Issue 44 September 2017

VIEWPOINT

The magazine for Chelsea Investors

CHELSEA
Investment Intelligence™

WELCOME TO VIEWPOINT

Dr John Holder
Chairman, Chelsea

Welcome to our Autumn edition of Viewpoint. We are very excited to have launched our range of VT Chelsea Managed funds in June. This is a service a lot of you have asked for and you can find more information on pages 6-9. Don't forget the new funds can be placed in an ISA, Junior ISA, SIPP and outside a tax wrapper as investment funds.

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MARKET VIEW

Darius McDermott
Managing Director,
Chelsea

Call me contrary (or something less polite!) if you must, but I'm not a fan of summer. Sweltering away on the tube, arguments in the office over air conditioning versus window opening, having to mow the lawn every weekend and when you come inside, hot and exhausted, there isn't even any football to watch – these things don't endear me to the season. But it's not just me. Markets also don't function terribly well during the summer. With so many people away from their desks, news either has no impact at all or causes an overreaction, as a handful of sellers can cause a tidal wave, rather than the ripple they might have made had offices not been deserted.

Markets ride out political storms

North Korea has been the big geopolitical risk of the summer. It's hard to see any clear solution to the crisis and we expect this will continue to rumble on for the foreseeable future. Let us hope that cool heads ultimately prevail. Thus far, markets have been relatively well behaved but no doubt there will be some volatile days ahead. Gold has been one of the beneficiaries of the heightened tension and has now passed above $1,300 an ounce again (see page 32).

When it comes to stock markets, no news is often good news and there has been a notable lack of economic headlines of late. With the focus on North Korea it has been easy to miss some of the more positive global economic data. Behind the scenes, growth in Europe has been quietly picking up after years of stagnation. Analysts have been revising profit forecasts upwards rather than downwards for the first time in many years. For more information on the European recovery see page 26.

The Chinese economy remains resilient, despite concerns about debt levels and the property market. We continue to like India which has performed well, although it has suffered from a difficult monsoon season. The US continues to plod along with steady growth, although Trump has, thus far, been unable to deliver on his promises of infrastructure spending and tax cuts. Metal prices have also been rising. Notably, copper, often considered a bellwether for global growth, has staged a dramatic recovery and now trades at its highest level since 2014.

The End of Easy Money

Despite the positive economic data, we remain concerned about stock-market valuations. We think the US market in particular looks expensive versus its history. The pick up in global growth may spur central banks to withdraw quantitative easing (QE) and raise interest rates. QE has provided easy money which has helped support asset prices and dampen volatility since the financial crisis. It remains to be seen how markets will cope without it. The European Central Bank has begun discussions on tapering its QE. The US has already begun tapering and raised interest rates again in June. Even the UK may face a rate rise this year.

Uncertainty over Brexit still hangs over the UK and any progress has been painfully slow. Low interest interest rates and Brexit continue to keep sterling weak. That is good news for UK companies which get a large proportion of their profits from overseas. Although, those companies which have seen the cost of their inputs rise (due to weaker sterling) are suffering. The UK stock market continues to trade at close to record highs.

In times of uncertainty, it can be helpful to diversify. Our newly-launched VT Chelsea Managed Funds reflect our caution (see more on pages 6 to 9). We still see prefer equities to fixed interest. We believe fixed interest prices have been distorted by central banks and are artificially elevated. The fixed interest funds we are using tend to be in higher-yielding bonds which should hopefully hold up better should interest rates rise. Within equities we like Europe, Japan and emerging markets. We are also using a number of specialist and targeted absolute return funds to provide as much diversification as possible.

THE BIGGEST EVER ISA ALLOWANCE - £20,000

The simplest way to save tax?

Sam Holder
Operations Director,
Chartered
Financial Planner,
Chelsea

For anyone investing in the stock market, ISAs are a must. With the government continuing to meddle with the pension rules, it is worth remembering that ISAs remain as attractive as ever.

7 reasons to consider an Investment ISA:

- **Interest rates are low**
- **0% capital gains tax**
- **0% tax on interest**
- **0% tax on dividends**
- **Withdraw your money whenever you want**
- **No need to declare on your tax return**
- **VT Chelsea Managed Funds now available in an ISA**

With the new bumper £20,000 annual allowance, couples can save £40,000 between them. So very few ordinary savers will need to invest outside an ISA again.

Fed up with your Cash ISA?

With no improvement in interest rates on savings accounts for quite some time, you may be wondering what to do with any money you have languishing in a cash ISA. The potential returns from investing in an Investment ISA are far greater than those you would earn on cash, though they do come with a higher degree of risk. If you would like to transfer your cash ISA all you need to do is complete an ISA transfer form (in the enclosed booklet) and return it to us. We will do the rest.

If you are considering transferring your cash ISA, you should remember that the value of investment ISAs, and income from them, may fall as well as rise so you could make a loss. For this reason, those transferring should be comfortable investing for the longer term and happy to forego the security of cash.

ISAs remain as attractive as ever. With the annual allowance now £20k, investors can build sizeable tax-free portfolios.

FUNDSTORE BENEFITS

- Access to over 3,000 funds
- Access to VT Chelsea Managed Funds
- 0% Transaction charges (including switching, buying and selling)
- Income reinvested for free
- Free telephone dealing
- Online access to your account
- Easier estate planning
- Online Chelsea fund review
- Valuation statement twice a year free of charge
- Lump sum or monthly savings plan
- Cash reserve facility
- Switch into the new VT Chelsea Managed Funds

Three easy ways to buy your ISA

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Send us a completed application form (see booklet)

THE VT CHELSEA MANAGED FUNDS

For nearly 20 years clients have relied upon 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 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 both 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, invest.

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.

A WEEK IN THE LIFE OF THE CHELSEA RESEARCH TEAM

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

When you invest in a VT Chelsea Managed Fund, you get a global multi-asset portfolio that is adapted to suit the prevailing economic environment. But what exactly does this mean? There's a lot more to it than you might imagine!

Whether a major macroeconomic, financial or geopolitical event is on the horizon; or things are running business-as-usual, you can be confident the Chelsea research team are on the case, doing everything they can to find the best opportunities.

To give you a behind-the-scenes look, our head of communications, Sam Slator, caught up with Darius, Juliet, James and Ryan to talk about how a typical week might unfold.

Monday morning, 7AM

Every Monday begins with a half-day research team meeting, taking stock of the funds' performance during the previous week and current positioning. Darius and Juliet get into the office early. James is already at his desk, running spreadsheets and Ryan arrives with the coffees & bacon sandwiches (just egg for our vegetarian Juliet!). First on the agenda is a review of the funds the team have seen during the previous week. James and Juliet have seen an interesting new fund which invests in artificial intelligence. The team discuss the fund and it is added to the watchlist for further research. Ryan has seen a European manager which the fund already invests in. The manager has turned particularly positive on European small-caps, as the companies he has been meeting are increasingly confident. The team debate this new information along with their own views and decide whether to make any tweaks to the portfolios' asset allocation.

Tuesday, 9AM

Darius's mobile rings as he's going over the funds' daily performance with the team. Trump has tweeted and stock markets are reacting. A journalist wants to get his views – where does he think US equities will end the year? Darius gives a few quick quotes and says he thinks the US market is too expensive right now. "For growth opportunities, I prefer somewhere like Japan or even Europe," he explains. His comment will appear in a national newspaper tomorrow.

Tuesday, 1PM

Juliet heads into the City for a string of fund manager meetings. First up, she's seeing a biotech fund the research team are considering for the aggressive growth portfolio. The fund's performance is good and the team like what they've seen so far. Now, however, they need to be convinced the managers have a robust process that can handle the kind of swings in sentiment that commonly affect biotech stocks.

Wednesday, 11AM

The team have an informal chat over their late morning tea. Inflation figures have been released and are a touch lower than expected. The team discuss the impact on the funds' bond holdings but they decide there is nothing to be concerned about. A leading UK equity income manager is their next meeting, so the team will use this opportunity to grill the manager on his thoughts. Can he continue to deliver a sustainable income regardless of domestic conditions? Many years of experience mean that Darius and Juliet know the questions to ask.

Thursday, 3PM

Debate time coincides with the afternoon tea round. James opens a pack of chocolate digestives and the team settle in. There have been good inflows to the funds this week, so there is some new cash to put to work. It's not just about the quality of each individual investment though, but how it works in the portfolio too. After an hour of intense discussion, the team recommend to add to an investment trust already held. It is trading on a larger discount than usual so there is an opportunity to buy some more at a good price. The team have calculated the price at which they want to buy. Ryan keeps a close eye on markets to see which way the trust is moving.

Friday, 5PM

The trade went through around lunchtime. The team spend the afternoon doing a bit of fund admin and getting some manager meetings in the diary for next month. After a quick final check of markets and the four portfolios, they call it a day. It's Friday, so a quick pit stop at the local pub for a well-deserved pint is in order. WhatsApp will keep them in touch over the weekend so they can share any investment thoughts the papers may inspire. Come Monday morning, the Chelsea research team will be back to the grindstone!

VT CHELSEA Managed FUNDS

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

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.

What do we invest in?

We focus on lower-risk funds that are defensive in nature. These funds' underlying assets may include UK and overseas equities, as well as bonds, property, gold and other investments. We are also likely to have a high weighting to targeted absolute return strategies that aim to produce positive returns in any market conditions.

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 40%–50% equity target
- **Ongoing charges figure:** 1.55% (1.25% until 30 Jun 2018)^
- **Payment dates:** 30 April, 31 October
- **Indicated yield:** 1.41%

Cautious

We are cautious on stock markets and are therefore underweight equities. We have some global holdings to diversify currency risk at this time of uncertainty.

We also see minimal value in today's fixed interest market and are very underweight. In order to mitigate these underweight positions, we are overweight targeted absolute return funds. This has boosted performance. Old Mutual Global Equity Absolute Return and F&C Global Equity Market Neutral have performed particularly well.

We have also added some specialist investment trusts to diversify the portfolio away from the traditional asset classes, which we believe to be overvalued and these have performed strongly.

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[†].

What do we invest in?

As the name suggests, we hold diverse, yet complementary, funds in this portfolio. These funds may contain UK and overseas equities, bonds, property, gold, targeted absolute return strategies and other investments. The target equity weighting is 50%-70%, but we will vary the mix of sectors, assets and investing styles over time to suit different market conditions.

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 50%–70% equity target
- **Ongoing charges figure:** 1.41% (1.11% until 30 Jun 2018)^

Balanced

We are cautious on equities, as we don't believe they entirely reflect the various geopolitical risks on the horizon and are therefore underweight. Our equity holdings are diversified globally and we have sought opportunities in regions where some value remains.

We have added to Europe, due to stronger economic growth in the region. Our Asia and emerging markets holdings, Hermes Asia ex Japan and RWC Global Emerging Markets, have aided performance. We are overweight Japan and our two Japanese holdings have both outperformed.

We also see minimal value in today's fixed interest market and are very underweight. Instead we have several positions in targeted absolute return funds.

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.

What do we invest in?

We are happy to include more niche funds in this portfolio. This could include single country funds in places such as India or other emerging markets, as well as highly specialised funds in sectors such as technology, biotechnology or insurance. The fund may also have a significant weighting to small- and mid-cap equities. Up to 100% of the fund may be invested in equities, although other assets could include bonds, property, gold and targeted absolute return strategies.

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with up to 100% in equities
- **Ongoing charges figure:** 1.27% (0.97% until 30 Jun 2018)^

Aggressive

We believe that parts of the equity market are starting to look expensive. Our equity holdings are diversified globally and we have sought opportunities in regions where some value remains.

We have added to Europe, due to stronger economic growth and improved corporate earnings. We are overweight Asia and emerging markets, with both producing strong performance. We are also overweight Japan and our two Japanese holdings have both outperformed.

We have added specialist funds, such as biotechnology, and our holding in Polar Capital Biotechnology has performed well.

Where valuation opportunities exist we have selectively bought investment trusts.

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[†].

What do we invest in?

We invest in income funds, whose underlying assets may include UK and overseas equities, bonds, gold and targeted absolute return strategies. Assets such as property and infrastructure, which are renowned for their income-paying potential, are also expected to contribute to the fund's yield.

Key facts

- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 40%–60% equity target
- **Ongoing charges figure:** 1.25% (0.95% until 30 Jun 2018)^
- **Payment dates:** Monthly, last day of the month
- **Indicated yield:** 4.41%

Monthly Income

We are underweight equities, believing them to be quite fully valued. However, our overweight to Europe has done particularly well. Our UK equity income holdings have also outperformed, with MAN GLG UK Income the number two UK Income fund since our fund launch.

We also see minimal value in today's fixed interest market. The fixed interest funds we hold are specialist and higher yielding, which should hold up better when interest rates rise.

We have added a number of specialist high yielding investment trusts, ranging from solar power to student accommodation. Finally, we have a couple of targeted absolute return income funds to give further diversification and downside protection.

For a full list of holdings, plus quarterly factsheets, visit www.chelseafs.co.uk.

Commentary correct as at 31st August 2017.
†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. Please note that income payments may take a few months to regulate following fund launch.*
^ Chelsea will rebate the total investment management charge of 0.3% on the VT Chelsea Managed Funds to clients until 30 June 2018.

CHELSEA CORE SELECTION

Core funds from the Chelsea Selection – individually researched and analysed.

UK Equities

AXA Framlington UK Select Opportunities

Nigel Thomas is a pragmatic stock picker who looks for both growth and value opportunities across the market-cap spectrum, although typically his fund will have around 50-60% in large-cap stocks. Stock selection is driven by bottom-up fundamental analysis and the introduction of new products or a change in management are also deemed important factors. Nigel places considerable emphasis on meeting companies and their management, to assess the feasibility of their business plans and their ability to implement them. Strength of management is the most important attribute he considers when making investment decisions. The portfolio typically holds around 70 stocks.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	1.88%
Unit Type	ACC or INC

Franklin UK Smaller Companies

The strategy of this fund was completely changed around in 2012 when Richard Bullas took over the fund. The team are based in Leeds to enable them to focus on their stock selection and portfolio construction without the 'noise' of the city. Richard takes responsibility for the small-cap stocks and Paul Spencer manages the mid-caps, split around 80:20 respectively. The process is similar to Paul's highly successful mid-cap fund, with an emphasis on established, quality businesses with visible earnings. The fund has a long-term vision, with no particular bias to growth or value, and is quite concentrated, typically holding around 50 stocks, with no position worth more than 5% of the total portfolio. The smaller size of the fund, relative to its peers, allows the managers to be nimble.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	1.12%
Unit Type	ACC or INC

JOHCM UK Dynamic

Alex Sawvides, who has been running the fund since launch, is one of the most exciting up-and-coming UK fund managers. The process, which he built himself, aims to exploit periods of share price underperformance, where the reasons for the underperformance are well understood and he believes there is a catalyst for change. Ideas come from three sources, which are corporate restructuring, hidden growth and recovery situations. Once his view is accepted by the market and becomes consensus, he will often sell. Also all companies need to have a yield or prospective yield, which does provide an element of safety. The fund will have at least 50% in the FTSE 100 and stocks are typically held for two years.

Chelsea Risk Rating	6
Annual Management Charge	0.63%*#
Ongoing Charges Figure (OCF)	0.73%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.41%
Unit Type	ACC or INC

Jupiter UK Growth

Manager Steve Davies has a long history with this fund, having started as an analyst in 2007, before taking full control in May 2015, when this fund was merged with his Jupiter Undervalued Assets fund. This change has not altered the style though. The fund holds a concentrated portfolio of 40-50 stocks that aims to achieve long-term capital growth. Steve is not constrained by a benchmark, meaning he has the discretion to avoid sectors. He selects companies on one of two main criteria: firms that are out of favour with the markets, but have a catalyst for future growth, and companies that will generate above average growth, but are currently under-priced.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.02%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	1.90%
Unit Type	ACC or INC

Liontrust Special Situations

This UK multi-cap fund is a 'best ideas' portfolio, which encompasses any stock regardless of size or sector. However, there will usually be around 50% in small and mid-cap stocks. The managers look for firms with 'intellectual capital' or strong distribution networks, recurring revenue streams and products with no obvious substitutes. They also like to invest in companies where management teams have a significant personal equity stake. The fund is concentrated with 40-50 stocks and, due to the nature of the companies, the portfolio may perform well in flat or falling markets.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.88%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.86%
Unit Type	INC

Marlborough UK Micro-Cap Growth

Run by Giles Hargreave and Guy Feld, who are supported by one of the best small-cap teams in the country, the fund invests at the bottom end of the market capitalisation spectrum primarily into companies valued at below £250m. The managers have a growth bias and look for companies that will benefit from changing consumer trends, are leaders in niche markets or possess disruptive technology. The fund is extremely diversified at the stock level (around 220 stocks) and also across investment themes and sectors. The managers will aggressively run winners and add to them if appropriate. Typically the fund has around 15-20% overlap with Marlborough Special Situations, which invests further up the capitalisation scale.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

Marlborough UK Multi-Cap Growth

This fund takes an unconstrained approach and can invest in businesses of all sizes, although Richard Hallett, manager since 2005, won't invest in any stock worth less than £100m. The portfolio typically holds between 40–50 stocks, with a one-in, one-out limit and each stock taking a maximum of 4% of the portfolio. Richard doesn't make big macroeconomic calls, but looks at individual firms and their prospects for the next two to five years. He buys firms that can grow regardless of the economy and avoids cyclical businesses, meaning that despite a mid- and small-cap bias, the fund can still outperform in falling markets.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.85%†
FundCalibre rating	–
Morningstar rating	–
Yield	0.83%
Unit Type	INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 24 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/09/2017. Yields 07/09/2017, from Income units.

* There is a 15% performance fee payable to the fund manager on outperformance of the benchmark. See the KIID for further details.

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.

\# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF).

Equity Income

Artemis Global Income

Jacob de Tusch-Lec adopts a similar methodology to that of the successful Artemis Income fund. The ability to choose companies worldwide offers greater opportunities to find organisations with sustainable and growing yields. The fund favours large and mid-cap companies in a high-conviction portfolio of 60-80 stocks. The portfolio is structured using themes forming a balance between a stable core of stocks, growth companies and those with greater risk/reward potential. The manager aims to derive a yield from various sources through differing market conditions. Income is paid in April and October. The manager has a strong valuation discipline.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.81%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.61%
Unit Type	ACC or INC

Evenlode Income

Long-term thinking is key for this fund, with managers Hugh Yarrow and Ben Peters believing the market obsesses with short-term factors and thus overlooks key fundamentals. They only buy the highest quality businesses that are able to grow their dividends and create compound growth over a very long period. Their stocks will typically have difficult-to-replicate business models, strong positioning in their markets and low borrowings. They will never invest in highly capital-intensive areas such as mining or oil and gas. As such, the fund often performs well in down markets. While not the highest yielding fund, its compounding approach has allowed a consistent and growing payout level from a very concentrated portfolio.

Chelsea Risk Rating	5
Annual Management Charge	0.95%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.30%
Unit Type	ACC or INC

M&G Global Dividend

The notion that the discipline of paying dividends leads to greater corporate responsibility, which in turn leads to share price outperformance, is the investment philosophy behind this fund. Manager Stuart Rhodes' main aim is to grow distributions over the long term, whilst maximising total return by investing across a wide range of geographies, sectors and market capitalisations. The process is bottom-up and value driven. The fund has around 50 stocks, typically held for three years, and Stuart predominantly invests in developed markets. Income is paid in March, June, September and December.

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.83%
Unit Type	ACC or INC

Rathbone Income

Through investing in UK companies with above average yields, Carl Stick aims to deliver rising income, with capital upside over time. Carl's investment process combines top-down macroeconomic considerations with bottom-up stock picking to build a portfolio of 40-50 stocks. Seeking companies with quality earnings at the right price is the core emphasis of Carl's fund. The majority of holdings are spread across all UK company market caps, although Carl will hold overseas equities where greater opportunities exist. Income is paid in January and July.

Chelsea Risk Rating	5
Annual Management Charge	0.65%# ^
Ongoing Charges Figure (OCF)	0.69%† ^
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.50%
Unit Type	ACC or INC

Standard Life UK Equity Income Unconstrained

Manager Thomas Moore looks for non-consensus ideas across the market-cap spectrum. He wants companies with dividend growth that can be sustained for the long term, evidenced by earnings growth accelerating faster than dividend payouts. While the unconstrained mandate allows Tom to move around the capitalisation scale, and he is happy to shun some equity income stalwarts in the FTSE 100, the portfolio maintains around 40% in large-caps. As this style may otherwise cause higher volatility than the sector average, this large-cap weighting helps to manage risk. He also follows a strict sell discipline and cuts positions quickly if the fundamentals deteriorate. Income is paid in March and July.

Chelsea Risk Rating	6
Annual Management Charge	1.00%#
Ongoing Charges Figure (OCF)	1.15%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.79%
Unit Type	ACC or INC

Threadneedle UK Equity Alpha Income

Co-manager since 2010, Richard Colwell has now taken full control following Leigh Harrison's retirement. He continues to place emphasis on generating a total return from a concentrated portfolio of UK equities. The portfolio is constructed from the managers' best ideas, consisting of 25–30 UK stocks. The team identify economic investment themes and position the portfolio accordingly. This may lead to a greater focus on certain sectors. This unconstrained approach provides the flexibility that allows Richard to take active positions in his best ideas. Income is paid in January and July.

Chelsea Risk Rating	5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.87%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	4.20%
Unit Type	INC

Woodford Equity Income

Perhaps one of most well known fund managers in the industry, Neil Woodford's eponymous fund has enjoyed a strong start since his departure from Invesco Perpetual. Neil continues to search for companies with sound balance sheets, transparent earnings and resilience to macro-economic headwinds all at attractive valuations. The portfolio will have a core of large cap stocks to generate the bulk of the income, but also a tail of smaller, earlier stage companies aiming to generate strong long term capital growth. Income is paid in January, April, July and October. Despite some poor recent performance the fund remains ahead of its peers since launch.

Chelsea Risk Rating	5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.75%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.52%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 24 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/09/2017. Yields 07/09/2017, from Income units.

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.

\# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). **^ Includes Chelsea discount.**

Europe

BlackRock European Dynamic

Alister Hibbert runs this fund with an aggressive mentality, being prepared to have big over and underweight positions at both the stock and sector level. The fund itself has a focus on large-cap companies and these tend to have growth, rather than value characteristics. The portfolio make-up can shift dramatically at times, which can lead to periods of volatility. However, during his tenure Alister has used this risk well. He is supported by BlackRock's well-resourced European equity team, which we consider to be one of the best around. The portfolio is reasonably concentrated with typically 50 holdings and turnover can be higher than other funds in the sector.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC or INC

Jupiter European

The fund manager, Alexander Darwall, runs a concentrated, conviction portfolio of 30-40 stocks, with a focus on mid-cap companies. Alexander takes a long-term view, focusing predominantly on bottom-up stock analysis and places a high degree of emphasis on management meetings and having an in-depth understanding of the companies in which he invests. Turnover is thus very low. Alexander will only consider stocks with sound business characteristics and favours those which he believes will emerge stronger from a recession. His preferred sectors are currently industrials and healthcare.

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.03%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.40%
Unit Type	ACC or INC

Threadneedle European Select

Manager David Dudding focuses on buying companies with a competitive advantage, high quality defensible earnings and consistent growth rates. His approach is growth orientated, but other factors, such as brand loyalty or pricing power, are also key. Consequently, he favours certain sectors and may choose not to invest in some sectors altogether. David likes companies with strong market share in emerging markets. The fund is fairly concentrated and typically has around 40 holdings, of which around 80% are in large caps.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.00%
Unit Type	ACC or INC

US

AXA Framlington American Growth

Manager Steve Kelly runs this fund within a stock-picking framework. He has a strong growth bias, focusing on companies that are able to exhibit genuine, organic growth through the strength of their brand. He also prioritises good management in his investment decisions, as he looks for companies whose management delivers their stated goals. The fund typically holds 65-75 stocks. The manager is currently overweight technology stocks as he feels they will benefit from a consumer recovery.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.82%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC or INC

SPOTLIGHT Fidelity American Special Situations

Manager Angel Agudo takes a value approach to running this fund, aided by one of the largest US research teams in London, to create long-term capital appreciation for his investors. He looks for firms which are out of favour, but where the market has undervalued the potential for an improvement. This leads to a concentrated portfolio of 40-60 stocks which are in different stages of their turn-around, so that the portfolio has the potential to outperform through different macroeconomic environments. Once he has highlighted potential stocks, he invests at valuations where he believes there is a 50-100% upside. Angel uses scenario analysis to assess his stocks, including assessing how a stock should perform if the worst were to happen.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

All Core Selection funds are available at 0% initial charge within an ISA and outside an ISA on FundStore.

The Chelsea Risk Rating Least risky **1** | | | | | | | | | | **10** Most risky

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency risks. **We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 24 for further details.**

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 24 for more information.

For performance statistics please refer to pages 22-23.

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Asia Pacific, Japan and Emerging Markets

Invesco Perpetual, Hong Kong & China

This fund aims to invest in quality defensive companies with sustainable earnings and strong management teams. Mike Shiao is based in Hong Kong and has been managing the fund since 2012. He has over 20 years' experience of investing in the region. The fund is currently focusing on the Chinese consumer theme. It favours investing in mid-cap stocks with around 50% of the value of the fund in its top 10 holdings.

Chelsea Risk Rating	10
Annual Management Charge	0.89%#
Ongoing Charges Figure (OCF)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

SPOTLIGHT JOHCM Asia ex-Japan Small and Mid Cap

Managers Cho Yu Kooi and Samhir Mehta have worked together for 15 years and are based in Singapore. This is a high conviction fund, which is willing to make big calls on which countries and sectors it invests in. The fund is a mix of core high quality companies (minimum 75% of the fund) and more cyclical stocks. It has historically been heavily exposed to the consumer. As its name suggests, the fund invests in small and mid-sized stocks and can be volatile as a result. Every stock in the portfolio is tested to see how it performed in previous down markets.

Chelsea Risk Rating	9
Annual Management Charge	0.75%^#*
Ongoing Charges Figure (OCF)	1.15%^†
FundCalibre rating	–
Morningstar rating	–
Yield	–
Unit Type	INC

JPM Japan

Tokyo-based manager Nick Weindling runs this domestic Japanese growth fund. When selecting stocks he incorporates a thematic approach, built on his on-the-ground knowledge and understanding of Japanese culture. Nick avoids the traditional 'old Japan' stocks, looking more for stocks that have improved corporate governance. He takes a long-term focus when highlighting opportunities, and ensures he meets company management in order to understand their business properly, aided by being fluent in Japanese. The portfolio will be checked to ensure it is aligned with the manager's macroeconomic views.

Chelsea Risk Rating	10
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.93%†
FundCalibre rating	–
Morningstar rating	NEUTRAL
Yield	0.24%
Unit Type	ACC or INC

Man GLG Japan CoreAlpha

This fund takes a contrarian look at the Japanese stock market with a strong focus on value investing. The team use a valuation model, which compares a stock's share price with the net assets on its balance sheet. This method has historically been a reliable measure of returns. The stocks they target are typically the large-cap, 'core' Japanese companies, the well known names that export their goods around the world. From this, they create a high-conviction portfolio of around 50 holdings, which may differ greatly from the benchmark.

Chelsea Risk Rating	10
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	2.27%
Unit Type	ACC or INC

Matthews Asia Pacific Tiger

Matthews is an American investment house which focuses exclusively on Asia. They are deliberately based in San Francisco to remove themselves from short-term market noise. However, they make regular visits to the region and undertake around 2,000 company meetings a year. Between them, the team speak 13 languages and many of them grew up in the region. The fund aims to invest in the very best Asian businesses for the long term. It is almost entirely bottom-up and typically has a bias to domestic consumer orientated businesses. Lead manager, Sharrat Schroff, has managed the fund since 2010. The portfolio has around 60 to 70 holdings and is very different to the benchmark.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.29%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC or INC

NEW ENTRY RWC Global Emerging Markets

This fund, managed by John Malloy, invests in growth companies that are trading at reasonable valuations. It combines macro economic and political views with fundamental stock research. Countries are given a score on their relative attractiveness. Stock ideas are driven by long-term themes and trends. These views are then combined to produce an optimal portfolio. This is a multi-cap fund which invests across the market cap spectrum. A unique feature is that it can invest up to 20% in frontier markets. The fund is concentrated and usually holds around 50 stocks.

Chelsea Risk Rating	10
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	1.30%†
FundCalibre rating	–
Morningstar rating	–
Yield	–
Unit Type	ACC

Schroder Asian Alpha Plus

This Asian fund is actively managed from the bottom up, with manager Matthew Dobbs often looking for catalysts in order to provide upside in the stocks he owns. Matthew is focused on valuations but also looks for companies that can exhibit organic growth. This concentrated portfolio will typically consist of 60-80 of the best ideas in the region and a 'one in one out' policy is followed. The fund is relatively unconstrained, but risk-aware, and can invest across the market-cap spectrum.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.96%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.91%
Unit Type	ACC or INC

Stewart Investors Asia Pacific Leaders

The fund was previously managed by veteran Angus Tulloch, who has handed over full responsibility to the previous co-manager David Gait, though Angus remains in a research and consultancy capacity. The fund maintains its strong focus on capital preservation by considering corporate governance and social responsibility in order to maintain a sense of stewardship over investors' money. The portfolio is concentrated at 40-60 stocks, with the top ten making up around 40% of the whole portfolio. David makes meeting company management an integral part of company analysis, and the stocks will typically be large cap, with firms under around $1bn removed from the stock selection process.

Chelsea Risk Rating	7.5
Annual Management Charge	0.85%#
Ongoing Charges Figure (OCF)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.90%
Unit Type	ACC or INC

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Global

NEW ENTRY Fidelity Global Special Situations

Jeremy Podger took over the management of this fund in 2012. Jeremy is a pragmatic bottom up stock picker who does not stick too rigidly to one particular investment style. His investments fall into one of three buckets. Corporate change – shorter term investments which take advantage of corporate restructuring or initial public offerings (new stocks coming to the market). Exceptional value – cheap stocks which have a potential to grow earnings. Unqiue businesses – businesses with a dominant position within their industries which should be able to grow for many years to come. The resulting portfolio is a well diversified mix of around 70 to 130 different stocks.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#*
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	–
Morningstar rating	SILVER
Yield	–
Unit Type	ACC

Fundsmith Equity

Manager Terry Smith is one of the most outspoken and high profile personalities in the city. Terry founded Fundsmith in 2010 and has consistently proven himself over a long and glittering career. The fund invests in high quality well-established mega-cap companies. Terry buys businesses which have high returns on equity and are resilient to technological change. The fund typically has a big overweight to consumer staples and it will often avoid some sectors entirely. Valuation discipline is a key part of the process. The concentrated portfolio will typically hold just 20 to 30 stocks.

Chelsea Risk Rating	6
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.83%
Unit Type	ACC or INC

Rathbone Global Opportunities

Manager James Thompson has a mandate to invest across the globe, though in practice only focuses on the more developed world markets to create a concentrated portfolio of 40-60 stocks. These companies are typically out-of-favour and under the radar growth companies, but at attractive valuations. James is a pure stock picker and has a flexible asset allocation mandate to go with it. He likes differentiated companies that are easy to understand, with a repeatable strategy whose sectors have barriers to entry. There is also a defensive bucket of stocks less dependent on the economic environment to manage risk and protect the fund in falling markets.

Chelsea Risk Rating	6.5
Annual Management Charge	0.65%^#
Ongoing Charges Figure (OCF)	0.69%^†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC

Fixed Interest

Henderson Strategic Bond

Long-standing managers, Jenna Barnard and John Pattullo run this fund with up to 70% in high yield bonds. This is one of the more aggressively managed strategic bond funds. The managers can invest across the fixed income spectrum, but can also invest in synthetic fixed income securities (i.e. preference shares) and equities. In addition, the managers have the freedom to vary the source of their returns between income or capital growth. This means the fund can take short positions to enhance returns or protect capital. Income is paid in March, June, September and December.

Chelsea Risk Rating	3
Annual Management Charge	0.60%#
Ongoing Charges Figure (OCF)	0.69%†
FundCalibre rating	–
Morningstar rating	SILVER
Yield	3.60%
Unit Type	ACC or INC

Invesco Perpetual Monthly Income Plus

This strategic bond fund gives the managers considerable freedom to invest across the credit spectrum, but their emphasis on providing a high income and security of capital mean the fund will often have a bias towards higher quality high-yield bonds, although security selection is driven by bottom-up analysis. The fund can invest up to 20% of its assets in equities. The equity portion is managed by Ciaran Mallon, who also manages Invesco's Income and Growth fund. Invesco are well known for the strength of their fixed-income resource and this is their flagship offering. Income is paid monthly.

Chelsea Risk Rating	3.5
Annual Management Charge	0.67%#
Ongoing Charges Figure (OCF)	0.67%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	4.40%
Unit Type	ACC or INC

Jupiter Strategic Bond

The manager, Ariel Bezalel, seeks out the best opportunities within the fixed interest universe globally. He identifies debt issues he feels are mispriced using bottom-up fundamental analysis. Companies with robust business models and recurring revenue streams are preferred. Derivatives can be used to manage risk and also to profit from falling bond prices. Income is paid in January, April, July and October.

Chelsea Risk Rating	2.5
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.73%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.70%
Unit Type	ACC or INC

All Core Selection funds are available at 0% initial charge within an ISA and outside an ISA on FundStore.

The Chelsea Risk Rating Least risky 1 | | | | | | | | | | 10 Most risky

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues. **We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 24 for further details.**

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Fixed Interest continued

Kames Investment Grade Bond

Co-managers Stephen Snowden and Euan McNeil target total return by investing mainly in global investment grade corporate bonds (at least 80%), however gilts, high yield bonds and cash are also held. A strong team ethic, together with their significant fixed income resource, influences both top-down strategy and bottom-up stock picking and the resulting portfolio typically has around 150 stocks. The fund pays out in January, April, July and October.

Chelsea Risk Rating	2.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.79%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.78%
Unit Type	ACC or INC

Baillie Gifford Corporate Bond

Baillie Gifford have a long-standing reputation when it comes to fixed income, and this fund, run by Torcail Stewart and Stephen Rogers, is a collection of their best ideas. They have the ability to invest globally, gathering a portfolio of investment grade and sub-investment grade corporate bonds. Their foreign currency holdings will all be hedged to sterling to remove currency risk. They use bottom-up analysis in their stock-selection process, which is about assessing each bond on its own merits. Torcail and Stephen don't waste much time considering macroeconomic factors or future interest rate movements. They aim to create a portfolio that is diversified in nature but concentrated in number, standing at 60-80 holdings.

Chelsea Risk Rating	3.5
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.53%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.60%
Unit Type	ACC or INC

TwentyFour Dynamic Bond

TwentyFour was founded in 2008 by a group of leading bond managers and it specialises entirely in fixed income. This fund is their flagship product. There is no lead manager and asset allocation is decided by a ten-strong investment committee on a monthly basis. Portfolio managers are then responsible for managing their own parts of the portfolio. This is a flexible, high conviction fund managed by a very experienced and well resourced team. A significant portion of the fund is invested in asset backed securities (around 20%).This makes the fund quite different from some other strategic bond funds which lack the expertise to invest in this area of the market. The fund has a high yield and income is paid in March, June, September and December.

Chelsea Risk Rating	3.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.78%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	4.76%
Unit Type	ACC or INC

Targeted Absolute Return

Aviva Investors Multi-Strategy Target Income 2

This is a multi-asset absolute return fund that aims to generate a good monthly income while preserving investors' capital. Income is derived from five different sources: equity dividends, real estate investment trusts (REITs), option premia and corporate and government bonds. The fund has clear visibility over its future income and it never takes income from the capital of the fund. It employs a number of risk-reducing strategies, which cost very little but are designed to protect the fund in market sell-offs. The portfolio is regularly scenario-tested against past and hypothetical events.

Chelsea Risk Rating	4
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.85%†
FundCalibre rating	–
Morningstar rating	NEUTRAL
Yield	4.44%
Unit Type	INC

BlackRock UK Absolute Alpha

This is a long-short UK equity fund that seeks to generate a positive return over a rolling 12-month period in all market conditions. The fund was re-structured and strengthened following the addition of Nigel Ridge in 2013. Since Nigel joined, the fund is now higher conviction but maintains a conservative net exposure to the wider stock market. The fund aims to add value through fundamental stock analysis. It will buy individual shares that are cheap but will also short-sell stocks it views as overvalued. The fund then combines these positions with a more conservative pair trading strategy, whereby it will buy one stock in a sector and simultaneously short-sell another in the same sector to hedge out the market risk.

Chelsea Risk Rating	4
Annual Management Charge	0.75% §#
Ongoing Charges Figure (OCF)	0.93%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Henderson UK Absolute Return

This is a stock-picking fund that aims to deliver 8-10% p.a. in all market conditions. The managers aim to identify stocks that will either exceed or fall short of analysts' expectations and construct a portfolio of both long and short positions. There are limits on the overall market exposure, which serve to reduce the volatility of the fund. Two thirds of the portfolio will be in shorter-term tactical ideas, where the managers believe an earnings surprise could be imminent. The remainder will be in core holdings, where the managers think there are long-term drivers in place that will either increase or decrease the share price over time.

Chelsea Risk Rating	4
Annual Management Charge	1.00%§#
Ongoing Charges Figure (OCF)	1.06%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Old Mutual Global Equity Absolute Return Hedged

The fund is designed to offer a return of cash +6% on a rolling three-year basis, in all market conditions. The fund invests only in equities but is equity-market neutral, which means the fund's long positions will offset the short positions at all times. The process itself is essentially a sophisticated quantitative screen that scans the world's most liquid 3,500 companies for shares that exhibit certain characteristics. Suitable stocks are grouped into one of five buckets. As one bucket starts to outperform, the managers will tilt the portfolio towards that bucket. What sets this fund apart from other equity long/short funds is the very deliberate and methodical way that the managers have designed the process to minimise style risk.

Chelsea Risk Rating	5
Annual Management Charge	0.75%§#
Ongoing Charges Figure (OCF)	0.85%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

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^ Includes Chelsea discount.
§ There is a 20% performance fee payable to the fund manager relative to the hurdle rate and high watermark. See the KIID for further details.

CORE SELECTION SPOTLIGHT

JOHCM ASIA EX JAPAN SMALL AND MID CAP

Cho Yu Kooi
Fund Manager,
JOHCM Asia ex Japan
Small and Mid Cap

I have been managing the JOHCM Asia ex Japan Small and Mid Cap fund since its launch in 2011. Prior to joining J O Hambro Capital Management, I managed money for a small Asian fund company based in Singapore, and before that I was a portfolio manager at Lloyd George Management.

Quality companies for the long term

Our investment philosophy is based on certain strongly-held beliefs. The first of these is that there are pricing inefficiencies in Asian stock markets. Essentially this means not all information is captured in a share price, so shares can become mispriced. This creates the opportunity to buy shares at lower prices than our analysis suggests they are worth.

Secondly, we believe companies become more valuable over time by virtue of their long-term growth and by generating returns above what is known as their cost of capital, the cost of finance a company uses in funding its activities. We want to own what we call quality, long-term, sustainable growth stocks and dedicate our time to finding stocks which meet our precise quality criteria. We want to hold companies that can thrive, whatever the prevailing economic conditions. And we back well-managed companies that generate high and regular levels of cash and which we believe have excellent future growth prospects, whether that's through taking more market share or exploiting a growing and sustainable long-term demand for a product or service. Our analysis gives us the conviction to take a long-term investment view, meaning that these core quality stocks are typically held in the fund for a long while; we aim to own these stocks for three to five years.

From time to time we will hold some cyclical stocks. These are stocks whose fortunes are more closely tied to the broader economic backdrop, such as materials and industrial companies. Asian stock markets are frequently driven by economic and political factors that are separate from stock-specific considerations. These markets have a history of giving high returns but also with high volatility. During periods of excessive market pessimism cyclical parts of the stock market can become so unloved by investors that there are bargains to be found. We aim to blend our growth stock focus with cyclical exposure that is valuation-driven and based on top-down views.

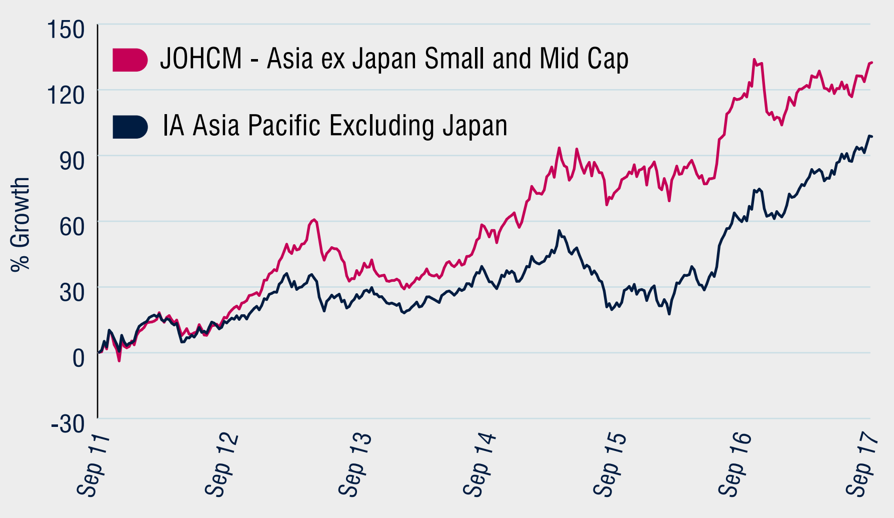
Picking out the little gems

We regularly travel around Asia, speaking to companies, their competitors, industry experts, government officials and anyone else who can help us understand what is going on with companies on the ground. This kind of research is particularly necessary given we invest in medium and smaller-sized companies which are less well-covered by brokers.

Baozun is China's leading e-commerce service provider. It offers retail brands end-to-end solutions in areas including website design and development, digital marketing, online store operations and order fulfilment. With online shopping accounting for 17% of retail sales in China and growing in popularity, it has become critical for all retail brands to have an e-commerce strategy, which will drive demand for Baozun's expertise as it is challenging for the brands to do it themselves. Another stock we like is Arwana Citramulia, a leading ceramic tiles manufacturer and distributor in Indonesia. The Indonesian tile industry offers good long-term growth potential as its penetration rate is about half that of its peers in Malaysia, Thailand and Vietnam. As the lowest-cost producer with an intense focus on operational efficiencies, Arwana enjoys the highest profit margins in the industry. Both of these are high quality companies tapping into long-term demand trends.

Lastly, it's worth noting that, as with all JOHCM funds, we limit how large the fund can become. One of the biggest impediments to good long-term outperformance in fund management is managing too much money. Aiming to be the best, not the biggest, is our mantra.

JOHCM Asia ex Japan Small and Mid - since inception



Source: FEAnalytics 30/09/2011-01/09/2017

THE CHELSEA VIEW

Whilst small and mid-cap Asian stocks may not be for the faint hearted, we believe this is an interesting investment area for those seeking long-term growth. Cho Yu's experience and expertise enable her to select stocks which can outperform over the long term in this exciting growth area.

CORE SELECTION SPOTLIGHT

FIDELITY AMERICAN SPECIAL SITUATIONS

Angel Agudo
Portfolio Manager,
Fidelity American
Special Situations

I joined Fidelity as an analyst in 2005 and over the years have covered various sectors. I became portfolio manager for our American Special Situations fund in December 2012.

What I'm looking for

I work to build a portfolio of stocks in which I have a high level conviction. I believe that the stock market is inefficient at pricing companies that have gone through a troubled period and are consequently unloved and out of favour. It is often only when the market senses an improvement in a company's trading that the share price starts to improve. I tend to be drawn to situations where news is negative and market participants have punished the stock price disproportionately and therefore there is strong potential for the share price to rise significantly and – just as important – limited scope for it to fall any further.

Of course, I am always looking for strong positive returns, but I also focus on protecting the portfolio from losses by looking at the strength of a company's balance sheet and the resilience of its business model. Another strategy I follow is to combine stocks that are in different stages of recovery, with the intention of achieving strong returns across different market conditions. Moreover, given that it can take time to turn a company around, I tend to keep stocks in the portfolio for a relatively long time.

A good example of the type of company that I invest in is Microsoft. When I bought it, investors generally had a poor opinion of the company. They did not like its management and felt there was a lack of investment. They also worried that some of its key products would soon be out of date. However, I took a positive view of the stock because Microsoft was still a leader in the software market and the shares were attractively priced. Given the strength of the company's business and balance sheet, I felt the share price could rise even if the management did not change. I also believed that the growth of cloud-computing presented huge opportunities for Microsoft. The share price rose steadily over time and when a new chief executive was appointed, it surged even faster than I had anticipated. Earlier this year the share price reached my target price, so I took the profits, which gave me an opportunity to look for opportunities elsewhere.

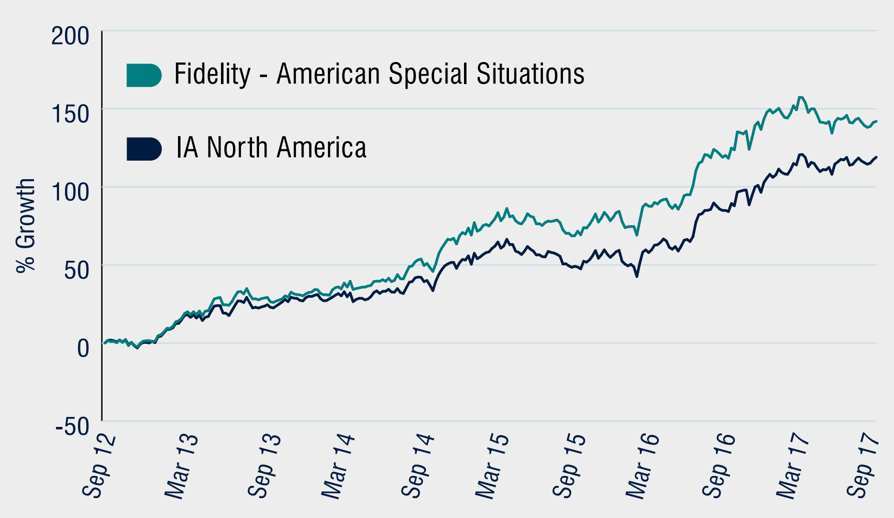
Looking ahead...

The American stock market has done well recently. Consumer and investor sentiment has been positive, and the figures for economic growth and employment are still encouraging. Moreover, investors have not yet realised that some of Donald Trump's policies have a good chance of promoting growth. On top of all that, the world's largest economy has a number of key points in its favour – it has a relatively young population, it encourages entrepreneurship and innovation and the boom in shale gas is giving it greater energy independence.

In recent months I have found a number of opportunities with positive long-term prospects across a number of sectors, including financials, information technology (IT) and industrials. My key holdings within financials include Willis Towers Watson and Berkshire Hathaway. Willis Towers Watson is a global advisory and insurance broker and I believe its recent merger could result in tax and cost benefits. Berkshire Hathaway is a holding company with subsidiary businesses in a number of diverse sectors, such as utilities and energy, finance, manufacturing, retail and insurance. My largest holdings in the IT and industrial sectors are, respectively, the software firm Oracle and L3 Technologies, which specialises in aerospace and national security solutions.

On a closing note, it is important for me to appreciate that share valuations are quite high so I need to focus on companies where there is good reason to be confident that the share price will not fall. I need to be selective in an economic environment like this, and I will continue to focus on choosing individual stocks that I believe have the ability to generate stellar long-term returns.

Fidelity American Special Situations - five years



Source: FEAnalytics 31/08/2012-01/09/2017

THE CHELSEA VIEW

Despite this fund's value tilt and focus on capital preservation it has still been able to deliver good outperformance in a rising market. Angel embraces uncertainty and always considers the potential downside before making an investment. We're also keen on Angel's willingness to back his ideas, by taking high conviction positions.

THE CHELSEA EASYISA

When it comes to considering funds for your ISA, the range is vast and the task of choosing just a few for your portfolio can be daunting.

With the Chelsea EasyISA portfolios, all you have to do is choose one of the five options, based upon your own requirements and attitude to risk. Your ISA will then be spread equally across the corresponding six funds, within the Chelsea FundStore. These EasyISAs are simply suggested portfolios and, due to their exposure to equities, may be subject to volatility, and thus potential capital loss.

Juliet Schooling Latter
Research Director,
Chelsea

Do check the Portfolio Changes box below, for any differences relevant to you. Remember, we don't automatically make the changes for you.

How much can you invest?

The ISA allowance is £20,000 for the current tax year.

NEW – An alternative solution for investors who want managed funds.

The EasyISA portfolio changes are detailed below and you need to make any switches yourself. However, our new VT Chelsea Managed Funds are monitored daily and you don't need to worry about making any changes, as the portfolio changes are all done for you. For more details, see pages 6-9.

What to do next

1 **Select the EasyISA which best suits you** (and read the KIID* for each relevant fund)

2 **Decide how much you want to invest.**

3 **Complete the form and return it to us with payment, easy!**

*See covering letter for details, or visit chelseafs.co.uk

How to invest

Call us on **020 7384 7300**

Visit us at **chelseafs.co.uk**

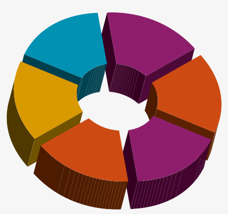
Send us a completed application form (see booklet)

Portfolio Changes

Agressive Growth EasyISA: Fundsmith Equity replaces JOHCM Global Select; Fidelity American Special Situations replaces Leggmason Clearbridge US Aggressive Growth.

Cautious Growth EasyISA

Cautious Growth is for the more risk-averse investor who is looking for growth with lower volatility. The portfolio has approximately one third invested in equities. Approximately one third will be invested in fixed interest, which tends to be less volatile than equities. The final third of the portfolio comprises targeted absolute return funds that should produce uncorrelated returns. N.B. this portfolio contains up to 40% equity exposure, so may be subject to greater volatility than the term Cautious may suggest and there is potential for capital loss.



- Baillie Gifford Corporate Bond
- BlackRock UK Absolute Alpha*
- Jupiter Strategic Bond
- Old Mutual Global Equity Absolute Return Hedged*
- Rathbone Global Opportunities
- Woodford Equity Income

Average Annual Management Charge	0.67%*#
Average Ongoing Charges Figure (OCF)	0.76%†
Benchmark	1/3 Strategic Bond (Sector Av) 2/3 Mixed Investment 20-60% (Sector Av)

	Cautious Growth Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	21.39%	16.25%	19.41%
5 Year Performance	42.71%	33.49%	38.69%
10 Year Performance	58.38%	54.10%	53.59%

FE Analytics data as of 01/09/2017 compiled by Chelsea. *A performance fee may be applied, see page 15 for details. **Sector average

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees. # The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). These portfolios do not include cash allocations.

Balanced Growth EasyISA

Balanced Growth offers a medium level of risk and is for investors who wish to benefit from global equity markets, with some defensiveness offered through one sixth of the portfolio being invested in fixed interest and one sixth in targeted absolute return. The portfolio has the majority of its assets invested in equities based in developed markets (up to a maximum of 70% in equities), and so there is the potential for capital loss. The fixed interest portion is invested in a strategic bond fund which has the ability to invest across the credit quality spectrum.

- AXA Framlington UK Select Opportunities
- Fidelity American Special Situations
- Henderson Strategic Bond
- Henderson UK Absolute Return*
- Liontrust Special Situations
- Threadneedle European Select

Average Annual Management Charge	0.77%*#
Average Ongoing Charges Figure (OCF)	0.87%†
Benchmark	1/3 UK All Companies (sector average) 1/3 Global (sector average) 1/3 Mixed Investment 20-60% shares (sector average)

	Balanced Growth Portfolio	Benchmark	Mixed Investments 40-85% Shares**
3 Year Performance	32.05%	28.77%	26.88%
5 Year Performance	66.38%	64.17%	55.38%
10 Year Performance	87.95%	76.06%	69.28%

FE Analytics data as of 01/09/2017, compiled by Chelsea. *A performance fee may be applied, see page 15 for details. **Sector average

Aggressive Growth EasyISA

Aggressive Growth is for the investor looking for pure capital growth, who is comfortable with a higher degree of risk and willing to invest a portion in Asian and emerging market equities. The portfolio is an unconstrained global equity portfolio, with exposure to large, mid and small-cap companies. It has the potential to produce greater returns through investing in faster-growing regions and more dynamic companies, but with a greater degree of risk and volatility. This portfolio can hold up to 100% in equities so there is the potential for capital loss.

- BlackRock European Dynamic
- Fundsmith Equity
- JOHCM UK Dynamic*
- Fidelity American Special Situations
- Marlborough UK Micro-Cap Growth
- Stewart Investors Asia Pacific Leaders

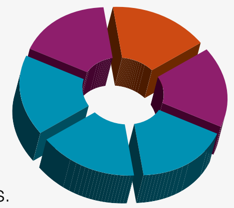
Average Annual Management Charge	0.77%*#
Average Ongoing Charges Figure (OCF)	0.87%†
Benchmark	MSCI World Index

	Aggressive Growth Portfolio	Benchmark	Global**
3 Year Performance	41.59%	53.16%	44.20%
5 Year Performance	91.28%	108.66%	89.41%
10 Year Performance	115.17%	142.39%	105.55%

FE Analytics data as of 01/09/2017, compiled by Chelsea. *A performance fee may be applied, see page 10 for details. **Sector average

Income EasyISA

Income is for investors looking to generate income, with some prospect for capital growth. The portfolio is invested in fixed interest, across the credit quality spectrum, and defensive, dividend-paying companies, based largely in developed markets. There is also one sixth invested in absolute return to further diversify the income stream. This combination aims to maintain, and potentially grow, capital over the long term, whilst paying dividends throughout the year. The portfolio has approximately 50% exposure to equities, at the time of writing, so there is the potential for capital loss.



- **Aviva Investors Multi-Strategy Target Income 2** Yield: 4.40%^ Paid: Monthly
- **Invesco Perpetual Monthly IncomePlus** Yield: 4.51%^ Paid: Monthly
- **M&G Global Dividend** Yd: 2.84%^ Paid: Mar, Jun, Sep, Dec
- **SLI UK Equity Income Unconstrained** Yield: 4.20%^ Paid: Mar, Jul
- **Threadneedle UK Equity Alpha Income** Yield: 3.79%^ Paid: Jan, Jul
- **TwentyFour Dynamic Bond** Yield: 4.76%^ Paid: Mar, Jun, Sep, Dec

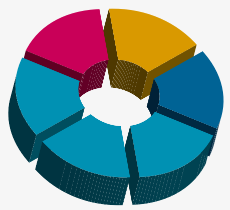
Average Annual Management Charge	0.79%#
Average Ongoing Charges Figure (OCF)	0.87%†
Benchmark	1/2 Strategic Bond (sector average) 1/2 UK Equity Income (sector average)

	Income Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	18.08%	18.44%	19.41%
5 Year Performance	46.78%	47.80%	38.69%
10 Year Performance	89.00%	67.90%	53.59%
Average Portfolio Yield	4.08%^		

FE Analytics data as of 01/09/2017, compiled by Chelsea. **Sector average

Global Income EasyISA

Global Income offers investors a medium to high level of risk within a globally-diversified portfolio and these equity income funds are selected for their potential to grow their yields over time. Over 50% of the portfolio is invested in US and European equities, with approximately 15% in UK equities. The remainder is invested across other regions, such as Asia, emerging markets and Japan. This portfolio can hold up to 100% in equities so there is the potential for capital loss.



- **Artemis Global Income** Yield: 3.61%^ Paid: Oct, Apr
- **BlackRock Continental European Income** Yield: 3.63%^ Paid: Sep, Dec, Mar, Jun
- **Fidelity Enhanced Income** Yield: 7.03%^ Paid: Nov, Feb, May, Aug
- **Fidelity Global Enhanced Income** Yield: 4.10%^ Paid: Nov, Feb, May, Aug
- **Guinness Global Equity Income** Yield: 2.82%^ Paid: Aug, Feb
- **Schroder Asian Income** Yield: 5.91%^ Paid: Apr, Oct

Average Annual Management Charge	0.71%#
Average Ongoing Charges Figure (OCF)	0.93%†
Benchmark	Global Equity Income

	Global Income Portfolio	Benchmark	Global Equity Income**
3 Year Performance	40.39%	39.72%	37.43%
5 Year Performance	82.77%	83.03%	78.36%
10 Year Performance	N/A	108.69%	N/A
Average Portfolio Yield	4.18%^		

FE Analytics data as of 01/09/2017, compiled by Chelsea. **Sector average

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees. #The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). These portfolios do not include cash allocations.
^Yields as at 13/09/17

THE CHELSEA SIPP

Are you sleepwalking into pension poverty? Worrying results from our pension survey

Sarah Culver
Head of Pensions,
Chelsea

Don't get caught out, don't put it off, open a pension today.

We recently conducted a survey to find out about your pension saving habits and your retirement needs. Over a third of those surveyed hope to save between £200,000 and £500,000 before they retire, which they would use to live off, as well as going on well-earned holidays.^

We found that a quarter of individuals were investing less than 5% of their salary into their pensions, with 65% of those not investing into their pension at all. More worryingly, 70% of those who were not investing into a pension were over the age of 36.^

It was recently announced that those aged 39 to 47 will have to wait an extra year, until they are 68, before they can claim their state pension. Are there further changes to come? Can you really depend on the state to look after you in your later years?

The earlier you start, the easier it is

Compound interest has always played an important part when it comes to saving and your pension is no different.

Let's assume that you want a pension of £500,000 at the age of 65, you receive basic rate tax relief, and you get a rate of return of 5% per annum (after all fund and platform charges):

- If you start saving at the age of 40, you will need to save £830 per month, before tax relief is added (net), to reach the intended sum.
- But, if you decide to leave it until 50 the figure jumps to £1,680 per month (net).
- However, if you start **saving at 25** this figure is much more manageable at **£390 per month (net)**. This may sound like a large sum to those who have just started working, but saving even a small amount today can make a huge difference to your future.

Who can invest?

You, or any third party, can invest into your pension. What's more, the government will add 20% tax relief to any contribution made by you or anyone else (providing that individual isn't your employer – the tax works differently there). That means, if £800 is invested, the government will automatically add £200, so you save £1,000 towards your retirement.

Better still, if you are a higher-rate or additional-rate tax payer, you can claim further tax relief through self assessment, meaning the contribution will cost even less.

Unsure where to invest?

Another barrier to saving is deciding where to invest. If you aren't sure where to start, you may like to consider the VT Chelsea Managed Funds, a new service from Chelsea (see pages 6-9 for further details).

Of course, should you be interested in other funds, the full range of funds on our Chelsea FundStore is also available.

WHY THE CHELSEA SIPP?

- Competitive platform and service charges
- 0% set-up charge
- Free transfers in – consolidate and manage your schemes in one place
- Access to the VT Chelsea Managed Funds
- Help with exit charges, when moving to Chelsea*
- Free switching and telephone dealing
- 20% tax relief automatically reclaimed for you
- Access to 25% tax-free cash from 55
- 0% charge for processing probate
- Personal pensions administrator to help you along the way

Do you want to open a pension with Chelsea?

Visit chelseafs.co.uk/products/pension/questionnaire

Want to top up a pension you already hold or discuss your options?

Call Sarah on 020 7384 7300

If you are invested within one of our EasySIPP portfolios, these can be viewed online.

Visit www.chelseafs.co.uk/products/pension/three-ways-to-invest-in-your-sipp

Please be aware that there is a minimum initial investment amount of £5,000 to open a pension (this can be from a single investment and/or transfer). After the initial investment the minimum investment amount is £50, per fund. Any individual wanting to open a pension through Chelsea must be at least 18 years old. In most cases, you cannot take money out of the pension until the age of 55. Chelsea does not provide investment advice so if you are unsure of anything you should seek expert advice. *Please be aware of any exit charges that may be levied by your existing provider and any guarantees that you may be giving up. ^ Chelsea survey, July 2017, 76 respondents.

THE CHELSEA JUNIOR ISA

James Yardley
Senior Research
Analyst, Chelsea

A Junior ISA is a great way to teach your children about investing and the value of saving.

0% SERVICE CHARGE

The Junior ISA is a version of the long-standing and popular ISA but aimed at parents, guardians and grandparents who wish to save for the child's future. The Junior ISA limit is £4128 for the current tax year. The Junior ISA has the advantage of no capital gains tax and no further liability to income tax. Furthermore, there is currently no service or platform charge to pay on Junior ISAs via Chelsea. All you pay is the annual management charge of the funds held, whilst this offer lasts. Please note funds invested into a Junior ISA cannot be accessed until age 18.

Why should you use the Junior ISA allowance?

Act now to protect your child's future. The Junior ISA could be used for university costs, house deposits, a wedding or possibly a car. Alternatively, at the age of 18, the Junior ISA will be automatically rolled into an 'adult' ISA and remain invested. Many parents are still saving for their children's future with cash Junior ISAs, this may present a long-term opportunity cost as securities tend to outperform cash in the long run, see page 24 for further details.

HOW DO I INVEST?

An application form and a transfer form can be found within the booklet.

Please take a look at the Key Investor Information Documents (KIID) online before you invest (see covering letter for details or visit our website at chelseafs.co.uk/documents/fundstore). You will also find further information on our website at chelseafs.co.uk/products/children/isa.

Junior ISA guide: we have written a guide which explains how the Junior ISA works, who can invest in it and what the benefits are. It is available on our website.

Unsure where to invest?

Our launch of the VT Chelsea Managed funds present an opportunity for parents who are looking to invest long term for their child's future whilst reducing the stress of portfolio management. The VT Chelsea Managed Funds are a diversified and actively-managed fund of funds and are designed to offer the best possible returns for the least risk. They offer a complete solution, with four options to suit the level of risk you want to take.

Bringing up children takes time, it's about long-term nurturing. This is precisely the attitude our research team will take with your child's investments. Our investment approach is long term. With the VT Managed Chelsea Funds our research team will be dedicated to the full time nurturing and stewardship of your child's financial future. In the midst of nappy changes and school runs, thinking about your child finances can be difficult, with the Junior ISA placed in the VT Chelsea Managed funds we aim to take the burden off your shoulders. Of course, should you be interested in other funds, the full range of funds on our Chelsea FundStore is also available.

As with any other investment, capital is at risk and is subject to volatility and thus potential capital loss.

VT CHELSEA Managed FUNDS

*Chelsea does not provide investment advice so if you are unsure of anything you should seek expert advice.

THE CHELSEA SELECTION

Around 100 of our top-rated funds, organised by sector.

Core	Fund	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	Yield %	Fund Size (m)
	UK All Companies												
C	AXA Framlington UK Select Opportunities	Elite	6	8.78	227	17.16	217	58.35	181	108.48	54	1.88	3365.4
	F&C UK Mid Cap*** NEW ENTRY		6	11.65	194 / 262	38.73	36 / 248	106.94	30 / 236	181.21	11 / 196	-	32.2
	Franklin UK Managers' Focus		7	14.55	108	38.94	34	121.03	14	132.66	25	-	292.1
	Franklin UK Mid Cap	Elite	6	20.22	36	39.71	33	103.88	37	209.50	6	2.59	977.5
	Investec UK Alpha	Elite	6	13.76	136	29.16	91	109.41	24	137.12	24	1.71	1736.9
C	JOHCM UK Dynamic***	Elite	6	21.48	-	33.18	-	99.78	-	-	-	3.41	596.5
C	Jupiter UK Growth	Elite	7	9.45	220	16.76	222	80.56	88	83.81	99	1.90	1395.5
	Jupiter UK Special Situations	Elite	5	14.16	123	29.79	88	81.59	81	138.55	23	2.00	1711.6
	L&G UK Special Situations	Elite	6.5	10.04	213	42.18	22	107.75	28	-	-	1.60	270.8
	Lindsell Train CF UK Equity		6.5	16.47	70	53.32	7	124.40	10	235.92	3	1.95	4072.5
C	Liontrust Special Situations	Elite	6	13.86	133	43.32	18	87.49	64	223.17	5	1.86	2842.3
C	Marlborough UK Multi-Cap Growth	Elite	7	28.98	8	66.51	5	127.85	9	196.99	8	0.83	169.7
	MI Chelverton UK Equity Growth NEW ENTRY		7.5	34.58	2	-	-	-	-	-	-	1.03	98.6
	Schroder Recovery	Elite	7.5	14.82	100	21.05	170	104.04	35	147.33	21	2.16	1076.8
	Threadneedle UK Extended Alpha	Elite	7	9.87	217	31.19	79	81.89	79	119.82	41	-	128.3
	Sector Average			**14.42**	**260**	**26.29**	**246**	**71.30**	**234**	**80.70**	**195**	**-**	**-**
	UK Equity Income												
	Artemis Income	Elite	5	13.03	30	27.88	26	72.01	36	105.45	10	3.91	6449.2
C	Evenlode Income**	Elite	5	10.93	207 / 260	44.97	14 / 246	97.89	46	-	-	3.30	1441.0
	Fidelity Enhanced Income	Elite	5	3.39	82	15.47	78	43.29	74	-	-	7.06	550.0
	JOHCM UK Equity Income	Elite	6	19.74	7	27.13	28	85.05	14	142.70	2	4.36	3300.0
	Man GLG UK Income NEW ENTRY		6	24.85	1	41.26	2	95.34	7	75.73	34	4.52	238.8
	Marlborough Multi Cap Income	Elite	7	12.48	31	27.88	79	102.62	5	-	-	4.33^	1536.7
	Montanaro UK Income Seed**		8	20.15	37 / 260	47.11	13 / 246	110.32	20 / 234	171.75	13 / 195	-	210.0
C	Rathbone Income	Elite	5	10.57	50	30.58	14	80.34	18	84.83	27	3.50	1421.2
	Royal London UK Equity Income**	Elite	5	10.33	52 / 85	28.71	22 / 80	94.99	9 / 76	130.76	5 / 56	3.82	1883.6
C	Standard Life Investments UK Equity Income Unconstrained	Elite	6	12.03	35	24.59	46	100.33	6	72.11	37	3.79	1212.9
C	Threadneedle UK Equity Alpha Income		5	10.02	56	23.03	55	80.30	20	118.97	8	4.20	826.5
C	Woodford Equity Income	Elite	5	0.43	84	25.40	42	-	-	-	-	3.52	9251.6
	Woodford Income Focus NEW ENTRY		5	-	-	-	-	-	-	-	-	-	734.1
	Sector Average			**11.32**	**84**	**25.19**	**79**	**68.30**	**75**	**78.20**	**55**	**-**	**-**
	UK Smaller Companies												
	AXA Framlington UK Smaller Companies		8	29.66	17	65.46	9	171.78	5	170.27	20	0.64	317.9
	CF Livingbridge UK Micro Cap	Elite	8.5	28.41	23	51.52	22	186.88	3	-	-	0.69	89.1
C	Franklin UK Smaller Companies		8	23.49	33	42.24	31	143.38	18	77.52	38	1.12	276.2
	Liontrust UK Micro Cap		8	24.62	28	-	-	-	-	-	-	-	22.4
	Marlborough Special Situations	Elite	7.5	26.34	24	61.58	12	149.00	15	237.97	8	-	1407.9
C	Marlborough UK Micro Cap Growth	Elite	8	32.49	9	59.19	15	161.59	8	286.06	2	-	934.3
	R&M UK Equity Smaller Companies	Elite	8	28.93	20	54.67	17	201.17	2	280.53	3	1.04	862.4
	Sector Average			**26.90**	**47**	**46.90**	**46**	**118.51**	**43**	**138.89**	**40**	**-**	**-**
	Sterling Corporate Bond												
C	Kames Investment Grade Bond	Elite	2.5	2.82	14	19.59	25	37.78	15	88.38	14	2.78	1452.0
	Royal London Corporate Bond	Elite	2.5	3.05	11	20.61	17	40.03	11	79.19	22	3.38	1082.9
	TwentyFour Corporate Bond NEW ENTRY		2.5	3.37	8	-	-	-	-	-	-	-	426.4
	Sector Average			**1.52**	**87**	**16.94**	**83**	**30.26**	**70**	**67.90**	**-**	**-**	**-**
	Sterling High Yield												
	Aviva Inv High Yield Bond 2	Elite	3.5	4.07	31	15.68	7	43.24	6	-	-	4.50	183.1
	Baillie Gifford High Yield Bond B	Elite	4	7.56	9	14.21	14	42.46	7	102.97	2	4.10	434.7
	Royal London Short Duration Global High Yield Bond NEW ENTRY		2.5	2.82	33	11.17	22	-	-	-	-	4.92	1003.0
	Schroder High Yield Opportunities***	Elite	3.5	9.09	67 / 244	23.53	54 / 221	54.16	15 / 161	100.10	24	6.22	498.8
	Sector Average			**6.77**	**33**	**11.71**	**31**	**32.59**	**24**	**77.69**	**18**	**-**	**-**
	Sterling Strategic Bond												
	Artemis Strategic Bond		3	6.06	18	16.80	17	37.91	13	78.55	12	3.98	1128.7
C	Baillie Gifford Corporate Bond	Elite	3.5	5.43	22	18.55	11	40.83	9	96.61	3	3.60	693.3
	Fidelity Strategic Bond	Elite	2.5	0.50	69	9.94	54	25.24	42	92.04	6	2.25	1768.3
	GAM Star Credit Opportunities	Elite	4	10.16	4	30.34	1	86.04	1	-	-	4.50	507.0
C	Henderson Strategic Bond		3	3.01	51	13.74	29	32.65	22	81.33	10	3.60	1878.2
C	Invesco Perpetual Monthly Income Plus	Elite	3.5	8.78	6	16.16	21	42.49	6	90.98	5	4.40	3336.2
C	Jupiter Strategic Bond	Elite	2.5	4.31	34	12.87	36	32.34	23	-	-	3.70	3694.6
C	TwentyFour Dynamic Bond	Elite	3.5	7.67	11	14.77	25	43.28	7	-	-	4.76	1568.7
	Sector Average			**3.65**	**86**	**12.71**	**75**	**27.42**	**65**	**63.20**	**41**	**-**	**-**
	Targeted Absolute Return												
C	Aviva Inv Multi Strategy Target Income 2		3.5	-1.45	-	-	-	-	-	-	-	4.44	2403.7
C	BlackRock UK Absolute Alpha	Elite	4	3.07	-	15.37	-	23.87	-	38.79	-	-	364.4
C	Henderson UK Absolute Return	Elite	4	2.56	-	14.63	-	43.39	-	-	-	-	2367.9
	Jupiter Absolute Return	Elite	4.5	1.85	-	14.92	-	17.16	-	-	-	-	1209.2
C	Old Mutual Global Equity Absolute Return R Hedged	Elite	5	9.76	-	18.23	-	40.86	-	-	-	-	7774.4
	Premier Defensive Growth	Elite	3	2.23	-	6.02	-	17.45	-	-	-	-	545.2
	Smith & Williamson Enterprise	Elite	5	5.73	-	11.40	-	41.26	-	84.19	-	-	120.0
	SVS Church House Tenax Absolute Return Strategies	Elite	4	3.84	-	13.29	-	27.31	-		-	0.99	143.0
	Sector Average			**3.96**	**-**	**8.26**	**-**	**19.01**	**-**	**32.21**	**-**	**-**	**-**
	Europe Excluding UK												
	Baring Europe Select***	Elite	8	26.99	12 / 25	83.29	6 / 20	167.71	8 / 20	227.39	1 / 16	1.40	2046.1
	BlackRock Continental European Income	Elite	7	22.38	83	55.28	33	131.07	13	-	-	3.61^	1729.6
C	BlackRock European Dynamic***	Elite	7	29.08	16	68.73	6	137.40	9	239.56	2	-	2545.8
	FP CRUX European		7	16.48	104	-	-	-	-	-	-	2.14	114.6
	GAM Star Continental European Equity	Elite	7	22.76	76	65.58	9	117.18	28	144.73	9	1.21	1539.3
C	Jupiter European	Elite	6.5	24.97	51	72.96	3	132.12	12	222.36	4	0.40	4303.1
	Marlborough European Multi-Cap NEW ENTRY		8.5	37.82	2	104.48	2	169.90	2	136.29	12	0.66	247.4
	Mirabaud Equities Europe Ex-UK Small and Mid***	Elite	7.5	24.34	19 / 25	-	-	-	-	-	-	-	56.2
C	Threadneedle European Select	Elite	7	22.60	81	57.05	26	105.34	43	159.97	7	1.00	3038.7
	Sector Average			**25.06**	**106**	**50.19**	**95**	**106.11**	**83**	**94.88**	**66**	**-**	**-**
	North America												
C	AXA Framlington American Growth	Elite	7	19.72	38	60.09	51	111.20	70	214.42	15	-	508.5
	Brown Advisory US Flexible Equity**	Elite	7	19.59	-	59.45	-	-	-	-	-	-	229.3
	CF Miton US Opportunities		7	16.15	83	69.87	17	-	-	-	-	-	292.3
	Dodge & Cox US Stock		7	22.13	24	61.87	42	148.53	9	-	-	-	513.7
C	Fidelity American Special Situations SPOTLIGHT		7	9.97	123	61.25	46	141.90	13	210.60	18	-	1333.1
	Hermes US SMID Equity*	Elite	8	10.28	13 / 15	60.29	6 / 14	-	-	-	-	-	675.5
	Legg Mason ClearBridge US Aggressive Growth		7	16.92	72	38.84	102	117.64	54	203.84	25	-	1661.6
	Sector Average			**18.10**	**129**	**56.85**	**111**	**118.98**	**96**	**174.83**	**70**	**-**	**-**
	Japan												
	Baillie Gifford Japanese	Elite	10	27.12	5	80.61	5	160.44	3	189.72	2	0.77	1869.0
C	JPM Japan		10	17.98	37	83.62	3	145.53	7	115.19	17	0.24	453.1
	Legg Mason IF Japan Equity		10	26.69	7	128.41	1	332.61	1	403.22	1	-	707.8
C	Man GLG Japan Core Alpha	Elite	10	19.82	27	64.59	16	144.34	8	175.81	5	2.27	1916.6
	Sector Average			**19.46**	**68**	**60.48**	**62**	**109.47**	**55**	**95.32**	**45**	**-**	**-**
	Asia Pacific Excluding Japan												
	Fidelity Asia Pacific Opportunities		8	17.79	86	-	-	-	-	-	-	-	60.0
	Invesco Perpetual Asian		8	38.52	1	70.92	6	123.98	3	205.73	6	1.00	1358.8
	JOHCM Asia ex Japan	Elite	8	21.09	76	56.27	22	98.80	19	-	-	-	566.8
C	JOHCM Asia ex Japan Small and Mid Cap SPOTLIGHT		9	7.31	99	52.21	33	108.38	10	-	-	-	46.0
C	Matthews Asia Pacific Tiger	Elite	8	15.46	90	49.93	38	92.07	25	-	-	-	345.7
C	Schroder Asian Alpha Plus	Elite	8	34.33	8	64.05	16	99.09	17	-	-	0.91	756.3
	Schroder Asian Income	Elite	7.5	23.17	65	46.66	44	86.25	32	208.29	5	3.89	1224.5
C	Stewart Investors Asia Pacific Leaders	Elite	7.5	11.85	97	39.65	63	76.87	43	216.19	3	0.90	9520.0
	Sector Average			**24.49**	**99**	**45.64**	**91**	**79.50**	**77**	**124.59**	**55**	**-**	**-**
	Global Emerging Markets**												
	Aberdeen Latin American Equity	Elite	10	28.42	-	20.39	-	25.25	-	-	-	-	246.0
	GS India Equity Portfolio	Elite	10	26.94	-	89.45	-	187.26	-	-	-	-	1918.1
	Henderson Emerging Markets Opportunities		10	22.91	71	42.29	33	62.79	30	62.70	27	1.30	471.9
C	Invesco Perpetual Hong Kong & China	Elite	10	31.27	-	59.62	-	148.29	-	155.17	-	-	340.2
	Jupiter India		10	22.41	-	91.52	-	170.49	-	-	-	-	1028.9
	Lazard Emerging Markets	Elite	10	24.31	63	28.63	68	51.95	51	117.27	8	2.10	1161.2
	M&G Global Emerging Markets	Elite	10	23.97	65	25.66	78	52.41	48	-	-	1.80	2162.8
	MI Somerset Emerging Markets Dividend Growth	Elite	9.5	27.55	45	45.85	26	63.83	29	-	-	1.90	1427.0
C	RWC Global Emerging Markets NEW ENTRY		10	33.09	11	-	-	-	-	-	-	-	347.5
	Schroder Small Cap Discovery		10	13.87	-	30.95	-	90.15	-	-	-	0.78	213.9
	Sector Average			**26.86**	**93**	**36.74**	**85**	**55.29**	**72**	**89.41**	**33**	**-**	**-**
	Global												
	Baillie Gifford Global Discovery**	Elite	8	23.79	41	60.38	44	170.59	3	262.39	-	-	291.7
C	Fidelity Global Special Situations		7	24.42	34	69.93	12	141.25	13	124.47	58	-	2325.8
C	Fundsmith Equity	Elite	6	21.77	69	99.20	2	173.99	2	-	-	0.83	12137.9
	JOHCM Global Select	Elite	7	14.53	231	39.40	188	109.59	68	-	-	-	2351.4
C	Rathbone Global Opportunities	Elite	6.5	21.84	67	70.74	9	127.08	27	158.81	21	-	1080.0
	Sector Average			**19.04**	**271**	**44.20**	**240**	**89.41**	**210**	**105.55**	**139**	**-**	**-**
	Global Equity Income												
C	Artemis Global Income	Elite	6.5	20.00	7	46.56	15	126.44	1	-	-	3.61	3674.8
	Fidelity Global Dividend	Elite	6	12.24	36	53.83	4	103.53	2	-	-	2.95	854.0
	Fidelity Global Enhanced Income		5.5	12.02	38	51.50	7	-	-	-	-	4.08	272.6
	Guinness Global Equity Income	Elite	6.5	11.13	40	43.50	18	92.88	13	-	-	2.88	335.3
C	M&G Global Dividend	Elite	6.5	21.63	72 / 266	39.23	187 / 235	85.14	155 / 205	-	-	2.83	6539.7
	Newton Global Income Inst	Elite	6	13.33	30	59.01	1	94.12	12	170.83	1 / 7	3.11	5522.4
	Sector Average			**15.46**	**47**	**37.43**	**39**	**78.36**	**30**	**110.19**	**-**	**-**	**-**
	Miscellaneous**												
	Artemis Strategic Assets	Elite	6	12.18	97 / 146	14.11	119 / 130	41.29	94 / 108	-	-	-	794.1
	Artemis Monthly Distribution NEW ENTRY	Elite	4.5	12.19	-	37.11	-	85.50	-	-	-	4.16	548.0
	AXA Framlington Global Technology	Elite	10	33.84	7 / 16	100.85	3 / 13	153.54	6 / 13	318.45	3 / 11	-	422.6
	F&C Real Estate Securities	Elite	7	8.00	21 / 49	53.77	2 / 48	126.87	2 / 36	-		-	104.0
	Guinness Global Energy		10	-2.36	264 / 266	-29.29	234	-2.84	203 / 205	-	-	-	218.9
	Jupiter Financial Opportunities		8	24.07	-	52.45	-	108.34	-	105.19	-	0.90	507.1
	Legg Mason IF RARE Global Infrastructure Income		5	21.58	-	-	-	-	-	-	-	-	365.2
	Polar Capital Biotechnology		10	38.49	-	94.68	-	-	-	-	-	-	161.1
	Polar Capital Healthcare Opportunities	Elite	8	18.80	-	56.17	-	199.26	-	-	-	-	1125.6
	Premier Pan European Property Share	Elite	7.5	1.45	40 / 49	29.64	21 / 48	99.57	3 / 36	55.42	10 / 23	3.03	233.9
	M & G Emerging Market Bond		4	12	16 / 49	48	6 / 44	59	3 / 31	179	6 / 15	6.25	44
	Old Mutual Gold And Silver NEW ENTRY		10	-2.89	-	-	-	-	-	-	-	-	163.8
	VT UK Infrastructure Income		4	5.61	-	-	-	-	-	-	-	5.09	218.9

C **Funds featured in The Chelsea Core Selection (see pages 10-15).**

Funds that are Elite Rated by FundCalibre (see FundCalibre.com for further details). FundCalibre is an appointed representative under Chelsea Financial Services.

* This fund is domiciled offshore and therefore sits within a different sector. Please note different regulations may apply to funds with offshore status. Investors are not normally entitled to compensation through the UK Financial Services Compensation Scheme for offshore funds.

** Where there is multiple sector amalgamation, sector positions shown are within various different underlying sectors. Some funds aren't ranked as they are not comparable due to the diverse nature of the sector.

*** These funds fall within a different sector, hence the sector positions shown vary.

† This fund has a dilution levy of 0.4% when buying or selling.

Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein. The funds within the Chelsea Selection are based on our proprietary research, which is both qualitative and quantitative. Please note this is not investment advice nor does it imply that you should invest in any of these funds. Please read the Important Notice on page 2. Past performance is not a guide to future returns. Correct at time of print, 01/02/2017, but subject to change. Source: FE Analytics, total return, IA universe, 01/09/2017.

Yields as at 07/09/2017. Yields taken from Income unit versions of fund. ^Yields as at 12/09/2017

CASH RISK

Of the concepts we discuss in our risk article, cash is probably the easiest for clients to understand. It is an asset people appreciate and are attached to, due to its stable value (in nominal terms) and its ease of access. However, the risks associated with it can be easily overlooked. Cash is an important asset to hold and an essential part of any portfolio, though there can be occasional downsides to holding too much.

Ryan Lightfoot-Brown
Research Analyst,
Chelsea

Inflation kills cash

One of the most obvious issues with cash is inflation. As inflation increases, the value of each pound falls in relative terms. £1 today will not be able to buy the same amount as £1 in a year's time. Therefore, the rate of inflation is the rate at which cash falls in real terms. Normally, cash would attract interest – whereby a bank would pay you to leave the cash with them. But since the financial crisis, interest rates are minimal (0.25% currently). As inflation is currently higher than interest (2.6%* vs 0.25%), cash is a negatively-performing asset and as such, its value is gently being eroded.

Cash drag

Inflation aside, one useful attribute of cash is its stability. If markets fall the cash element of a portfolio will stay the same. This has the double benefit of giving the ability to buy into other holdings at a lower cost – should the investment case still hold – thus having a lower 'average' cost. However, if the markets are to march up, the cash will act as a drag on performance.

Such an event occurred post Brexit last year with the FTSE100 jumping nearly 11% from mid June to mid July**. It has continued on upwards, breaking record highs multiple times. Anybody sitting in cash through this time would have missed this remarkable upside. However, should this upwards momentum falter, then a higher cash weight would help. This shows the trade off investors have when considering cash and how markets can affect decisions.

Opportunity cost

This links neatly into our final point; opportunity cost. Should an investor be fully invested there are no reserves to buy anything else, should such an opportunity arise. An investor would have to sell something they own in order to buy something else. Not only can this be costly, but there is a time-lag, by which point the chance may have gone. This is opportunity cost, what it costs you not doing one thing because something else was done. This works two ways though. Holding cash will enable an investor to take advantage should one of these opportunities occur, but the longer one doesn't, and the market increases, the higher opportunity cost of not having bought earlier.

This summarises the balance investors need to take when considering cash in their portfolios. Being fully invested (nil cash) or fully divested (all cash) each provides its own risks/benefits depending on how the market moves. As this is impossible to predict, finding a balance is important. Once again, we reiterate our motto of a diversified portfolio with a long-term outlook, something we do when considering the VT Chelsea Managed funds (see pages 6-9).

How to use the Chelsea Risk Rating

The Chelsea Risk Rating is simply a generic guide to the **relative** risk of funds within the market. It is up to you to determine your optimum asset class mix. The Chelsea Risk Rating is shown in the form of a thermometer and is based on our in-house research. The Chelsea Risk Rating attempts to quantify the relative risk of funds, to give you an idea of how risky one fund is versus another. A fund rated five, in the middle spectrum, does not mean it is suitable for medium risk investors, merely that according to historic volatility, and our understanding of the manager's investment process, we think that it is more risky than a fund rated four, and less risky than a fund rated six. **Even funds rated one are subject to risk.**

*CPI was 2.6% as of June 2017, source ONS
**FTSE100 went from 6021.09 on 17/6/16 to 66629.24 on 15/7/16, source Google Finance.

CHELSEA RISK THERMOMETER

Sector	Risk Rating
Emerging Markets	9-10
Japan	9-10
Technology	8-10
Asia Pacific ex Japan	7.5-10
UK Smaller Companies	7.5-8.5
Commodities	7-10
North America	6.5-8
Property Equities	6-8
Global Equities	6-8
Europe	6-8
UK All Companies	5-8
UK Equity Income	5-7
Mixed Investment 40-85% Shares	5-7
UK Equity & Bond Income	3.5-5
Mixed Investment 20-60% Shares	3.5-4.5
High Yield Bonds	3.5-4
Property	3-3.5
Absolute Return	2-7
Strategic Bonds	2-4
Global Bonds	2-4
Corporate Bonds	2-3.5
Gilts	2-3
Cash	1

FUNDS UPDATE

This is where we keep you up-to-date on some widely-held funds, often where some change has taken place that we believe to be noteworthy.

BlackRock European Absolute Alpha & Cont European

Vincent Devlin was the portfolio manager on the Continental European fund and co-manager on the European Absolute Alpha fund. Despite good long-term performance, he has stood down from both management roles and has moved roles. Stefan Gries, Vince's co-manager on the European Absolute Alpha fund remains in place, bringing in David Tovey to fill the gap. Stefan too has taken over the Continental European fund, using the opportunity to bring in Giles Rothbarth as a co-manager showing the strength in depth of this very strong European desk. Despite this, as the manager has left and we are yet to meet the new team, we have downgraded both funds to a Hold.

DOWNGRADED
HOLD

JOHCM UK Opportunities

John Wood was one of the more well known managers in the industry and has been managing this fund since 2005. However, he has decided to end his investment career and retire after 26 years. The management of the fund has passed across to the two co-managers, Michael Ulrich (formerly of F&C) and Rachel Reutter. We liked the fund for John's strong views on the market and his defensive mindset. While John officially won't hand over duties until 30th September 2017, we have moved the fund to a Hold while the changes take place.

DOWNGRADED
HOLD

RWC Enhanced Income

This fund has a mandate for high income and capital preservation. While the former has continued admirably, the latter has regrettably slipped. The fund has maintained its high yield of around 7%, but it hasn't kept up in total return terms as expected, in what has been a strong upward market for equities. It still remains a useful fund for those who need high income and while there is some better capital preservation than some immediate peers, we have higher conviction in more balanced equity income options.

DOWNGRADED
HOLD

Old Mutual UK Dynamic

After a strong period of performance, this fund has now reached capacity and Old Mutual have decided to limit the fund to new money, in order to protect existing investors. This status doesn't stop us liking the fund but it has come off the Selection accordingly. It is still one of our favoured UK funds so does remain a generic Buy. It was the number one fund in the IA UK All Companies Sector over the past year.*

MAINTAINED
BUY

* FE Analytics 01/09/16-01/09/17

EUROPEAN RECOVERY

You've seen all the negative headlines; Greek debts; Italian banks and French politics. However, have you noticed that Europe has quietly been exceeding expectations, with 14 quarters of consecutive growth and the highest level of positive economic sentiment for six years? Is Europe just suffering from a pessimistic narrative?[1]

European stock markets have underperformed, having achieved just half the returns of the US stock market over the past 10 years. It's easy to forget that in the 10 years prior to that, 1997 to 2007, the IA Europe ex UK sector returned five times more than North America[2] Europe is home to some of the best companies in the world and many of them have consistently delivered for shareholders.

Risks remain on the horizon. Germany has elections in September and an unofficial Catalan independence referendum is expected later this year but European markets are 10% ahead of the US so far this year (in sterling terms).[3]

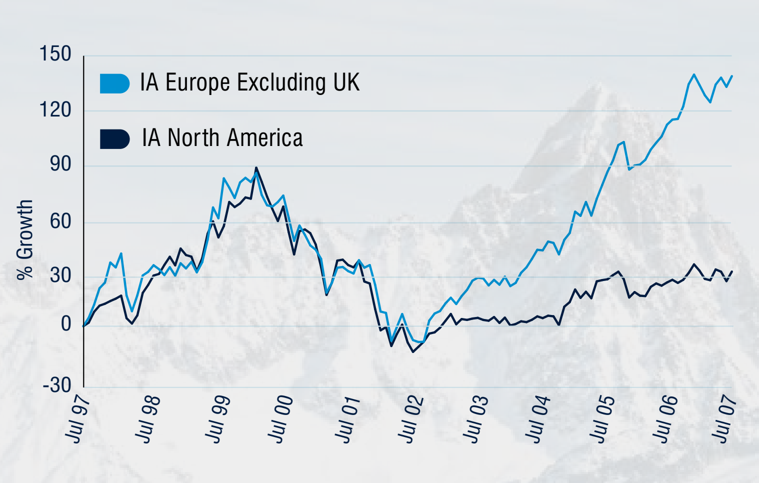
However, recent economic data has shown Europe improving, with both manufacturing and services doing well. Unemployment continues to fall. For the first time in years analysts have started to increase rather than decrease their earnings forecasts for European companies.

A key point in favour of Europe today is valuation and it looks considerably cheaper than the US.[4] So is this years performance the start of a new trend of Europe outperforming the US or is it just a temporary blip? To find out we invited two of our favourite European fund managers to give us their thoughts.

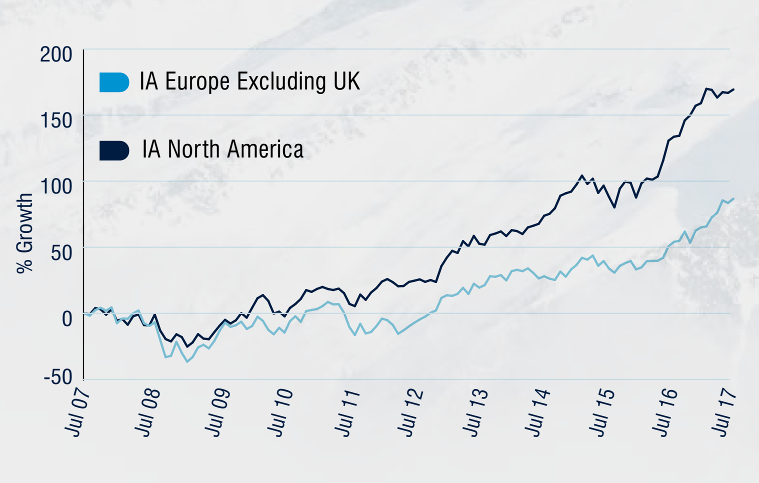
Turn to pages 28-29 for their views.

Recent economic data has shown Europe improving, with both manufacturing and services doing well.

Europe vs US investment returns 1997-2007



Europe vs US investment returns 2007-2017



[1] Giles, C (2017) 'Eurozone economy outshining the US', Financial Times, 6th February, accessed 01/07/17 from ft.com
[2] FE Analytics, IA North America vs IA Europe ex UK 31/07/1997 – 31/07/2007
[3] FE Analytics, IA North America vs IA Europe ex UK 31/07/2007 – 31/07/2017
[4] The US market trades at a cyclically adjusted price to earnings multiple of 30. Much higher than its long term average of 17.Europe trades at 18.7 times below its historic average of 19.4. JPM Guide to the markets S&P 500 Shiller P/E 30.1x Factset, Robert S Shiller, JPM Morgan Asset Management. JPM Guide to the markets pg. 40 Factset, MSCI, JPM

MARLBOROUGH EUROPEAN MULTI-CAP

NEW TO SELECTION

David Walton
Fund manager,
Marlborough

David Walton, manager of the Marlborough European Multi-Cap fund, examines Europe's economic recovery and explains why the region's small companies should reap particular benefits.

Companies across Europe have been reporting healthy profits, as a return to economic growth, in the form of increasing gross domestic product (GDP), gathers pace.

This improving economic picture appears broad-based, with southern European nations gaining strength, after a long period of austerity, while the more robust north European economies continue their expansion.

As economic activity increases unemployment is falling, with modest reductions in joblessness in France and Italy, while the government in Madrid has been able to report a more marked drop.

Election results earlier this year in France and the Netherlands were also regarded as positive for business, with power denied to parties that might have taken their countries out of the eurozone. The probability of them abandoning the currency had been low, but in an era of political surprises, it could not be ruled out until the votes were counted.

Italy has also announced measures to help its troubled banks, which, while not without controversy, will, we believe, be broadly positive for the country's financial institutions.

Marlborough European Multi Cap

- Predominantly invests in small companies and micro caps
- Invests in stocks growing faster than average but with an eye on valuations
- Portfolio of approximately 120 holdings

Business-friendly policies

In addition we are seeing a trend for more business-friendly policies. Italy has introduced an ISA-style tax-efficient saving scheme that encourages investment in domestic companies and French President Emmanuel Macron is likely to reduce company taxes.

This returning economic health in Europe will, we believe, particularly favour small companies, which tend to be more domestically focused. As the region's economies strengthen and activity increases, picking up the slack that still remains from the downturn, small companies will benefit to a greater extent than multinationals, which sell their products and services around the world.

Valuations on European small-cap stocks have reached historic highs, so a selective approach is required, but opportunities are still to be found among quality smaller companies, which are often overlooked by investors simply because of their size.

There are, of course, still risks to Europe's recovery. The underlying issues of low productivity and ageing populations remain to be tackled, while in southern Europe government spending still needs to be addressed if deficits are to be controlled. The recent sharp strengthening of the euro will dampen sales growth for exporting companies and one should note that the Brexit process carries risk for the remaining EU countries as well as for the UK.

A sustainable recovery

Overall though, in our view, we are seeing a sustainable recovery in Europe. The increase in economic growth is being driven by multiple factors. Interest rates remain very low, oil remains relatively cheap and economic growth in important export regions such as Asia and North America is reasonable.

Some caution around the reduction of monetary stimulus by the European Central Bank and its impact on asset prices is merited. However we have not seen widespread and large increases in consumer spending, personal debt or commercial property values that might indicate a bubble – for example European Union GDP per capita only regained its previous 2008 peak in 2015.

As stock-pickers, we prefer to focus on individual companies, rather than making calls on particular countries or sectors. We identify well-managed businesses, with strong growth potential that has, in our view, been undervalued by the market.

Well-positioned companies

For example, we believe Credem, one of the better-capitalised banks in Italy, is well positioned to benefit from improving economic growth. Subdued consumer spending has been reflected in the appetite for loans, but as confidence improves, more people are likely to come to the bank to borrow to buy new homes or cars.

Finnish equipment rental business Cramo hires out tools, construction machinery and access equipment to building companies, manufacturers and the public sector. Hence it is well-placed to benefit from increasing industrial activity. It is an efficiently run business, achieving good returns on capital and we also like the recurring income from its modular space business, which rents portable buildings to provide extra room for schools, companies and other organisations. We also like French housebuilder Kaufman & Broad, which is benefiting from a growth in demand from first-time buyers, as a result of returning consumer confidence and very low interest rates.

Overall, our view is that European equities continue to offer attractive opportunities and that small caps in particular are well positioned to benefit from a recovery in the region.

Chelsea Risk Rating	8
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	1.05%

THE CHELSEA VIEW

David took over this fund in October 2013 and has totally reformed it. He finds many of his best ideas in micro-cap stocks. This is an exciting growth fund, but David also keeps a keen eye on valuations. Performance has been exceptional since he took over and we think he can continue to deliver.

CRUX EUROPEAN

Richard Pease
Fund manager,
CRUX European

Seasoned European investor Richard Pease contemplates Europe's recovery and the less interesting businesses he finds exciting.

European markets have performed strongly this year driven, in part we believe, by growing investor enthusiasm over the European recovery. For the past few years Europe has been a laggard compared with the United States where very high levels of corporate profitability, a stronger financial system and improving labour markets created a very favourable environment for US stock indices.

This year, however, US markets have lagged as enthusiasm for Trump's presidency has waned and most European markets have outperformed the US. Several factors have contributed to this strength including favourable election results in France and Holland, signs that Italy's banking issues may have peaked and hints that the UK's Brexit may be softer than expected.

CRUX European

- Run by one of the most experienced and successful fund managers in the industry with over 30 years experience
- Concentrated portfolio of 40-50 stocks
- Focus on finding high quality cash generative businesses run by strong management teams
- Up to 10% of the fund can be invested globally

European M&A on the increase

This optimism is echoed by several of the management teams we speak to regularly who have commented that they are beginning to see some 'green shoots' in Europe which has historically been a tough market to do business in given high regulation, restrictive labour laws and sluggish demand. It is also notable that the value of European M&A is on the increase in contrast to the situation in the US. This could be a sign that corporate acquirers are finding the valuations and economic prospects of European companies attractive.

A slew of positive news flow has also meant that many European businesses have re-rated substantially this year, especially those perceived as macroeconomically sensitive including financials, industrials and leisure names. We would suggest caution in respect of some of these companies and sectors as there is not yet clear evidence that such re-ratings are justified by fundamental operating improvements.

In managing the European funds at Crux we naturally follow political and economic events and news in Europe but we very rarely predicate our investment decisions on these factors. Long experience has taught us that it's hard to 'monetise the macro'. As a result, we spend the vast majority of our time analysing and understanding individual businesses.

Our investment philosophy also favours businesses which are not dependent on a favourable economy to generate growth and do not depend on a single economic factor such as interest rates or commodity prices to succeed. We believe that good businesses run by sensible management teams should be able to create shareholder value in a wide range of economic environments and may even thrive in adversity as it allows them to take market share from weaker competitors or pick up neglected assets at attractive prices.

Boring is beautiful

As a result, a number of our holdings are perceived as being fairly economically insensitive and hence they have lagged the recent strength in European stock markets. We would like to highlight two areas we currently find attractive. The first is the support services sector where our key holdings include ISS, Elior and Coor. These companies provide outsourced services such as cleaning, catering and facilities management to other businesses. They have a number of attractive characteristics including extremely stable revenues and profits, high cash generation, limited capital needs, modest growth driven by the trend towards greater outsourcing and the opportunity to pursue accretive bolt-on M&A. They are boring businesses but in our industry boring is often good!

Another area that we find attractive and where we have made several recent purchases is the IT services space. Again, these businesses should grow relatively independently of economic cycles due to ever-increasing IT spend by their corporate customers. These businesses also often have a decent degree of recurring revenue. Although margins may be low they require very limited capital so returns on capital are often attractive. Examples of our holdings here include, a German business with high exposure to cloud computing, Cancom and two Nordic players, Tieto and Evry.

In conclusion we agree with the market that there are some positive signs emerging regarding a European economic recovery but we continue to focus on company-specific analysis and valuation.

Chelsea Risk Rating	7
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.92%

THE CHELSEA VIEW

Richard has run European equity funds for around 30 years. His simple philosophy of buying quality businesses run by strong management teams has been exceptionally successful. Richard is ably supported by James Milne, who has worked by his side since 2006, and we believe they can continue to deliver for investors in the future.

VCTs: A DROP TO 20% INITIAL INCOME TAX RELIEF?

There are concerns within the VCT space that HMRC could drop the income tax relief received by investors buying new VCT shares down from 30% to 20%. This potential change means a number of VCTs are opening earlier than usual this tax year, ahead of the November Budget. These early launches may mean that some VCTs complete their fund-raising activity ahead of tax-year end. Those looking to invest may wish to consider doing so sooner rather than later.

Chris Morris
Head of VCTs,
Chelsea

Tax relief remains key to VCT appeal, with many VCTs offering the opportunity to invest into mature portfolios, already paying tax-free dividends.

TAX BENEFITS OF VCTs

- Initial income tax relief of 30% (if held for five years)
- Tax-free dividends
- Free of capital gains tax
- Invest between £2,000 and £200,000 every tax year

TAX RELIEF EXAMPLE

Initial investment	£10,000
30% Income tax relief*	(£3,000)
Effective investment cost	£7,000

*Claim back on your tax return at the end of the year as long as you have made the relevant income tax payments

This will possibly become the latest in a series of recent changes in VCT rules. In 2015, the government tightened the rules around what venture capital trusts (VCTs) could and could not invest into. The aim was to make sure VCTs remained focused on their 'true purpose', which is to support early stage companies that may not easily be able to access other types of funding.

VCTs could therefore no longer invest in companies older than seven years. The government also said companies had to use VCT money only to fund new growth, not to acquire existing businesses or shares.

Two years on, how have these changes impacted investors?

As intended, the new rules forced some VCTs to take more risk than they were previously. They didn't have to sell their existing non-qualifying investments, but they couldn't make any more. Many well-known trusts, including Baronsmead, British Smaller Companies, Maven, Mobeus and Northern, had to alter their strategy and recruit new skills to specialise in start-up investing.

For example, Northern preferred relatively mature companies that could deliver sustainable dividends. Northern has warned future income may become less reliable as it transitions to investing in smaller firms with less stable cash flow, but says its strategy will evolve to emphasise capital growth moving forward†. The good news is that the portfolio of investments made under the old rules will continue to contribute to returns over the coming years, which should help during the transformation period.

There are also several VCTs we like, however, that have had a much smoother transition to meet the new requirements, including Albion, Amati, Downing, Hargreave Hale. These VCTs may now have a competitive edge because of their established expertise in this part of the market. Another VCT to keep an eye on is Pembroke, which is newer and so has always adhered to the tightened rules, focusing on early-stage growth investments.

Success stories such as Pembroke's 2013 investment into Five Guys – a burger chain, which today is valued at over £4.3m and made a 2.1x return on investment in that time, are testament to the growth potential VCTs can achieve. They have opened 70 restaurants since this investment was made.

So, while the rules have necessitated a change of strategy for many of the industry's big names, they have really only re-directed VCTs back towards their original goals. Nowadays, we find that most VCTs will ask HMRC for 'advanced assurance' that any company they buy will tick the boxes before the investment has been made. This should help to reassure investors that the money they invest can be put to work.

We at Chelsea strongly believe VCTs offer excellent tax relief advantages, in addition to potential income and capital gains. They are not suitable for everyone, but may suit a high-risk investor who has already used their ISA and pension allowances and is looking for a way to manage the amount of income tax they pay.

Name of VCT	Type of VCT	Minimum Investment	Initial Charge	Chelsea Discount	Closing Date	Target dividend yield
Albion VCT	Generalist	£6,000	2.50%	1%*	04/04/2018	5.60%
Downing ONE	Generalist	£5,000 or £500/month	4%	3.25%**	05/04/2018	5.70%
Mobeus	Generalist	£6,000	3.75%	1.75%***	04/04/2018	4.85%
Unicorn	AIM	£2,000	5.50%	3.00%*	27/11/2017	4.35%
Pembroke VCT	Generalist	£3,000	TBC	TBC	(Will open in October)	TBC

*1% for existing investors and 0.5% for new investors buying into the first £10m and apply by 2pm on 31/10/2017
**2.25% after 31/10/2017
***0.75% after 3/11/17 or first £50m subscribed
†Northern Venture Trust plc, future investment strategy, letter to shareholders, 22/01/2016

The downside of VCTs

VCTs invest into very high-risk, smaller companies which may fail. They are also very illiquid and you may have to hold them for longer than the minimum five-year investment period. There is a risk that you will get back less than your original investment.

How to invest

1 Choose a VCT which you are comfortable with (after having read the fund's prospectus*)

*You can download the fund's prospectus from our website or call us and request one over the phone.

2 Call Chelsea and request an application form or download one from our website

3 Choose an amount you are happy to be locked away for at least five years

4 Once your shares have been allotted, you will be issued with a tax certificate

With this you can reduce the future tax payments you make, either by changing your PAYE code, or completing a self-assessment tax return.

Call us on 020 7384 7300

Visit at chelseafs.co.uk

Important Notice: Please be aware that VCTs are long-term investments. VCTs usually invest in small, unquoted companies and therefore carry a greater risk than many other forms of investment. They are also very illiquid and you may have to hold them for longer than the minimum five-year investment period. In addition, the level of charges are often greater than unit trusts and OEICs. Past performance is not necessarily a guide to the future. The value of investments, and the income from them, can fall as well as rise, due to market and currency fluctuations and you may not get back the amount originally invested. All our featured products should be regarded as long-term investments. Chelsea Financial Services offers an execution-only service. If you require investment advice you should contact an expert adviser. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

A GOLDEN BLEND

Ned Naylor-Leyland, manager of the Old Mutual Gold & Silver fund, looks at the outlook for gold, its value in a portfolio, and the role exposure to silver can play.

OLD MUTUAL GOLD & SILVER

Ned Naylor-Leyland
Fund manager
Old Mutual Global Investors

Gold has long been recognised as a store of value, an investment which is less susceptible to the loss of purchasing power – the amount of goods or services that one unit of an asset or currency can buy – over the long term.

It is not just layman investors who see the value of gold within their portfolios; central banks around the world hold gold as a core part of their bank reserves. Indeed, France, Germany and Italy all have more than 60% of their total reserves in gold. Meanwhile, in the UK, former UK prime minister Gordon Brown is still berated for his decision, when chancellor of the exchequer, to sell down half of the UK's gold reserves in the 2000s.

To highlight the reverence which central banks hold for gold, and the hunger for its long-perceived so-called 'safe haven' qualities, almost 20% of G20 central bank reserves are made up of gold. What's more, since the end of the global financial crisis central banks have been adding to their gold exposure and reducing their US government bond holdings.

The asset class has also been historically viewed as a portfolio diversification tool: the gold price tends not to move in lock-step with traditional equity or bond indices, so its inclusion in a portfolio can help reduce risk over the medium to long term. It is also viewed by many investors as an invaluable hedge against inflation (the rate at which prices in an economy rise); by that, I mean that gold is seen as an asset which tends to hold, and indeed increase, its value over time.

Old Mutual Gold & Silver

- 30-50 holdings
- Combining mining equities with bullion gold & silver
- Macroeconomic environment determines ratio of bullion to equities
- Invests only in 'safe' regions

A silver lining

The Old Mutual Gold & Silver fund, as its name suggests, also invests in silver. We include silver in the fund for a number of reasons: it brings its own diversification benefits; it can offer interesting value opportunities; and it can enjoy a boost from a particularly strong gold price. Furthermore, gold and silver are both traded as currencies, unlike other metals or commodities.

More generally, though, the approach we take in managing the Gold & Silver fund helps it stand out from many of its competitors. A particular feature of our investment process is the blending of gold and silver bullion listed funds (effectively investing in physical gold through a fund), and gold and silver equities (shares in, for example, gold mining companies). We rotate the weightings to gold and silver bullion and equity exposure according to our latest views of market conditions. Importantly, we will only invest in gold and silver miners that are located in what we deem to be 'safe' jurisdictions, in other words, those with robust regulatory frameworks.

Finding a balance

We believe the exposure to physical gold and silver and mining equities is a complementary approach; it offers investors the certainty of holding a physical asset and the potential upside of mining equities. At the portfolio level, we use silver and gold bullion and mining equities in a dynamic asset allocation model; if we are optimistic on the market, we will hold more gold and silver shares and have less exposure to bullion; by contrast, if we are pessimistic on the market's prospects, we will hold more bullion and less exposure to gold and silver shares.

The fund holds between 30 and 50 stocks, and this includes the listed bullion funds that make up the fund's exposure to physical metal. We see this as an optimal balance between diversification of risk on the one hand and conviction in stock selection terms on the other.

A bright future

Back to the prospects for gold. Recently, oil-producing nations such as Russia and Qatar have started to sell oil in renminbi to Chinese buyers and then converted the Chinese currency to gold at the Shanghai Stock Exchange. Why is this such a big deal? Well, it looks like we could be seeing a return to the days of the pre-1970s monetary system at which point gold was the global trade and invoicing currency of choice. It remains to be seen whether this development is simply a flash in the pan or whether it's a more significant return to the historical mean – our hunch is on the latter.

Chelsea Risk Rating	10
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	1.00%

THE CHELSEA VIEW

This is a unique fund which offers investors exposure to both bullion and miners. We really like Ned's passion for his asset class and the scrutiny he applies to each and every holding. The ability to invest in silver is another potential advantage of this fund, which provides diversification and the potential for higher returns, albeit with higher risk as well.

NEVER HEARD OF MIFID? NOW IS THE TIME TO GET CLUED UP.

Markets in Financial Instruments Directive II (MiFID II) is new legislation from the EU, which comes into effect in January 2018. The regulation aims to formalise the way products and services are distributed across the EU and protect those investors who make their own decisions. The Financial Conduct Authority have confirmed that MiFID II will be implemented regardless of Brexit.

What does it mean for me?

Once this regulation is in force it may limit the access investors have to certain types of investment. Every investment made, other than deposits in bank and building society savings accounts, will be covered.

MiFID II divides investment products into two categories – complex or non-complex. If you're buying a complex product without taking independent financial advice, we must be able to show that we have checked that you understand the risks before you invest. However, most units trusts and OEICs will not fall into the complex category.

Pre-sale illustrations

Another consequence of MiFID II is that you will have to confirm you have seen a pre-sale illustration before you invest. We will therefore be building functionality for this on our website enabling you to generate a pre-sale illustration online. We will provide a paper service for those who do not have online access but we will not to able to accept investment instructions unless you can confirm you have read and understood a pre-sale illustration.

What else must we do?

You currently receive a twice-yearly valuation statement, but you can expect to receive this quarterly from 2018.

Is MiFID II a good thing?

The regulation is well intentioned but can often result in more confusion, more paperwork and more red tape. There is also concern that the rules may put investors off complex investments and reduce the number of providers that offer them. The good news is that Chelsea clients already have transparent charges and, as always, if you require clarification you can speak to one of our experienced staff who are always happy to help.

WOULD YOU RECOMMEND CHELSEA?

Many of our clients come to us after being recommended by an existing client. We are pleased and grateful that people are so happy with our service they feel confident to recommend us to their friends and family.

If you recommend a friend (someone new to Chelsea) we will send them details of our services and we will send you:

- **£50 worth of Marks & Spencer vouchers when they invest or transfer over £25,000**
- **£25 worth of Marks & Spencer vouchers when they invest or transfer over £5,000**

Investments must be retained with us for at least 12 months. Terms and conditions apply. Just complete this form and return it to us. You can recommend as many people as you like – there's no limit.

YOUR DETAILS

Title | First name

Surname

Address

Postcode

Telephone

FRIEND'S DETAILS

Title | First name

Surname

Address

Postcode

Telephone

FRIEND'S DETAILS

Title | First name

Surname

Address

Postcode

Telephone

Josh Roberts from Staffordshire, said:
"I have had nothing but a positive experience with Chelsea Financial Services. Originally utilising their stocks and shares ISA for my personal savings, their pension platform became a perfect addition to my portfolio and now means I can manage my savings in one easy-to-use location. The perfect option for someone who wants to spread their investments but has a busy life."

Alex Willett from Merseyside, said:
"Chelsea are a friendly, efficient company to deal with. I can access my portfolio easily online and there are absolutely no hidden extras where charges are concerned."

VT CHELSEA

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