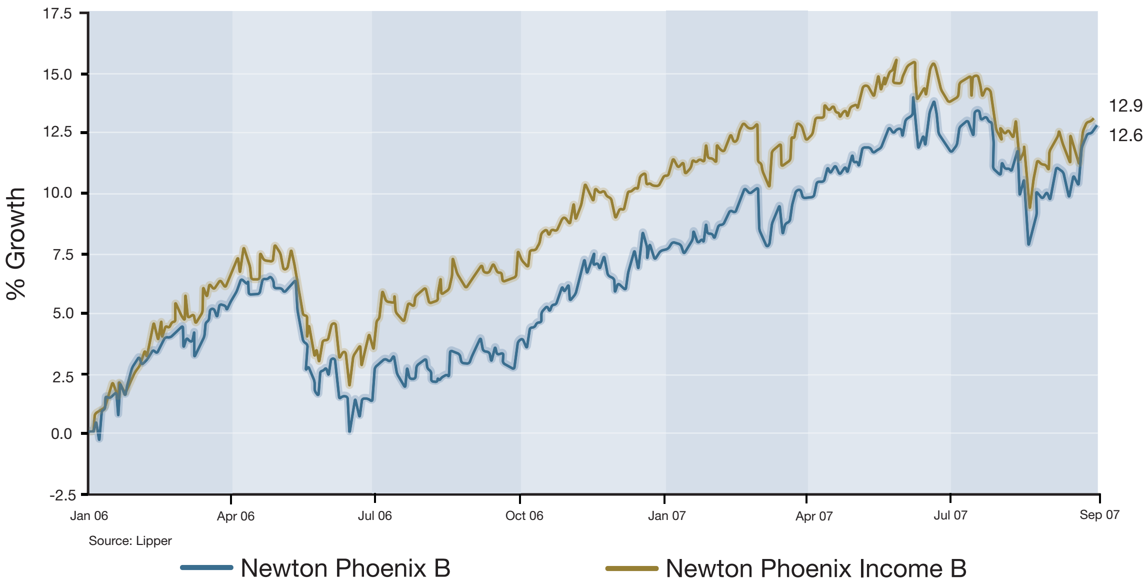
The performance of the Phoenix and the Phoenix Income Funds

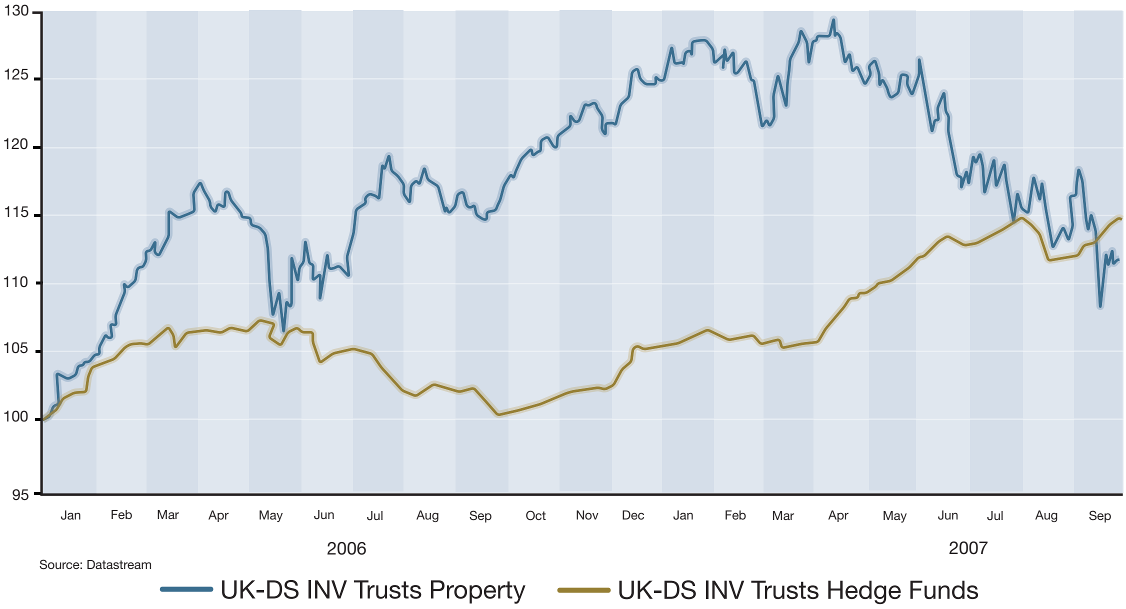
Since the Phoenix Income Fund was launched in late 2004, it has marginally outperformed its longer running cousin, the Phoenix Fund, by almost 1%. Both aim to deliver a return in excess of cash but with volatility considerably less than equities; the Phoenix Income Fund has an additional income requirement. The two funds performed in a very similar manner during 2005 before the Phoenix Income Fund (the gold line) moved to outperform its counterpart by 3.2% in 2006. In contrast, it under-performed the Phoenix Fund by 2.7% for the nine months to the end of September 2007.

Chart 1.



Given that the thinking behind the construction of the two funds is very similar and the funds are run by the same teams, we have examined some of the structural differences. The Phoenix Income Fund has a higher weighting to property assets at the expense of funds-of-hedge-funds. This is driven purely by income considerations, as income yields from property investments are currently between 4% and 7%, while hedge funds give no income. Chart 2 highlights the difference in performance between hedge funds and property investment trusts in 2006 and 2007. Property (the blue line) outperformed hedge funds significantly during 2006. Since then, property assets have declined notably whilst hedge funds have continued to show positive returns.

Chart 2.



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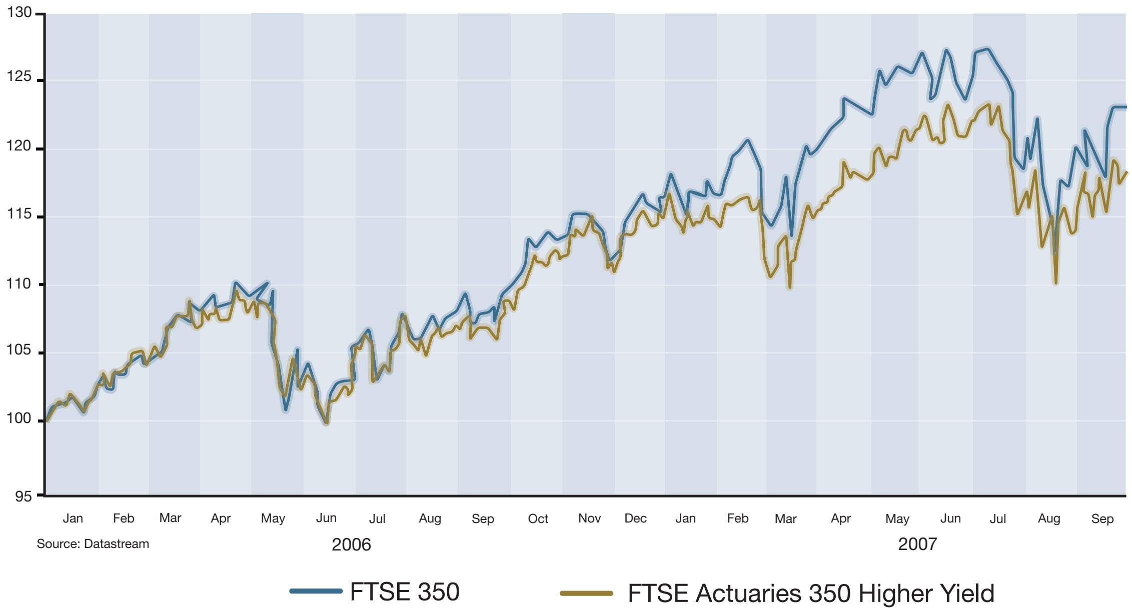
The other significant difference between the funds is within the equity component. For the Phoenix Income Fund, we are constrained by the requirement to purchase only those equities that yield more than half the prevailing cash rate. Chart 3 shows the performance, since January 2006, of the broad UK market (the FTSE 350) and the performance of high yielding shares (the gold line) . Throughout 2006, the lines performed in a very similar manner, however, since the turn of the year, the wider market has performed notably better than higher yielding shares, albeit with higher volatility.

Chart 3.



None of this analysis gives any particular clues about the likely future performance of one fund relative to another. It seems appropriate that the decision between the two funds continues to be based on the income requirements of investors. As a reminder, the Phoenix Fund has a yield below 2% with two income distributions each year. The Phoenix Income Fund has a dividend yield of more than 3% with four income distributions each year.

Notes

Calculation basis for all charts: Sterling, bid-to-bid, total return. Data correct as at 30 September 2007.

Chart 1 shows the performance of the "B" share class of each of the Funds.

Risk factors

Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

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