

## CF Progressive UK Smaller Companies Fund

ACD's Annual Short Report  
for the year ended 31 October 2008

### Investment Objective and Policy

The investment objective of the CF Progressive UK Smaller Companies Fund ('the Fund') is to provide both long-term capital growth and some income.

In order to achieve the investment objective the Fund will invest predominantly either directly or indirectly in shares of UK companies which have a small to medium-sized market capitalisation.

The benchmark for the Fund is the FTSE 250 ex Investment Companies Index.

Subject to the investment objective and policy of the Fund as set out above, the asset classes in which the Fund is permitted to invest includes transferable securities, units in collective investment schemes, money market instruments, government and public securities, cash and near cash and deposits as permitted for UCITS schemes. The Fund may invest in derivative instruments and forward transactions for the purposes of hedging.

The portfolio is diversified and covers a range of sectors. It is deliberately overweight in sectors which are perceived as offering the best opportunities for investment returns, but is managed in order to provide a broad exposure to opportunities available from medium and small-sized companies.

### 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
Interim	30 April	31 August
Final	31 October	28 February

### Total Expense Ratio

Expense Type	31.10.08 %		31.10.07 %	
	'A' Income	'B' Income	'A' Income	'B' Income
ACD's periodic charge	0.75	1.50	0.75	1.50
Other expenses	1.73	2.26	0.49	0.13
Total expense ratios	2.48	3.76	1.24	1.63

### Distributions

Share Class	Interim 30.04.08 pence per share	Final 31.10.08 pence per share
'A' Income	0.3476	0.5900
'B' Income	—	0.3970

### Price and Income History

'A' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2006#	116.10	91.00	—
2007	125.67	105.51	1.0267
2008*	109.46	59.97	1.3757
2009	—	—	0.5900

'B' Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2006#	116.33	90.81	—
2007	125.75	104.62	0.6861
2008*	108.14	59.34	0.8119
2009	—	—	0.3970

# From 6 February 2006.

\* To 31 October 2008.

### Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
31.10.06	'A' Income	4,677,208	4,331,159	107.99
	'B' Income	901,026	833,429	108.11
31.10.07	'A' Income	4,975,440	4,118,271	120.81
	'B' Income	1,399,606	1,160,425	120.61
31.10.08	'A' Income	2,361,925	3,644,600	64.81
	'B' Income	95,084	147,595	64.42

### Fund Performance to 31 October 2008 (%)

	1 year	Since launch*
CF Progressive UK Smaller Companies Fund	-45.58	-32.20
FTSE MID 250 Excluding Investment Companies Index (MCIX)	-47.14	-34.54

\* Launched 6 February 2006.

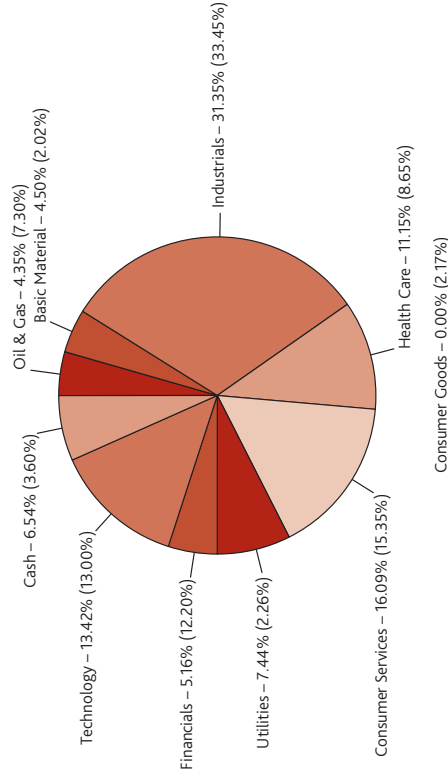
The performance of the Fund is based on the net asset value per 'A' Income share with income reinvested.

### 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.

# INVESTMENT MANAGER'S REPORT

## Sector Spread of Investments



The figures in brackets show allocations at 31 October 2007.

## Major Holdings

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

Holding	% of Fund as at 31.10.08	Holding	% of Fund as at 31.10.07
Pennon Group	4.14	Wilmington Group	3.42
Dechra Pharmaceuticals	4.05	Southern Cross Healthcare	3.40
Greggs	3.95	Fenner	3.28
Mouchel Group	3.84	Greene King	3.12
Wilmington Group	3.81	Northgate	3.03
Chloride Group	3.55	Arm Holdings	3.02
Savills	3.52	Bunzl	2.95
Fenner	3.50	BBA Aviation	2.91
Balfour Beatty	3.44	RPC Group	2.81
Arriva	3.42	FirstGroup	2.74

## Highlights

- Unprecedented levels of volatility as the global financial crisis escalated.
- Over the year to 31 October 2008, A class shares in the Fund fell by 45.6% matching the benchmark, the FTSE 250 Index ex Investment Companies, which fell by 47.1% and outperforming the FTSE UK Smaller Companies Index ex Investment Companies Index which fell by 51.7%.
- Since launch in February 2006, A class shares in the Fund have fallen in value by 32.2%. Its benchmark, the FTSE 250 Index ex Investment Companies, fell 34.5%.
- The A class shares have outperformed the FTSE UK Smaller Companies Index excluding Investment Companies by 13.7% over the period since launch on a total return basis.

## Investment Review

The year to 31 October 2008 has seen a collapse in equity markets in response to the dislocation in credit availability, and its consequences for the real economy.

At the time of writing our interim report in May, The Bank of England, having recently reduced interest rates by 0.25%, saw economic growth slowing but still judged the balance of inflation risks to lie to the upside. After Lehman Brothers filed for Bankruptcy and AIG received a financial bailout in September, the fragile confidence in the credit markets gave way to panic. The US Treasury introduced its TARP, Bradford & Bingley was nationalised in the UK and Icelandic banks ceased trading. Governments began to provide bailouts and guarantees to their banking sectors. Perhaps most significantly, the Chinese government introduced a fiscal package in order to stimulate the domestic economy.

In its most recent *Inflation Report* (November 2008), The Bank of England referred to a marked deterioration in the outlook for global and domestic activity with estimates of GDP growth weakening sharply. The UK economy has entered recession and the Bank of England has cut interest rates by a further 1.5%.

As the outlook for the economy changed, it became apparent that the appropriate criteria for investment was being inverted. For example, in an inflationary environment the use of debt to gear earnings is positive, but in a deflationary situation it can have the inverse effect of depressing earnings. The need for hedge funds to de-gear started a deluge of forced selling of most asset classes. This, in turn, prompted redemptions by hedge fund investors and asset values fell further. Sterling, which had been valued at US\$2.08 at the beginning of the period, fell to US\$1.62. The change in outlook was accompanied by extreme volatility which persists at the time of writing.

During the year we sold our positions in Autonomy, Bunzl and FirstGroup, which entered the FTSE 100 Index. Detica, which had been a core software holding, was sold when it was taken over. In view of the deteriorating outlook we reduced exposure to the Financial, Construction, and Oil and Gas sectors.

**Investment Review (continued)**

New positions were initiated in Croda International, Premier Farnell and Spectris, which have revenues that are highly diversified both geographically and by product, and are natural beneficiaries of a weaker pound. We also added a position in Telety on stock specific grounds. Opportunistically, we built our positions in Balfour Beatty, an un-gear'd beneficiary of infrastructure spending, and Wincanton. Wincanton should benefit as businesses outsource their logistics function to increase efficiency, and from falling interest rates both directly, via its own financing costs, and also via a consequent pick up in consumption in Europe.

A number of the preconditions for a recovery in medium and small company share prices are now in place. Valuations generally are discounting a severe recession, dividend yields are higher than those of the benchmark gilt and, selectively, sustainable double-digit free cash flow yields are available. However, the extent to which the need to de-leverage will continue to create forced sellers is not clear. Short-term investors may still be disappointed. For investors who measure their time horizon in years, we may be approaching a significant buying opportunity.

**Progressive Focus Management Limited**

Investment Manager

21 November 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.

**Reports and Accounts**

This document is a short report of the CF Progressive UK Smaller Companies Fund for the year ended 31 October 2008. The full Report and Accounts for the Fund is available free of charge upon written request to: Capita Financial Managers Limited, Ibex House, 42 – 47 Minorities, London EC3N 1DX.

**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 year.

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