

**31 May 2010**

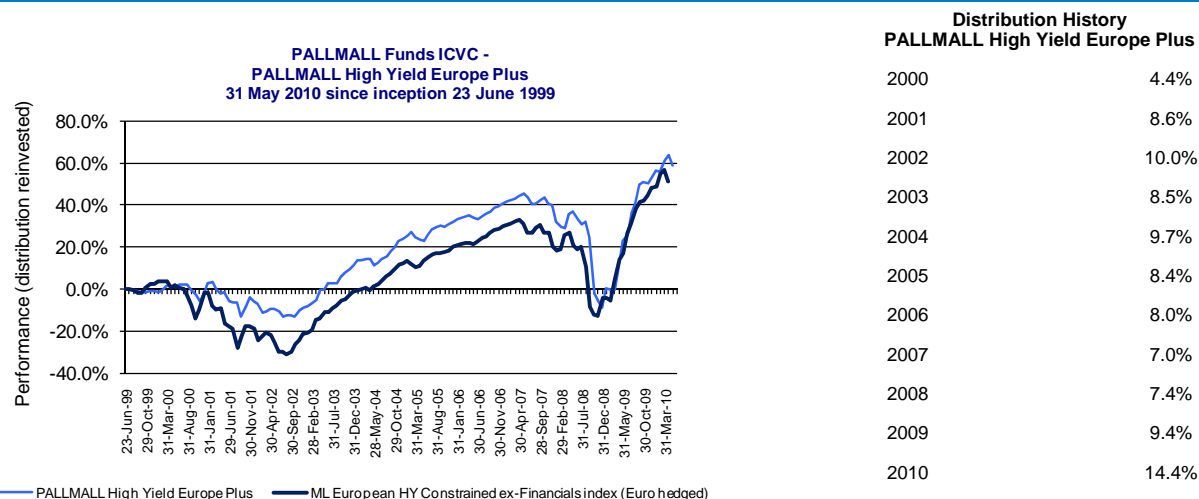
Class A (Inc)	One Month Return	YTD	3 years	5 years	Since Inception	Overall Fund Size
Fund	-3.02%	3.73%	9.45%	29.31%	59.01%	€60.9m
<b>ML Index*</b>	<b>-3.46%</b>	<b>4.56%</b>	<b>13.56%</b>	<b>35.96%</b>	<b>51.07%</b>	

\*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



Note: Financial year: 1 April – 31 March

### Manager's Report May 2010

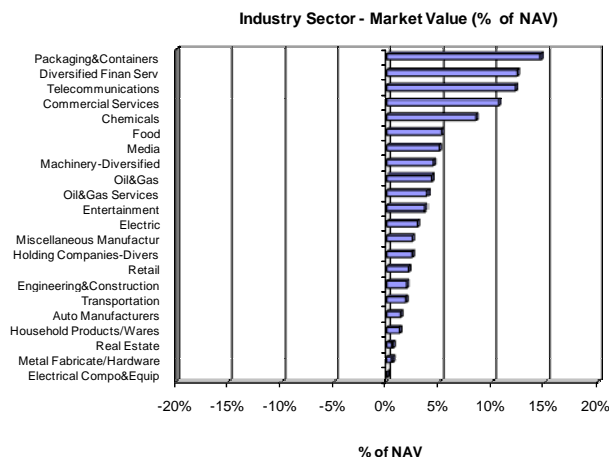
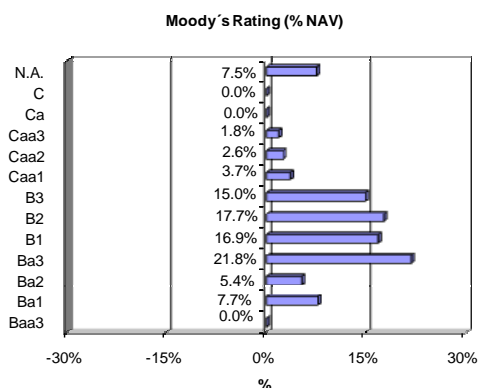
The Moody's global high yield default rate declined further from 9.0% end of April to 7.5% end of May. In Europe the rate has declined to 6.8% from 7.8% a month ago. Moody's expects these rates to decline further to around 2% one year from now. We are more conservative, but agree that the default rate can still fall significantly from the current level on the back of relatively strong corporate fundamentals.

With this in mind the European high yield market presents good relative value. Since the escalation of sovereign risk in Europe over a month ago spreads have risen by around 150 basis points. The spread on the Merrill Lynch European High Yield Non-Financial Constrained Index stands at 651 as of end May. From this level with a modest economic recovery expected this year there is good potential for spread tightening. However, volatility can be expected in the near term. Market liquidity and new issue activity comprise two important concerns which are unlikely to be materially diminished over the summer period.

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. High yield bonds are likely to cushion the effect from rising interest rates with attractive coupons and spreads offering sufficient premium.

### Fund Data and Risk Analysis

Fund Data		Top 5 holdings		Risk Analysis (since inception)	
Yield (incl. Cash)	8.98%*	Kerling		Standard Deviation	PALLMALL 3.33% / ML Europ. HY Constr. Index 3.63%
Yield (excl. Cash)	8.95%*	Global Crossing		Annualised Risk Free Return	PALLMALL 3.06% / ML Europ. HY Constr. Index 3.06%
Duration	3.55 yrs	Ziggo		Sharpe Ratio	PALLMALL 0.48 / ML Europ. HY Constr. Index 0.29
Av. Coupon Fund	8.31%	FTI Consulting		Maximum Drawdown (one month)	PALLMALL -21.34% / ML Europ. HY Constr. Index -16.99%
Av. Coupon Bonds	8.29%	Avis			



## 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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