buying opportunity.

European high yield currently presents itself as an attractive asset class on a relative basis, in particular in fixed income with the potential for government bond yields to rise in the not so distant future and investment grade corporate bonds trading near record low yields.

The recent rise in sovereign credit spreads, especially in the periphery Eurozone sovereigns such as Greece, Spain and Portugal, highlights the markets concern with heavy government debt loads. If this trend were to persist it could lead to more de-risking in markets and lead to higher credit spreads for bonds as a whole. Nevertheless, we see this impact financials and then investment grade corporate bonds first. High yield bonds are more likely to cushion the effect as spreads still offer sufficient premium.

### Fund Data and Risk Analysis

Fund Data		Top 5 holdings		Risk Analysis (since inception)		PALLMALL	ML Europ. HY Constr. Index
Yield (incl. Cash)	7.84%*	FTI Consulting		Standard Deviation		3.31%	3.62%
Yield (excl. Cash)	8.10%*	Global Crossing		Annualised Risk Free Return		3.06%	3.06%
Duration	2.99 yrs	Owens Brockway		Sharpe Ratio		0.48	0.29
Av. Coupon Fund	8.02%	Agco		Maximum Drawdown (one month)		-21.34%	-16.99%
Av. Coupon Bonds	8.28%	Iron Mountain					



## Fund Details

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

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