THE VT CHELSEA
MANAGED FUNDS

For nearly 20 years our clients have relied on our research and fund selection expertise. Our EasyISA portfolios, Core Selection and Selection lists have helped thousands to invest. But we wanted to take our service to the next level.

So we've created four fully-managed portfolios. Each contains a mix of investments selected by our expert team. You simply choose which fund is right for you and leave the rest to us:

- **VT Chelsea Managed Cautious Growth**
- **VT Chelsea Managed Balanced Growth**
- **VT Chelsea Managed Aggressive Growth**
- **VT Chelsea Managed Monthly Income**

The Chelsea research team (L to R): James Yardley, Senior Research Analyst; Darius McDermott, Managing Director; Juliet Schooling Latter, Research Director; Ryan Lightfoot-Brown, Research Analyst

Our four-step process

1 Examine the macroeconomic environment

We start by looking at the world around us and our place within it. We focus on potential risks, turning points and opportunities that the markets may have overlooked. This view determines our allocations to asset classes and regions.

2 Select the funds

We then select funds using quantitative and qualitative analysis. If we are considering investing, we always meet the manager to ask about their process, their team and how closely their interests are aligned with their investors. A fund will not be added solely on strong past performance, we must be confident there is a repeatable and consistent process in place.

3 Build the portfolios

How we combine our favourite funds is also very important. We look for those which have the ability to perform independently of one another. This means they shouldn't all go up and down at the same time, which helps to smooth returns and reduce risk.

4 Monitor & modify

We monitor closely the performance of all underlying funds. In weekly team meetings, we drill down into each portfolio to assess if each holding is still correct. Typically, we expect to back managers for the long term and will avoid unnecessary trading to keep costs low. That said, we constantly see new managers and we will replace funds where we find a better alternative.

THE YEAR IN REVIEW: FIRST ANNIVERSARY REFLECTIONS

On 5 June we celebrated the first anniversary of the VT Chelsea Managed funds: we celebrated because, although the funds are still relatively new and one year is a short time frame, each one of the four portfolios had performed well, beating their peer group averages.

The Chelsea investment philosophy

All the VT Chelsea Managed Funds are designed to offer the best risk-adjusted returns. Our approach will generally be long-term. The funds invest in a broad range of assets, which should combine to enable the portfolios to navigate the prevailing economic environment.

We only invest in managers we trust and in whose process we have confidence. We are always conscious that we are stewards of our investors' hard-earned money and a fund we select has to be one in which we, the Chelsea research team, would invest ourselves. At the same time, each of the four portfolios exhibited klow volatililty over the year (see performance figures on pages 10-11) with risk-adjusted returns in the top quartile.

While this is only a short timeframe, considering the long-term nature of what we want to achieve for our investors, it is worth reflecting on our success, as well as the challenges we've faced.

The VT Chelsea Managed funds were created as a complete investment solution for our clients, offering the benefits of dynamic asset allocation to take advantage of ever-changing market and economic conditions.

Our Monthly Income, Cautious, Balanced and Aggressive Growth fund variants provide all clients need in terms of asset class and sector diversification, as well as the ability to provide access to more specialist funds or investment trusts which are not easily available to retail investors.

VT CHELSEA Managed FUNDS

Strong conviction

From the start, we have not been afraid to put our strong convictions into action and take contrarian views which make us stand out from the crowd. Most notable is the funds' underweight stance on bonds, where we have a largely negative outlook given concerns about the impact of rising interest rates and inflation.

An illustration of this is the positioning in the Cautious fund. A traditional cautious portfolio of this kind will often have around 60% of its assets in fixed income, but we think this misjudges the current climate where alternatives give better opportunities for diversification. We therefore had just over 10% allocation to the asset class. This has been beneficial, as bonds have underperformed over the period due to fears of higher interest rates.

Specialist investment

With this in mind a key component of the Cautious, Balanced and Monthly Income funds is a basket of specialist investment trusts. The chosen areas are infrastructure, care homes, renewable energy and student accommodation, with all these vehicles having yielded between 4% and 6.5% over the year on top of capital growth. This has given performance an extra boost.

Another closed-ended vehicle, Lindsell Train Investment Trust, was the best performer over the year in three of the four portfolios. This investment trust holds a 24.3% stake in the Lindsell Train Limited asset management business and saw its premium fall having been talked down by manager Nick Train and its chairman. We saw this as a great opportunity.

Top performers

Other areas that performed well during the first year – particularly within the Aggressive fund – were emerging markets and Asian equities. Here, not only did the portfolios have exposure to the right areas, but the underlying funds outperformed their peer groups.

Looking to the future

Positive contributors during the year, across all asset classes, included Hermes Asia Ex-Japan Equity, Baillie Gifford Japan Trust, Polar Capital Biotechnology, and Old Mutual UK Dynamic Equity.

Given that equities have, and continue, to look relatively expensive as we continue down the road of the longest bull run in history, it is more value-focused strategies from Scottish Oriental Smaller Companies Trust and Invesco Perpetual European Equity that have underperformed in the Aggressive fund. Our exposure to gold and silver also suffered in what is a very volatile asset class, but continues to add diversification to all four portfolios.

The first year has been a great start for the VT Chelsea Managed funds, and a big thank you to all of our clients who have invested alongside us since the beginning, and continue to invest with us today. We maintain a vigilant approach, given high valuations in equities and bonds, but we are positive on global economic health and especially on the backdrop for emerging market, Asia Pacific and Japanese equities.

See overleaf for performance data

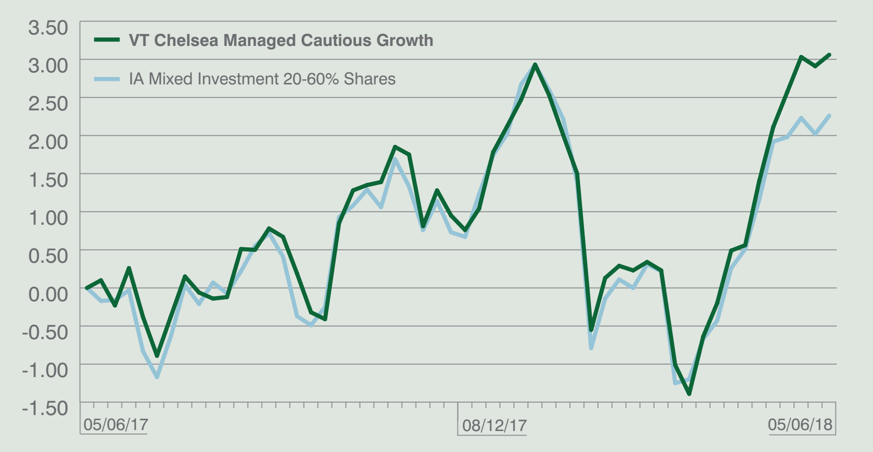
Our VT Chelsea Managed Funds are available in an ISA, investment funds, a Junior ISA and a pension

VT Chelsea Managed Cautious Growth

our most defensive portfolio

In the most cautious fund, we aim to produce growth over the long term, but with lower volatility than global equity markets†. While returns may not be as high as you could potentially get in the other VT Chelsea Managed Funds, you'll also be taking less risk.

One-year Performance (%)



Source: FE Analytics 05/06/17-05/06/18, total returns in sterling

Key facts

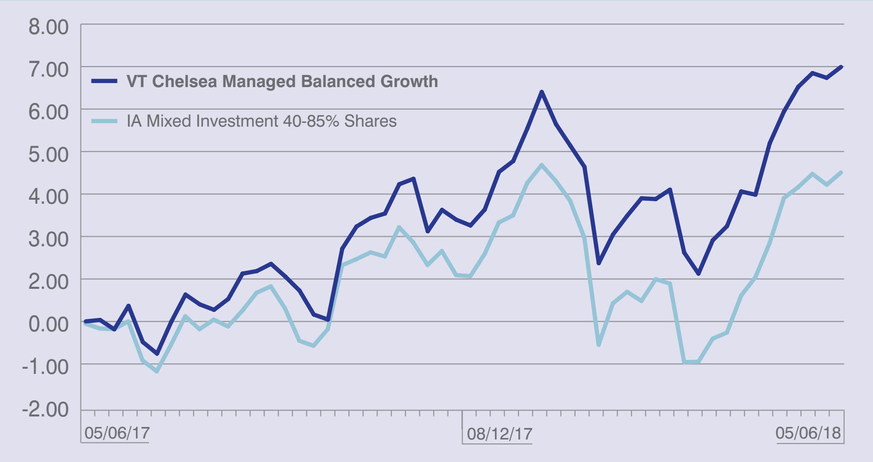
- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 40%–50% equity target
- **Ongoing charges figure:** 1.39%^
- **Payment dates:** 30 June, 31 December
- **Indicated yield:** 1.52%
- **One-year performance:** 3.06%
- **Sector average:** 2.26%

VT Chelsea Managed Balanced Growth

our 'happy medium' portfolio

In the balanced fund, we aim to grow your money over the long term. At the same time, we don't want you to lose sleep if the stock market tumbles, so we'll strive to build a portfolio with lower volatility than global equities†.

One-year Performance (%)



Source: FE Analytics 05/06/17-05/06/18, total returns in sterling

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 50%–70% equity target
- **Ongoing charges figure:** 1.29%^
- **One-year performance:** 7.03%
- **Sector average:** 4.45%

What are the risks?

It is important to understand that investments can go down as well as up in value. You may not get back the amount originally invested and income payments are not guaranteed.

VT Chelsea Managed Aggressive Growth

our purest growth play

Quite simply, the aggressive fund aims to grow your money over the long term using our purest growth ideas†. We will invest heavily in stock markets around the world, which means the fund may be more volatile than the other VT Chelsea Managed Funds.

One-year Performance (%)

Source: FE Analytics 05/06/17-05/06/18, total returns in sterling

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with up to 100% in equities
- **Ongoing charges figure:** 1.27%^
- **One-year performance:** 8.70%
- **Sector average:** 8.42%

VT Chelsea Managed Monthly Income

our fund for yield

The monthly income fund aims to pay roughly the same amount of income each month* so that you can budget with confidence. The fund targets an above-market income that is sustainable and consistent, as well as some capital growth, over the long term†.

One-year Performance (%)

Source: FE Analytics 05/06/17-05/06/18, total returns in sterling

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 40%–60% equity target
- **Ongoing charges figure:** 1.21%^
- **Payment dates:** Monthly, last day of the month
- **Indicated yield:** 4.70%*
- **One-year performance:** 4.08%
- **Sector average:** 2.26%

For a full list of holdings, plus quarterly factsheets, visit www.chelseafs.co.uk/products/vt-chelsea-managed-funds

Commentary correct as at 31/08/2018. Indicated yields correct as at 31/08/2018.
†Long term is 5+ years. The aim is to have lower volatility than global equities over a rolling 5-year period.
*Income will be smoothed to pay a roughly level amount over 11 months, with a final adjustment payment in the 12th month, which may be more or less than the regular payment.
^Chelsea rebated the total investment management charge of 0.3% on the VT Chelsea Managed Funds to clients until 30 June 2018.