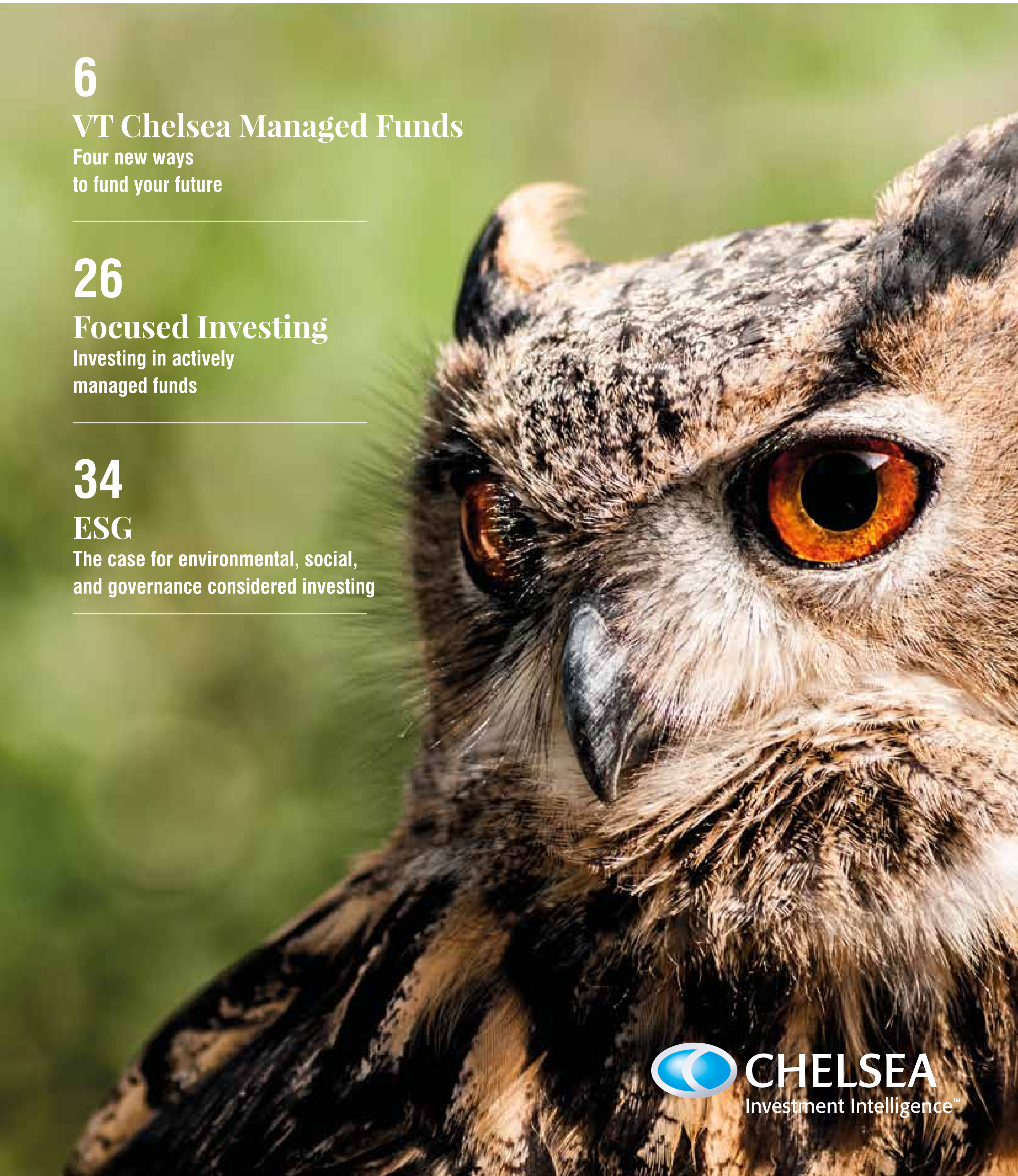
Issue 45 March 2018

VIEWPOINT

The magazine for Chelsea Investors



CHELSEA
Investment Intelligence™

WELCOME TO VIEWPOINT

Dr John Holder
Chairman, Chelsea

Welcome to our Spring edition of Viewpoint. We are pleased to bring you information on our up and coming platform service upgrade, (please see pages 36-37). New features include lower overall charges, improved website functionality and a higher interest rate on cash.

I am very proud of all the work the staff at Chelsea do and the great service they give to all our clients. 2017 was a great year, particularly in light of the launch of the VT Chelsea Managed Funds (see pages 6-9), which are proving to be very popular. I hope you enjoy the contents of this magazine and it helps you make your investment decisions this financial year and next.

CONTACT POINT

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CONTENTS

MARKET VIEW

Darius McDermott
Managing Director,
Chelsea

I was so distressed by England's dismal performance in the Ashes that I was forced to work out my frustrations tackling some home improvements that have been on my wife's 'to do' list for quite some time. The house is looking better, but I've also been able to console myself with the continuing good performance of markets. The quietly improving economic numbers we discussed in the last Viewpoint have become more obvious. Global GDP growth is strong and broad. Valuations look rich, but given that company earnings have been so strong globally, lots of managers we talk to feel the current valuations are justified.

Many doubted US tax reform would be achieved but it was signed into law at the end of last year. We should not underestimate its significance. There is no doubt it will have a very positive impact on many companies' earnings. Not only this, we are starting to see signs that companies are finally investing. For years US CEOs, traumatised by the great financial crisis and stymied by high tax rates, have left cash languishing in offshore tax havens. Much of that cash is now being brought home to be invested but also paid out to employees in the form of higher wages. The result has been the highest US consumer confidence in 17 years.*

On the Horizon

Despite this seemingly rosy backdrop we are cautious. Valuations are high. I would remind everyone of John Templeton's famous words, "Bull markets are born on pessimism, grown on scepticism, mature on optimism, and die on euphoria."

It feels as if we are moving towards the more optimistic, part of the scale. We have now had six years in a row in which global equities have given a positive return. In five of the past six years that return has been in double digits.** This won't continue forever and we should all remember that markets can go down as well as up.

The recent excitement surrounding Bitcoin and crypto currencies might be another sign of euphoria. The distributed ledger technology they are based on is undoubtedly real and has the potential to disrupt many tech incumbents. However, this does not necessarily make these currencies an investment (see more on the difference between investing and speculation on page 30).

Volatility has been extremely low, artificially suppressed by central banks' printing money. Arguably many investors have become complacent. 2018 will be a real test as this support continues to be withdrawn. We still feel the bond market offers very little value and this is where we could see some stress. Some government bonds have already fallen in value, leaving investors with capital losses, and we think this could continue.

Inflation is a potential concern. Should the US be stimulating its economy with large tax cuts at a time when unemployment is already very low? Arguably not. There is a danger the economy could overheat. Inflation and interest rates might rise faster than expected. This is likely to hit the bond markets first but could also feed through into equity markets.

Overseas Opportunities

There are some concerns but, as I always say, timing markets is impossible. The global economy is currently strong and, whilst valuations in some parts of the world are historically expensive, there is no reason this shouldn't persist for some time. We think Europe, emerging markets and Japan will be the biggest beneficiaries of broad global growth. Whilst valuations in these parts of the world have increased, they still offer relative value.

Despite its weak demographics, Japan is home to some of the strongest automation and robotics companies in the world. This should leave it well-positioned for the future. Emerging markets offer the best long-term growth prospects. They have underperformed the developed world for a long time but last year this reversed and we think it can continue if growth remains strong.

We have been surprised by the strength of sterling's recent resurgence against the dollar. The pound is now not far below its pre-Brexit level. We expect more volatility for the currency ahead. The good news with a stronger pound is it means you get more for your money when you invest abroad. The FTSE 100, which as a whole is hurt by a stronger pound, has remained resilient. As I write this, the FTSE is not far off its all-time high.

At the risk of sounding like a broken record, we still prefer equities to fixed interest. No doubt volatility will return at some point, but my philosophy has always been that time in the market is always better than timing the market.

*https://www.ft.com/content/
** FE Analytics 22/01/2018 MSCI World annual calendar performance

ISA UPDATE

Become an ISA millionaire in 16 years

A secure financial future can sometimes feel impossible to achieve. However, a couple could become ISA millionaires in just over 16 years.

ISA ALLOWANCE DEADLINE 2017-2018

Using the current individual £20,000 ISA allowance as a starting base and assuming the annual capital growth is 5% after charges, a couple could see their ISA pot reach £993,615 in 16 years and £1,085,295 in 17 years.

With the same assumptions, an individual investing their full ISA allowance could see their investment reach £1,002,269 within 25 years.*

We've chosen 5% for this example as we think this is a reasonable expectation of long-term growth after charges. While it is very unlikely that returns will be this steady year in, year out – returns are likely to be more volatile – these figures do show that becoming an ISA millionaire in time for retirement is well within the grasp of an individual who starts to invest regularly from age 40-45, or a couple who begin investing from age 50-55.

At age 65-70 they could then start to enjoy an additional tax-free boost to their finances of around £50,000 per annum, by either taking a 5% income from their investment (from dividends or bonds) or redeeming units free from capital gains tax. This does of course assume a continual 5% capital growth per annum, otherwise the capital of the investment will be reduced over time.

Even if you're not yet able to invest your full ISA allowance each year, every little helps, and getting in early is important. The ISA is one of the UK's most generous tax breaks and, as these figures show, the impact of investing your full ISA allowance each year is considerable.

*Chelsea Research Team 24/01/18

Three ways to increase the odds

To increase your chances of becoming an ISA millionaire in your retirement, there are a few simple steps you can take:

1. Start saving early.

As James points out in his Junior ISA article on page 21, to make the most from your savings, it's important to get started as soon as you can. This will give your investment the chance to grow over time and allow for the effect of compounding - where the returns on your investment can generate further returns – to work its magic. Likewise, reinvest your dividends for the same reason. Investing early will also allow you the freedom to be more aggressive with your investment, as you shouldn't need to worry about having to withdraw your money in the near future.

2. Save as much as you can afford.

There are always demands on our hard-earned cash. Whether it is increased bills, school outings, holidays or a new car – there are often either more pressing, or more exciting, things to spend our money on. A good habit to get into is to increase your savings by the same amount as any pay rise as soon as you get one. What you haven't had previously, you won't miss.

3. Do your research

Do spend time researching the best fund managers. We've done some of the hard work for you and the funds we like are all listed in the Chelsea Selection (page 22) and Core Selection (page 10). The annual rate of return you achieve on your investments after charges will make an enormous difference to how quickly you achieve your goal.

Sam Holder
Operations Director,
Chartered
Financial Planner,
Chelsea

Don't forget that we will send you M&S vouchers if you recommend a friend to invest. Please see page 39 for more details.

FED UP WITH YOUR CASH ISA?

With little improvement in interest rates on savings accounts, you may be wondering what to do with any money you have languishing in a cash ISA. The potential returns from 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, simply complete the ISA transfer form in the enclosed booklet and return it to us. We will do the rest.

You should remember that the value of investment ISAs, and income from them, will 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.

Three easy ways to buy your ISA

Call us on **020 7384 7300**

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

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 to navigate the prevailing economic environment.

We only invest in managers we trust and in whose process we have confidence. We are always conscious that we are stewards of our investors' hard-earned money and a fund we select has to be one in which we, the Chelsea research team would invest ourselves.

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.

How to invest

Call us on **020 7384 7300**

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

Send us a completed application form (see booklet)

THE FIVE MOST-ASKED QUESTIONS ABOUT THE VT CHELSEA MANAGED FUNDS

As with all new products, investing clients have had a number of questions about our VT Chelsea Managed funds. Here, we answer five of the most common questions:

What does 'VT' stand for?

Simply put, 'VT' stands for Valu-Trac Investment Management Limited. Valu-Trac is the authorised corporate director (ACD) and investment manager of the VT Chelsea Managed funds. The Chelsea Research team act as the Investment Adviser to the funds. Examples of other funds which outsource their ACDs include LF Livingbridge UK Micro Cap – where the LF stands for Link Fund, and MI Somerset Emerging Markets Dividend Growth, where the MI stands for Maitland International Holdings Plc.

How are the VT Chelsea Managed funds different from EasyISAs?

Our five Chelsea EasyISAs, which offer varying levels of risk and income, each contain six different funds from our Chelsea Selection list and the client's money is initially split equally across each fund. Our EasyISAs were created to make the task of selecting funds for your ISA less daunting and are static products. In other words, once a client invests in one of our EasyISAs, it is then up to them to alter its positioning as and when they see fit.

The VT Chelsea Managed funds were created as a complete investment solution for our clients. Unlike the EasyISAs, we review these portfolios on a daily basis and will rebalance them for you as and when we deem necessary (with our EasyISAs, the chosen funds are reviewed three times per year or when a manager departs. It is down to the investor to rebalance their money as the funds' performances change). The VT Chelsea Managed funds have a dynamic asset allocation. This means the amounts allocated to particular asset classes and regions is constantly changing depending on the research team's view.

Because the VT Chelsea Managed funds are also able to hold many more individual funds in each portfolio, the VT Chelsea Managed funds offer greater asset class and sector diversification, as well as the ability to provide access to more specialist funds or into investment trusts, which retail investors may not otherwise be able to invest.

Are the VT Chelsea Managed funds higher-risk than the EasyISAs?

As mentioned above, the VT Chelsea Managed funds contain a higher number of funds and are therefore better diversified, which should help to reduce risk. For example, the VT Chelsea Managed Monthly Income fund get its income from a number of different sources reducing its reliance on any one asset class. The Income Easy ISA is more limited in this respect given it only has six funds.

The risk of the funds will vary depending on the Chelsea research team's current view, whilst the EasyISAs' asset allocation will remain static. The VT Chelsea Managed funds may be less risky if they are positioned more defensively, but equally they may also be more risky, if positioned more aggressively. An advantage of the funds is that they are monitored daily and they can be changed quickly if the team's view changes.

How much income can I expect from the VT Chelsea Managed Monthly Income fund and how is it paid?

The fund will aim to provide investors with 11 roughly equal income instalments each month, in addition to one final income payment per year. This final payment will include all remaining income generated for that year and may be larger or smaller than the previous payments, although generally, we would expect the final payment to be larger.

By the time the fund reaches its one-year anniversary, we are aiming to achieve a 4% dividend yield. However, this is not guaranteed. Please note that, when you first start investing in the fund, you will not receive your first income payment for two months because the dividend pay-out is distributed two months in arrears.

What are the charges on the VT Chelsea Managed funds?

Here at Chelsea, we are consistently working hard to keep costs down for our clients. Any savings we make through the negotiation of lower fund fees help reduce the charges of the VT Chelsea Managed funds themselves, solely benefiting our investors.

In addition to the ongoing charges (OCF), our total investment adviser charge on each fund stands at just 0.3%; this is easily one of the lowest charges in the industry and is in fact less than half of what most similar products will charge*. What's even better is that we are offering a 0.3% rebate in the first year which means that, until June 2018, the entire investment adviser charge is refunded back to the investor.

In terms of our funds' OCFs, these have already been falling due to their popularity among clients.

- **VT Chelsea Managed Monthly Income:** 1.25% (0.95% until 30 June 2018)
- **VT Chelsea Managed Cautious Growth:** 1.55% (1.25% until 30 June 2018)
- **VT Chelsea Managed Balanced Growth:** 1.41% (1.11% until 30 June 2018)
- **VT Chelsea Managed Aggressive Growth:** 1.27% (0.97% until until 30 June 2018)

As the funds have recently launched, one-year performance figures are not yet available. For up-to-date performance figures, please visit our website: https://www.chelseafs.co.uk/research/funds

* Averaged managed fund AMC 1.07%. FE Analytics. MM Managed. 30/01/18

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:** 1.70%

Cautious

We remain cautious and have slightly reduced our weighting to equities. We exploited a fall in the price of infrastructure, and added to specialist property holdings in student accommodation and healthcare. Combined, these positions make up 9%. We expect these holdings to be less economically sensitive, diversifying our allocation.

Our targeted absolute return funds, led by Old Mutual Global Equity Absolute Return and F&C Global Equity Market Neutral had another period of strong performance.

Our gold holding detracted from performance, however we still view it as a useful diversifier and hedge.

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 have benefited from a large overweight to Japan. Baillie Gifford Japanese was our top-performing fund. Following re-election of Prime Minister Shinzo Abe, Japan has performed well. Abe's pro-market reforms are expected to continue.

We exploited a fall in the price of infrastructure, adding a new holding that invests in UK wind farms. Our targeted absolute return funds led by Old Mutual Global Equity Absolute Return and F&C Global Equity Market Neutral had another period of strong performance.

Small positions in gold and silver, used to buffer economic shock, detracted from performance, but we continue to see this as an important diversifier and hedge.

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 view markets as expensive versus history. We continue to hold some targeted absolute return funds, which are less reliant on the market. Thus far this has worked well. Since launch F&C Global Equity Market Neutral has been one of our strongest performers.

We sold a portion of our Polar Capital Biotechnology after a very strong run, taking profits at the right time.

Asia ex-Japan slightly underperformed, detracting from performance as we continue to hold an overweight Asian position. Our conviction is that Asia has the best long-term growth prospects of any region.

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:** 4.60%*

Monthly Income

We aim to have many different sources of income. We exploited a fall in the price of infrastructure, and added to specialist property holdings in student accommodation and healthcare. We expect performance of these holdings to be relatively independent of wider economic conditions, providing diversification.

GAM Star Credit Opportunities continues to be one of the fund's better performers. It invests heavily in financial debt and has benefited as banks and insurance companies have strengthened their balance sheets.

After a strong run in UK equities we have reduced our exposure, mindful of the prevalent political fragility. We believe this risk isn't currently reflected in the market.

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

Commentary correct as at 30/11/2017. Indicated Yields correct as at 30/11/2017.
†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	SILVER
Yield	1.86%
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	1.02%
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)	0.71%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.41%
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)	0.87%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.73%
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

SPOTLIGHT 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)	0.84%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.74%
Unit Type	INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 30 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 02/01/2018. Yields 16/01/2018, from Income units.

* There is a 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). ^ **Includes Chelsea discount.**

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	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.81%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.32%
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	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.72%
Unit Type	ACC or INC

NEW ENTRY Man GLG UK Income

Manager Henry Dixon took over this fund at the end of 2013. He has an unconstrained mandate, allowing him to invest across the market-cap spectrum. Henry has a clear and repeatable process, targeting stocks with good cash generation, trading below the replacement cost of their assets i.e. 'value' stocks. Initial stock screens are combined with bespoke in-house models to highlight stocks for further research. Henry also has the flexibility to invest in a company's bonds if he believes they offer better value than its shares.He will have 40-60 holdings and a yield typically above 4%, which pays monthly.

Chelsea Risk Rating	6
Annual Management Charge	0.70%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	4.30%
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	0.75%# ^
Ongoing Charges Figure (OCF)	0.79%† ^
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.84%
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	3.96%
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)	0.88%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	4.30%
Unit Type	INC

TB 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	0.90%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.20%
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 30 for further details.**

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	0.63%
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.

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.

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

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

NEW ENTRY LF Miton US Opportunities

This fund brings together the talents of two managers, Nick Ford and Hugh Grieves, who both have strong track records. Between them, they have run both small & large cap, and value & growth mandates meaning they have a wide experience of asset classes to call upon. This is now their only fund. Within it, they run a concentrated portfolio, investing across the market-cap spectrum, with a small and mid-cap bias, to create a portfolio differentiated from their peers. They take a long-term view when investing, creating a portfolio of around just 35-45 stocks. Because of this, stock selection is imperative. They favour easy to understand, cash-generative businesses which they will trade at prices with considerable upside potential.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.84%†
FundCalibre rating	–
Morningstar rating	–
Yield	–
Unit Type	ACC

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 30 for further details.**

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 30 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 02/01/2018. Yields 16/01/2018, from Income units.

* There is a 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). ^ **Includes Chelsea discount.**

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. 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	–
Ongoing Charges Figure (OCF)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

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	0.90%^#*
Ongoing Charges Figure (OCF)	1.38%^†
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	0.21%
Unit Type	ACC or INC

Man GLG Japan Core Alpha

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	1.99%
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)	ACC 1.29% INC 1.21%
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC or INC

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)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.83%
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. 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 10 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	1.00%
Unit Type	ACC or INC

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

Global

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	ELITE
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 has consistently proven himself over a long and glittering career, continuing to do so with the founding of Fundsmith in 2010. 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	0.65%
Unit Type	ACC or INC

Rathbone Global Opportunities

Manager James Thomson 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	0.75%^#
Ongoing Charges Figure (OCF)	0.79%^†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC

Fixed Interest

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	4.25%
Unit Type	ACC or INC

Janus 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	3.50%
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	3.30%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 30 for more information.

For performance statistics please refer to pages 22-23.

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* There is a 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). **^ 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.

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	2.59%
Unit Type	ACC or INC

SPOTLIGHT Baillie Gifford Corporate Bond

Baillie Gifford have a long-standing reputation when it comes to fixed income, and this fund, run by Torcail Stewart, Stephen Rogers and Lesley Dunn, 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 driven 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
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.52%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.40%
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.

Chelsea Risk Rating	3.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.77%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	4.53%
Unit Type	ACC or INC

Targeted Absolute Return

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)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Janus 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

NEW ENTRY SVS Church House Tenax Absolute Return Strategies

Managers James Mahon, who is also CEO, and Jerry Wharton run this diversified multi-asset fund, which invests directly in a mixture of fixed interest, equities, alternatives and cash, totalling around 100 holdings. Their aim is to create a highly diversified portfolio of uncorrelated assets to deliver an absolute return, designed to protect from market falls. This is because, unlike most absolute return funds, this fund does not short sell investment securities. The allocation between these assets depends on their macroeconomic view and outlook on key data such as inflation and interest rates, with their primary goal being not to lose clients' money.

Chelsea Risk Rating	4
Annual Management Charge	ACC 0.75%
	INC 0.88%#
Ongoing Charges Figure (OCF)	ACC 0.77%
	INC 0.91%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.84%
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 30 for further details.**

CORE SELECTION SPOTLIGHT

MARLBOROUGH UK MULTI-CAP GROWTH

Richard Hallett
Fund Manager,
Marlborough UK
Multi-Cap Growth

I have been managing the Marlborough UK Multi-Cap Growth fund since August 2005. Prior to joining the team running Marlborough's UK equity funds, I was a fund manager at Singer & Friedlander and before that I was a chartered accountant at Ernst & Young.

We invest in what we believe to be the UK's leading companies – irrespective of their size. We seek companies with sustainable competitive advantage. This allows them to grow throughout the business cycle, in challenging economic conditions as well as more positive ones.

In identifying companies that meet our demanding criteria, we have the freedom to roam across the market-cap spectrum, so alongside FTSE 100 stocks we hold those listed on the FTSE 250 and AIM indices.

Central to our investment philosophy is the belief that it is difficult to consistently judge short-term macroeconomic themes and their impact on asset prices.

Instead of trying to make these macroeconomic calls, a key element of our strategy is to identify secular growth trends – established long-term structural growth themes uncorrelated to the economic cycle. Our view is that market-leading UK companies operating in areas benefiting from secular growth trends should be well-positioned to grow, regardless of the wider economic backdrop.

IT spending

The most obvious structural growth area is technology, which qualifies as a super trend, covering a whole series of sub-themes. Among these is the readiness of companies to invest heavily in IT to achieve a competitive edge.

We like RELX Group, a UK business positioned to reap the benefits of this trend. Formerly Reed Elsevier, the company provides huge quantities of professional information for scientists, doctors and lawyers and has moved from print publications to easily searchable online databases. The huge archives maintained by RELX give the business a competitive edge and would be difficult for any prospective new entrant to the market to replicate, thus providing a barrier to entry.

Growth of the EM middle class

Over 525 million people in Asia can already be termed middle class, more than the total population of the European Union. According to Ernst & Young, over the next two decades the world's middle class will grow by another three billion people, with almost all of them coming from emerging economies. Prudential, the financial giant, is one UK-listed company well-positioned to benefit from this trend. Middle-class consumers want the products Prudential provides, such as pensions and health insurance, and the company has excellent distribution across a number of Asian countries.

Growing healthcare expenditure

Older populations, costly new treatments and higher patient expectations are driving up global spending on healthcare, which is forecast to grow to £6.6 trillion by 2020, an increase of £1.3 trillion since 2015, according to Deloitte. NMC Health, which is listed in London, is the largest provider of private healthcare services in the United Arab Emirates. A highly profitable, fast-growing company that has been successfully acquiring smaller private hospital operators, it is benefiting from a government push for companies to provide private healthcare insurance for their staff.

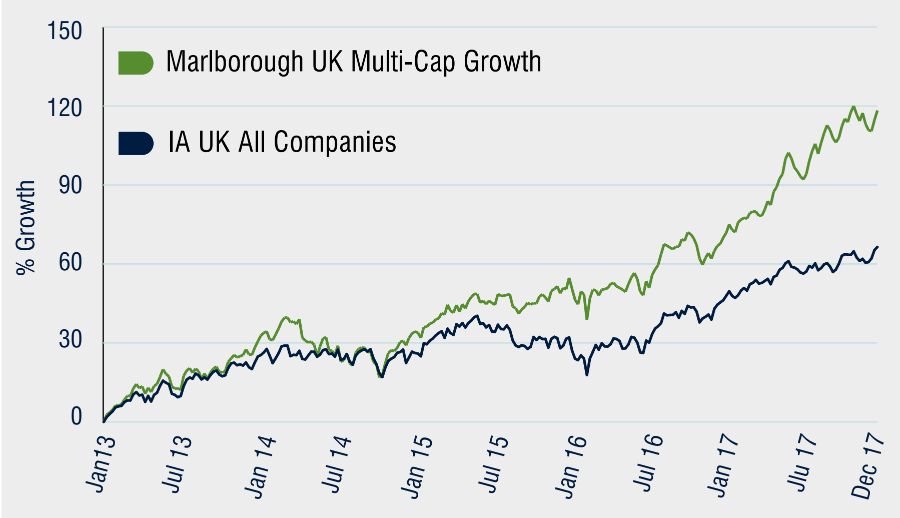
Rise of the robots

Companies already use robots to build everything from cars and computer chips to iPhone cases, and use of robots will only increase. Renishaw is a high-specification engineering business making very accurate measurement and calibration tools that are vital to help companies using industrial robots avoid expensive interruptions in production. Renishaw has a very strong track record in the field, something that is highly valued by its customers – and this deters new entrants to this area of business. In addition, it invests heavily to stay ahead in research and development. A final point to make is that these four trends are global in nature, which makes UK companies benefiting from them more attractive still, given the uncertainty facing the domestic economy.

THE CHELSEA VIEW

Marlborough are renowned leading experts in UK small-cap investing. Richard is part of a strong team, who do considerable due diligence on the smaller-cap stocks in which they invest. Whilst the fund takes a multi-cap approach, the overweight to mid and small-caps differentiates it.

Marlborough Uk Multi-Cap Growth - Five years



Source: FEAnalytics 28/12/2012-29/12/2017

CORE SELECTION SPOTLIGHT

BAILLIE GIFFORD CORPORATE BOND

Torcail Stewart
Investment Manager,
Baillie Gifford

I joined Baillie Gifford in 2008 and was appointed manager of the Baillie Gifford Corporate Bond fund in early 2010, the fund remains my primary area of managerial focus.

The Baillie Gifford Corporate Bond fund is really a strategic bond fund, which seeks to generate return through a mixture of yield – the fund pays a monthly distribution – and potential price increases as a result of careful bond selection. This entails seeking to identify companies whose balance sheets are improving, such that the risk premium falls (the excess yield over the underlying government bond – the riskier the bond the higher the yield). Bond selection is at the heart of the Corporate Bond fund, which is our global best ideas bond product. Simply put, we seek bonds that will do something.

The fund is actively managed and run with reference to a blended benchmark that is 70% investment grade bonds / 30% high yield bonds. The rationale for such a blend is that, historically, mixing investment grade and high yield bonds can be efficient from a risk/return perspective.

Through-the-cycle approach

The fund follows a through-the-cycle philosophy, meaning that we flexibly tilt the allocation of the fund between investment grade and high yield bonds – it can hold up to a maximum of 50% in high yield. Our approach enables us to direct our prospecting efforts towards sectors/geographies where the optimum risk/return opportunities reside.

A notable characteristic of the bond market over the past year has been the strength of high yield. At the start of 2017 this represented over 40% of the fund's holdings. However, as the market has continued to rally, following a through-the-cycle approach means that we have progressively reduced high yield exposure to 34% of the fund and re-allocated more towards our best investment grade bond ideas.

Financial opportunities

From a sectoral perspective, we are seeing increased opportunities in the banking sector. Bank balance sheets following intense regulatory scrutiny are now in much better shape than they were before the global financial crisis. Yet, ratings for such banks' senior paper (debt which has priority over other more 'junior' debt) are often notches below where they used to be. An example would be, A-rated 7% coupon sterling senior Bank of America 2028 bonds. We think there may also be the added technical factor that such high coupon debt is expensive; Trump tax reforms and sterling depreciation, might lead to BoA retiring the debt early. The BoA 2028 bonds yield 2.5% to maturity, and our fund has taken a 2.4% position.

In times of sectorial fear, strong company bonds often sell off with the weak. Thus, in retail, provided one treads carefully, opportunities can be found. A company we have been adding to is Sally Beauty, a resilient business which caters to the hairdressing community. The 2025 maturity bonds yield 5.6%, and our fund has taken a 1.4% position.

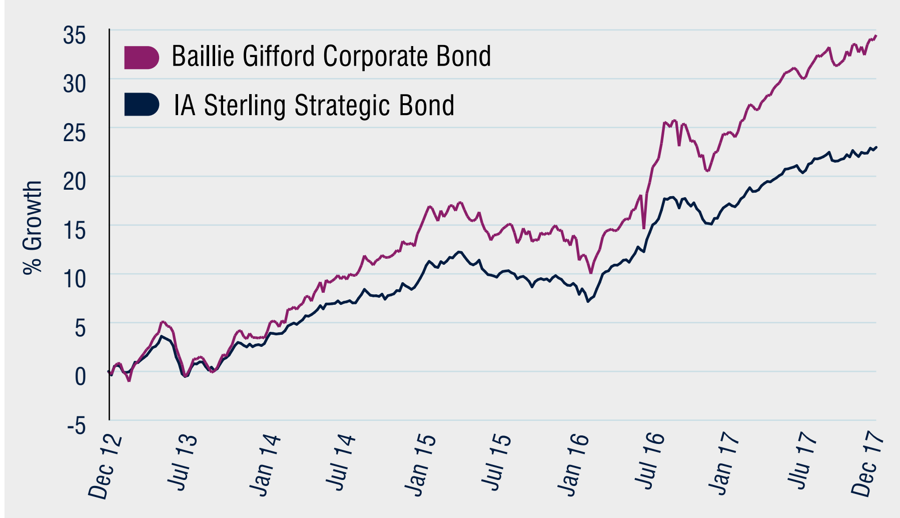
Pricing inefficiencies often exist in non-rated bonds. Thus, another top pick in the fund is that of the fast-growing leader in bulk annuities, Pension Insurance Corporation. The 2024 bonds yield 4.1%. We have taken a 2.6% position, as we believe the bonds will ultimately seek a rating which could cause the market to recognise the quality of this business.

Thus, despite the lower yield environment, with such a broad global bond opportunity set our fund continues to source a healthy pipeline of income-generating bond ideas. We believe selecting businesses with sound underlying fundamentals is essential to generate long-term performance through the cycle.

THE CHELSEA VIEW

We like Baillie Gifford's fundamental approach to bond investing. They don't try to add bells and whistles, they simply focus on finding value within the bond market by thoroughly understanding the stocks in which they invest.

Baillie Gifford Corporate Bond Fund - Five years



Source: FEAnalytics 28/12/2012-29/12/2017

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.

Juliet Schooling Latter
Research Director,
Chelsea

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.

The Chelsea EasyISA offers a choice of five simple portfolios, each spreading your investments across six funds.

How much can you invest?

The ISA allowance is £20,000 for the current tax year, 6 April 2017 - 5 April 2018 and 6 April 2018 - 5 April 2019.

N.B. EasyISA Portfolios are not managed
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.**

Portfolio Changes

Cautious Growth EasyISA: Evenlode Income replaces Woodford Equity Income

The managers of TB Evenlode Income currently have more of a bias towards high-quality large-caps and companies which generate most of their revenue from overseas, which better reflects our own outlook on the UK economy.

Income EasyISA: Schroder High Yield Opportunities replaces Aviva Investors Multi-Strategy Target Income 2

Nick Samouilhan, a key member of the senior management team on the Aviva Investors fund, has now moved to T. Rowe Price. Please note that this change is not like for like. The Aviva Investors fund held a variety of assets whereas the Schroder High Yield Opportunities fund only invests in fixed income assets. It boasts a more attractive historic yield of 6.22%.

What to do next

1 Select the EasyISA which best suits you (and read the read the KIID & pre-sale illustration^ 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

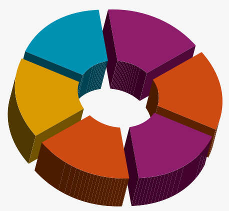
Call us on 020 7384 7300

Visit us at chelseafs.co.uk

Send us a completed application form (see booklet)

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
- Evenlode Income

Average Annual Management Charge	0.69%*#
Average Ongoing Charges Figure (OCF)	0.79%†
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	19.58%	20.81%	19.59%
5 Year Performance	41.08%	44.84%	36.48%
10 Year Performance	58.10%	71.48%	53.63%

FE Analytics data as of 02/01/2018 compiled by Chelsea. *A performance fee may be applied, see the fund KIID for further 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. Charges as at 11/01/18. ^Yields as at 02/01/18.

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	29.05%	31.76%	27.34%
5 Year Performance	63.56%	62.56%	52.85%
10 Year Performance	83.70%	78.54%	68.24%

FE Analytics data as of 02/01/2018, 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	47.28%	50.68%	44.05%
5 Year Performance	86.98%	108.81%	87.63%
10 Year Performance	114.46%	140.98%	100.70%

FE Analytics data as of 02/01/2018, 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.

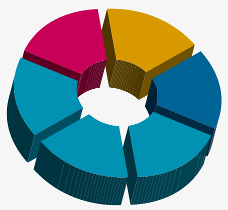
- **Schroder High Yield Opportunities** Yield: 6.22%^ Paid: Monthly
- **Invesco Perpetual Monthly Income Plus** Yield: 4.25%^ Paid: Monthly
- **M&G Global Dividend** Yd: 2.72%^ Paid: Mar, Jun, Sep, Dec
- **SLI UK Equity Income Unconstrained** Yield: 3.96%^ Paid: Mar, Jul
- **Threadneedle UK Equity Alpha Income** Yield: 4.30%^ Paid: Jan, Jul
- **TwentyFour Dynamic Bond** Yield: 4.53%^ Paid: Mar, Jun, Sep, Dec

Average Annual Management Charge	0.77%#
Average Ongoing Charges Figure (OCF)	0.85%†
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	20.19%	20.81%	19.59%
5 Year Performance	44.71%	44.84%	36.48%
10 Year Performance	92.40%	71.48%	53.63%
Average Portfolio Yield	4.33%^		

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: 3.32%^ Paid: Oct, Apr
- **BlackRock Continental European Income** Yield: 3.73%^ Paid: Sep, Dec, Mar, Jun
- **Fidelity Enhanced Income** Yield: 7.10%^ Paid: Nov, Feb, May, Aug
- **Fidelity Global Enhanced Income** Yield: 4.99%^ Paid: Nov, Feb, May, Aug
- **Guinness Global Equity Income** Yield: 2.75%^ Paid: Aug, Feb
- **Schroder Asian Income** Yield: 3.79%^ 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	38.08%	40.12%	37.43%
5 Year Performance	75.54%	82.14%	79.96%
10 Year Performance	N/A	109.91%	108.16%
Average Portfolio Yield	4.28%^		

FE Analytics data as of 02/01/2018, 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. Charges as at 11/01/18. ^Yields as at 02/01/18.

THE CHELSEA SIPP

THREE WAYS TO BOOST YOUR PENSION IN YOUR 50s

Sarah Culver
Head of Pensions, Chelsea

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

We all know that our ageing population and increased life expectancy are putting a strain on government finances. However, when you add in the impact of the new flat-rate state pension and increases to the standard rate of basic state pension and new state pension as a result of the government's triple lock policy, the result is that the state pension coffers could be empty within the next 25 years[1]!

This is the rather worrying conclusion from the latest Government Actuary's Department (GAD) projections, which suggest the National Insurance fund used to pay out the state pension will be exhausted by 2033, unless additional support is provided.

Now, more than ever, it is vital that we all take responsibility for funding our own retirement. But what if you've reached your 50s and you have little or no savings to speak of? Don't panic. You can still build a decent pension. Here's how:

1. Make the most of free money

The good news is that there's still plenty of time to build a decent pension pot when you are in your 50s. For starters, many people of this age are at the peak of their career earnings, so can make the most of the tax relief available when contributing to your pension.

Everyone receives 20% tax relief on all contributions within their pension annual allowance (this is based on relevant earnings). That means, if you contribute £80 to your pension, £100 will be invested after tax relief.

On top of this, if you are a higher rate or additional rate tax payer, you can also claim the extra tax relief through self-assessment, so every pension contribution of £100 may actually only cost you £60 or £55.

2. Track down your workplace pensions

Nowadays, people have an average of 11 jobs over the course of their lifetime. So it's no wonder we lose track of some of our workplace pension arrangements or forget we even have them. But help is at hand. The government offers a free-to-use Pension Tracking Service, which can be found online at www.gov.uk/find-pension-contact-details. Alternatively you can phone 0345 6002537. To trace a pension all you need is the name of the employer or pension provider.

3. Consolidate

By consolidating all your pensions in one place you can see how your retirement pot is fairing across the board. Analysing your investments can be quite difficult when trawling through a mountain of paperwork and it can be much easier to assess your funds and how you're positioned when everything is together.

Chelsea offers a high level of service when assisting with pension needs. We understand that pension forms are often daunting and we have a dedicated pension administrator available to assist you along the way.

[1] GAD Report January 2018

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, on personal contributions
- Access to 25% tax-free cash from 55 (57 from 2028)
- 0% charge 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.

THE CHELSEA JUNIOR ISA

HOW TO BUILD LONG-TERM WEALTH

James Yardley
Senior Research Analyst, Chelsea

A Junior ISA can build a considerable nest egg for your children.

There are really only two things which matter when it comes to building wealth through investing.

The first is the annual return you achieve (after inflation and charges). This is well known. We all want to invest in the best-performing funds.

The second is just as important, but much less well understood, and it is something within your control; this factor is time. With time on your side compound interest can work its magic. This is a huge advantage that your children have over other investors.

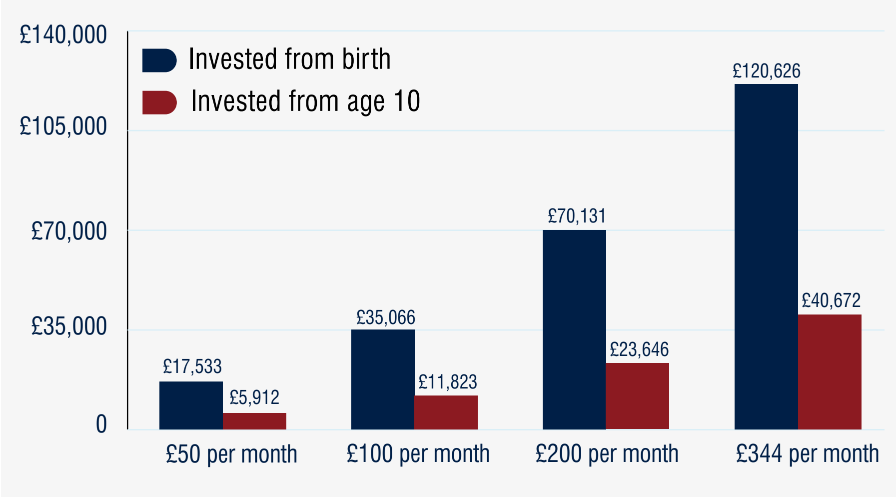
To illustrate this point consider the following example: you save £1 a day for 70 years. You achieve a 5% annual return after charges and all dividends are reinvested. Guess how much your investment is worth at the end of the period? An impressive £230,460*.

Most people tend to guess far too low. If you didn't, well done. Now this example is a bit of a cheat as it is not practical to invest £1 per day. Nevertheless, it serves to show the incredible power of compound interest.

The table below highlights the benefits of investing in a Junior ISA sooner rather than later. As with the ISA millionaire example on page 5, it assumes a 5% annual return after charges. It does not account for inflation. The figures shown are the size of the investment when the child turns 18 if you had invested from birth or left it until the child celebrated their tenth birthday. Remember also that a Junior ISA automatically turns into an adult ISA when a child comes of age, keeping the tax advantages.

It is important to remember that whilst this model assumes a nice steady 5% growth every year this will never be the case when you invest in the stock market. Some years you may do better than 5%, in other years you may do worse.

Potential Lump Sum When the Child Turns 18**



**All data from http://www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator.php 17/01/2018
£344 per month is the amount which uses up the current full Junior ISA allowance over 12 months (£4,128)

0% SERVICE CHARGE

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

The full range of funds on Chelsea FundStore are available. You might like to take a look at our Selection (pages 22-23), our Core Selection (pages 10-15) and our VT Chelsea Managed Funds (pages 6-9). As with any investment, capital is at risk and is subject to volatility and thus potential capital loss.

*http://www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator.php

Please note funds invested into a Junior ISA cannot be accessed until age 18

THE CHELSEA SELECTION

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

UK All Companies

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)
●	AXA Framlington UK Select Opportunities	✓	6	10.09	204	24.78	198	63.23	138	116.24	55	1.86	3264.1
	F&C UK Mid Cap**	✓	6	18.31	51	41.36	51	109.74	18	213.26	-	-	39.6
	Franklin UK Managers' Focus		7	15.71	72	40.22	59	115.95	16	157.87	23	-	309.2
	Franklin UK Mid Cap	✓	6	26.24	15	43.98	42	102.06	23	238.84	7	2.27	1016.7
	Investec UK Alpha	✓	6	12.57	143	30.34	137	93.05	45	134.31	40	2.28	1936.7
●	JOHCM UK Dynamic	✓	6	16.38	-	41.15	-	90.02	-	-	-	3.41	909.5
	Jupiter UK Growth	✓	7.5	8.29	224	8.97	245	58.62	170	84.92	106	1.80	1321.8
	Jupiter UK Special Situations	✓	5	9.28	214	34.04	94	79.68	80	143.91	31	2.10	1868.6
	Lindsell Train UK Equity		6.5	20.68	32	49.76	24	117.37	14	247.32	6	1.90	4852.2
●	Liontrust Special Situations	✓	6	16.66	62	53.82	13	89.90	55	263.98	3	1.73	3449.7
●	Marlborough UK Multi-Cap Growth SPOTLIGHT	✓	7	29.25	10	64.32	8	121.33	11	206.05	10	0.74	250.9
	MI Chelverton UK Equity Growth		7.5	33.54	3	101.53	1		-	-	-	0.93	152.1
	Schroder Recovery		7.5	8.42	223	24.04	202	85.25	66	169.73	21	1.99	1159.8
	Threadneedle UK Extended Alpha	✓	7	11.51	186	35.71	80	81.81	73	105.79	72	-	115.2
	Sector Average			**14.11**	**260**	**32.60**	**245**	**68.45**	**234**	**87.87**	**199**		

UK Equity Income

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)
	Artemis Income	✓	5	12.69	24	31.01	27	70.32	32	109.57	12	3.73	6308.0
	Fidelity Enhanced Income	✓	5	5.04	78	15.42	78	42.30	74	-	-	7.12	492.0
	JOHCM UK Equity Income	✓	6	18.26	8	39.45	6	83.79	11	176.67	3	4.36	3400.0
	LF Woodford Equity Income	✓	5.5	0.74	84	20.78	72	-	-	-	-	3.49	8149.0
	LF Woodford Income Focus		5	-	-	-	-	-	-	-	-	-	735.6
●	Man GLG UK Income	✓	6	27.64	1	51.68	2	93.62	6	94.16	27	4.30	345.8
	Marlborough Multi Cap Income	✓	7	18.86	5	31.31	26	98.85	3		-	4.06	1628.5
	Montanaro UK Income Seed*		7.5	24.06	22 / 260	50.40	19 / 245	105.99	20 / 234	198.09	12 / 199	-	242.0
●	Rathbone Income	✓	5	8.25	70	28.29	45	71.34	27	90.05	28	3.84	1432.4
	Royal London UK Equity Income	✓	5.5	12.73	23	31.96	23	90.42	8	141.87	4	3.85	1985.5
●	Standard Life Investments UK Equity Income Unconstrained	✓	6	18.58	6	27.94	48	90.29	9	106.74	14	3.96	1274.7
●	TB Evenlode Income	✓	5	14.94	83 / 260	45.91	36 / 245	100.05	28 / 234	-	-	3.20	1846.0
●	Threadneedle UK Equity Alpha Income		5	3.11	82	20.85	71	68.45	39	102.91	17	4.30	787.3
	Sector Average			**11.41**	**84**	**28.78**	**78**	**66.33**	**74**	**85.27**	**55**		

UK Smaller Companies

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)
	AXA Framlington UK Smaller Companies		8	31.54	12	70.97	15	164.76	5	224.75	17	0.88	321.0
●	Franklin UK Smaller Companies		8	29.06	20	61.34	21	143.45	16	109.35	38	1.02	298.6
	LF Livingbridge UK Micro Cap	✓	8	27.61	25	58.63	26	169.10	3	-	-	0.40	105.9
	Liontrust UK Micro Cap		8	22.31	36	-	-	-	-	-	-	-	22.2
	Marlborough Special Situations	✓	7.5	28.03	22	69.97	17	146.10	12	286.58	8	0.93	1514.8
●	Marlborough UK Micro Cap Growth	✓	8	34.74	7	76.60	9	155.38	10	346.82	2	-	1104.7
	R&M UK Equity Smaller Companies	✓	8	29.66	19	65.23	19	179.47	2	341.53	3	-	908.8
	Sector Average			**27.42**	**47**	**58.11**	**46**	**113.36**	**44**	**179.55**	**40**		

Sterling Corporate Bond

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)
	BlackRock Corporate Bond NEW ENTRY		2.5	5.87	19	17.81	16	31.54	19	88.64	12	-	629.8
●	Kames Investment Grade Bond	✓	2.5	6.43	11	16.75	20	32.46	17	86.71	15	2.59	1457.0
	Royal London Corporate Bond	✓	2.5	6.75	8	17.14	18	34.65	11	79.01	19	3.10	1170.2
	TwentyFour Corporate Bond		2.5	6.70	-	-	-	-	-	-	-	-	457.3
	Sector Average			**4.79**	**92**	**13.99**	**84**	**26.00**	**77**	**65.04**	**58**		

Sterling High Yield

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)
	Aviva Investors High Yield Bond 2	✓	3.5	3.83	31	15.74	23	34.37	2	-	-	4.90	162.1
	Baillie Gifford High Yield Bond	✓	4	8.16	5	19.27	7	33.15	5	107.49	1	3.90	469.4
	Royal London Short Duration Global High Yield Bond		2.5	2.38	34	11.69	28	-	-	-	-	5.09	1045.2
	Schroder High Yield Opportunities	✓	4	10.06	1	28.80	1	46.60	1	104.90	3	6.22	558.4
	Sector Average			**6.08**	**35**	**16.01**	**32**	**25.65**	**26**	**77.31**	**18**		

Sterling Strategic Bond

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)
	Artemis Strategic Bond		3	7.56	19	18.76	8	33.48	10	79.20	10	3.95	1221.4
●	Baillie Gifford Corporate Bond SPOTLIGHT	✓	3	8.18	15	18.15	9	34.45	8	95.03	4	3.40	731.6
	GAM Star Credit Opportunities	✓	2.5	14.37	2	32.46	1	68.88	1	-	-	4.09	1041.2
●	Invesco Perpetual Monthly Income Plus	✓	3.5	8.42	13	16.16	16	33.58	9	89.32	5	4.25	3311.8
●	Janus Henderson Strategic Bond**		3	5.97	36	13.19	37	26.37	24	79.91	9	3.50	1988.5
●	Jupiter Strategic Bond	✓	2.5	4.40	55	13.54	32	26.37	25	-	-	3.30	3891.8
●	TwentyFour Dynamic Bond	✓	3.5	8.95	10	16.75	14	34.74	7	-	-	4.53	1645.8
	Sector Average			**5.27**	**82**	**12.76**	**72**	**22.93**	**63**	**61.56**	**38**		

Targeted Absolute Return

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)
	Aviva Inv Multi Strategy Target Income 2		3.5	-1.73	-	5.49	-	-	-	-	-	4.50	2261.9
●	BlackRock UK Absolute Alpha	✓	4	1.50	-	12.11	-	23.65	-	34.58	-	-	388.7
●	Janus Henderson UK Absolute Return	✓	4	3.17	-	12.85	-	39.54	-	-	-	-	2582.2
	Jupiter Absolute Return*	✓	4.5	-2.38	-	14.00	-	16.26	-	-	-	-	1415.0
●	Old Mutual Global Equity Absolute Return R Hedged	✓	5	6.55	-	13.91	-	47.30	-	-	-	-	8814.1
	Premier Defensive Growth	✓	3	0.61	-	4.75	-	13.44	-	-	-	-	525.5
	Smith & Williamson Enterprise	✓	5	4.89	-	10.95	-	35.74	-	69.30	-	-	136.9
●	SVS Church House Tenax Absolute Return Stratagies	✓	4	2.39	-	11.57	-	24.34	-	53.84	-	0.84	178.0
	Sector Average			**3.43**	**-**	**7.04**	**-**	**16.98**	**-**	**30.47**	**-**		

Europe Excluding UK

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)
	Baring Europe Select*	✓	8	23.23	16 / 25	77.14	10 / 21	138.59	10 / 20	221.67	4 / 19	1.40	2130.8
	BlackRock Continental European Income	✓	7	17.01	51	50.00	40	104.85	16	-	-	3.73	1863.9
●	BlackRock European Dynamic	✓	7	25.06	3	65.56	9	111.70	10	211.86	2	0.63	2840.1
	FP CRUX European		7	15.60	72		-	-	-	-	-	2.03	175.0
	GAM Star Continental European Equity	✓	7	15.13	77	56.46	22	89.88	39	121.76	11	1.22	1708.9
●	Jupiter European	✓	6.5	27.42	2	64.73	11	119.28	4	215.76	1	0.40	4943.7
	Marlborough European Multi-Cap	✓	8	22.71	10	110.39	1	148.27	2	118.72	14	0.96	353.1
	Mirabaud Equities Europe Ex-UK Small and Mid*	✓	8	23.70	15 / 25	-	-	-	-		-	-	78.1
●	Threadneedle European Select	✓	7	19.40	24	49.23	44	92.00	35	143.07	8	1.00	3283.8
	Sector Average			**17.10**	**108**	**48.99**	**97**	**86.12**	**85**	**81.99**	**71**		

North America

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)
	Artemis US Extended Alpha NEW ENTRY		7	11.71	39	69.61	9	-	-	-	-	-	1139.7
●	AXA Framlington American Growth	✓	7	17.44	13	51.05	58	131.02	56	208.12	24	-	492.5
	Brown Advisory US Flexible Equity**	✓	7	13.23	-	49.80	-	-	-	-	-	-	270.5
	Dodge & Cox US Stock		7	7.93	88	58.19	24	156.07	13	-	-	-	602.6
●	Fidelity American Special Situations		7	-0.81	124	44.62	88	144.45	28	182.16	43	-	1204.6
	Hermes US SMID Equity* ^	✓	8	0.71	12 / 14	54.00	5 / 14	132.43	8 / 12	-	-	-	650.5
●	LF Miton US Opportunities		7	9.88	61	63.88	13	-	-	-	-	-	380.5
	Sector Average			**9.75**	**128**	**47.89**	**119**	**127.90**	**98**	**173.52**	**75**		

Japan

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)
	Baillie Gifford Japanese	✓	10	25.72	9	88.43	8	171.09	3	217.27	4	0.66	2541.3
●	JPM Japan		10	24.75	11	89.02	7	165.40	5	151.59	12	0.21	577.4
	Legg Mason IF Japan Equity		10	35.62	2	163.69	1	331.96	1	458.74	1	-	852.6
●	Man GLG Japan Core Alpha**	✓	10	10.75	63	73.38	19	132.40	13	189.53	7	1.99	2405.4
	Sector Average			**17.79**	**68**	**68.09**	**62**	**112.76**	**57**	**118.25**	**49**		

Asia Pacific Excluding Japan

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)
	Fidelity Asia Pacific Opportunities		8	29.13	32	83.09	3	-	-	-	-	-	72.0
	Invesco Perpetual Asian**		8	36.56	14	83.94	2	116.29	4	190.16	4	1.23	2063.7
	JOHCM Asia ex Japan	✓	8	22.26	65	48.53	64	77.52	27	-	-	-	573.5
●	JOHCM Asia ex Japan Small and Mid Cap		9	8.65	96	39.88	79	76.34	29	-	-	-	35.1
●	Matthews Asia Pacific Tiger	✓	8	27.85	42	58.18	33	91.43	18	-	-	-	364.3
●	Schroder Asian Alpha Plus	✓	8	37.90	13	71.83	14	89.16	19	211.89	1	0.83	866.7
	Schroder Asian Income	✓	7.5	18.70	80	50.45	53	72.85	37	188.37	5	3.79	1304.9
●	Stewart Investors Asia Pacific Leaders	✓	7.5	13.49	-	38.42	-	67.62	-	169.64	-	1.00	8506.3
	Sector Average			**25.93**	**96**	**52.95**	**89**	**70.52**	**76**	**106.63**	**55**		

Global Emerging Markets**

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)
	Janus Henderson Emerging Markets Opportunities		10	19.55	71	47.79	55	50.62	35	38.90	30	1.80	502.1
	Lazard Emerging Markets	✓	10	16.92	83	44.21	63	42.80	51	90.76	10	2.10	1155.1
	M&G Global Emerging Markets	✓	10	18.15	76	47.96	53	42.09	55	-	-	1.69	2037.5
	MI Somerset Emerging Markets Dividend Growth	✓	10	22.59	59	45.55	61	52.75	31	-	-	2.10	1499.0
●	RWC Global Emerging Markets		10	31.41	16		-	-	-	-	-	-	486.8
●	Invesco Perpetual Hong Kong & China**	✓	10	36.28	-	68.74	-	128.86	-	136.09	-	-	361.5
	Aberdeen Latin American Equity	✓	10	19.26	-	45.17	-	8.36	-	-	-	-	228.2
	GS India Equity Portfolio	✓	10	37.37	-	74.20	-	158.90	-	-	-	-	1965.0
	Jupiter India		10	21.68	-	68.33	-	124.42	-	-	-	-	1126.8
	Schroder Small Cap Discovery		10	17.38	-	37.09	-	81.38	-	-	-	0.74	244.2
	Sector Average			**24.92**	**92**	**46.75**	**85**	**45.65**	**74**	**63.80**	**34**		

Global

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)
	Baillie Gifford Global Discovery**	✓	8.5	31.18	3	63.34	17	176.61	3	296.30	1	-	333.2
●	Fidelity Global Special Situations	✓	7	16.39	69	64.93	11	143.73	10	116.05	61	-	2465.7
●	Fundsmith Equity	✓	6	21.60	25	80.67	3	179.81	2		-	0.65	13659.3
	Investec Global Special Situations NEW ENTRY		7	17.65	53	64.70	12	129.48	25	197.44	15	0.54	65.0
●	Rathbone Global Opportunities	✓	6.5	19.61	34	61.48	22	124.76	29	150.11	33	-	1168.0
	T. Rowe Price Global Focused Growth Equity NEW ENTRY	✓	7.5	22.05	21	73.04	5	155.35	6	127.58	53	-	367.9
	Sector Average			**13.63**	**276**	**44.05**	**245**	**87.63**	**219**	**100.70**	**149**		

Global Equity Income

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)
●	Artemis Global Income	✓	6.5	11.63	16	45.69	15	119.92	1	-	-	3.32	4010.9
	Fidelity Global Dividend	✓	6	6.17	45	41.76	20	99.96	4	-	-	2.98	892.0
	Fidelity Global Enhanced Income		5.5	5.67	47	40.53	22	-	-	-	-	4.99	287.4
	Guinness Global Equity Income	✓	6.5	8.91	28	41.23	21	96.46	7	-	-	2.75	345.8
●	M&G Global Dividend*	✓	7	12.23	179 / 276	47.17	128 / 245	88.57	143 / 219	-	-	2.72	6420.3
	Newton Global Income	✓	6	7.67	34	53.44	1	92.79	10	140.57	1	3.20	5760.0
	Sector Average			**10.11**	**49**	**37.83**	**41**	**76.96**	**33**	**108.16**	**10**		

Miscellaneous**

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)
	Artemis Strategic Assets	✓	6	1.99	140 / 145	16.59	122 / 135	33.07	106 / 118	-	-	-	799.1
	Artemis Monthly Distribution	✓	4.5	9.00	-	38.48	-	77.73	-	-	-	4.05	711.4
	AXA Framlington Global Technology	✓	10	28.87	5 / 15	87.40	4 / 12	178.71	5 / 12	319.38	2 / 11	-	432.3
	F&C Real Estate Securities	✓	7.5	20.27	2 / 44	52.77	3 / 43	120.24	2 / 37	-	-	-	159.8
	Guinness Global Energy		9.	-8.51	275 / 276	6.93	242 / 245	12.23	216 / 219	-	-	-	206.0
	Jupiter Financial Opportunities		8	18.01	-	44.36	-	89.25	-	100.06	-	0.90	551.7
	M&G Emerging Markets Bond	✓	4	3.51	30 / 51	41.78	5 / 48	52.25	3 / 41	154.93	9 / 17	6.21	658.4
	Old Mutual Gold And Silver		10	1.15	-	-	-	-	-	-	-	-	159.2
	Polar Capital Biotechnology		10	21.95	-	60.75	-	-	-	-	-	-	210.6
	Polar Capital Healthcare Opportunities	✓	8	13.77	-	34.92	-	178.04	-	331.14	-	-	1074.9
	Premier Pan European Property	✓	7.5	14.71	7 / 44	29.84	16 / 43	96.38	3 / 37	92.44	9 / 26	2.90	255.0
	VT Gravis UK Infrastructure		4	4.28	-		-	-	-	-	-	4.97	248.6

● **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 are not ranked as they are not comparable due to the diverse nature of the sector

** The history of this unit/share class has been extended, at FE's discretion, to give a sense of a longer track record of the fund as a whole.

Source: FE Analytics, total return, IA universe, 02/01/2018.

Yields as at 16/01/2018. Yields taken from Income unit versions of fund.

THE REDZONE

The RedZone names and shames the worst-performing funds over three years. The DropZone brings funds to your attention which have underperformed their sector averages.

Sam Slator
Head of Communications, Chelsea

The total number of funds in the RedZone this year is almost exactly the same as last year: 187 vs 184. The value of underperforming assets is also similar at £94.4bn – up about £700m over the period.

While the top-line figures don't immediately shout "improvement", there are some positives to be found in the detail. Most significantly, the number of underperforming funds in the UK All Companies and UK Equity Income sectors has continued to fall, with just eight and five funds in the table, respectively. This is good news for UK investors, who tend to have a bias towards these areas in their portfolios.

Big isn't necessarily best

Global was again the worst sector, with 25 funds (one more than this time last year) and £9.79bn of assets under management. The second worst sector was the Flexible sector with 19 funds and £7.66bn of assets, closely followed by Mixed Investments 40-85% Shares in third place with 16 funds and £2.67bn of assets. Both of these sectors (and Mixed Investment 20-60% Shares, which was in fourth place) arguably have far too many funds and the underperformance suggests some consolidation wouldn't go amiss.

When it comes to companies. Aberdeen has marginally improved over the past year, with 13 funds compared with 15 in January 2017. However, when combined with the Standard Life Investment funds on the list the total is 18. Aberdeen and Standard Life merged in August 2017 and became one of the world's largest investment companies. The new entity, Aberdeen Standard Investments manages £583bn of assets. Their assets in the RedZone (£15.24bn) represent just 2.5% of the total.

HSBC is the second worst asset management company this year, with nine funds and £1.6bn of assets and Old Mutual was third, with six funds and £1.8bn assets in the table. Old Mutual Global Investors is also about to undergo a shake-up: Richard Buxton, the chief executive of Old Mutual Global Investors, has completed a management buyout of the company, in partnership with private equity firm TA Associates, to buy the single strategy business. The multi-asset business of Old Mutual Global Investors is not part of this deal, and is being retained by the parent company. Of the six funds in the RedZone, three will go to each new part.

The largest fund to appear in the RedZone is Templeton Global Bond, which has £13.18bn of assets and has underperformed its sector average by more than 16% over three years. In second place is Carmignac Investissement, the global fund, which has £4.19bn in assets and has underperformed the global sector average by 20% over the period. JPM Europe Equity Plus is third, with £4.15bn, but a less disastrous 2.34% underperformance relative to its peers.

THE DROPZONE

% UNDERPERFORMANCE FROM SECTOR AVERAGE**		
1	SF Webb Capital Smaller Companies Growth	-78%
2	HC FCM Salamanca Global Property 1	-50%
3	MFS Meridian Global Energy	-48%
4	Fidelity Global Telecommunications	-42%
5	MFM Techinvest Technology	-41%
6	Guinness Alternative Energy	-39%
7	Carmignac Portfolio Investissement	-33.71%
8	Aberdeen Global Asian Smaller Companies	-27.62%
9	F&C European Small Cap	-27%
10	Dominion Global Trends Luxury Consumer	-26%

DropZone

Having had a brief reprieve last year from the ignominy of being top of DropZone for so long, SF Webb Capital Smaller Companies fund has unfortunately returned to the number one spot. Although performance in 2017 was finally in positive territory, the fund still managed to underperform the sector average by almost 29% over 12 months, and the three-year underperformance is more than 77%. HC FCM Salamanca Global Property 1 has fallen to second place, underforming the three-year sector average by 50%.

Three of the funds in the RedZone are arguably only making an appearance because they are industry-specific and their particular industry has performed poorly compared with the broader market. MFS Meridian Global Energy, Guinness Alternative Energy and Dominion Global Trends Luxury Consumer are all in the global equity sector but obviously reliant on a smaller universe of companies.

A fourth fund, Fidelity Global Communications, is the only telecommunications fund in the 16-strong Technology & Telecoms sector. As Technology has had such a strong year, it is unsurprising the telecommunications fund looks to have performed poorly in comparison. However, the comparison is also unfair in our view and the industries are very different. These four examples lead me to question why they are not put into the 'specialist' sector where they arguably belong.

One final fund in the table that I'll bring to your attention is Virgin Climate Change. It narrowly escaped being in the DropZone, having underperformed its sector average by 23%. It has an eye-watering 1.75% annual management charge which won't have helped returns. On page 34-35, Ryan looks at responsible investing and the different funds available that try to make your investments work in a more ethical way. Lower charges would also set a higher moral standard.

All data sourced from FEAnalytics.

		3 Year % growth	Quartile position
	Asia Pacific Excluding Japan		
	Aberdeen Asia Pacific Equity	38.23	4
	Aberdeen Global Asia Pacific Equity	38.15	4
D	Aberdeen Global Asian Smaller Companies	24.62	4
	Aviva Inv APAC Equity MoM 1	45.74	3
	Janus Henderson Asian Dividend Income	43.55	4
	Legg Mason Martin Currie Asia Long Term Unconstrained	40.16	4
	Matthews Asia Asia Small Companies	32.70	4
	Sector average	**52.24**	
	Asia Pacific Including Japan		
	GAM Star Asia Pacific Equity	58.99	4
	Sector average	**62.19**	
	China/Greater China		
	Baring China Select	55.89	4
	Baring Hong Kong China	55.70	4
	HSBC Chinese Equity	57.74	3
	Sector average	**62.30**	
	Europe Excluding UK		
	Legg Mason IF Martin Currie European Equity Income	38.47	4
	MFS Meridian Continental European Equity **	28.57	4
	Old Mutual Henderson European	43.35	4
	Standard Life Investments European Equity Growth	47.95	3
	Standard Life Investments European Equity Income	43.19	4
	Sector average	**49.23**	
	Europe Including UK		
	JPM Europe Equity Plus	38.74	3
	MFS Meridian Blended Research European Equity **	27.53	4
	MFS Meridian European Research **	20.68	4
	Virgin Climate Change	17.92	4
	Sector average	**41.08**	
	European Smaller Companies		
D	F&C European Small Cap **	42.65	4
	Pioneer SICAV European Potential	53.98	4
	Sector average	**69.73**	
	Flexible Investment		
	Carmignac Portfolio Emerging Patrimoine	21.78	4
	Carmignac Portfolio Patrimoine	8.03	4
	Carvetian Capital	16.05	4
	City Financial Multi Asset Dynamic	17.31	4
	HC Kleinwort Hambros Growth	24.26	4
	LF Bentley Global Growth	20.55	4
	LF Bentley Sterling Balanced	7.87	4
	LF Cautela	8.44	4
	LF Odey Opus **	12.06	4
	LF Ruffer Equity & General	21.12	4
	MFS Meridian Diversified Income	12.34	4
	Pyrford Global Total Return	11.84	4
	R&M Dynamic Asset Allocation	23.40	4
	S&W Ilex Income	18.81	4
	S&W Starhunter Managed	22.06	4
	Sarasin Fund of Funds Global Growth	25.85	3
	Schroder Dynamic Multi Asset	14.05	4
	TM Fulcrum Diversified Growth **	7.75	4
	UBS Targeted Return	10.30	4
	Sector average	**29.10**	
	Global		
	BlackRock NURS II Global Equity	42.43	3
	Carmignac Investissement	23.96	4
D	Carmignac Portfolio Investissement	10.85	4
D	Dominion Global Trends Luxury Consumer	18.46	4
	Fidelity Undiscovered Talent	39.61	4
	GAM Star Composite Global Equity	40.07	3
	GS Global Equity Partners ESG Portfolio	37.02	4
D	Guinness Alternative Energy	5.23	4
	Huntress IFSL Ravenscroft Huntress Global Blue Chip	37.84	4
	Janus Henderson Multi-Manager Global Select	38.95	4
	LF Adam Worldwide	40.01	3
	Marlborough Global	42.98	3
D	MFS Meridian Global Energy **	-3.70	4
	MI Charles Stanley UK & International Growth	35.14	4
	Old Mutual Global Best Ideas	34.17	4
	Old Mutual Voyager Global Dynamic Equity	32.11	4
	Oldfield Overstone UCITS Global Smaller Companies	24.29	4
	Royal Bank of Scot International Growth	34.26	4
	S&W Smithfield Income & Growth	38.24	4
	Sanlam Global Best Ideas	35.12	4
	Scottish Widows Opportunities Portfolio	36.36	4
	SKAGEN Global	40.53	3
	Stonehage Fleming Global Equities I	36.55	4
	Stonehage Fleming Global Equities II	36.27	4
	TM UBS (UK) Global Equity	39.17	4
	Sector Average	**44.56**	
	Global Bonds		
	FP SCDavies Global Fixed Income	-1.27	4
	Standard Life Investments Global Index Linked Bond	10.28	4
	Standard Life Investments Short Duration Global Index Linked Bond	4.20	4
	Templeton Global Bond	1.72	4
	TM UBS (UK) Global Fixed Income	2.82	4
	Sector Average	**18.07**	
	Global Emerging Markets		
	Aberdeen Global Emerging Markets Smaller Companies	27.25	4
	EP Emerging Opportunities **	35.08	4
	Legg Mason IF QS Emerging Markets Equity	30.04	4
	Legg Mason QS Emerging Markets Equity	33.38	4
	Newton Emerging Income	28.80	4
	Pictet Emerging Markets Sustainable Equities	30.79	4
	Polar Capital Emerging Markets Growth	29.36	4
	Polar Capital Emerging Markets Income	28.19	4
	Threadneedle Global Emerging Market Equity	36.19	4
	Sector Average	**46.18**	
	Global Emerging Market Bond		
	Candriam Bonds Emerging Debt Local Currencies	19.84	3
	Pictet Emerging Local Currency Debt	20.53	3
	Sector Average	**23.90**	
	Global Equity Income		
	Davy Defensive Equity Income **	24.88	4
	Mirabaud Global Equity High Income	34.89	3
	Neptune Global Income	22.56	4
	Pictet High Dividend Selection	36.91	3
	Sector Average	**38.14**	
	Japan		
	Aviva Inv Japan Equity MoM 1	61.07	3
	L&G Japan Index Trust **	62.30	3
	Old Mutual Japanese Equity	59.27	4
	Santander Japan Equities	55.56	4
	Vanguard Japan Stock Index **	59.44	4
	Sector Average	**68.28**	
	Japanese Smaller Companies		
	Aberdeen Global Japanese Smaller Companies	71.31	4
	Sector Average	**96.14**	
	Mixed Investment 20%-60% Shares		
	7IM Balanced	17.41	4
	City Financial Multi Asset Balanced	7.64	4
	FP Russell Investments Multi Asset Income	13.47	4
	Janus Henderson Cautious Managed	15.05	4
	L&G Distribution Trust	15.91	4
	Margetts Providence Strategy	17.94	3
	MGTS Frontier Cautious	14.73	4
	MGTS Future Money Real Growth	18.96	3
	MGTS Future Money Real Value	13.45	4
	Old Mutual Voyager Diversified	10.40	4
	Royal Bank of Scot Cautious Growth	16.84	4
	Schroder Global Multi-Asset Income	2.79	4
	Schroder MM Diversity Income	11.35	4
	UBS Multi Asset Income **	8.02	4
	Sector Average	**19.66**	
	Mixed Investment 40%-85% Shares		
	7IM AAP Moderately Adventurous	25.31	3
	7IM Moderately Adventurous	25.22	3
	Carvetian Andromeda Income	16.88	4
	Carvetian Fenix Balanced	9.45	4
	City Financial Multi Asset Growth	13.16	4
	Doherty Pn&Inv Consultancy Ltd TB Doherty Active Managed	23.67	4
	Family Balanced International	24.88	4
	Fidelity Multi Asset Income & Growth	21.74	4
	HC Sequel Balanced Target Return Strategy	19.83	4
	HSBC Ash	23.30	4
	LF Canlife Portfolio V	24.87	4
	McInroy & Wood Income	18.52	4
	Sarasin Fund of Funds Global Diversified Growth	22.42	4
	SVS Church House Balanced Equity Income	21.73	4
	Thesis Libero Strategic **	21.88	4
	TM UBS (UK) UK Income Focus	23.95	4
	Sector Average	**27.45**	
	North America		
	Aberdeen Global North American Equity	41.73	4
	GAM Star Capital Appreciation US Equity	34.54	4
	GS US Equity Portfolio	36.36	4
	Legg Mason ClearBridge US Aggressive Growth	30.95	4
	Legg Mason IF Martin Currie North American	45.20	4
	Royal London US Growth Trust	49.03	3
	Sector Average	**48.95**	
	North American Smaller Companies		
	Jupiter US Small and MidCap Companies	32.07	4
	Sector Average	**52.04**	
	Property		
D	HC FCM Salamanca Global Property 1	-28.07	4
	MGTS St Johns High Income Property	16.02	4
	Sector Average	**22.01**	
	Sterling Corporate Bond		
	Aviva Inv Corporate Bond **	12.52	4
	F&C Responsible Sterling Bond	13.26	3
	Fidelity Moneybuilder Income	13.47	3
	Halifax Corporate Bond	13.41	3
	Premier Corporate Bond Monthly Income	7.77	4
	Royal Bank of Scot Extra Income	10.12	4
	Smith & Williamson Fixed Interest	10.51	4
	Standard Life Investments AAA Income	8.16	4
	Sector Average	**14.28**	
	Sterling High Yield		
	NB Short Duration High Yield Bond	7.13	4
	Scottish Widows High Income Bond	6.96	4
	Sector Average	**15.98**	
	Sterling Strategic Bond		
	Aberdeen World Opportunistic Bond	9.19	4
	Allianz Strategic Bond	6.16	4
	BNY Mellon Global Opportunistic Bond	0.22	4
	HC Kleinwort Hambros Fixed Income	6.33	4
	HL Multi Manager Strategic Bond	11.56	3
	Invesco Perpetual Tactical Bond	7.24	4
	M&G UK Inflation Linked Corporate Bond	6.35	4
	Old Mutual Voyager Strategic Bond	8.83	4
	Virgin Income	4.49	4
	Sector Average	**12.80**	
	Technology & Telecoms		
	Aberdeen Global Technology Equity	54.33	3
D	Fidelity Global Telecommunications	24.86	4
	GAM Star Technology	58.37	3
D	MFM Techinvest Technology	26.23	4
	Sector Average	**67.00**	
	UK All Companies		
	Candriam Equities L United Kingdom	21.24	4
	HSBC Common Fund for Growth	19.21	4
	HSBC UK Focus	19.49	4
	HSBC UK Freestyle	19.16	4
	HSBC UK Growth & Income	20.49	4
	Jupiter Responsible Income	19.60	4
	Jupiter UK Alpha	19.84	4
	Marks & Spencer UK Select Portfolio	20.74	4
	Sector Average	**32.46**	
	UK Equity & Bond Income		
	HSBC Monthly Income	20.09	4
	LF IM UK Equity & Bond Income	20.05	4
	Sector Average	**24.77**	
	UK Equity Income		
	HC Kleinwort Hambros Equity Income	20.68	4
	HSBC Income	20.33	4
	Invesco Perpetual Income & Growth	22.42	4
	Liontrust Macro Equity Income	24.20	4
	Royal Bank of Scot Equity Income	27.68	3
	Sector Average	**28.68**	
	UK Gilts		
	Aviva Inv UK Gilts MoM 1	8.94	4
	HSBC Gilt & Fixed Interest	9.84	4
	LF Canlife UK Government Bond	9.08	4
	Old Mutual Gilt	9.61	4
	Schroder Gilt & Fixed Interest	10.57	3
	Scottish Widows Gilt **	8.44	4
	Sector Average	**12.66**	
	UK Index Linked Gilts		
	L&G All Stocks Index Linked Gilt Index Trust	25.32	4
	Vanguard UK Inflation Linked Gilt Index	26.28	3
	Sector Average	**26.50**	
	IA UK Smaller Companies		
	Aberforth UK Small Companies	41.80	4
	Aviva Inv UK Smaller Companies **	42.41	4
	Dimensional UK Small Companies	39.73	4
	Janus Henderson UK & Irish Smaller Companies	33.03	4
	LF Miton UK Smaller Companies	45.55	4
	Scottish Widows UK Smaller Companies	50.25	3
D	SF Webb Capital Smaller Companies Growth **	-20.04	4
	Sector Average	**57.82**	

Please read the important notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 02/01/2018. Source FE Analytics. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies therein.

** The history of this unit/share class has been extended, at FE's discretion, to give a sense of a longer track record of the fund as a whole.

FOCUSED INVESTING

We all know it's good to be active, but are your funds? If you're paying active fees, you should be getting active management. The first thing to check when buying an active fund is that the fund manager is actually making investments which are different from the market index. This sounds obvious, but unfortunately too many funds don't do this.

Peter Hicks,
Chelsea Research Department

One way to be sure you are getting an active fund is to invest in one with a smaller number of stocks and therefore a clearer focus. Each stock is thus a meaningful position in the portfolio and has a greater impact on performance, which puts pressure on the fund manager to make the right picks.

Having a concentrated and highly-differentiated portfolio means the fund manager has greater potential to beat the market (as evidenced in Cremers and Petajisto's market study in 2009*).

Another benefit of a focused fund is that the manager has time to really understand the businesses in which they are investing. If you have 300 positions, how well can you realistically keep track of all those holdings?

Running a 30-stock portfolio instead is more manageable and allows the manager to get under the bonnet of each individual company more easily. A focused fund can and should still be well-diversified.

For all these reasons we are fans of focused funds. In this feature we have invited three of our favourite high-conviction focused funds to discuss their strategies.

*How Active is Your Manager? A New Measure that Predicts Performance March 31st 2009 Antti Petajisto and Martijn Cremers

> Another benefit of a focused fund is that the manager has time to really understand the businesses in which they are investing

FIDELITY ASIA PACIFIC OPPORTUNITIES

Anthony Srom,
Portfolio Manager, Fidelity Asia Pacific Opportunities

I believe that if you manage to a benchmark you will behave like the benchmark. Great when the market is going up, but not so great when you get an inevitable slump. Being aware of the benchmark also means you may not be allocating capital according to your level of investment conviction.

You will often see investors allocate 5% their total portfolio's capital to a stock that is 4% of the index to be 'overweight' by 1%, then allocate 2% of capital to a non-benchmark stock they really like to be 2% 'overweight'. Surely it should be the other way around and you give most capital to the stock you have highest conviction in? I have always felt investors should back their judgement and allocate capital to their best ideas rather than allocate capital according to a benchmark.

Is high conviction high risk?

It is often said to me that running a high conviction portfolio of 25-35 stocks means more risk to investors. My counter is always 'how do you define risk?' I define risk as the permanent loss of capital, as opposed to how does a portfolio look against the market.

Fidelity Asia Pacific Opportunities

- **Very high conviction unconstrained fund of 25-35 stocks**
- **Contrarian attitude**
- **Multi-cap portfolio**
- **Managed with a capital preservation mindset**

To minimise the risk of losing capital over time it is essential to fully understand the companies you invest in.

What is the potential for this business to gain market share, what is it doing to grow its earnings, how has the management team behaved in different situations? For me, this level of detail can only be achieved through looking at fewer companies in more depth versus scratching the surface of a broader set. It is important that I am not the only set of eyes doing this, so working alongside our team of analysts who are on the ground and experts in their respective industries is essential.

Portfolio construction

Generating a list of stocks for a portfolio that I believe will make money and where I understand their risks is one part of the equation; putting them together in a balanced portfolio is the other. A key factor I look at is correlations between holdings. Highly correlated holdings means everything moves in the same direction at the same time.

By paying lots of attention to building a portfolio of stocks where the holdings behave differently at various times creates a situation where you are potentially making money somewhere no matter what is happening. If I find a company that looks a great investment, but analysis of the current situation and its share price behavior to past events means it doesn't bring anything new to the portfolio, then I may pass on the opportunity.

Given my focus on capital preservation, I often look at markets from the perspective of 'what could go wrong', but there are always opportunities - it just may require you to go against the crowd and invest when others are not.

An example is my investment in the energy stocks, which are currently approximately 10% of the portfolio. When oil hit around $60 a barrel in October it created debate about whether it could rise further, with the general view being the onset of electric vehicles means oil is a dying industry.

I have no doubt that electric vehicles will take over in the coming decades, and it is something the big oil companies seem to acknowledge because their investment spending on new oil fields and refining plants is down.

In fact, we are experiencing a second straight year where oil industry investment has fallen, and possibly entering an unprecedented third in a row. However, this leads to the possibility of less oil being produced over the next few years while demand remains fairly stable – combustion engines will still dominate over the near term, and it is often overlooked that around 60% of oil is used for other products like plastic – so I think there could well be value for investors here in the new year.

Chelsea Risk Rating	8
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	1.08%

THE CHELSEA VIEW

This fund has a smart process, which focuses on companies with cheap valuations, weak market sentiment and the potential for earnings outperformance. We particularly like Anthony's awareness of what other investors are thinking and what they have potentially missed.

T. ROWE PRICE GLOBAL FOCUSED GROWTH EQUITY

David Eiswert,
Portfolio Manager,
Global Focused
Growth Equity

While we are currently enjoying one of the strongest and longest equity bull markets of all time, much of this has been characterised by scepticism and reluctance, rather than optimism and exuberance.

Throughout, I have been focused on finding stocks characterised by growth and improvement. Specifically, stocks where we have discovered an insight that will drive better economic returns for shareholders. This approach to bottom-up growth investing requires deep and rigorous research in order to find the best opportunities. I look for characteristics like an attractive industry structure, sustainable competitive advantage, potential for market share gains and a shareholder-focused management team. Our real filter, however, is a specific catalyst for change and how it impacts future corporate profits. This is the difference between a great growing company and a great growth stock.

On the "right side of change"

At the core of my approach is the belief that the competitive landscape within regions and sectors is constantly being disrupted. Whether disruption stems from technological innovation, consumer preferences, or the political and regulatory climate, we want to understand it first and then find stocks on the right side of any monetisable change that may be evolving.

This is particularly important today as technology has enabled an acceleration of competitive disruption and helped to create sustainable quasi-monopoly positions across different industries. While the term disruption has become somewhat of a Silicon Valley cliché, the term still conveys a wider truth for investors: being on the right side of change can bring great rewards.

Equally important, that same truth applies in reverse: being on the wrong end of disruptive change can be terminal for a business or a stock. Think Apple versus Blackberry. Or Amazon versus Toys R Us. The world is full of winners and losers from disruption and change.

My focused approach to this changing world

I am a stock picker through and through. Stock selection is what I and the team focus on each day, and where I believe we have a competitive advantage from our global research. My emphasis on disruption has resulted in the strategy owning more positions in sectors that are experiencing rapid change. Our technology and healthcare stocks sit firmly in this bucket. However, the stresses of the US consumer industry have been firmly reflected in stock prices, allowing us to add to select US consumer names of late.

To take full advantage of the potential for outsized gains from stock selection, I typically hold between 60 to 80 companies representing those firms in which I have the highest level of conviction regarding expected future growth.

This may sound narrow in an investment universe of thousands, but delivering conviction and making hard choices about which stocks to own is part of my responsibility as a portfolio manager.

Since competitive disruption is creating sustainable quasi-monopoly positions across a host of industries for a relatively small group of companies, investors unwilling to take significant positions in their best ideas risk missing out.

While we also pay close attention to risk factors both at the security and overall portfolio level, given the potential for volatility in a focused portfolio, we never forget the importance of both valuation and the relevance of a business in the future.

Our outlook for 2018

We remain constructive that there are enough drivers in place to maintain and potentially elevate equity market levels. Economic growth and inflation are likely to remain subdued, which all else being equal should be favourable for me as a "growth" manager. Ultimately, companies delivering stronger earnings growth will be crucial. We may experience more volatility, but this should not be confused with the end of this bull market. One way or another, the unknowns of the cycle will mean that I will be offered opportunities to refresh the portfolio on weakness at some stage, before this bull market eventually ends.

T. Rowe Price Global Focused Growth Equity

- 60-80 stocks
- Invests globally
- Focuses on companies with strong earnings growth
- Almost 1/3 invested in IT currently

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

THE CHELSEA VIEW

We like David's go-anywhere approach. Whilst, he currently has over 50% in the US, he is also invested in India and Taiwan. David focuses on growing companies that are the leaders of tomorrow.

F&C UK MID CAP

Tom Wilson
Fund Manager,
F&C UK Mid Cap

The F&C UK Mid Cap fund aims to provide long-term capital growth by investing in a concentrated selection of medium-sized UK equities.

I run the fund with a focus first and foremost on limiting capital loss and believe that by doing so, the capital growth element will look after itself. I look for businesses with strong competitive advantage, attractive returns and low levels of debt.

Crucial though is the fact that I also want to avoid over-paying to access companies with these characteristics. Alongside my colleague Matthew Parker, we undertake detailed research on potential investments. We try to identify companies that have business models which will last the test of time. A key component of this is forensically testing whether their valuation (the level at which the shares are currently trading) looks attractive compared with our perceived prospects for that company.

We favour a focused approach and the fund typically contains less than 30 stocks. I don't believe in diversifying exposure for the sake of it and I certainly won't buy companies that don't fit my investment criteria just to get the number of holdings up.

A diverse hunting ground

Whilst my benchmark is the FTSE 250 ex investments trusts, I try not to focus on the 200 or so companies I don't own, spending my time making sure the reasons I bought into a company still hold, whilst also exploring potential new investments.

The mid-cap universe provides a diverse hunting ground for investments, but I will also look outside the benchmark if an opportunity arises. For example, I have a position in a company called Avon Rubber, which, with a market cap of less than £400m, is classified as a smaller company.

Despite its small size there are a number of things that make it attractive. It has market-leading positions in defence protection, providing gas masks to the US military, and dairy equipment. The company has cash on its balance sheet and is trading at an attractive price. These positive points mean the fact that it doesn't fall directly into my benchmark isn't a concern.

Stocks to weather economic storms

I also believe that a concentrated approach will allow us to navigate the potentially choppy waters that lie ahead. Many investors seem to have become complacent when it comes to thinking about risks, whether it be Brexit in the UK, or the US Federal Reserve making policy errors as it raises interest rates and works to shrink its balance sheet.

By being focused I can more readily avoid companies that have substantial debt, are trading on high valuations or don't generate cash flows. These are all factors that can make share prices much more susceptible to any unforeseen negative shock.

Against this backdrop, I therefore remain focused on companies that can continue to generate profits irrespective of the economic backdrop – a characteristic that can help them weather difficult periods.

In fact, the companies I look to invest in tend to come out of economic downturns in stronger positions than they went in as they take share from weaker competitors.

One example is John Laing Group, an investor in global infrastructure projects, such as hospitals, roads and rail. John Laing's core competency is in identifying and selecting suitable projects to invest in, assembling the necessary companies to execute the project, managing a successful bid to reach preferred bidder status or exclusivity, and then bringing the project to a financial close. The company has limited exposure to a traditional economic cycle and each project is ring-fenced from a risk perspective. We don't think its potential is currently recognised.

It is not just political risks that concern me. Just now for example, valuations in some parts of the market, such as technology, are stretched as investors flock to companies with 'growth' potential. My concern over valuations also extends to other asset types, such as bonds and I am adamant that the 'fear of missing out' attitude that seems to be driving much of what we are seeing at the moment is a risky way of investing.

We really stick to our principles here and if an investment doesn't stack up against our strict criteria, we are happy to hold cash instead. We recognise that cash has an opportunity cost (as the market continues to trend upwards), it does not run the risk of falling significantly like we believe many equities do at the moment.

Of course I claim no aptitude to predict short-term market movements, but I am convinced that a portfolio of well-managed and well-positioned business will generate value for our clients over the medium term.

F&C UK Mid Cap

- 30 stocks
- Invests in FTSE 250, but will look at small caps where appropriate
- Focus on capital preservation
- Long-term time horizon

Chelsea Risk Rating	6
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.81%

THE CHELSEA VIEW

We're impressed by Tom's well-thought-out process. We like his focus on valuation, his keen eye on risk and his long-term approach.

SPECULATION RISK

The mention of bubbles has been in the news again since our last Viewpoint, with the dramatic increase in the price and subsequent interest in Bitcoin and other cryptocurrencies. Whether this proves to an accurate assessment, or the beginning of a new paradigm has yet to be determined, but it has brought into focus the topic of speculation.

Ryan Lightfoot-Brown
Research Analyst,
Chelsea

Speculation vs investing

Bubbles are not uncommon. History is littered with examples, all the way from tulip bulbs to the dot com bubble. The reasoning is based around the fear of missing out. Any dramatic rises in price attracts a lot of attention, and if value does rise very quickly and dramatically, people often want to join the wave and experience the merriment. However, being clouded by potential gains – based on recent past performance – can often lead to people buying in without truly considering the proposition. They may know the current price and recent increase, but there is a difference between the price of something and its value. Hoping the price of something will increase because of what has happened in the past is essentially speculation and a common behavioural finance error.

Investing, on the other hand, is different. It still uses the current price and makes a prediction of the future, but this is based on the drivers of the future growth and what the intrinsic value is and whether this is a fair value or not. It is a calculated risk rather than a 'punt'.

So how do managers value their investments. Why are they considered investments over speculation, especially when you include companies like Amazon, which technically doesn't make any profit?

Follow the money

With most stocks, it is best to look at cash generation. It is very difficult to manipulate cash in the financial statements, so it provides a transparent picture of where the money comes from and goes to.

It shows what the business is generating in sales, and spending in outgoings. This shows an investor what is driving the company operations. If you forecast these future cash flows, they can be calculated back to their present value to give the stock an intrinsic value. They may not show profitability, but if the money is going into expanding operations to make the company more profitable at a later date, this reassures investors. It will also flush out any anomalies, such as aggressive business practices or excessive debt to fund sales. At this point, quality judgement is required to analyse the growth and how well the company can develop. With this, it is possible to work out an estimate of the value today for this growth – the present value of the future cash flows, and therefore its price.

Making a quick buck is always satisfying for people and speculation can be quite fun. Though when it comes to savings, it should be considered as something on the side, with the acceptance that there could be a permanent loss of capital. When investing though, we reiterate our adage of a diversified portfolio with a long-term outlook, which should provide compound returns throughout the market cycle.

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.**

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.

L&G UK Special Sits & L&G UK Alpha Trust

Long-standing manager Richard Penny has left Legal & General Investment Management (LGIM) to start a new role at Crux Asset Management. Rod Oscroft is taking on the management of the L&G UK Alpha Trust and Gavin Launder has been named as interim manager of the L&G UK Special Situations Trust. A new manager will be appointed in due course.

Richard's strong stock-picking abilities were integral to the two funds he managed. Due to the importance of manager skill in the process, we have downgraded the funds to a Hold pending a meeting with the new managers.

DOWNGRADED HOLD

Janus Henderson UK Property

Property funds in general have had a roller-coaster ride over the past two years. This fund managed to weather the storm, mostly due to its focus on high-quality properties and its pragmatic approach to cash management.

More recently, the managers used the opportunity to restructure the fund's allocation, purchasing more properties outside of stressed market areas such as London and the South East. We are therefore reiterating our Buy rating on the fund.

MAINTAINED BUY

Newton UK Income

Following manager Christopher Metcalfe's early retirement, UK equity manager Simon Nichols has now been put at the helm of this fund. The company has also used the opportunity to introduce a more team-based approach and has brought Newton Continental European managers Chris Smith and Emma Mogford onto the fund. With this change in approach in a highly competitive sector, we believe alternative funds are more worthy of consideration and we have downgraded the fund to a Switch.

DOWNGRADED SWITCH

Legg Mason IF Martin Currie North American

This fund features in our RedZone, meaning it has underperformed its sector average for three consecutive years. The fund has gently been losing assets despite the fact its stocks have been riding the waves of the US bull market, and this has been compounding its lacklustre performance. As this situation continues, we believe the fund will struggle to find an equilibrium. As such, we have downgraded it to a Switch.

DOWNGRADED SWITCH

VCTs: THE NEXT STEP IN TAX-EFFICIENT INVESTING

Investing in a venture capital trust (VCT) helps innovative smaller companies to create jobs, prosperity and economic growth and gives investors valuable tax relief.

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

Tax-efficient investing is getting more difficult in some cases. Since 2016, those earning more than £150,000 per year have been hit with a lower pension contribution limit. So, for every £2 of income they have received above this figure, their annual allowance has been reduced by £1. The tax-free dividend allowance will also be slashed from £5,000 to £2,000 in April this year.[1]

So for investors who have reached their annual ISA and pension contribution limits, VCTs – or Venture Capital Trusts – could present themselves as a good tax efficient option. The vehicles, which invest in unquoted smaller companies, come with a variety of tax advantages such as an exemption from paying income tax on dividends. Each VCT will have its own target dividend return, although this tends to be around 5% per annum.

There can also be additional dividends paid on top of this if a VCT manager sells a holding and decides to pay these earnings out to shareholders. For instance, the Maven VCTs 3&4 have returned average tax-free annual yields of 10.9% and 8.7% per annum over the last five years respectively* and are currently open to investment.

Another plus point for investors when it comes to VCTs is the 30% initial income tax relief when buying new shares.

If investors want to benefit from these advantages, however, they may wish to look into VCTs sooner rather than later. We believe they are going to become evermore popular in the run-up to the end of this tax year and, if assets are raised quickly, offers may close earlier than the specified date.

Hargreave Hale AIM VCTs

Launched in 2004 and 2006 respectively, the Hargreave Hale AIM VCTs 1&2 (HH1, HH2)** boast strong long-term track records. In the five years to December 2017, they achieved total returns (assuming dividends are reinvested) of 62.24% (HH1) and 64.51% (HH2)*** respectively.

Another unique aspect of these VCTs is that new money received is invested immediately into manager Giles Hargreaves' top-performing Marlborough Special Situations fund. This means new money is put to use immediately, rather than the team having to hold onto cash until the appropriate new VCT-qualifying assets can be found.

Pembroke VCT

Pembroke VCT was launched in 2013 and became the first new VCT to successfully establish itself in more than a decade. Their investment strategy has been unaffected by the tightening of investment rules for VCTs in 2015 (which were explained in our last edition of Viewpoint). Pembroke has a rapidly maturing portfolio of growth businesses, including well-known names such as burger restaurant chain Five Guys and Boris Bike light manufacturer Blaze.

We like that Pembroke has one of the lowest ongoing charges and transparent fee structures in the VCT industry and that their directors have invested circa £1m of their own money into it, aligning their interests with those of investors.

[1] https://www.gov.uk/government/publications/income-tax-dividend-allowance-reduction/income-tax-dividend-allowance-reduction

*https://chelseafs.co.uk/assets/Products-and-Services/VCTs/Old/169712-MCP-Securities-Note-Chelsea-FS.pdf (September 2017 securities note p11)
**It is worth noting that Hargreave Hale plans to merge the two VCTs, allowing greater scale economies, cutting costs for investors. It will also allow the fund manager to allocate more time to portfolio management.
*** HH Factsheet December 2017

Name of VCT	Type of VCT	Minimum Investment	Initial Charge	Chelsea Discount	Closing Date	Target dividend yield
Albion VCT	Generalist	£6,000	2.5%	0%	04/04/2018	5.6%
Amati	AIM	£4,000	3%	2%	04/04/2018	5-6%
Downing ONE	Generalist	£5,000 or £500/month	4%	2.75%[1]	04/04/2018	4%
Foresight 4	Generalist	£3,000	5.5%	3% / 3.5%[2]	04/04/2018	Variable
Hargreave Hale	AIM	£5,000	3.5%	2%[3]	01/12/2018	5%
Maven	Generalist	£5,000	5%	2.5%	04/04/2018	Variable
Pembroke	Generalist	£3,000	5.5%	3%	04/04/2018	3p/share

[1] 2.25% after 28/02/2018
[2] 3% for new customers, 3.5% for existing investors
[3] 1% after after 16/03/2018

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 us 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.

ETHICAL INVESTING
MORE THAN "THOU SHALT NOT"

Ethical investing is not a new topic, but it has undergone somewhat of a renaissance over the past few years. Funds of this ilk are no longer limited to simply avoiding 'sin' stocks (companies producing weapons or tobacco, for example). Today, funds looking to invest responsibly also look for good traits among the companies in which they invest.

ESG becomes mainstream

As the sector has developed, the responsible investment concept has, for many fund management companies as well as individual funds, become an additional layer of the stock selection process rather than the sole mandate. Environmental, social and governance considerations (ESG) have become much more mainstream.

Far from simply easing the conscience, the investment case for ESG is strong. Bad business practices such as accounting irregularities, poor working conditions or creating pollution can lead to fines, loss of customers, stricter credit conditions or even imprisonment. This in turn can negatively impact the company's share price.

At the other end of the scale, companies exhibiting good practices, such as limiting their carbon footprint, having fair wages for employees and good health and safety records, can add substantially to the value of the stock over time.

Having witnessed this positive impact, more fund managers are starting to embrace the benefits that ESG offers. As such, funds with an element of ESG in their investment process now make up more than a quarter (26%*) of all investment assets.

Social media police

While bad behaviour is not new behaviour, it has become much more visible in recent years through the advent of the internet and, more recently, social media. Information is disseminated much faster than ever before. Where companies could previously have covered up problems or limited how much exposure they received, they can now be shared with the wider world at the touch of a button and therefore damage a company's reputation almost immediately.

If funds include an ESG element in their process it can help them identify these risks, thus lowering the possibility of a share price collapse hurting their returns. Tesco is one obvious example here. Once a darling of equity income managers, due to its dominant market position and cash generation, its accounting scandal served as a catalyst for an abrupt fall from grace. There were a number of managers who didn't own it beforehand due to the accounting practices. As such, they managed to avoid what may have otherwise seemed an acceptable investment.

The 'G' of ESG is also an important element of this renaissance. Board behaviour and, in particular, remuneration, has been a strong talking point recently – if a company goes bust like Carillion, neither its employees, suppliers or investors want to see the management team receiving big severance pay.

Many big investment houses are now using their influence to block big bonuses and undue pay rises. Corporate governance has become a much bigger consideration for companies, and the treatment of minority shareholders is also seen as important. As such, the goals for management teams and investors are becoming more aligned, further driving the investment case for ESG considerations.

*https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal

EdenTree Amity UK

EdenTree is a pioneer in responsible investing and this fund has been run since its inception in 1988 by one of the country's longest-running ethical managers, Sue Round. The fund was designed for regular savers—originally clergymen and family —and conservation of capital is one of its primary objectives. The first part of the process is a negative screen to remove definite 'nos'; the second is a positive screen to make sure companies have good practices.

The award-winning socially responsible investment team supports the process via screening, voting and engagement. The fund has undergone a carbon footprinting exercise to map the leaders and laggards in the portfolio, with all findings published online; the Amity UK fund is 57% less carbon-intense than the FTSE All Share, with emissions intensity decreasing by 16% compared with 2016. The fund votes at all AGMs held by companies in the portfolio, and takes a market-leading position in opposing excessive executive pay.

Liontrust Monthly Income Bond

This fund invests predominantly in corporate bonds, aiming to generate a high level of income that is paid to investors on a monthly basis. The managers incorporate a sustainable investment approach to enable them to lend money to high-quality companies which are typically focused on improving people's lives while ensuring that investors are compensated for the risks they are taking.

They start by analysing the economic backdrop, looking at aspects like interest rates and politics. They then examine the company itself and its ability to meet its debt obligations. They factor in the management team's track record, business strategy, earnings performance plus the industry's barriers to entry. On a company level, they assess key environmental, social and governance factors on a matrix scoring system before looking at valuations. The result is a diversified portfolio of 50-100 holdings.

Since launch in 2010, the fund has invested in shorter-dated bonds to reduce the portfolio's sensitivity to interest rate rises. It has the flexibility to invest in longer-dated bonds as and when rates normalise.

Stewart Investors Asia Pacific Leaders

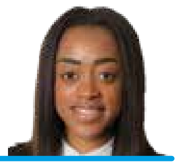
Stewart Investors has a company-wide approach to sustainable investment. The fund managers look for good quality companies that are well positioned to meet the challenge of sustainable development and contribute towards achieving it in the countries in which they operate.

The investment objective of the sustainable range of funds is to generate attractive long-term, risk-adjusted returns for clients by investing in companies involved in sustainable goods and services, responsible finance and required infrastructure.

Stewart Investors is an active manager. It recognises there is no such thing as a perfect company and believes positive engagement plays an important part in improving shareholder value and protecting the value of client portfolios over the long term. It engages actively with company management on a wide range of issues including alignment of interests, governance, reputation, strategy and other environmental, social and governance (ESG) issues.

NEW PLATFORM
GREATER CHOICE AND FUNCTIONALITY AT A LOWER COST

Florence Hassan
Operations Consultant



Chelsea is pleased to inform you of upcoming improvements to our platform, including reduced charges, a greater number of available investments and improved online functionality.

What does it mean for me?

These improvements are in addition to important changes which we have made to our platform over recent years, such as our move to commission-free share classes and an overall reduction in investment costs.

You may have already heard that Aegon purchased Cofunds from Legal & General in August 2016 and are now making a multi-million pound upgrade. The result will be a more modern platform, a wider range of investment options and a more streamlined service.

Aegon, which has been awarded an 'A' for financial strength by research and analysis company Standard & Poors, will become the UK's largest platform provider. It has stated it will invest millions of pounds per annum to progressively improve the platform in line with client requirements and substantial regulatory changes.

Aegon correspondence

You will have received correspondence from Cofunds/Aegon with terms and conditions for the new platform, which is coming in May.

Some of the main improvements can be seen in the box to the right:

MAIN FEATURES

Higher rate of interest paid on cash holdings

Lower annual charges – the biggest change in recent years has been the reduction in annual charges for clients of Chelsea who invest through Cofunds. When the new platform launches, we will be able to reduce these charges even further.

The expansion of the products we offer to include direct equities, and other investments such as ETFs and investment trusts.

New and improved website offering more online functionality and compatibility across both computer and mobile devices.

Same high levels of customer service – Chelsea will continue to accept paper and telephone instructions, as we always have, at no extra charge. There will be the option to go paperless.

What do I need to do?

There is no need for you to take any action. The migration to the new platform will be an automated and seamless process.

We will keep you informed every step of the way and will be on hand to answer any questions you may have. We are very excited about the new platform and we will update you nearer the time.

NEW CHARGING
CUTTING THE COST OF INVESTING

If you are one of the few clients who does not hold their investments through the Chelsea FundStore, in association with Cofunds, you could be paying more in charges every year and missing out on some great benefits. By consolidating your funds, you could save money on your existing investments every year.

Benefit from cheaper share classes

The FCA wants investment charges to be clearer and easier for customers to understand. In response, the industry introduced new share classes for funds – called 'explicit' share classes – where the charges are more transparent.

Mia Watson of Worcester, said,

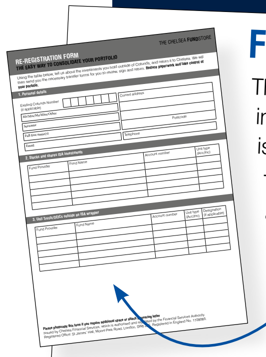
"I had investments with Jupiter, Invesco Perpetual and Henderson and found it increasingly difficult and time consuming to keep track. Now they are in one place, I receive one valuation statement for all of them so know what's going on."

Old system

One annual management charge (AMC), taken at source by the fund provider and calculated into the daily price of the unit. This charge is distributed two ways by the fund provider.	Total 1.5% AMC (On a typical fund) Taken by the fund provider	1% retained by the fund provider 0.50% paid to Chelsea

New system

By moving your investments to the new system, the charges will be lower and taken separately. The reduced charges could save you approximately 13.3% every year.	Total 1.3% AMC (On a typical fund)	0.75% retained by the fund provider 0.15% paid to cofunds 0.40% paid to Chelsea



Free consolidation

The process of consolidating all your investments onto the FundStore platform is called re-registration.

There are no charges for re-registration and no change of fund manager.

Re-registration is easy.

Simply complete and return the form in the enclosed booklet.

David Barnard of Wandsworth said

"The staff at Chelsea are always available on the telephone and are happy to answer any of my questions. I can also look at my portfolio online."

What are the other benefits?

- **Less paperwork, so it is easier to manage your portfolio**
- **Wider investment choice**
- **Free online dealing**
- **Free telephone and paper dealing option**
- **Free switching**
- **Easier estate planning**
- **Reduced overall annual management charges**

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."