

# Viewpoint

THE MAGAZINE FOR CHELSEA INVESTORS

ISSUE 39 JULY 2015

CTF to JISA transfers  
are finally here

Bonds uncovered

Investing for income

Retirement planning  
Your pension options

# Welcome to Viewpoint

Welcome to our July edition of Viewpoint. We hope you enjoy all the usual features plus some interesting articles and updates.

We are very excited by the government's recent decision to allow transfers from Child Trust Funds to Junior ISAs. See page 6 for further details.

At the back of the magazine you'll find all the forms you need to carry out your investments.



"We are very excited by the government's recent decision to allow transfers from Child Trust Funds to Junior ISAs."  
Chairman, Chelsea

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# Market View

Call me jaded if you will, but very little in politics shocks me. However, the result of the general election did take me by surprise, as it did many, although not our wise chairman, who even placed a bet on such an outcome. In fact, I'm reliably informed that the BBC were even contemplating ignoring the exit poll, its result being so contrary to the perceived wisdom. So, whilst I was looking on in astonishment and John was collecting his winnings, markets and sterling soared, relieved that the uncertainty was over and we could all carry on about our business, without weeks of politicians cobbling together some form of coalition. Indeed as we go to press, the 100 share index remains ebulliently above 7,000.

**So with the UK general election behind us and the oil price stabilising, markets seem as relaxed as the early summer sunshine I glimpse out of the window. Will this state of tranquillity last though? How will the recent rout in bond markets pan out? Will we worry more about inflation or deflation over the coming months?**

## BOND MARKET TOP OF THE AGENDA

Possibly for the first time in the history of Market View I feel the need to examine the bond market ahead of equities. You are probably bored with my frequent warnings about the dangers of an overbought bond market. Just to recap, for those of you new to this column, post the financial crisis interest rates have been kept low, for an unprecedented length of time, in order to stimulate growth. So, savers have been forced out of the comfort of building society accounts, which have been offering less than inflation and thus eroding the value of savings, and into the world of investing, seeking out yield wherever they can find it. This pushed up the prices of government and corporate debt, which in turn reduced their yield. This effect has widened out into 'bond proxy' stocks, those equities, such as utilities, which are defensive and offer a higher yield.

In fairness, like many other professional investors, I have been too early in calling an end to the 30-year bull market for bonds. However, with the oil price stabilising and deflation looking less likely, in the middle of April we saw the beginning of a sell-off in government bonds, which accelerated in early May. This was most apparent in Germany, where bond yields had actually turned negative. Our concern about the bond market led us to ask expert bond investor Jeremy Wharton to talk to us about bonds, so do take a look at pages 26 and 27 for a more in-depth look at the issues.

The inflation versus deflation debate rages on. I wrote much on the oil price decline in the last Market View, so I won't go over old ground. However, it appears to have stabilised and I believe it will range trade from here, remaining relatively low. This is an aid to global GDP and an effective tax cut for consumers. We have recently seen

UK inflation turn negative for the first time since records began. However, when the impact of the oil price decline and lower food prices fall out of the inflation numbers, we may well see inflation looking more robust. Wage rises are also starting to come through. So, I believe, we are likely to see both bond and equity markets start to worry about rate rises. Bizarrely, if the threat of rate rises has such an impact, we may see actual rate rises move further out, with Janet Yellen, Fed Reserve Chairman, terrified of being held responsible for choking off global GDP growth. No one wants to be remembered for that after all!

## TAKING STOCK

Equities have continued on their upward trend, although we have seen a shift in the tables. Japan has hit the ground running this year, with MSCI Japan up over 16%\* year to date, and Asia isn't far behind. Europe has managed double digit returns, with emerging markets and the UK not far behind. The US has taken a pause for breath, with MSCI USA up almost 6%\*. So, those of you who took on board our comments regarding our bullish stance on Japan and concerns regarding US valuations, in the last Viewpoint of 2014, will have prospered.

There has been a sell-off in UK micro caps, which makes the sector look attractive for those able to take a higher-risk, longer-term approach. More on this in the Spotlight on page 20.

The weaker euro and QE have benefited European stocks, but the Greek issue remains. On the plus side, I think Europe has had time to prepare for a Greek exit. However, it will almost certainly destabilise markets, at least temporarily.

The US economy looks robust but, given valuations, we don't expect strong returns here.

Japan continues to look interesting. Weaker energy prices and currency weakness are boosting the economy, whilst reforms are having a beneficial effect on corporates. I remain positive on Japan, with the caveat that it is quite exposed to global GDP, so any pullback there would hurt.

China has produced strong returns this year, but much of the gain is due to Chinese speculative investors, so approach



"In the UK, I suspect that markets will be nervous around the EU debate."

Managing Director, Chelsea

with caution. They are trying hard to rebalance the economy towards one that is consumption driven. There is some evidence that this is starting to work, but it requires careful management, so I would expect some bumps along the way.

Asia and emerging markets have done better this year, but there is increasing divergence and, whilst at least 50% of emerging market investment goes into index trackers, I would urge that now is the time for strong active management.

Active management is often overlooked in favour of trackers, but take a look at RedZone to see just how many trackers are hiding there. With volatility abounding in both equities and fixed interest, I would stress that good active management is key.

In conclusion, we remain concerned about fixed interest. We are cautious on equities, but prefer those which will benefit from QE i.e. Japan and Europe. I particularly like Japan and UK micro caps, but always with tried and tested active managers at the helm.

\*Source: FE Analytics, 27/05/15





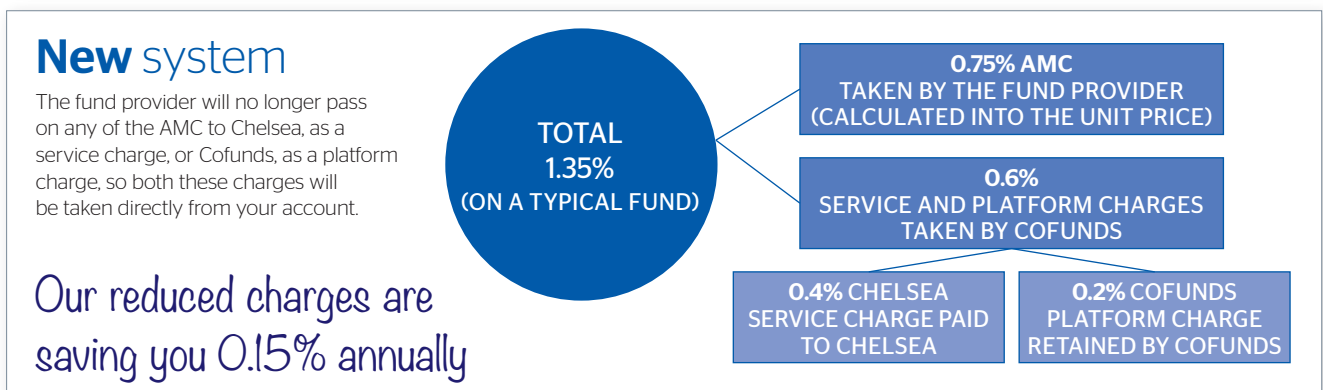
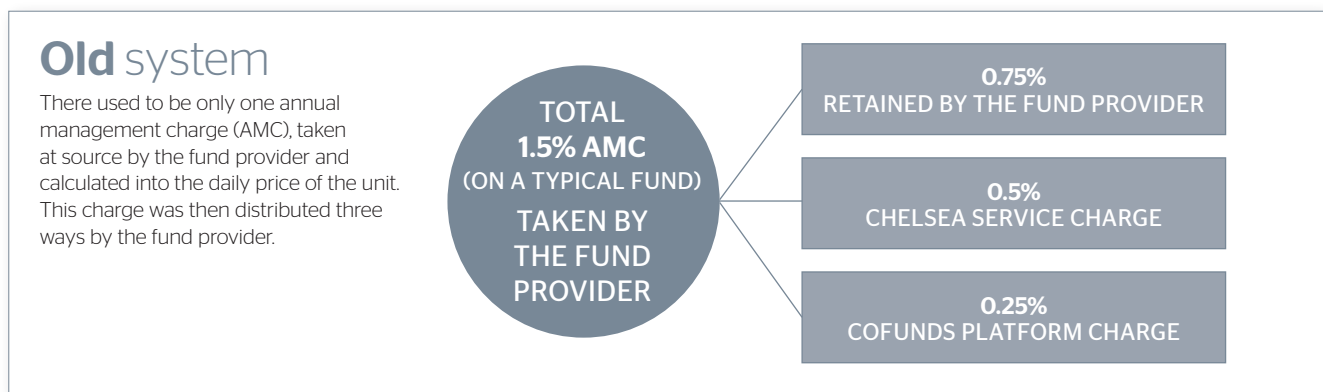
"We appreciate how tricky the new charges are so we have kept it simple."

Research Assistant, Chelsea

# Are you **confused** by the new charging structure?

The majority of you have already converted your portfolio over to the new charging structure. But for those of you who haven't yet, or who are still trying to make sense of the new charges and how they are taken, please see below a reminder of how things work.

If you would like to take advantage of our reduced charges, please complete the Share Class Conversion form on page 39, if you haven't already completed it.



#### WHAT DOES ALL THE TERMINOLOGY MEAN?

**Clean, explicit or commission-free share class** = new-style share class

**Implicit or commission-included share class** = old-style share class

**Conversion** = the process of changing your funds from implicit to explicit; this doesn't cost you anything and will take around five working days, during which time you will be unable to transact on the funds that are being converted

**Self-directed** = execution-only or non-advised

**Cash Account** = everybody has one, whether there is money in it or not; this is where you pay money in to cover charges

#### WHY IS THE PRICE OF MY CLEAN FUNDS DIFFERENT FROM THAT OF MY OLD FUNDS?

Each fund has various different share classes, including implicit and explicit. Each share class has a different price, depending on when they were created and at what price they were created. The important thing to keep in mind is that the valuation of each of your holdings will remain the same, even though the price and number of units held will differ.

#### WHAT CORRESPONDENCE WILL I RECEIVE WHEN I CONVERT MY HOLDINGS?

Chelsea will write to you on receipt of your Share Class Conversion form with further details of how to pay your charges. You will then receive the following paperwork from Cofunds:

- Fund Sale Instruction confirmation - this does not mean you have given Cofunds an instruction to sell your holdings; it merely means that Cofunds will sell enough units from one of your funds to cover the charges, unless you have enough money in your Cash Account to do so. This letter also quotes your Platform Account reference, which you will need if you want to make any bank transfers into your Cash Account
- Platform Charge confirmation - this sets out the Cofunds' platform charge, depending on how much your portfolio is worth
- Conversion confirmation notes - these will show you how many units were converted out of the old funds and into the clean funds. Please note, these may arrive at different times, so if all your funds are not listed on one confirmation note the rest will follow
- You will also receive notification each time you pay money into your Cash Account

# Chelsea Junior ISA

## Don't delay: **transfer your CTF today**

Make the most of our amazing deal and transfer your Child Trust Fund to the Chelsea Junior ISA

Child Trust Funds (CTFs) were launched 10 years ago to encourage parents to save tax efficiently for their children's future. However, a combination of limited product choice, expensive charging and low contribution limits led to limited success. In 2011 the government replaced CTFs with the much improved Junior ISA.

Since the introduction of the Junior ISA, CTFs have been left to languish, which left many investors very frustrated. Now, finally, after lengthy campaigning, it is possible to transfer CTFs to Junior ISAs.

More than six million children could now benefit from wider investment choice, lower costs and potentially greater returns. What's more, for at least 12 months, Chelsea are offering the **Junior ISA at a 0% annual service and 0% platform charge\***. This deal is not only for CTF transfers, but also for new, and existing, Junior ISA accounts.

### WHY TRANSFER A CTF TO THE CHELSEA JUNIOR ISA?

- The same tax advantages are available on a much wider choice of funds (2,500 on the Chelsea FundStore) with no trading costs or hidden charges
- And 0% service charge for at least 12 months
- The Junior ISA is automatically rolled into an 'adult' ISA when the child reaches 18
- CTFs are now a dormant product and will eventually cease to exist

### HOW DO I TRANSFER A CTF TO A JUNIOR ISA?

Simply complete and return the transfer form on page 51.

### UNSURE WHERE TO INVEST?

- You can choose from any of the 2,500 funds on the Chelsea FundStore, all at 0% initial charge.
- Or, you could look at the Chelsea Selection (pages 22-23) or Core Selection (pages 14-19) for inspiration.
- Alternatively, our research team has produced three Junior EasyISA portfolios for your consideration. You can read more about these on the opposite page.

### DON'T JUST TAKE OUR WORD FOR IT

Chelsea clients Chris Bowden and Sophie Blythe have already transferred CTFs to the Chelsea Junior ISA.

**Chris Bowden:** "I wrote to my local MP on numerous occasions asking for the rules to be changed, as I was concerned that the Child Trust Fund I made monthly contributions into for my eldest grandson had such a limited investment choice. When my second grandson was born, he was eligible for a Junior ISA, which I took out straight away with Chelsea. However,



"We are passionate about financial education and the benefits of investing early on in life."

Chartered Financial Planner,  
Operations Director, Chelsea

*it did seem unfair that there was such a disparity in the investment opportunities between the two products. It took a long time to come about, but now it has, I've transferred to the CTF straight away."*

**Sophie Blythe:** "Both my children were eligible for Child Trust Funds, but I found the choice very limited and the costs excessive when compared with what I was paying for my own ISA. I've now transferred both accounts to the Chelsea Junior ISA and taken advantage of the reduced service fee, as well as the increased choice."

\*Standard Service and Platform Charge = 0.60%.  
Junior ISA Service and Platform Charge for at least 12 months = 0%



# THE CHELSEA Junior EasyISA

The Junior ISA is a version of the long-standing and popular ISA but aimed at parents, guardians and grandparents who wish to save for a child's future. The Junior ISA has the advantage of no capital gains tax and no further liability to income tax. The Junior ISA limit is £4,080 for the 2015/16 tax year.

## WHY SHOULD YOU USE THE JUNIOR ISA ALLOWANCE?

Act now to protect your child's future. The Junior ISA could be used for university costs, house deposits, a wedding or possibly a car. Alternatively, at the age of 18, the Junior ISA will be automatically rolled into an 'adult' ISA and remain invested.

## UNSURE WHERE TO INVEST?

To make it as easy as possible to invest in a Junior ISA, our research team has produced three Junior EasyISA portfolios to help you maximise returns over the long term. These are simply suggested portfolios, which are split equally between three funds. As the Junior EasyISA is aimed at children and, consequently, the investment term is generally longer, they offer a broad, but predominately equity, spread and therefore it should be noted that they may be subject to volatility, and thus potential capital loss.

## HOW DO I INVEST?

An application form can be found on page 49. 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/forms](http://chelseafs.co.uk/documents/forms)). You will also find further information on our website at [chelseafs.co.uk/products/children/isa](http://chelseafs.co.uk/products/children/isa).

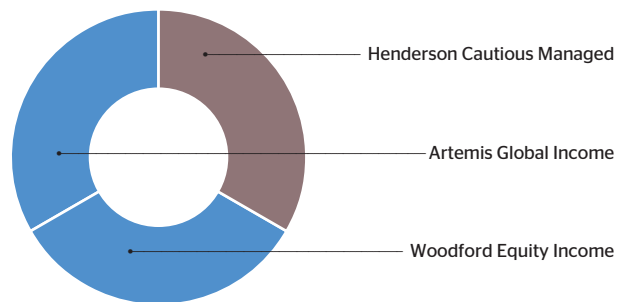
**Junior ISA guide:** We have written a guide which explains how the Junior ISA works, who can invest in it and what the benefits are. It is available on our website at the address above.

**Please note** that children with Child Trust Funds (CTF) cannot open a Junior ISA. However, you can now transfer a CTF to a Junior ISA and, once transferred, you can top-up the Junior ISA. An application form can be found on page 51.

## Core Equity Portfolio

AVERAGE ANNUAL MANAGEMENT CHARGE	0.71%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.76%

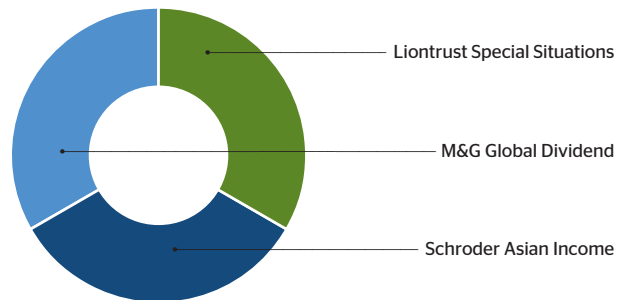
The core portfolio is designed to provide capital growth through investment in equities in a variety of regions and some fixed interest, with the aim of reducing volatility. The resulting portfolio holds over 80% in equities, so there is still potential for capital loss.



## Balanced Equity Portfolio

AVERAGE ANNUAL MANAGEMENT CHARGE	0.75%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.90%

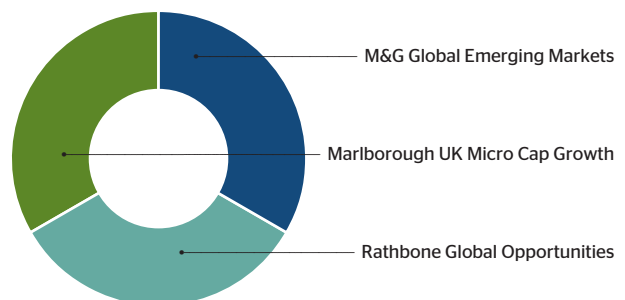
Those investors prepared to take a balanced level of risk and aiming to generate a return on capital through a mix of growth and income should opt for the balanced portfolio. The portfolio primarily invests in developed Asia and UK equity markets, although it is exposed to other regions such as the US, Europe and some emerging market countries. The fund will hold up to 100% in equities so there is potential for capital loss.



## Aggressive Equity Portfolio

AVERAGE ANNUAL MANAGEMENT CHARGE	0.72%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.83%

The portfolio aims to maximise capital growth by investing in a mix of UK, emerging market and global equities. Consequently, investors should be willing to accept a higher degree of risk and volatility due to the nature of the underlying investments in these regions, particularly in emerging markets. The fund will hold up to 100% in equities so there is potential for capital loss.



## PORTFOLIO CHANGES

**Core Equity Portfolio:** Artemis Global Income replaces Newton Global Higher Income

**Balanced Equity Portfolio:** Schroder Asian Income replaces Newton Asian Income

*All funds are chosen from the Chelsea Selection  
...see pages 22 & 23*

INVESTING MADE EASY, WITH 0% INITIAL CHARGE:

# the Chelsea EasyISA



"For more details on the performance of the EasyISA funds, see pages 22-23."  
Research Director, Chelsea

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.

That's why we've created 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. And remember, the EasyISA is also available for ISA transfers.

### HOW MUCH CAN YOU INVEST?

The ISA allowance is £15,240 for the 2015/16 tax year. Please note that the minimum lump sum payment is £50, or £25 monthly, into any EasyISA.

### WHAT TO DO NEXT

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

(\*see covering letter for details, or visit our website at [chelseafs.co.uk](http://chelseafs.co.uk))

2. Tick the relevant box on the ISA application form (page 41) and decide how much you want to invest

3. Complete the form and return with payment to us. Easy!

Three easy ways to buy your ISA:



Call us on  
**020 7384 7300**



Visit our website  
**chelseafs.co.uk**  
...and click on 'Invest Now'



Send us a **form**  
ISA - go to page 41

## 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 predominantly large-cap equities. Approximately one third will be invested in fixed interest, which tends to be less volatile than equities. The final third of the portfolio is divided between property and 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.

AVERAGE ANNUAL MANAGEMENT CHARGE	0.68%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.80%
BENCHMARK	1/3 STRATEGIC BOND (SECTOR AVERAGE) 2/3 MIXED INVESTMENT 20-60% (SECTOR AVERAGE)

Source: FE Analytics data as of 01/05/2015, compiled by Chelsea.

GLG Strategic Bond

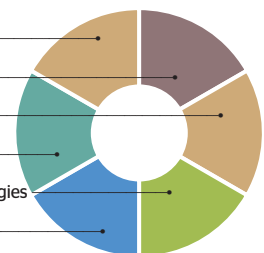
Henderson UK Property

Jupiter Strategic Bond

Rathbone Global Opportunities

Standard Life Global Absolute Return Strategies

Woodford Equity Income



	PORTFOLIO	BENCHMARK	MIXED INVESTMENTS 20-60% SHARES**
PERFORMANCE OVER 1 YEAR	6.93%	10.14%	8.25%
PERFORMANCE OVER 3 YEARS	23.33%	29.71%	25.07%
PERFORMANCE OVER 5 YEARS	31.14%	40.88%	31.90%

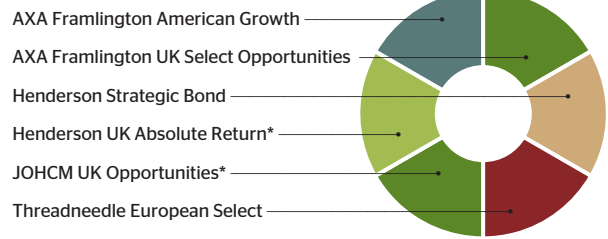


## Balanced Growth EasyISA

Balanced Growth offers a medium level of risk and is for investors looking 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.

AVERAGE ANNUAL MANAGEMENT CHARGE	0.75%*
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.83%
BENCHMARK	1/3 UK ALL COMPANIES (SECTOR AVERAGE) 1/3 GLOBAL (SECTOR AVERAGE) 1/3 MIXED INVESTMENT 20-60% (SECTOR AVERAGE)

Source: FE Analytics data as of 01/05/2015, compiled by Chelsea. \*A performance fee may be applied, see page 14 and 19 for details. \*\* Sector average.



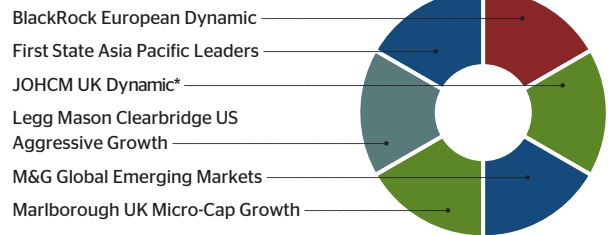
	PORTFOLIO	BENCHMARK	MIXED INVESTMENTS 20-60% SHARES**
PERFORMANCE OVER 1 YEAR	10.08%	12.94%	10.78%
PERFORMANCE OVER 3 YEARS	37.68%	38.05%	33.29%
PERFORMANCE OVER 5 YEARS	47.36%	52.33%	40.67%

## 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.

AVERAGE ANNUAL MANAGEMENT CHARGE	0.73%*
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.93%
BENCHMARK	MSCI WORLD INDEX

Source: FE Analytics data as of 01/05/2015, compiled by Chelsea. \*A performance fee may be applied, see page 14 for details. \*\* Sector average.



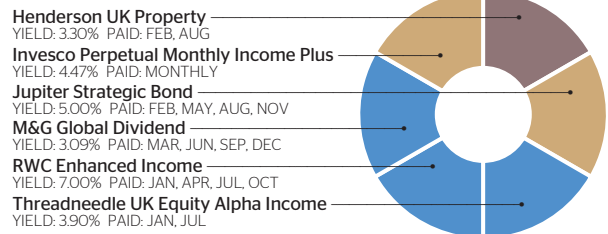
	PORTFOLIO	BENCHMARK	GLOBAL RETAIL**
PERFORMANCE OVER 1 YEAR	20.10%	13.64%	15.75%
PERFORMANCE OVER 3 YEARS	57.18%	46.53%	43.90%
PERFORMANCE OVER 5 YEARS	67.08%	63.46%	48.52%

## 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 property to further diversify the income stream. This combination aims to maintain, and even potentially grow, capital over the long term, whilst paying dividends throughout the year. The portfolio currently has approximately 47% exposure to equities, at the time of writing.

AVERAGE ANNUAL MANAGEMENT CHARGE	0.70%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.86%
BENCHMARK	1/2 STRATEGIC BOND (SECTOR AVERAGE) 1/2 UK EQUITY INCOME (SECTOR AVERAGE)

Source: FE Analytics data as of 01/05/2015, compiled by Chelsea. \*\* Sector average.



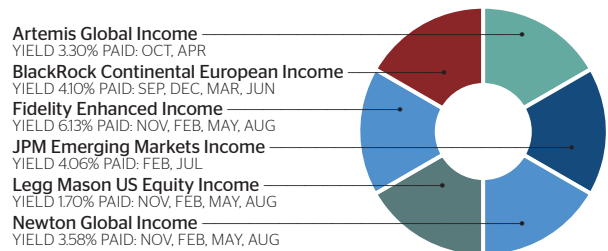
	PORTFOLIO	BENCHMARK	MIXED INVESTMENTS 20-60% SHARES**
PERFORMANCE OVER 1 YEAR	6.97%	7.10%	8.25%
PERFORMANCE OVER 3 YEARS	36.37%	35.74%	25.07%
PERFORMANCE OVER 5 YEARS	50.37%	48.67%	31.90%
AVERAGE YIELD FOR THE PORTFOLIO	4.46%	-	-

## 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 55% of the portfolio is invested in US and European equities, with approximately 17% 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.

AVERAGE ANNUAL MANAGEMENT CHARGE	0.75%
AVERAGE ONGOING CHARGES FIGURE (OCF)	0.91%
BENCHMARK	GLOBAL EQUITY INCOME

Source: FE Analytics data as of 01/05/2015, compiled by Chelsea. \*\* Sector average.



	PORTFOLIO	BENCHMARK	GLOBAL RETAIL**
PERFORMANCE OVER 1 YEAR	13.12%	13.51%	15.75%
PERFORMANCE OVER 3 YEARS	N/A	N/A	N/A
PERFORMANCE OVER 5 YEARS	N/A	N/A	N/A
AVERAGE YIELD FOR THE PORTFOLIO	3.81%	-	-

# the **DIY**portfolio

If you have a larger sum to invest or the EasyISA doesn't meet your requirements, why not do it yourself? Here's a guide to how a self-selected portfolio might look. Please refer to page 12 for guidance on our Chelsea Risk Ratings.

**PEOPLE OFTEN ASK US, "HOW SHOULD MY PORTFOLIO LOOK?"**

The truth is that it's really quite subjective - everyone has a different attitude to risk and preferences for one sector/region or another. But for those of you who would like a rough guide to a split, we have provided the generic portfolios below.

The idea is that you determine your own attitude to risk. The Cautious DIY portfolio has an equity weighting of 40% and the Balanced DIY portfolio has an equity weighting of 70%. Please note that even a portfolio with 40% in equities is liable to substantial swings in value. The DIY portfolios below are a rough guide and may not be appropriate for you. You must determine your own level of risk. For example, you may decide to create a much more cautious portfolio with no exposure to equities at all.

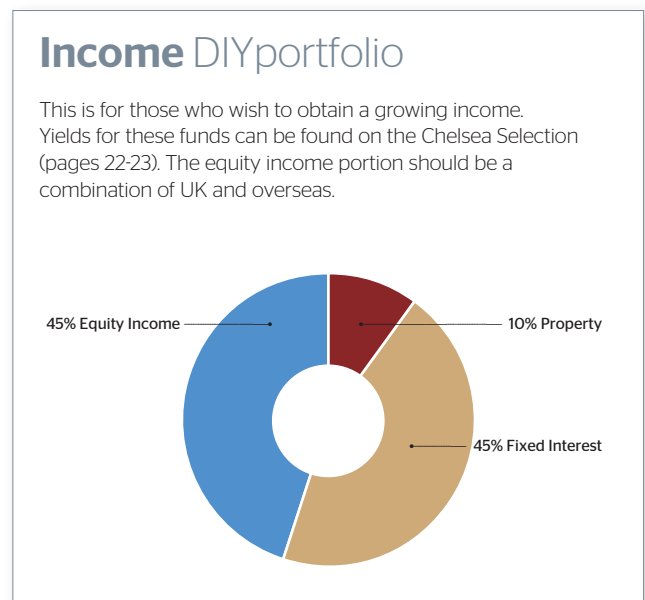
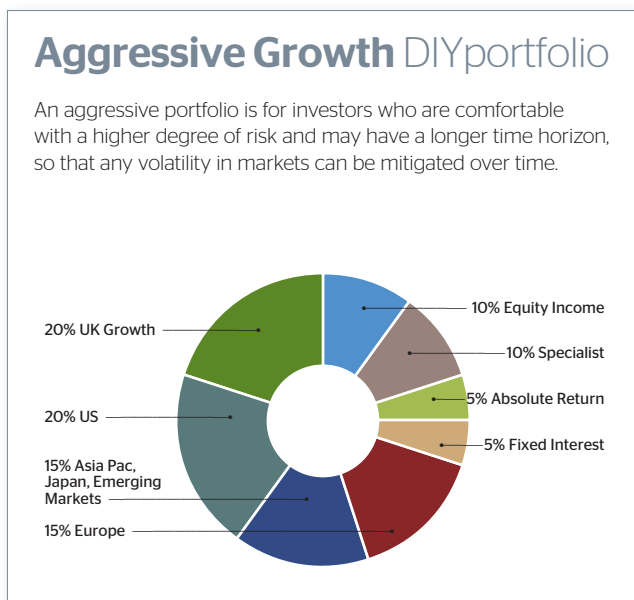
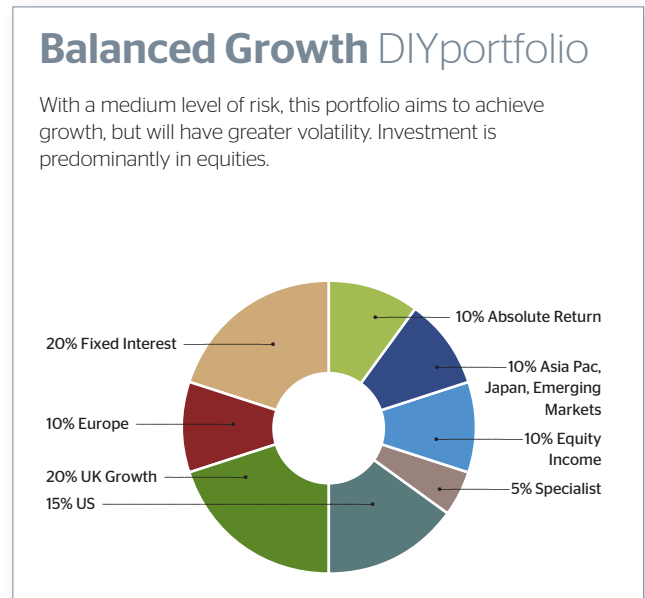
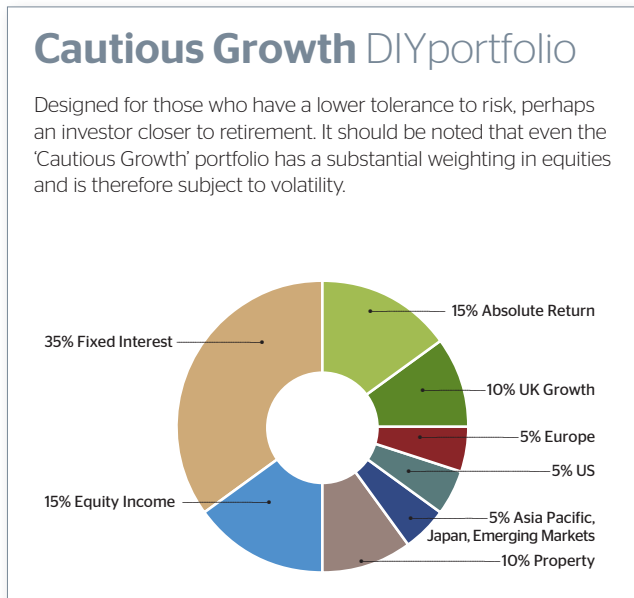
The portfolios below are designed to give you an idea of how

you could diversify your portfolio, which is one way of reducing risk. If you have your entire portfolio in one asset and one geography, for example UK equities, your portfolio will struggle if this market does poorly and will also be more volatile.

By diversifying by asset class and geography your portfolio should have a better chance of producing more balanced returns with lower overall volatility. For example, when your equity funds are struggling this might be offset by better performance from your bond funds or vice versa. The number of funds held within these portfolios will vary depending upon the amount invested. As a rough guide, you may expect to have approximately 10 funds in a portfolio of over £30,000 and 15-20 in one of over £100,000.

So, see how your portfolio stacks up. Remember, you can switch funds for free via the Chelsea FundStore.

**NB: These portfolios do not include cash allocations.**



# Chelsea **research tables**

There are approximately 3,000 funds in the entire UK market - with more than 2,500 available via the Chelsea FundStore. We shortlist those we think are worth considering as part of a diversified portfolio.

We've organised our research into four simple tables:



## Chelsea's research process

You can look at the funds within our Selection tables with the knowledge that we have met and interviewed every fund manager. We conduct regular analysis of fund performance in every sector, which flags the funds we wish to investigate further. We then interview managers, questioning them on their investment process.

Once a manager achieves a place within the Chelsea Selection we obtain regular updates. We understand that managers may have periods of underperformance but, as long as we are confident that they can get their fund back on track, it remains on our tables.

For further details on our research process please visit [www.chelseafs.co.uk/research/process](http://www.chelseafs.co.uk/research/process)

# Risk

Risk is key to understanding the suitability of your investments. It should be one of your key starting points for any investment decision you make.

## IMPORTANT CHANGE TO THE CHELSEA RISK THERMOMETER

We have recently updated the risk ratings of our bond funds to reflect a change in the current environment. Because of the way bonds are priced they can become subject to greater volatility, and therefore more risk, when yields are low.

## BOND RISKS

There are two main types of risk. The first is credit risk, the risk that a bond may not be repaid, and the second is interest rate risk – the risk that interest rates may rise faster than the market expects.

Developed world government bonds, such as gilts, are theoretically not subject to credit risk, so you should always get back the par value of your bond, if you hold it to maturity. However, they are still subject to interest rate risk and therefore not immune to suffering a capital loss.

For example, consider you are invested in a 10-year UK government bond at a 2% annual yield, priced at par (the face value of the bond). If interest rates then rise, and the UK government issues a new 10-year bond at a 5% yield, your investment will now not be worth as much. Why would investors buy your bond at a 2% yield when they could buy the new bond at 5%? The price of your bond will have to fall (increasing its yield) to match the new bond.

## MATURITY

A bond with a longer maturity will be subject to greater interest rate risk. Imagine the bond in the example above was a one-year instead of a 10-year bond. In this case the sudden change in interest rates would have a much smaller effect on the price of the bond. This is because the bond will mature in one year and you can re-invest at the higher rate. Investors wishing to minimise interest rate risk may wish to consider short-duration funds.

You may ask, why does it matter if your government bond goes down in value if you will always get your money back in the end? The most important reason is inflation. Imagine you are stuck in a 10-year UK government bond paying a 2% annual yield, but with inflation at 5%. At the end of 10 years you will get the par value of your bond back, but in real terms you will have suffered a loss, as the value of your bond has been eroded by inflation. The current low inflation environment is why bonds yield so little.

## WHY WE CHANGED OUR RATINGS

Bond yields are now so low that interest rate risk is higher and bonds, particularly those with longer maturities, are potentially subject to greater volatility and capital losses. The current situation is unprecedented and the market has been artificially distorted by government intervention, through programmes such as quantitative easing. There have already been some signs of stress, over the past few weeks the German bund sold off. If the bund returns to the 1.5% yield it was trading on last year, that would result in a 13% capital loss from its peak price. As a result of the current environment, we have increased many of the risk ratings on our bond funds and changed our risk thermometer.

## HOW TO USE THE CHELSEA RISK RATING

Different funds will have different risk profiles, depending upon their underlying investments.

At Chelsea our research team assesses the overall risk of a fund by analysing a number of factors including: the fund's volatility; the volatility of the asset class; 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. Once we have appraised a fund, we then assign it a Chelsea Risk Rating, with 1 as the lowest risk and 10 the highest. **However, all funds are subject to risk and a potential capital loss.**

**The Chelsea Risk Rating is simply a generic guide to the relative risk of all funds within the market. The Chelsea Risk Rating is shown in the form of a thermometer here.**

At Chelsea we offer an execution-only service and consequently, we make no assessment of your financial situation, nor do we consider your investment objectives or constraints. This means it is up to you to determine your optimum asset class mix. 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 of the spectrum, does not mean it is suitable for medium-risk investors, merely that we think it is more risky than a fund rated four, and less risky than a fund rated six.



# FundsUpdate

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.

## Fidelity European

Chelsea Generic Rating: **BUY / HOLD / SWITCH**

Manager Samuel Morse began his career at Fidelity in 1990. In 1997 he left to become head of UK equities at M&G but he returned to Fidelity in 2004. In 2010 Sam took over the Fidelity European fund from Timothy McCarron. Sam follows a bottom-up philosophy and looks for growth companies trading on reasonable valuations. He likes firms with tried and tested business models run by strong proven management teams.

Sam is an experienced and safe pair of hands, although much

of his career has been spent looking after UK rather than European equities. About 5% of the fund is currently held in UK, despite this not being a part of the index. The fund's performance has been solid but not spectacular. Its target is to exceed the MSCI Europe by 1% per annum over a rolling three to five-year period. In our view this is conservative and given this sector is highly competitive, we prefer funds that have delivered better and more consistent returns. Therefore the fund is rated a hold and not a buy.

## Newton Oriental

Chelsea Generic Rating: **BUY / HOLD / SWITCH**

This fund was previously managed by Jason Pidcock. Jason left the Oriental fund to focus on Newton's larger Asian Income fund. As we go to press, we have just learnt that Jason has announced he is leaving Newton to join Jupiter. The Newton Asian Income fund used to sit on the Chelsea Core Selection, but we have downgraded the fund to a hold following Jason's departure.

In July 2013, the Newton Oriental fund was taken over by Caroline Keen. Caroline joined Newton in 2009 having previously worked at BlackRock. She is supported by Newton's team of global

sector analysts. The fund employs Newton's typical thematic investment approach and the fund looks for companies with strong sustainable advantages.

Unfortunately, since Jason's departure, the fund's performance has been very poor. It has lagged its peers by over 5% in each of the past three years and is already over 4% behind its sector in 2015. It makes its first appearance in the DropZone on page 24.

We think there are better options elsewhere and we prefer funds that have delivered consistent returns above the benchmark.

## Invesco Perpetual Monthly Income Plus

Chelsea Generic Rating: **BUY / HOLD / SWITCH**

Paul Causer and Paul Read, 'the two Ps', have been managing the credit portion of this fund since it launched over 15 years ago. This is a highly flexible strategic bond fund with the freedom to invest across the credit spectrum. It typically aims to preserve capital whilst providing a high monthly income.

Unlike most strategic bond funds, it invests around 20% of its assets in equities. This equity portion of the fund was managed by Neil Woodford until he recently left Invesco to form his own company. We temporarily downgraded the fund to a hold, following Neil's departure, as is our standard practice when any fund manager leaves.

Neil was only responsible for managing less than 20% of the assets and the bulk of the fund's outperformance over the years has been down to the two Pauls' excellent bottom-up security selection.

Ciaran Mallon has taken over the equity portion of the fund. He also manages the Invesco Income and Growth fund. Ciaran is an experienced manager with a very solid track record, having worked in equity markets since 1994. Following a discussion with Ciaran we reinstated the fund to a buy.

Some of our clients have been concerned that the yield on the fund has fallen in recent years. This has happened because the managers have positioned the fund more defensively. It is also an unavoidable symptom of the low interest rate environment. The fund has still produced strong performance and it offers a solid yield of 4.5%, far better than anything which is achievable in a cash ISA.

We continue to like the fund's flexibility, its focus on preserving capital and its high yield. The fund remains a buy.

Log in to your FundStore account to access the Chelsea fund review for our full list of our generic buy/hold/switch ratings at [chelseafs.co.uk](http://chelseafs.co.uk)

Chelsea offers an execution-only service. If you require individual investment guidance you should seek expert advice. Please see the important notice on page 2.



# Chelsea Core Selection<sup>©</sup>

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

## UK GROWTH

### ARTEMIS UK SPECIAL SITUATIONS

Derek Stuart defines special situations as including companies in transition, in recovery, requiring re-financing or simply suffering from investor disinterest. However, he has a preference for companies that can “self-help” by cutting costs or replacing management. He employs a bottom-up approach and stock selection criteria favour growth characteristics, although not at the expense of traditional value-based disciplines. The fund has an unconstrained multi-cap mandate, but in general there will be about 40% large-cap and the remainder in small and mid-caps. The fund usually has around 60-90 holdings.

CHELSEA RISK RATING	●    6
ANNUAL MANAGEMENT CHARGE	0.75%*
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	GOLD
YIELD	1.74%
UNIT TYPE	ACC or INC

### 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 80 stocks.

CHELSEA RISK RATING	●    6
ANNUAL MANAGEMENT CHARGE	0.75%*
ONGOING CHARGES FIGURE (OCF)	0.83%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	GOLD
YIELD	1.54%
UNIT TYPE	ACC or INC

### JOHCM UK DYNAMIC

Alex Savvides, who has been running the fund since 2008, is one of the most exciting up-and-coming UK fund managers. The process, which he built himself, looks 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. There is a 15% performance fee on outperformance of the FTSE All-Share Total Return Index.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.63%* #
ONGOING CHARGES FIGURE (OCF)	0.74%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	0.75%
UNIT TYPE	ACC or INC

### JOHCM UK OPPORTUNITIES

This fund is managed with conviction and aims to generate positive absolute returns over the long term by using a combination of top-down analysis and bottom-up stock selection. The managers, John Wood and Ben Leyland, look to find quality stocks at attractive valuations, to build a portfolio of 30-40 stocks, with no regard for the benchmark. John and Ben have a strict sell discipline and look to top-slice when holdings reach 5% of the portfolio. There is a 15% performance fee on outperformance of the FTSE All-Share Total Return Index. John and Ben remain cautious, due to corporate earnings not keeping pace with stock prices and, at the time of writing, 18.65% of the fund was in cash.

CHELSEA RISK RATING	●    5
ANNUAL MANAGEMENT CHARGE	0.63%* #
ONGOING CHARGES FIGURE (OCF)	0.68%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	2.87%
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 60% 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. The fund is concentrated with 40-50 stocks and, due to the nature of the portfolio companies, will perform well in flat or falling markets. Another important factor is how key employees are motivated, with the preference being through direct ownership of the company’s equity.

CHELSEA RISK RATING	●    6
ANNUAL MANAGEMENT CHARGE	0.75%*
ONGOING CHARGES FIGURE (OCF)	0.87%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	0.74%
UNIT TYPE	INC

### MARLBOROUGH UK MICRO-CAP GROWTH SPOTLIGHT

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. 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)	0.79%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	0.24%
UNIT TYPE	ACC or INC

### OLD MUTUAL UK ALPHA

Following the same process as his previous fund Schroder UK Alpha Plus, Richard Buxton runs the fund with a high conviction approach. Consequently, the fund is concentrated with typically 20-40 holdings and positions are held for the long term. At least 75% of the fund will be in large-cap stocks, with the remainder in the FTSE 250. He adopts a contrarian approach and likes companies that are out of favour but where there is reason to believe that may change. Over the years he has been well known for making some astute macroeconomic calls.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.75%*
ONGOING CHARGES FIGURE (OCF)	0.85%†
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	2.58%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

\* There is a 15% performance fee on outperformance of the benchmark.

†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).

# Chelsea Core Selection<sup>®</sup> CONTINUED

## 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 which consistently deliver a target 4-5% yield through differing market conditions. Income is paid in April and October.

CHELSEA RISK RATING	●    6.5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.84% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	3.30%
UNIT TYPE	ACC or INC

### M&G GLOBAL DIVIDEND SPOTLIGHT

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

CHELSEA RISK RATING	●    6.5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.91% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	3.09%
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% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.80% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	3.42%
UNIT TYPE	ACC or INC

### RWC ENHANCED INCOME

Managers Nick Purves, Ian Lance and John Teahan deploy a flexible value-driven style, carefully selecting a concentrated portfolio of around 30 stocks, with low turnover. Their stock selection process encompasses three key criteria: low starting valuation, strong cash generation and how management uses that cash. Typically, the fund will be managed to achieve a targeted yield of 7%, meaning it will lag during strong market rises, such as in the first half of 2013. The strategy uses call options to enhance income and boost yield, the purpose of which is to deliver total returns over the long term. Income is paid in January, April, July and October.

CHELSEA RISK RATING	●    5
ANNUAL MANAGEMENT CHARGE	0.80% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	1.10% <sup>†</sup>
FUNDALIBRE	-
MSTAR OBSR FUND RATING	NEUTRAL
YIELD	7.00%
UNIT TYPE	ACC or INC

### STANDARD LIFE UK EQUITY INCOME UNCONSTRAINED

Thomas Moore, the manager, looks for non-consensus ideas across the market-cap spectrum. He has a preference for companies whose earnings are growing faster than their dividends, increasing the likelihood that dividend growth can be sustained into the long term. He is free to move around the capitalisation scale to where he sees the best opportunities, and is not afraid to shun equity income stalwarts in the FTSE 100. This style has slightly higher volatility than some of the more mainstream funds in the sector. He also follows a strict sell discipline and cuts positions quickly if the fundamentals deteriorate. Income is paid in April and August.

CHELSEA RISK RATING	●    5
ANNUAL MANAGEMENT CHARGE	1.00% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	1.15% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	3.51%
UNIT TYPE	ACC or INC

### THREADNEEDLE UK EQUITY ALPHA INCOME

Leigh Harrison and Richard Colwell manage the fund, with emphasis placed 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 Leigh and Richard to take active positions in their best ideas. Income is paid in January and July.

CHELSEA RISK RATING	●    5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.88% <sup>†</sup>
FUNDALIBRE	-
MSTAR OBSR FUND RATING	BRONZE
YIELD	3.90%
UNIT TYPE	INC

### WOODFORD EQUITY INCOME

This fund picks up exactly where his previous fund left off, with Neil looking for companies that offer sound balance sheets, resilience to a tough economic environment and earnings transparency, together with very attractive valuations. While the fund will be predominantly large cap, he will also invest in smaller companies. Neil is well known for getting right some big macroeconomic calls and famously sold out of banks before the financial crisis. He has made a flying start and the fund has been the number two in its sector since launch, at the time of writing. Income is paid in April, July, October and January.

CHELSEA RISK RATING	●    5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.75% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	4.00%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

\* There is a 15% performance fee on outperformance of the benchmark.

†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).

# Chelsea Core Selection<sup>®</sup> CONTINUED

## 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. This fund has replaced BlackRock Continental European on the Core Selection. It is worth noting that we remain firm admirers of the Continental European fund, but feel European Dynamic may be better placed to capitalise from a European recovery.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.93% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	0.42%
UNIT TYPE	ACC or INC

### JUPITER EUROPEAN

The fund manager, Alexander Darwall, runs a concentrated, conviction portfolio of 30-40 stocks, with a focus on mid-cap companies. Alexander takes a long-term view, focusing predominantly on bottom-up stock analysis and places a high degree of emphasis on management meetings and having an in-depth understanding of the companies in which he invests. Turnover is thus very low. Alexander will only consider stocks with sound business characteristics and favours those which he believes will emerge stronger from a recession. His preferred sectors are currently industrials and healthcare (though not pharmaceuticals).

CHELSEA RISK RATING	●    6
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	1.03% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	GOLD
YIELD	-
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 currently has 41 holdings, of which around 80% are in large caps.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.88% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	0.90%
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 their investment decisions, as he looks for companies whose management delivers their stated goals. The fund typically holds 65-75 stocks. The manager is currently overweight technology stocks as he feels they will benefit from a consumer recovery.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.82% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	-
UNIT TYPE	ACC or INC

### LEGG MASON CLEARBRIDGE US AGGRESSIVE GROWTH

The managers of this fund have a long and proven track record, with one of the co-managers, Richie Freeman, having been at the helm since 1983. Despite the name of the fund, the managers are conscious of valuations and we would describe it as a "growth at a reasonable price" type strategy, with a bias towards large-cap stocks. They take a very long-term view, with the average holding period being around 10 years. They see a huge amount of companies and carry out incredibly in-depth due diligence, with the intention of seeking out only the highest quality companies with the most competent management teams. This enables them to have a concentrated portfolio, take big deviations from the benchmark and have very low turnover. The process is labour intensive but they are ably supported by a team of 30 analysts, all of whom are based in the US.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.65% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	1.13% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	-
UNIT TYPE	ACC

## ASIA PACIFIC, JAPAN AND EMERGING MARKETS

### FIRST STATE ASIA PACIFIC LEADERS

As of 1st July, there will be some changes to the First State Asia and emerging markets team. Though the lead manager on this fund will be staying the same, the team is being split in two. The Edinburgh-based office, under the moniker of Stewart Investors, and the Hong Kong office as FSS Asia will still come under the First State banner, but allowed to compete with each other as smaller, more flexible businesses. The philosophies of each team will not change. They make company meetings an essential tool in stock selection and hold a portfolio of 50-120 mid/large-cap undervalued stocks, generated from the ideas of regional analysts. There is a limitation of 10% exposure to companies with a lower market cap of \$US500m with Australia and India as the largest country weightings.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.85% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.90% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	GOLD
YIELD	1.18%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

\* There is a 15% performance fee on outperformance of the benchmark.

<sup>†</sup>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.

<sup>#</sup> 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).



# Chelsea Core Selection<sup>®</sup> CONTINUED

## ASIA PACIFIC, JAPAN AND EMERGING MARKETS (CONTINUED)

### INVESCO PERPETUAL HONG KONG & CHINA

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

CHELSEA RISK RATING	● 10
ANNUAL MANAGEMENT CHARGE	0.89% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.89% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	1.45%
UNIT TYPE	ACC

### JOHCM JAPAN

The managers of this multi-cap, high-conviction Japan fund follow a pragmatic approach to identify both growth and value opportunities through bottom-up analysis. The managers also require a catalyst to spur a re-rating, such as a restructuring, a corporate action or an earnings surprise. The portfolio will usually feature 40-60 holdings and the managers have an active trading approach, which can lead to high turnover at times. Typically they tend to avoid mega-cap stocks. Currently they are overweight financials.

CHELSEA RISK RATING	● 10
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.84% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	-
UNIT TYPE	INC

### M&G GLOBAL EMERGING MARKETS

Matthew Vaight seeks to deliver capital growth by identifying asset growth and quality stocks he deems undervalued. He invests in any emerging market region or in companies whose business is conducted primarily in these regions, avoiding stocks affected by political risk or poor corporate governance. Between 50 and 70 stocks are selected through strict bottom-up analysis, reflecting the fund manager's belief that value creation, and not economic growth, will deliver returns over the long term. Matthew has reacted to the recent turmoil in emerging markets by consolidating his positions in financials, adopting a more defensive stance and exploiting attractive valuations.

CHELSEA RISK RATING	● 10
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	1.00% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	1.46%
UNIT TYPE	ACC or INC

### 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% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.94% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	0.83%
UNIT TYPE	ACC or INC

## MISCELLANEOUS

### ARTEMIS STRATEGIC ASSETS

Managers William Littlewood and Giles Parkinson assess the macroeconomic environment to help make their investment decisions. They aim to achieve long-term growth by investing in a range of assets, including UK equity, international equity, fixed interest, currency, commodities and cash. The fund aims to outperform equities when markets are favourable, and preserve capital when markets are poor. They often take advantage of shorting individual securities or currencies that they believe are overpriced.

CHELSEA RISK RATING	● 6
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.87% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	0.47%
UNIT TYPE	ACC

### HENDERSON UK PROPERTY

The managers' primary concern of maintaining an attractive yield sets this fund apart from many of its peers. To sustain the yield Ainslie McLennan and Marcus Langlands Pearse focus on tenant strength and lease length. Strong tenants are those whose long-term prospects are good and are likely to be resilient during all stages of the business cycle. This has meant the fund has a south east focus and is underweight the retail sector. The average lease length is over 10 years. Put into practice, this strategy has seen the fund have one of the highest occupancy rates in the sector.

CHELSEA RISK RATING	● 3
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.85% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	3.30%
UNIT TYPE	ACC or INC

## GLOBAL

### FUND SMITH EQUITY

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

CHELSEA RISK RATING	● 6
ANNUAL MANAGEMENT CHARGE	0.90% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.99% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	1.05%
UNIT TYPE	ACC OR INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

\* There is a 15% performance fee on outperformance of the benchmark.

<sup>†</sup>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.

<sup>#</sup> 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).

# Chelsea Core Selection<sup>®</sup> CONTINUED

## GLOBAL (CONTINUED)

### JOHCM GLOBAL SELECT

Christopher Lees and Nudgem Richyal run this unconstrained fund of around 50 equally-weighted stocks. The global team generate ideas from the 500 stocks held by the JOHCM regional teams. They screen for companies with positive earnings momentum and improving returns on capital. The team perform country analysis, sector analysis and stock analysis. They then identify which of these factors has the biggest impact on the stock over time and build their portfolio accordingly. All stocks in the portfolio are high conviction ideas, but positions are equally-weighted to avoid any manager overconfidence. The fund will typically have a slight bias to growth.

CHELSEA RISK RATING	●    7
ANNUAL MANAGEMENT CHARGE	0.75%**
ONGOING CHARGES FIGURE (OCF)	0.81% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	-
UNIT TYPE	ACC

### RATHBONE GLOBAL OPPORTUNITIES

James Thomson is able to invest anywhere globally. Typically, however, the portfolio will consist of 50-60 stocks from developed world markets. James looks for pure-play growth stocks. Ideally portfolio companies will be easy to understand, have entrepreneurial management, strong demand for their product and be resilient to changes in the business cycle. Lastly he looks for a catalyst for the share price to push forward. This approach can lead to periods of volatility in unsettled markets. The fund does not invest directly into emerging market stocks and its largest regional weighting is currently in North America, with over 58% invested in the region.

CHELSEA RISK RATING	●    6.5
ANNUAL MANAGEMENT CHARGE	0.65% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.70% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	0.11%
UNIT TYPE	ACC

## FIXED INTEREST

### GLG STRATEGIC BOND

Jon Mawby and Andy Li manage this fund with both an absolute and total return mindset. This means they aim to provide an absolute return over the credit cycle, and have the flexibility to move the fund into the areas of the credit spectrum where they see most value. They are also able to express their views on the direction of interest rates, which means the fund can differ significantly from its benchmark. Risk management is at the heart of the process, with the managers hedging known risks with derivatives and using the fund's cash weighting to protect against risks that can't be hedged using conventional methods. Income is paid in March, June, September and December.

CHELSEA RISK RATING	●      3
ANNUAL MANAGEMENT CHARGE	0.6% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.81% <sup>†</sup>
FUNDALIBRE	-
MSTAR OBSR FUND RATING	BRONZE
YIELD	3.44%
UNIT TYPE	ACC or INC

### HENDERSON STRATEGIC BOND

With up to 70% of the fund 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% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.70% <sup>†</sup>
FUNDALIBRE	-
MSTAR OBSR FUND RATING	SILVER
YIELD	4.90%
UNIT TYPE	ACC or INC

### INVESCO PERPETUAL MONTHLY INCOME PLUS

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

CHELSEA RISK RATING	●      3.5
ANNUAL MANAGEMENT CHARGE	0.67% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.67% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	4.49%
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 April, July, October and January.

CHELSEA RISK RATING	●      2.5
ANNUAL MANAGEMENT CHARGE	0.50% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.73% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	5.00%
UNIT TYPE	ACC or INC

### 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 140 stocks. The fund pays out in April, July, October and January.

CHELSEA RISK RATING	●      2.5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.89% <sup>†</sup>
FUNDALIBRE	ELITE
MSTAR OBSR FUND RATING	SILVER
YIELD	3.47%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

\* There is a 15% performance fee on outperformance of the benchmark.

<sup>†</sup>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.

<sup>#</sup> 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).

# Chelsea Core Selection<sup>©</sup> CONTINUED

## TARGETED ABSOLUTE RETURN

### BNY MELLON ABSOLUTE RETURN EQUITY

This fund aims to substantially outperform cash through positions in long/short UK and European equity holdings over a market cycle. A top-down macroeconomic approach is used to identify investment opportunities, combined with bottom-up analysis which focuses on cash flow return on investment. Once a stock has been picked, it is paired with one or more other positions which will hedge the broad market exposures in the long position and isolate the particular performance driver identified by the team's research. Strong emphasis is placed on portfolio risk and capital preservation, supported by disciplined stop-loss and profit-taking policies. The fund manager has broad but disciplined investment parameters and will typically hold between 50-60 positions.

CHELSEA RISK RATING	●     4
ANNUAL MANAGEMENT CHARGE	0.85% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.96% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	-
UNIT TYPE	ACC

### HENDERSON UK ABSOLUTE RETURN

This is a stock-picking fund that aims to deliver 10% p.a. in all market conditions. The managers look 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	●     5
ANNUAL MANAGEMENT CHARGE	1.00% <sup>‡#</sup>
ONGOING CHARGES FIGURE (OCF)	1.06% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	BRONZE
YIELD	0.20%
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	●     6
ANNUAL MANAGEMENT CHARGE	0.75% <sup>‡#</sup>
ONGOING CHARGES FIGURE (OCF)	0.98% <sup>†</sup>
FUND CALIBRE	ELITE
MSTAR OBSR FUND RATING	-
YIELD	-
UNIT TYPE	ACC

### STANDARD LIFE GLOBAL ABSOLUTE RETURN STRATEGIES

This multi-asset, multi-strategy fund invests in a wide remit of global asset classes in order to produce consistent positive returns during all market conditions. The fund targets LIBOR + 5% by investing about 70% of the fund in Standard Life equity and bond funds. The remainder is invested using "relative value strategies" in equities, fixed income securities, currencies and cash positions. Also, the fund can take market directional views and look to profit from declining asset values. The fund usually has equity exposure of no more than 40%. There is no performance fee on this fund. To help control risk, at any one time the fund must employ at least three uncorrelated strategies.

CHELSEA RISK RATING	●     5
ANNUAL MANAGEMENT CHARGE	0.75% <sup>#</sup>
ONGOING CHARGES FIGURE (OCF)	0.89% <sup>†</sup>
FUND CALIBRE	-
MSTAR OBSR FUND RATING	BRONZE
YIELD	1.36%
UNIT TYPE	ACC

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

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

© Throughout Viewpoint, whenever we mention a fund that's in the Chelsea Core Selection, we'll mark it with this icon.

Least risky

1 ● |||||

### THE CHELSEA RISK RATING

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 12 for further details.

Most risky

||||| ● 10

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 12 for more information.

For performance statistics please refer to pages 22-23.

All data sourced from FE Analytics, 01/05/2015.

<sup>‡</sup> There is a 20% performance fee relative to the hurdle rate and high watermark.

<sup>†</sup> 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.

<sup>#</sup> 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).

# Core Selection Spotlight

AN IN-DEPTH LOOK AT TWO FUNDS FROM OUR CORE SELECTION. WE INVITE FUND MANAGERS TO TALK ABOUT THEIR PROCESS AND THEIR ASSET CLASS, GIVING YOU A MORE COMPREHENSIVE VIEW OF HOW YOUR MONEY IS MANAGED.

## Spotlight on **Marlborough UK Micro-Cap Growth** ✉ Elite Rated by FundCalibre



**GILES HARGREAVE**  
Fund manager,  
Marlborough UK  
Micro-Cap Growth

I have managed the Marlborough UK Micro-Cap Growth fund since launch in 2004, co-managing it with Guy Feld for the past three years. I also co-manage Marlborough Special Situations. I began my investment career in 1969 at James Capel and in 1986 founded Hargreave Investment Management, which I merged with Hargreave Hale & Co, a stockbroking firm controlled by other members of my family, in 1988. Today, in addition to my role managing the Marlborough funds, I remain Chairman of Hargreave Hale.

Marlborough UK Micro-Cap Growth invests primarily in UK companies with a market cap below £250m and in many cases less than £150m.

In our view the evidence is clear that these companies offer superior growth potential over the long term. They are often innovators and niche players and their size means they can deliver a more nimble response to changes in the business market.

One great advantage of investing in small companies is the sheer number of stocks from which to choose. The AIM, FTSE SmallCap, FTSE Fledgling and FTSE techMark indices are home to well over 1,000 companies operating in diverse fields ranging from 'big data' management and software through to pharmaceuticals and logistics.

### RISK MANAGEMENT

When a small company succeeds it will significantly outperform a larger one, but it is also true that unpredictable things happen to small companies. To manage that stock-specific risk we hold a portfolio of more than 200 holdings. We start with a small investment and then, as management deliver on their promises, we build our position. However, even our largest holdings rarely account for more than 2% of the fund. This diversified portfolio is a key advantage of gaining your exposure through a fund like ours.

Ours is very much a 'bottom-up' stock-picking approach, we focus on the quality and growth potential of individual companies, rather than making 'top-down' calls on sectors based on macroeconomic conditions. We keep a close eye on the economic backdrop and this informs our investment decisions, but first and foremost we are stockpickers.

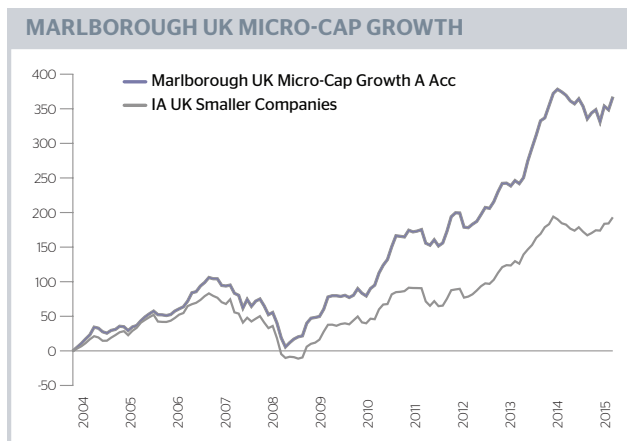
Companies at this end of the market-cap spectrum are generally under-researched. Because we have a large and experienced investment team, we are able to conduct our own primary research to unearth opportunities before the wider market identifies them.

### MEETING IS BELIEVING

One of the most important things we look for is quality management, which is one of the reasons we believe face-to-face company meetings are essential. Hearing what they have to say is important, of course, but you can also learn a lot from things like body language.

Between us, my team and I meet on average five companies every working day. It is an opportunity to question the management and identify any possible risks. Are they, for example, trying to go too far, too fast? Or is their approach a measured and sensible one? It is very rare for us to invest without first meeting the management.

We like companies that are operating in niche markets, where they are not competing against a large number of other businesses. One such is pharmaceutical company Clinigen, which is a leading global



Source: Morningstar/Marlborough Fund Managers 04/10/2004 to 30/04/2015

supplier of specialist medicines, providing treatments for rare and life-threatening diseases and drugs for use in clinical trials. It is a multi-billion pound market and Clinigen has just acquired its biggest rival, Idis.

An important element of our strategy is to run our winners. When one of our companies has got it right and the share price is rising, we let it run, rather than snatching profits early. The performance of document storage company Restore shows just how important this can be to returns. We bought shares in the company in 2010 at around 25p and could have sold them for three times that figure the following year. Instead we held on and the share is now worth more than ten times what we paid for it, a 'ten-bagger' as it is known in the investment world.

After a very strong run, micro caps took a pause for breath during 2014 and the early stages of this year as the attention of many investors switched to FTSE 100 companies. However, blue chips have become quite expensive and as investors look elsewhere for opportunities we have definitely begun to see renewed interest in micro caps.

Looking ahead, we believe interest rates will be key to the performance of UK equities. If they remain near their current low levels for several years then this will maintain the positive environment for equities. We saw UK GDP growth weaken in the first quarter and the economy has now slipped into deflation. The US too has been slowing down. If this environment continues then interest rates could remain low for some time to come and UK equities are likely to reap the benefits.

### THE CHELSEA VIEW:

"The team at Marlborough are one of the best UK small-cap teams. They conduct detailed research and have a very strong understanding of the small-cap world."





## Spotlight on **M&G Global Dividend** Elite Rated by FundCalibre



**STUART RHODES**  
Fund manager,  
M&G Global Dividend

After graduating from Bath University, I joined M&G as a global equity analyst. I have managed M&G Global Dividend since launch in July 2008 and head M&G's income team which applies a dividend growth philosophy on a global and regional basis.

Our fundamental belief is that investing in companies that are growing their dividends is an approach with a tailwind. Why? Because we believe dividends and share prices go hand in hand. To stop a stock's dividend yield reaching an unrealistic level, a growing income stream has to put pressure on the share price

to perform. This upward pressure, combined with the compounding effect of reinvested dividends, should provide investors in dividend growth stocks with compelling long-term returns.

Companies that are committed to dividend growth can be found around the world and across a broad range of sectors. To help ensure we are constructing a balanced portfolio from this diverse investment universe, we look to invest in stocks with three different sets of dividend characteristics: 'quality', 'assets' and 'rapid growth'.

### DIVIDEND GROWTH IS KEY

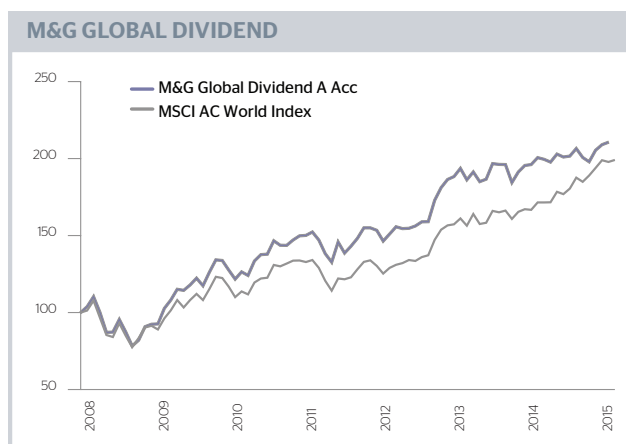
'Quality' stocks, which provide the bedrock of the fund's income, tend to be large multinationals with good capital allocation skills. One of our largest 'quality' holdings is the global pharmaceutical giant Johnson & Johnson, which has been held since the fund's launch. The company's discipline is reflected in its exemplary track record for dividend growth with over 50 consecutive years of increases\*.

It would be easy to create a portfolio of Johnson & Johnsons, and it would very likely deliver steady dividend growth over the long run. However, the performance of such a fund would have a clear bias depending on the market environment: it would outperform in falling markets, but it would struggle in rapidly rising markets.

Fortunately, businesses with a strong commitment to dividends are not limited to stable industries, and the market's tendency to penalise during times of uncertainty presents opportunities. For example, another top holding and survivor from fund launch, Methanex, sold off in the financial crisis and again in the latter half of 2014. Investors misconstrued the methanol producer as being overly sensitive to a falling oil price and, in both cases, the share price subsequently rebounded. In April this year, the company announced its 11th dividend increase since its maiden payment in 2002\*.

The third type of stock we look for, 'rapid growth', are companies that are growing quickly because of their product line, industry or the regions in which they operate. US-listed Avago Technologies exemplifies this. The company benefits from a strong intellectual property portfolio, as well as a diverse customer base in several growing markets. As a result, the management have been able to double the dividend since we first purchased the stock in October 2013\*.

Investing in these three types of companies should help the fund cope with different market conditions and, encouragingly, 'quality', 'assets' and 'rapid growth' stocks are all represented among the healthy dividend increases announced so far in 2015. The majority of our holdings are delivering dividend increases in the region of 5% to 15%, in line with previous years. We are particularly pleased with raises from some of our larger holdings, including Methanex (10%)\*, Prudential (10%) and Novartis (6%) (M&G, 31 March 2015).



Source: Morningstar and M&G Statistics as at 31/05/2015

### A FOCUS ON VALUATION

Dividend growth alone is not enough, however, and it is important that we are focusing on good investments, not just good companies. Valuation is therefore essential in making sure we are not overpaying for compelling dividend-growth characteristics. With this in mind, we take huge comfort from the fact that the valuation of the portfolio relative to the market is at its cheapest since the financial crisis.

We remain committed to our investment approach of backing companies with the potential for long-term dividend growth, the consistent application of which has delivered attractive returns and a growing level of income since launch. The cheap valuation, together with the robust dividend growth we are seeing across the fund, gives us confidence that we can continue to deliver for our investors in the long run.



### THE CHELSEA VIEW:

*"Stuart's fund provides good diversification for those investors holding UK equity income. We like the focus on dividend growth, which helps to combat the effects of inflation."*

\*Source: Company websites and M&G, as at 21 May 2015.

# the Chelsea Selection

AROUND 100 OF OUR TOP-RATED FUNDS, ORGANISED BY SECTOR

	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	Yield %	Fund Size (m)
<b>UK ALL COMPANIES</b>												
Artemis UK Special Situations	👍	6	4.25	210	5318	109	67.24	113	138.00	60	1.74	1202.8
AXA Framlington UK Select Opportunities	👍	6	8.82	93	5016	125	88.39	50	184.43	23	1.54	4535.0
Franklin UK Mid Cap	👍	6	17.24	9	8097	21	123.93	11	374.32	2	1.67	998.6
Investec UK Alpha*** <b>NEW ENTRY</b>		6	10.46	75 / 271	8069	25 / 262	92.65	44 / 251	174.53	29 / 182	1.62	203.2
JOHCM UK Dynamic	👍	7	9.11	86	74.79	32	95.54	32	-	-	0.75	303.2
JOHCM UK Opportunities	👍	5	7.86	120	45.95	150	69.92	105	-	-	2.87	1500.0
Jupiter UK Growth	👍	7	17.40	8	91.06	6	105.67	19	213.75	10	0.90	1505.0
L&G UK Alpha	👍	8	-4.33	246	43.00	177	65.81	123	-	-	-	196.6
Lindsell Train UK Equity*** <b>NEW ENTRY</b>		7	16.67	11 / 271	83.04	23 / 262	126.91	11 / 251	-	-	2.04	1522.0
Liontrust Special Situations	👍	6	8.18	112	50.51	122	116.97	13	-	-	0.74	1511.1
Marlborough UK Multi-Cap Growth	👍	7	10.80	60	62.09	65	97.34	27	211.48	11	1.03	90.1
Neptune UK Mid Cap	👍	6	18.94	3	95.32	4	161.09	1	-	-	-	514.4
Old Mutual UK Alpha***	👍	7	9.78	83 / 283	68.35	47 / 273	83.76	61 / 262	94.39	156 / 192	2.58	2125.4
Schroder Recovery	👍	7.5	4.67	199	84.63	15	88.75	49	206.77	14	1.77	695.3
Standard Life UK Equity Unconstrained	👍	8	9.03	87	99.56	3	135.90	4	-	-	1.49	1216.9
<b>SECTOR AVERAGE</b>			<b>7.80</b>	<b>248</b>	<b>53.29</b>	<b>237</b>	<b>67.76</b>	<b>226</b>	<b>117.84</b>	<b>171</b>	-	-
<b>UK EQUITY INCOME</b>												
Artemis Income	👍	5	9.06	36	53.34	45	72.61	32	137.76	13	3.68	7258.0
Evenlode Income	👍	5	10.14	16	57.44	27	87.32	10	-	-	3.66	276.0
Fidelity Enhanced Income	👍	5	6.61	63	37.06	77	62.33	50	-	-	6.13	327.0
JOHCM UK Equity Income	👍	6	8.52	40	69.38	12	91.42	7	183.07	2	4.18	2700.0
Liontrust Macro Equity Income	👍	5	7.91	46	50.49	50	71.33	33	147.26	9	3.99	546.7
Marlborough Multi Cap Income	👍	7	9.69	23	83.72	4	-	-	-	-	4.09	1140.7
Rathbone Income	👍	5	9.33	27	57.95	26	83.69	12	125.52	16	3.42	1086.3
Royal London UK Equity Income	👍	5	8.84	39	72.87	9	105.18	4	168.33	3	3.49	1825.9
RWC Enhanced Income*	👍	5	0.90	56	25.41	51 / 51	-	-	-	-	7.00	377.2
Standard Life UK Equity Income Unconstrained	👍	5	10.16	15	83.23	5	105.43	3	-	-	3.51	862.5
Threadneedle UK Equity Alpha Income	👍	5	6.57	64	67.85	13	96.22	5	-	-	3.90	910.7
Woodford Equity Income	👍	5	-	-	-	-	-	-	-	-	4.00	5450.1
<b>SECTOR AVERAGE</b>			<b>7.98</b>	<b>85</b>	<b>53.62</b>	<b>85</b>	<b>70.98</b>	<b>75</b>	<b>112.24</b>	<b>49</b>	-	-
<b>UK SMALLER COMPANIES</b>												
AXA Framlington UK Smaller Companies*** <b>NEW ENTRY</b>		8	13.43	4 / 52	91.98	4 / 50	161.90	4 / 50	158.77	27 / 36	0.83	122.9
Franklin UK Smaller Companies		8	10.18	10	71.24	15	84.55	40	105.27	33	0.98	145.8
Marlborough Special Situations	👍	7.5	9.55	14	68.66	21	139.07	10	262.77	7	0.92	857.9
Marlborough UK Micro-Cap Growth <b>SPOTLIGHT</b>	👍	8	0.03	39	64.30	28	153.00	5	278.31	5	0.24	414.8
R&M UK Equity Smaller Companies	👍	8	9.93	13	127.18	1	159.77	4	-	-	0.63	508.4
<b>SECTOR AVERAGE</b>			<b>4.18</b>	<b>49</b>	<b>62.52</b>	<b>47</b>	<b>101.67</b>	<b>47</b>	<b>162.73</b>	<b>34</b>	-	-
<b>STERLING CORPORATE BOND</b>												
Invesco Perpetual Corporate Bond	👍	2.5	4.40	70	25.39	18	33.95	42	72.23	6	4.05	5625.0
Kames Investment Grade Bond	👍	2.5	8.75	20	28.21	9	41.25	10	-	-	3.56	1095.4
Kames Sterling Corporate Bond	👍	2.5	6.93	54	25.72	16	37.59	25	53.03	28	3.40	669.9
Royal London Corporate Bond	👍	2.5	8.95	14	29.29	5	46.46	5	60.89	12	3.94	780.1
<b>SECTOR AVERAGE</b>			<b>7.42</b>	<b>78</b>	<b>22.07</b>	<b>72</b>	<b>33.50</b>	<b>67</b>	<b>51.07</b>	<b>52</b>	-	-
<b>STERLING HIGH YIELD</b>												
Baillie Gifford High Yield Bond	👍	4	0.56	16	28.12	7	44.37	3	107.23	2	4.30	632.9
Kames High Yield Bond		3.5	2.08	9	21.08	14	41.75	6	94.39	3	4.21	1531.4
<b>SECTOR AVERAGE</b>			<b>1.02</b>	<b>22</b>	<b>22.30</b>	<b>22</b>	<b>35.84</b>	<b>19</b>	<b>78.84</b>	<b>18</b>	-	-
<b>STERLING STRATEGIC BOND</b>												
Artemis Strategic Bond		3	3.26	39	24.48	20	37.02	19	-	-	4.30	835.3
Baillie Gifford Corporate Bond		3.5	6.16	15	28.08	12	55.21	1	77.61	4	4.00	504.7
Fidelity Strategic Bond	👍	2.5	5.52	19	20.82	31	35.85	22	80.11	3	3.40	1656.4
GLG Strategic Bond***		3	-0.45	67 / 70	22.61	27 / 62	-	-	-	-	3.45	1059.2
Henderson Strategic Bond		3	4.38	29	24.56	19	30.55	35	74.73	5	4.90	1329.5
Invesco Perpetual Monthly Income Plus	👍	3.5	4.23	32	31.19	6	44.98	5	103.53	1	4.47	4220.9
Jupiter Strategic Bond	👍	2.5	1.68	50	20.43	34	39.71	11	-	-	5.00	2619.2
M&G Optimal Income	👍	3	2.22	44	21.59	28	40.21	10	-	-	2.67	24514.4
PFS TwentyFour Dynamic Bond	👍	3	5.28	20	37.38	2	50.13	3	-	-	5.20	849.0
<b>SECTOR AVERAGE</b>			<b>3.87</b>	<b>64</b>	<b>20.44</b>	<b>59</b>	<b>32.05</b>	<b>50</b>	<b>54.59</b>	<b>34</b>	-	-
<b>TARGETED ABSOLUTE RETURN</b>												
BNY Mellon Absolute Return Equity*	👍	4	1.01	74 / 148	14.44	40 / 125	-	-	-	-	-	1283.7
Henderson UK Absolute Return	👍	5	7.29	12	30.81	6	34.97	6	-	-	0.20	592.0
Newton Real Return	👍	5	3.75	-	15.11	-	21.52	-	97.17	-	2.67	9801.2
Old Mutual Global Equity Absolute Return Hedged*	👍	6	2.45	66 / 148	25.10	14 / 125	45.24	4	-	-	-	2146.6
Premier Defensive Growth	👍	4	3.80	28	15.52	17	-	-	-	-	-	265.0
Smith & Williamson Enterprise*	👍	6	7.12	43 / 148	29.19	11 / 125	31.55	9	-	-	-	86.5
Standard Life Global Absolute Return Strategies	👍	5	7.45	10	17.69	15	28.89	7	-	-	1.39	25172.2
<b>SECTOR AVERAGE</b>			<b>4.50</b>	<b>51</b>	<b>14.89</b>	<b>42</b>	<b>17.35</b>	<b>30</b>	-	-	-	-
<b>EUROPE</b>												
Baring Europe Select***	👍	8	10.87	5 / 11	68.34	4 / 11	81.19	5 / 11	285.78	2 / 8	1.40	1081.4
BlackRock Continental European	👍	7	10.24	25	55.69	45	63.08	17	212.66	4	1.19	468.5
BlackRock Continental European Income	👍	7	10.86	17	74.05	6	-	-	-	-	4.15	936.2
BlackRock European Dynamic	👍	7	10.19	26	63.53	20	82.13	7	284.40	2	1.05	1831.9
FP Argonaut European Alpha		8	8.88	34	60.93	25	60.19	19	-	-	0.39	341.0
Jupiter European	👍	6.5	18.34	3	66.97	10	83.89	6	244.34	3	-	3045.5
Jupiter European Special Situations	👍	7	9.24	31	50.16	67	54.21	28	181.31	8	0.90	1051.3
Threadneedle European Select	👍	7	13.42	10	55.25	47	83.92	5	193.89	6	0.80	2836.6
<b>SECTOR AVERAGE</b>			<b>8.36</b>	<b>86</b>	<b>56.54</b>	<b>84</b>	<b>51.20</b>	<b>79</b>	<b>130.40</b>	<b>59</b>	-	-

	Elite Rated ▲	Chelsea Risk Rating	1 YEAR % Growth Rank	3 YEAR % Growth Rank	5 YEAR % Growth Rank	10 YEAR % Growth Rank	Yield %	Fund Size (m)
<b>NORTH AMERICA</b>								
AXA Framlington American Growth	▲	7	25.07 7	53.50 51	81.49 12	166.78 8	-	6171
Brown Advisory US Flexible Equity Hedged	NEW ENTRY	7	-	-	-	-	-	1041
CF Miton US Opportunities		7	17.76 48	-	-	-	-	106.7
Dodge & Cox US Stock*		7	18.22 110 / 179	78.57 7 / 155	-	-	-	2421
JPM US Equity Income	▲	6.5	16.78 55	56.80 41	78.34 15	-	2.05	3078.8
Legg Mason ClearBridge US Aggressive Growth*	▲	7	24.07 28 / 179	-	-	-	-	3044.0
Legg Mason US Equity Income		7	12.51 73	47.26 62	-	-	1.70	64.2
<b>SECTOR AVERAGE</b>			<b>19.35 74</b>	<b>60.01 68</b>	<b>67.30 62</b>	<b>129.58 46</b>	-	-
<b>JAPAN</b>								
Baillie Gifford Japanese	▲	10	26.60 21	74.94 3	62.03 2	103.00 5	0.62	9135
GLG Japan CoreAlpha	▲	10	29.17 11	71.66 4	38.73 12	158.54 2	0.41	16151
JOHCM Japan*	▲	10	20.25 96 / 107	48.70 44 / 96	38.85 21 / 89	86.25 5 / 61	-	699.2
JPM Japan****	NEW ENTRY	10	36.06 2 / 63	59.31 10	34.50 26 / 56	36.32 32 / 36	0.18	1205
Legg Mason Japan Equity		10	32.03 6	103.62 1	153.52 1	6.17 27	-	270.8
<b>SECTOR AVERAGE</b>			<b>26.56 41</b>	<b>53.19 38</b>	<b>35.46 36</b>	<b>62.78 27</b>	-	-
<b>ASIA PACIFIC EXCLUDING JAPAN</b>								
Aberdeen Asia Pacific Equity	▲	8	16.59 43	21.65 46	35.57 29	237.75 14	1.30	18651
First State Asia Pacific Leaders	▲	7.5	27.03 15	44.60 6	66.08 3	340.54 2	1.14	8243.4
Invesco Perpetual Asian		8	23.68 26	36.93 16	45.97 15	249.97 10	1.53	599.2
JOHCM Asia ex Japan Small and Mid Cap*		9	37.42 14 / 175	61.65 12 / 150	-	-	-	275
Schroder Asian Alpha Plus	▲	8	21.82 32	27.29 34	54.77 10	-	0.82	607.4
Schroder Asian Income	▲	7.5	17.68 42	35.76 18	58.73 6	247.33 11	3.94	574.1
<b>SECTOR AVERAGE</b>			<b>23.04 53</b>	<b>32.61 49</b>	<b>38.05 44</b>	<b>219.23 33</b>	-	-
<b>GLOBAL EMERGING MARKETS**</b>								
Aberdeen Latin American Equity	▲	10	-9.16 99 / 115	-18.46 90 / 107	-	-	2.00	146.7
Invesco Perpetual Hong Kong & China	▲	10	38.88 8 / 11	77.53 3 / 11	65.44 3 / 10	325.21 3 / 5	1.39	336.6
JPM Emerging Markets Income		10	10.76 38 / 47	-	-	-	4.06	270.9
JPM New Europe		10	-1.75 89 / 115	-15.82 87 / 107	-28.28 72 / 85	92.50 22 / 39	3.37	89.3
Jupiter India		10	47.76 3 / 115	47.41 16 / 107	21.22 42 / 85	-	0.10	359.8
Lazard Emerging Markets	▲	10	10.31 40 / 47	11.25 17 / 39	10.64 13 / 32	209.10 3 / 18	2.10	944.6
M&G Global Emerging Markets	▲	10	8.44 43 / 47	11.11 18 / 39	9.07 14 / 32	-	1.53	1668.2
PFS Somerset Emerging Markets Dividend Growth	NEW ENTRY	9.5	17.10 19 / 47	24.38 3 / 39	39.35 1 / 32	-	1.22	224.4
Schroder Small Cap Discovery		10	19.02 12 / 115	39.67 23 / 107	-	-	1.66	105.5
<b>GLOBAL EQUITIES</b>								
Fundsmith Equity	▲	6	23.42 7	69.60 9	-	-	1.05	3586.8
JOHCM Global Select*	▲	7	22.70 15 / 435	78.67 5 / 345	93.53 4 / 274	-	-	2000.0
Rathbone Global Opportunities	▲	6.5	18.51 18	51.61 56	75.08 10	204.67 6	0.11	545.4
<b>SECTOR AVERAGE</b>			<b>12.66 189</b>	<b>45.46 174</b>	<b>46.86 146</b>	<b>111.21 101</b>	-	-
<b>GLOBAL EQUITY INCOME</b>								
Artemis Global Income	▲	6.5	16.88 3	76.67 2	-	-	3.30	2127.1
Legg Mason Global Equity Income	▲	6	7.51 23	56.66 3	58.98 9	-	2.90	35.8
M&G Global Dividend***	SPOTLIGHT	6.5	4.14 184 / 189	39.18 137 / 174	54.58 47 / 146	-	3.09	8561.0
Newton Global Income	▲	6	10.84 14	41.55 17	62.04 5	-	3.58	4562.8
<b>SECTOR AVERAGE</b>			<b>10.05 30</b>	<b>47.53 24</b>	<b>58.98 17</b>	<b>121.82</b>	-	-
<b>MISCELLANEOUS**</b>								
Artemis Strategic Assets	▲	6	5.29 136 / 147	31.69 78 / 120	31.03 71 / 99	-	0.47	918.5
AXA Framlington Global Technology	▲	10	29.37 3 / 8	50.77 5 / 8	74.93 4 / 8	241.58 3 / 7	-	247.1
BlackRock Gold & General	▲	10	-5.09 91 / 116	-41.84 104 / 108	-53.00 82 / 86	86.47 23 / 39	0.08	903.2
F&C Real Estate Securities	▲	7	17.05 5 / 26	80.49 2 / 24	110.67 2 / 22	-	-	73.7
Guinness Global Energy		10	-16.53 72 / 116	17.39 26 / 110	6.49 21 / 84	-	-	126.3
Henderson Cautious Managed	▲	3.5	5.23 158 / 208	35.22 15 / 176	44.93 18 / 145	86.57 13 / 52	2.90	2160.0
Henderson UK Property	▲	3	10.94 24 / 44	28.41 19 / 37	34.32 22 / 34	21.34 8 / 9	3.30	3487.9
JPM Natural Resources		10	-18.26 111 / 116	-34.65 101 / 108	-46.31 78 / 86	55.44 30 / 39	1.00	695.3
Jupiter Financial Opportunities		8	11.93 20 / 116	56.24 11 / 108	19.64 43 / 86	127.25 13 / 39	1.40	471.1
Polar Capital Healthcare Opportunities	▲	8	39.39 12 / 30	153.21 7 / 27	184.86 8 / 26	-	-	667.7
Premier Pan European Property	▲	7.5	22.54 1 / 54	90.46 1 / 46	108.74 2 / 43	87.81 2 / 16	2.36	295.2
Schroder Global Property Securities		7	13.24 16 / 44	32.01 15 / 37	46.21 14 / 34	-	0.93	642.5
Standard Life Emerging Market Debt	▲	4	8.34 3 / 11	-	-	-	4.02	179.8

● = Funds featured in The Chelsea Core Selection - see pages 14-19.

▲ = Funds that are Elite Rated by FundCalibre - see fundcalibre.com for further details.

\* These funds are domiciled offshore and therefore sit 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.

\*\* Multiple sector amalgamation, hence the sector positions shown are within various different underlying sectors.

\*\*\* This fund falls within a different sector, hence the sector positions shown vary.

Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein. The funds within the Chelsea Selection are based on our proprietary research, which is both qualitative and quantitative. Please note this is not investment advice nor does it imply that you should invest in any of these funds. Please read the Important Notice on page 2. Past performance is not a guide to future returns. Correct at time of print, 01/05/15, but subject to change. Source: FE Analytics, total return, UK Retail UT & OEICs universe, 01/05/2015. FundCalibre is an appointed representative under Chelsea Financial Services.

# The RedZone

The Active vs Passive debate is one that continues to rage. Hardly a month goes by without someone doing some research that shows that a minority of active fund managers consistently manage to outperform, and that cheaper, passive funds are therefore the way forward.

**Their popularity is rising as a result. In April, the Investment Association, which monitors how much and where people are investing, recorded the highest ever inflow into passive funds. The total amount of money held in these funds is now more than £100 billion.**

We acknowledge that there are good and bad fund managers, and our business reflects that - we have a research team of six, who spend their time finding the fund managers who we think can consistently outperform over any reasonable time period. The RedZone highlights the ones which have shown they don't have this ability. But there are good and bad tracker funds too.

Of the £48.48 billion assets in this RedZone, more than 55% (£26.82 billion across 34 funds) are in the UK All Companies sector. Of these, no fewer than 20 (£19.77 billion in assets) are in passive funds. That's around 22% of the 116 trackers available to UK investors, five of which are actually managed by State Street Global Advisers.

Not only have they consistently underperformed the sector average, but all these funds have underperformed their benchmarks - they are, after all, structurally designed to do so, as they are index returns minus fees. A couple have underperformed by as little as 0.2-0.5%, but five have underperformed their benchmark by more than 4% over the three years. The worst culprit is Family Charities Ethical, which returned 9% less than the FTSE4Good UK 50 Index, closely followed by L&G (A&L) Capital Growth at 5%.

Passive funds do have a place in an investment portfolio, but you still have to do your research. If you want the chance to outperform a benchmark, you have to take a chance on an active manager. Take a look at the Chelsea Selection (pages 22-23) and Core Selection (pages 14-19) to see which funds we like in each sector.

## NUMBER '7' - UNLUCKY FOR SOME

When it comes to fund management companies going through a bad patch, Aberdeen is still top with seven funds in the RedZone. Joining them with the same

number of funds are Thesis and BlackRock. In terms of assets, however, BlackRock moves up to top spot with £10.64 billion, most of which (£8.46 billion) is invested in their UK Equity Tracker. M&G is second with £7.87 billion and L&G third with £7.37 billion. If you'd like to see which companies have been punching above their weight, take a look at the FundCalibre Fund Manager Index at [www.fundcalibre.com/FMindex](http://www.fundcalibre.com/FMindex).

## DROPZONE

The DropZone is a mix of regular faces and surprising entrants. SF Webb Capital Smaller Companies Growth is still top of the list, although the manager continues slowly to claw back performance (last time round the underperformance was 106%, compared with 96% today). However, with less than £2 million in assets under management, one wonders why they don't just call it a day and put us all out of our misery. Maybe it's that management fee. Ongoing charges on this fund are a huge 2.13%, 1% (£19,000) of which goes to the manager. That's an average wage for a less than average fund. And watch out. Believe it or not the fund has a performance fee of 20% which kicks in if the manager outperforms his index by 3%.

First State Global Resources has been hit by the slump in the oil price and commodities in general. Sitting as it does in the wider Global sector, the underperformance is magnified considerably. Newton Oriental is a newcomer to the DropZone and you can read more on it in Funds Update on page 13. The biggest disappointment for me, however, was the new entrant at number 10, Troy Trojan. The manager, Sebastian Lyon, has been extremely bearish in recent years and currently has around 20% in cash and 10% in gold bullion, which has really hurt the fund. He is convinced a market slump is imminent, however, and the portfolio is positioned to cushion against this occurrence. I wouldn't write the fund off just yet - the manager has an outstanding long-term record and may yet be proved right - but it's one to monitor closely.

## IMPORTANT NOTICE

Past performance is not a reliable indicator of future returns. **Please note that the RedZone and DropZone does not constitute investment advice.** If you are in any doubt as to the suitability of any investment you should seek professional advice. An appearance of any fund on these lists is not an indication they should be sold or switched.



"Over 70% of assets within the UK All Companies sector in RedZone are in index-tracking funds!"

Head of Communications, Chelsea

## DropZone<sup>D</sup>

THE WORST OF THE WORST FROM THE RedZone.

	% underperformance from sector average*
1 SF Webb Capital Smaller Companies Growth	96.6%
2 First State Global Resources	69.17%
3 HC FCM Salamanca Global Property	65.45%
4 Elite Charteris Premium Income	40.22%
5 FP HEXAM Global Emerging Markets	35.28%
6 M&G Recovery	32.71%
7 Aberdeen World Equity Income	31.08%
8 Newton Oriental	25.94%
9 Templeton Global Emerging Markets	24.87%
10 Troy Trojan	23.77%

\*Based on three-year cumulative performance  
All data sourced from FE Analytics

**WARNING!**



# the RedZone funds

	3 year % growth	Quartile position
<b>ASIA PACIFIC EXCLUDING JAPAN</b>		
Martin Currie Asia Pacific	2116	4
Newton Oriental	667	4
<b>SECTOR AVERAGE</b>	<b>32.61</b>	

	3 year % growth	Quartile position
<b>ASIA PACIFIC INCLUDING JAPAN</b>		
Aberdeen Asia Pacific & Japan Equity	2507	3
<b>SECTOR AVERAGE</b>	<b>34.41</b>	

	3 year % growth	Quartile position
<b>CHINA/GREATER CHINA</b>		
Neptune China	4087	4
<b>SECTOR AVERAGE</b>	<b>58.62</b>	

	3 year % growth	Quartile position
<b>EUROPE EXCLUDING UK</b>		
Aberdeen European Equity	3643	4
Cavendish European	4095	4
Liontrust European Growth	3831	4
<b>SECTOR AVERAGE</b>	<b>56.54</b>	

	3 year % growth	Quartile position
<b>EUROPEAN SMALLER COMPANIES</b>		
Aberdeen European Smaller Companies Equity	3673	4
<b>SECTOR AVERAGE</b>	<b>60.41</b>	

	3 year % growth	Quartile position
<b>FLEXIBLE INVESTMENT</b>		
CF Bentley Sterling Balanced	2307	4
CF Cautela*	1714	4
FP WM East West Value*	3054	3
HC KB Capital Growth	1797	4
M&G Managed Growth	1584	4
NFU Mutual Mixed Portfolio Max 100% Shares	2356	4
Sarasin EquiSar IIID	1867	4
Schroder Dynamic Multi Asset	2458	4
SF Adventurous	2735	3
Thesis Balanced Growth	2219	4
Thesis iFunds Spectrum Indigo	1386	4
Troy Trojan	852	4
<b>SECTOR AVERAGE</b>	<b>32.29</b>	

	3 year % growth	Quartile position
<b>GLOBAL BONDS</b>		
Baillie Gifford Global Bond	-2.41	4
<b>SECTOR AVERAGE</b>	<b>7.10</b>	

	3 year % growth	Quartile position
<b>GLOBAL EMERGING MARKETS</b>		
FP HEXAM Global Emerging Markets	-2381	4
Lazard Developing Markets	-463	4
Martin Currie Emerging Markets	111	4
Templeton Global Emerging Markets	-1340	4
<b>SECTOR AVERAGE</b>	<b>11.47</b>	

	3 year % growth	Quartile position
<b>GLOBAL EQUITY INCOME</b>		
Aberdeen World Equity Income	1531	4
BlackRock Global Income	3983	3
Lazard Global Equity Income	3693	4
<b>SECTOR AVERAGE</b>	<b>46.39</b>	

	3 year % growth	Quartile position
<b>GLOBAL</b>		
Aberdeen Ethical World Equity	2886	4
CF Adam Worldwide	3731	4
CF JM Finn Global Opportunities	2535	4
First State Global Agribusiness	1702	4
First State Global Resources	-2628	4
Jupiter Fund of Investment Trusts	3657	4
Margetts International Strategy	3716	4
NFU Mutual Global Growth	2960	4
Old Mutual Global Best Ideas	4133	3
SJP Ethical*	2893	4
<b>SECTOR AVERAGE</b>	<b>42.89</b>	

	3 year % growth	Quartile position
<b>MIXED INVESTMENT 0%-35% SHARES</b>		
AXA Defensive Distribution	1399	4
Barclays Income Portfolio	1041	4
Barclays Wealth Global Markets	887	4
CF Heartwood Defensive Multi Asset	1023	4
TM UBS Global Yield*	1430	4
<b>SECTOR AVERAGE</b>	<b>17.26</b>	

	3 year % growth	Quartile position
<b>MIXED INVESTMENT 20%-60% SHARES</b>		
Barclays Cautious Portfolio	1830	4
Barclays Wealth Global Markets 2	1404	4
CF Heartwood Cautious Income Multi Asset	1878	4
CF Heartwood Cautious Multi Asset	1845	4
Elite Hasley Multi-Strategy Portfolio II	2228	3
FP Distinction Diversified Real Return	1230	4
Premier Multi-Asset Conservative Growth	1724	4
Royal Bank of Scot Stakeholder Inv*	2177	3
UBS Multi Asset Income	1442	4
<b>SECTOR AVERAGE</b>	<b>24.04</b>	

	3 year % growth	Quartile position
<b>MIXED INVESTMENT 40%-85% SHARES</b>		
CF Heartwood Balanced Multi Asset	2480	4
CF Resilient 5	2702	4
Doherty Balanced Managed	2700	4
Family Balanced International*	2915	3
HC KB Endeavour Multi-Asset Balanced	1912	4
IFSL Brooks Macdonald Balanced	2825	4
Marlborough Balanced	2793	4
McInroy & Wood Income	2624	4
NFU Mutual Mixed Portfolio 40 85% shares	2335	4
Quilter Cheviot Libero Strategic	2355	4
Schroder Managed Wealth Portfolio	1898	4
SF Positive	2934	3
Sovereign Teachers Balanced Investment	2705	4
Stan Life Wealth Balanced Bridge	2714	4
TM UBS Global Growth*	3134	3
TM UBS UK Income Focus*	2583	4
<b>SECTOR AVERAGE</b>	<b>31.50</b>	

	3 year % growth	Quartile position
<b>NORTH AMERICA</b>		
BlackRock US Dynamic	5687	3
Cavendish North American	4109	4
CF Richmond Core*	3861	4
Investec American	4362	4
Mitton American	4083	4
Neptune US Opportunities	5336	3
Smith & Williamson North American	4891	4
<b>SECTOR AVERAGE</b>	<b>58.33</b>	

	3 year % growth	Quartile position
<b>PROPERTY</b>		
Aviva Inv European Property	-518	4
HC FCM Salamanca Global Property 1	-3728	4
Standard Life Investments Global Real Estate	1206	4
<b>SECTOR AVERAGE</b>	<b>28.17</b>	

	3 year % growth	Quartile position
<b>STERLING CORPORATE BOND</b>		
AXA Sterling Corporate Bond	2075	3
IWI Fixed Income Portfolio	1721	4
Legg Mason Global Blue Chip Bond*	239	4
Schroder All Maturities Corporate Bond	2162	3
SJP Investment Grade Corporate Bond*	1303	4
Walker Crips Corporate Bond	1595	4
<b>SECTOR AVERAGE</b>	<b>22.07</b>	

	3 year % growth	Quartile position
<b>STERLING HIGH YIELD</b>		
AXA Global High Income	2041	4
JPM Global High Yield Bond	1696	4
M&G Global High Yield Bond	2269	3
<b>SECTOR AVERAGE</b>	<b>22.97</b>	

	3 year % growth	Quartile position
<b>STERLING STRATEGIC BOND</b>		
Architas MM Strategic Bond	1395	4
HL Multi Manager Strategic Bond	2022	3
Investec Strategic Bond	581	4
JPM Strategic Bond	744	4
Legg Mason Income Optimiser*	1735	4
Old Mutual Voyager Strategic Bond	1544	4
Rathbone Strategic Bond	1632	4
Threadneedle Strategic Bond	1792	3
<b>SECTOR AVERAGE</b>	<b>21.61</b>	

	3 year % growth	Quartile position
<b>TARGETED ABSOLUTE RETURN</b>		
BlackRock Absolute Return Bond	526	4
Henderson Multi-Manager Absolute Return	1048	3
Schroder Absolute Return Bond	527	4
Threadneedle Absolute Return Bond	469	4
<b>SECTOR AVERAGE</b>	<b>14.41</b>	



	3 year % growth	Quartile position
<b>UK ALL COMPANIES</b>		
Aberdeen Responsible UK Equity	3045	4
Allianz UK Index	3688	3
Aviva Inv UK Index Tracking	3437	4
Baillie Gifford UK Equity Alpha	3117	4
BlackRock UK Equity Tracker	3758	3
BlackRock UK Special Situations	3228	4
CAF UK Equitrack*	3805	3
CF IM UK Growth*	3361	4
F&C FTSE All Share Tracker	3760	3
Family Asset*	3337	4
Family Charities Ethical*	2889	4
FP Matteredly Equity	3399	4
GAM MP UK Equity	4191	3
Henderson UK Index*	3676	3
Henderson UK Tracker*	3045	4
HSBC FTSE 100 Index	3396	4
L&G (A&L) Capital Growth	3318	4
L&G (N) Tracker Trust	3463	4
L&G UK 100 Index	3144	4
L&G UK Index	3722	3
Liontrust FTSE 100 Tracker*	3291	4
M&G Index Tracker	3819	3
M&G Recovery	1180	4
Marks & Spencer UK 100 Companies*	3164	4
MFM UK Primary Opportunities*	2768	4
NFU Mutual UK Growth	3038	4
Old Mutual UK Index*	3822	3
Royal Bank of Scot FTSE 100 Tracker*	3071	4
Santander Stockmarket 100 Tracker Growth	3345	4
SF Delmore Growth & Income	3042	4
Standard Life Investments UK Equity Growth	3486	4
Thesis TM Cartesian UK Opportunities	3153	4
TM UBS UK Equity*	2557	4
VT Maven Smart Dividend UK*	3164	4
<b>SECTOR AVERAGE</b>	<b>44.51</b>	

	3 year % growth	Quartile position
<b>UK EQUITY &amp; BOND INCOME</b>		
CF IM UK Equity & Bond Income*	3049	4
<b>SECTOR AVERAGE</b>	<b>37.21</b>	

	3 year % growth	Quartile position
<b>UK EQUITY INCOME</b>		
Elite Charteris Premium Income	797	4
HC KB Enterprise Equity Income	4209	3
HSBC Income	3799	4
Insight Equity Income Booster	3860	4
JPM UK Higher Income	4111	3
NFU Mutual UK Equity Income	3765	4
Santander Enhanced Income Portfolio	3422	4
<b>SECTOR AVERAGE</b>	<b>48.19</b>	

	3 year % growth	Quartile position
<b>UK GILTS</b>		
CF Canlife UK Government Bond	723	4
<b>SECTOR AVERAGE</b>	<b>10.63</b>	

	3 year % growth	Quartile position
<b>UK SMALLER COMPANIES</b>		
M&G Smaller Companies	4441	4
SF Webb Capital Smaller Companies Growth	-4279	4
<b>SECTOR AVERAGE</b>	<b>53.81</b>	

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 01/05/2015. 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.

\*Fund management outsourced to another company other than the one named

# Bonds Licensed to thrill?

As I'm sure you're aware, we have been concerned about the recent anomalies within the bond market. So, we asked respected bond investor, Jeremy Wharton, to discuss the issues at play within the various different fixed interest sectors.



**JEREMY WHARTON**  
Fund manager,  
Church House Investment  
Grade Fixed Interest

**The bond market has been hitting the headlines again, following a bout of sharp volatility. In soberly assessing the likely risks away from the alarmist headlines, it can be important to remind ourselves of the mechanics of the bond market and therefore where the vulnerabilities lie.**

In theory, the bond market is straightforward: a government or company issues debt, it pays coupons at a given rate, and then repays the money at the end of the term. The reality is more complex; bonds all have their own individual characteristics and idiosyncrasies - no

two are ever the same - and bond pricing may be buffeted by sentiment on interest rates, economic confidence or inflation.

## A RECENT HISTORY

In the run up to the great financial crisis of 2007/2008, both governments and companies issued debt in large quantities. Some of the more toxic debt was repackaged alongside higher quality debt to make it palatable to certain buyers, but the structures were exposed as the US housing bubble burst. The balance sheets of some of the biggest global institutions were nearly destroyed as the assets they held were revealed as all but worthless.

In the resultant credit crunch, central banks had to step in to support these institutions and their economies, issuing huge amounts of government bonds to do so, while undertaking to buy tarnished assets. Governments also committed to buying their own bonds - the process of quantitative easing - to inject liquidity back into the financial system and lower long-term rates. This is still happening, (the ECB has only just started). At the same time, interest rates dropped to historic lows to encourage borrowing and inject life into the economy.

As well as the hike in government bond issuance, there was also an explosion of issuance by corporates, keen to secure

borrowing at lower rates. The result of a debt crisis has been more debt creation, with the global stock of debt now standing at more than \$200 trillion, roughly 290% of world GDP (a multiple that makes Greece look good, at 177%).

## GOVERNMENT BOND MARKETS

Government bonds have historically been deemed the most secure debt available and a safe haven in times of stress. Government debt tends to be relatively straightforward, carrying a coupon paid annually or semi-annually with a redemption date at which the initial investment is paid back to the holder of the bond in full. Governments will issue bonds with different redemption dates, the majority falling between one and 20 years. Interest rates tend to be higher the longer the maturity date because investors are being asked to tie up their money for longer.

The main risks to the investor in government bonds are the creditworthiness of the issuer and changes in interest rates. If a government is seen to be at low risk of defaulting on its bonds by the market it will have no difficulty in issuing bonds at reasonable rates. Those governments that are seen as a poor credit risk have to compensate by paying a higher rate of interest and may struggle to issue longer-dated bonds. In the UK, although the government relies on issuing large quantities of gilts to fund the budget deficit and to roll over existing maturing debt, there are plenty of both domestic and international buyers because UK plc is seen as a good credit risk.

For gilts, therefore, the main risk is the future (maybe imminent) turn upwards in the interest rate cycle. As yields rise in line with interest rates, capital values, the price at which bonds trade, will fall. Equally, government bond prices will anticipate interest rate rises ahead of time. This remains a real risk for those investors who are holding gilts believing them to be a 'safe haven'. Bond investors use the term 'duration' to describe a bond's sensitivity to interest rate movements and a rough rule of thumb would mean that a bond with a duration of 5 years would lose 5% in capital value for a 1% movement in interest rates.



## CHURCH HOUSE INVESTMENT GRADE FIXED INTEREST

- Managed by Jeremy Wharton since launch in 2000
- Invests in high quality corporate bonds
- A diversified portfolio to reduce risk
- Yields 3.5%, paid quarterly in February, May, August and November

### PRIMARY VERSUS SECONDARY MARKET

A distinction should be made here between the primary and secondary markets for bonds. If an investor buys a bond at issue and holds it to maturity, they will simply get the coupons plus their initial investment back at the end, providing there is no default. However, most bond fund managers are trading in the secondary market, where bonds are bought and sold after issuance and before maturity.

### CORPORATE BONDS

Corporate debt is a more complex beast. It is issued by companies as diverse as banks, energy producers, utilities or retailers and, as such, there is a greater range of different risk factors and idiosyncrasies attached to each individual bond. As with government bonds, the coupon and price of the bond will depend partly on the creditworthiness of the issuer. Credit Rating Agencies such as S&P and Moody's produce their own ratings for bonds from AAA (S&P) or Aaa (Moody's), the most credit worthy, to D, bonds in default. The highest quality bonds are deemed Investment Grade bonds and are rated BBB-, Baa3 or above, anything below is known as High Yield or Junk or speculative grade. Rating agency pronouncements, while having value, are not as respected as they were before the global financial crisis and in practice, many fund managers (including ourselves!) do their own proprietary research.

For investment grade bonds, credit risk will be judged on a whole range of factors: the profitability of a company, its free cash flow, (interest coverage ratios), its indebtedness, and the risks it faces as a business. The credit risk of a corporate bond is expressed as a spread over government bonds (the difference in yield between the corporate bond and the government bond) - higher risk bonds have a higher 'credit spread'. If an issuer defaults on its obligations investors can lose the entire amount of capital (although in practice there is an average recovery rate through the bankruptcy process which is around 40%). This is why it is important to have a well-diversified portfolio that limits exposure to individual credits.

High Yield Corporate bonds are those below the investment grade rating threshold. Better rated bonds obviously share much with their higher quality peers, but things begin to change very quickly the further down the rating spectrum you go, with companies showing higher indebtedness and lower profitability. They may even be struggling to stay afloat. In their thirst for yield, these factors are not always fully appreciated by some investors.

### LIQUIDITY RISK

Corporate bonds also carry greater liquidity risk, particularly at the higher yielding end of the spectrum. Unlike equities, which are traded on exchange, there is no central exchange for bonds, which all trade 'over the counter'. Investment banks used to offer secondary market liquidity, but this has fallen dramatically. This creates the 'lobster pot' problem - bonds that are easy to get into, but... Investors are compensated to some extent for this liquidity problem, but at times of market stress, it can become an issue, particularly for larger funds.

### OUR RESPONSE TO THE CURRENT ENVIRONMENT

With all this in mind, what does it mean for our response to the current market environment? The Church House Investment Grade Fixed Interest fund has a very specific, low volatility, quality-focused mandate. This means that we are a pure investment grade fund, diversified across 88 issuers and yielding 3.5%, a level that we consider to be realistic and sustainable in the current market. The fund remains relatively small, and will be capped at £500m to ensure that it does not encounter liquidity issues in more febrile markets.

We hold no high yield. The QE-distorted world of benign credit risk and low default rates, along with a search for yield at any price, has



allowed some very shaky high yield companies to issue debt at yields that can only be advantageous to themselves and not the investor. We continue to believe that investors are inadequately compensated for the risk they are taking in high yield bonds.

We hold around 25% in AAA rated bonds, mostly secured, leaving us higher up the capital structure in the event of a default. We are also holding around 30% of the portfolio in Floating Rate Notes to mitigate interest rate risk. We believe that the market is still too dismissive of the potential for interest rate rises in the UK and US. The portfolio is, overall, relatively 'short duration'.

### IN CONCLUSION

After a long bull market in bonds, the environment may become more difficult from here. As Warren Buffet once said, 'it is only when the tide goes out that we see who is swimming without any trunks'. We believe we are well placed to deal with any exposure.

.....	
<b>CHELSEA RISK RATING:</b>	●       2.5
.....	
<b>ANNUAL MANAGEMENT CHARGE:</b>	0.75%
.....	
<b>ONGOING CHARGES FIGURE (OCF):</b>	0.92%
.....	

### THE CHELSEA VIEW:

.....

*"Jeremy is a highly experienced fixed interest investor. We like his cautious approach, which is particularly important in the current climate."*

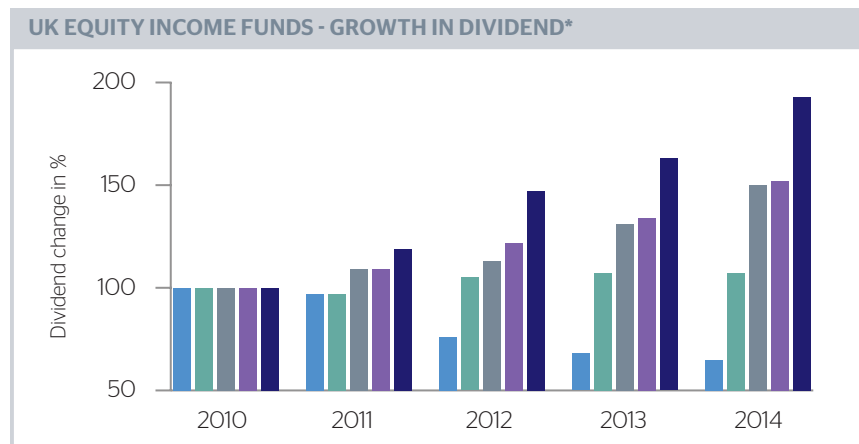
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“High yielding stocks can disappoint and are often pricing in future dividend cuts.”  
Senior Research Analyst, Chelsea

# Investing for income

Why dividend growth is the most important thing if you want long-term income.



**Interest rates are at all time lows and investing for income has never been harder. It wasn't so long ago that you could achieve 6 or 7% in a cash ISA. Today you'll be lucky to get 1.5%.**

Lower interest rates have forced many income seekers into the stock market. Many fund dividend yields have fallen, as a result. Even those with large savings pots are struggling to generate a good income. £200,000 at a 4% yield, would only give you an annual income of £8,000 a year.

In the current environment it's tempting to look for the funds with the highest yields. However, this is often a mistake. Whilst a high yielding fund may provide you with a good income for one or two years, it will often do this at the expense of dividend growth.

## THE DANGERS OF HIGH YIELD INVESTING

The highest yielding funds will also hold the highest yielding stocks and this can be dangerous.

High yielding stocks can disappoint and are often pricing in future dividend cuts.

Already in 2015, Centrica, Tullow Oil, Severn Trent, Sainsbury's and Morrisons, all top 100 companies, have cut their dividends and it was a similar story with Tesco last year.

Back in 2007, the banks had some of the highest dividend yields, but that yield was a warning of the trouble to come. All those companies were forced to cut their dividends and some disappeared altogether. High yielding funds were forced to cut their payouts, which had a devastating effect on their investors' income.

This year, the seven largest companies in the UK stock market are all predicting very little or zero dividend growth. In some cases their dividends are not covered by earnings

and companies are having to take on debt to meet the payments. Income investors should be very wary of funds which hold stocks which are at risk of dividend cuts.

## LOOKING FOR A HIGH STANDARD OF LIVING

If you're looking to generate an income for yourself over the long term it is vital that you look for funds which can grow their distribution over time. It could make a huge difference to your standard of living in 10 or 15 years time.

One manager who has done this very successfully is Thomas Moore, Elite Rated manager of the Standard Life UK Equity Income Unconstrained fund. Thomas believes that dividend growth is the key to providing the best overall returns for investors. A £10,000 investment in Thomas's fund would have generated £370 of income in 2010 but the dividends have subsequently grown and the same investment would have generated £714 of income in 2014. In five years the fund grew its distribution 93%\*. The dividend growth means that the initial investment is now yielding over 7% a year and, if the dividends can continue to grow, this will only increase further.

Back in 2010 there were many other funds which yielded a lot more than 3.7%, but most of these have shown very little, if any, dividend growth and some have even been forced to cut their payouts. One large well known fund has cut its payout 35% since 2010. After years of cuts the fund was forced to abandon its high yield dividend strategy. A new manager with a more manageable dividend policy has subsequently taken over, but that is scant consolation to investors who have seen a big drop in the income they were relying on. This fund is not alone, many

funds now have a lower dividend payout than they did five years ago.

The chart above shows the dividend growth in some funds on the Chelsea Selection versus some other anonymous funds in the IA UK Equity Income Sector.

Other Chelsea funds in the UK Equity Income sector which consistently grew their dividends every year were, Evenlode Income and JOHCM UK Equity Income.

## INFLATION

Dividend growth is also important because it allows your income to keep up with inflation. Fortunately inflation has been very low recently. This means if you can invest in a fund providing meaningful dividend growth your spending power, and therefore standard of living, should increase in the future.

Another great thing about dividend growth is that it will almost always lead to capital growth. All the funds above comfortably outperformed their benchmark over the past five years. So, dividend growth investing is also a great strategy for those seeking capital growth. Rather than taking an income you can re-invest your dividends instead allowing them to compound over time. The benefits of dividend growth investing are clear. I would like to thank our client Jeff Newton who gave us the idea for this article.

### JEFF NEWTON, CHELSEA CLIENT:

“Total return funds are fine if you want capital growth and reinvest dividends but misleading for retired folk who can find their dividend cut!”

\* Source: FE Analytics 01/05/2015

# Why invest in **small companies** for income?

Equity income is becoming increasingly important to investors and many risk simply doubling up, by owning similar large-cap UK equity income funds. One way to diversify is to move lower down the market-cap scale and Charles Montanaro here explains why this is an interesting area of investment.



**CHARLES MONTANARO**  
Fund manager,  
Montanaro Equity Income

Last year, over half the dividends received by investors in the UK came from just 10 companies. Unsurprisingly, these companies are widely held by the largest UK equity income funds. So, even when holding more than one of these funds, pensioners and savers rely on only a handful of companies for their hard-earned income. This may be unwise.

Investing in the largest, blue chip companies for income is not without risk, as BP's dividend suspension in 2010 and the recent travails of Tesco demonstrate. And

who could forget the torrid track record of the banks - RBS and Lloyds for example - which cut their dividends altogether? We believe that investors should diversify their income streams: it is time to consider the benefits of small companies for income.

## SMALL-CAP INCOME

Just as farmers have learned to take more than one basket when collecting their eggs, so investors should learn not to rely on a single basket when collecting their income. There are significant diversification benefits to be gained by including quoted small and mid-cap companies in the portfolios of savers. After all, of the 200 or so UK quoted companies offering a dividend yield of more than 3%, no less than 85% are classified as "small-cap" or "mid-cap". The vast majority fall into our area of expertise.

Small companies typically grow faster than large companies: higher earnings growth can be used to reward investors with higher dividends. Since 1955, UK smaller companies have generated dividend growth of 8.1% each year, far more than large-cap stocks at 6.5% per annum. In addition, UK small companies generally have even stronger balance sheets today: dividend cover (a ratio measuring the sustainability of the dividend) stands at 2.4x compared with 2.1x for large-cap companies.

## MONTANARO EQUITY INCOME

- Boutique UK and European small-cap specialists
- One of the largest dedicated small-cap teams in Europe
- Long-term investors, so very low turnover
- Invests c. 80% in small and mid-cap stocks, but no AIM
- Yields 3.6%, paid quarterly in February, May, August, November

There are many examples of UK small companies that have grown their dividends year after year, irrespective of the economic cycle. Take one example, Domino Printing (market cap: £1 billion), a global market leader in the manufacture of ink jet printers: the sell by date on your milk or the British Lion on your soft-boiled egg was probably made by one of their printers. Domino Printing offers a dividend yield of 3%, which has increased for no less than 28 consecutive years. Sadly, having been a major investor over many years, Domino Printing recently received a takeover bid from a Japanese company. We were not alone in appreciating the merits of such companies.

## A POSSIBLE SOLUTION?

The Montanaro Equity Income fund invests in quoted UK small and mid-cap companies. We aim to deliver a dividend yield at least 10% higher than the UK all companies index. Our investment philosophy focuses on the highest quality companies that we can find. We only invest in companies that are profitable. We meet management teams regularly and, when we invest, we do so for the long term (we think in terms of decades). Our team of 28 is one of the largest small-cap specialist teams in the UK, which allows us to complete all the research and analysis ourselves. Finally, we put our money where our mouth is and invest in our own funds.

Montanaro Asset Management was established in 1991 to invest exclusively in UK and European small cap. We look after over £2 billion on behalf of leading institutions across the UK and Europe. Montanaro Equity Income was launched in 2006 for "friends and family" looking for income. Over the past five years, it has produced a total return of 14%\* per annum. The portfolio yield is currently 3.6% and is forecast to grow by 23% this year.

At a little under £80 million in size we will continue to charge no management fee at all until the fund reaches £100 million. At that point, a management fee of just 0.25% p.a. will then be charged in perpetuity for all those who have invested prior to the fund reaching £150 million. We believe that this makes Montanaro Equity Income attractive for long-term investors looking for income and in search of a second basket to protect their own nest eggs.

CHELSEA RISK RATING:	●   8
ANNUAL MANAGEMENT CHARGE:	0%
ONGOING CHARGES FIGURE (OCF):	0.22%

## THE CHELSEA VIEW:

"Charles' expertise in small-cap investing, combined with his strong team solely focused on this area of the market, make this fund an interesting choice for investors keen to diversify their income stream."

\*Source: Montanaro May 2015



# Pension planning: Start saving for your retirement today

The recent changes to the pension landscape have prompted many questions about the challenges in retirement planning for investors, with time playing a huge factor. How much money will you need? How long will it need to last?

According to RedSTART, a financial education initiative, you need a pension pot of £200,000 simply to retire on the living wage (the amount an individual needs to earn to cover the basic costs of living) and £400,000 to achieve the average wage.\*



## TOP UP BEFORE IT'S TOO LATE

In July, we anticipate that the government will limit the amount of tax relief to those earning above £150,000, in order to fund a new inheritance tax allowance.

\*RedSTART, April 2015. Underlying assumptions are male and annuity at 68 years old. Living wage and average wage: <http://www.bbc.co.uk/news/business-25759780>

We are also living longer now and many people may have 30 years or more in retirement, so we need to make our pensions last as long as we do. Investors need to think about how they will use their pension to generate income, using a blend of secure and flexible income.

## START SAVING TODAY

One of the best ways to ensure that you save enough is by starting early. Time is key with pensions. The later you start saving the larger the contribution you need to make each month. Compounding, which Einstein mused as "the greatest mathematical discovery of all time", is as significant to pension savings as the tax relief you receive on personal contributions.

Currently investors can save £40,000/year, based on relevant earnings (including basic rate tax relief), up to a maximum of £1.25m in a lifetime towards their retirement, but many are leaving it too late.

Chelsea offers a low-cost, flexible pension and for those of you who find the thought of choosing from such a large selection rather daunting, we also have a range of EasySIPP portfolios on page 32.

Our pension has now been active for over a year, and has been extremely popular with investors who don't want to pay hefty advisor fees, and want the flexibility to invest their pension as they see fit.



"We can help with transfer out charges."

Operations Consultant, Chelsea

## THERE IS NO TIME TO LOSE

- 0% set-up charge
- 0% initial charge on funds
- Access to over 2,500 funds
- EasySIPP portfolios - see overleaf
- Competitive service and platform charge
- Free telephone dealing
- Free transfers in
- Free switching online, by post and on the telephone
- Consolidate and manage schemes in one place
- Tax-efficient growth
- 20% tax relief automatically reclaimed by the pensions trustee for you (based on relevant earnings) - see opposite for the current rules
- You no longer have to purchase an annuity, so you can use your savings as you wish
- Access to tax-free cash from 55
- Your pension savings, could be handed down through the generations, with limited, or no tax implications
- Twice-yearly statement with expert research commentary
- 0% charge for processing probate
- Dedicated Chelsea pensions administrator

If you are interested in opening and/or transferring a pension with Chelsea, please complete this slip and we will send you some more information in the post. Alternatively, why not call us on **020 7384 7300** and have a chat about your options.

### YOUR DETAILS

Name:		_____
Address:		_____
		_____
		Postcode: _____
Email address:		_____
Telephone:	Date Of Birth: _____	
<b>What do you want to do?</b>	<input type="checkbox"/> Transfer a pension(s)	<input type="checkbox"/> Transfer a pension(s) and go into drawdown
	<input type="checkbox"/> Contribute to a pension	
	<input type="checkbox"/> Other (please explain) _____	
	_____	
	_____	

In the budget last year a number of changes were announced to make pensions more flexible. These radical changes were made to both drawdown and death benefits.

### DRAWDOWN THAT YOU CAN ACCESS VIA CHELSEA FUNDSTORE

Flexi-access drawdown allows you to take pension income, which is taxable, with no upper limit. You can also usually take a 25% tax-free lump sum (also referred to as pension commencement lump sum), with the remainder taken as income over a period of time, or you can even withdraw the full amount in one payment - but beware of potential tax implications.

If you set up drawdown before 6th April 2015 you will remain in capped drawdown, unless you opt to convert to flexi-access. If you would like to discuss your drawdown options, please contact us in the office.

### DEATH BENEFIT CHANGES

The Chancellor recently announced that the government will scrap the 55% death duty tax on pensions, making pension savings a lot more attractive to investors. Your pension savings, could be handed down through the generations, with limited, or no tax implication.

HOW CAN YOUR PENSION BE PASSED ON?	IF YOU DIE BEFORE AGE 75	IF YOU DIE ON OR AFTER AGE 75
Lump sum	Tax free	Subject to 45% tax for payments made between 6th April 2015 and 6th April 2016 This is likely to be taxed as income** for payments made from 6th April 2016
Income	Tax-free via an annuity or drawdown (both options available to any dependent or nominated beneficiary)	Taxed as income** via an annuity or drawdown (both options available to any dependent or nominated beneficiary)

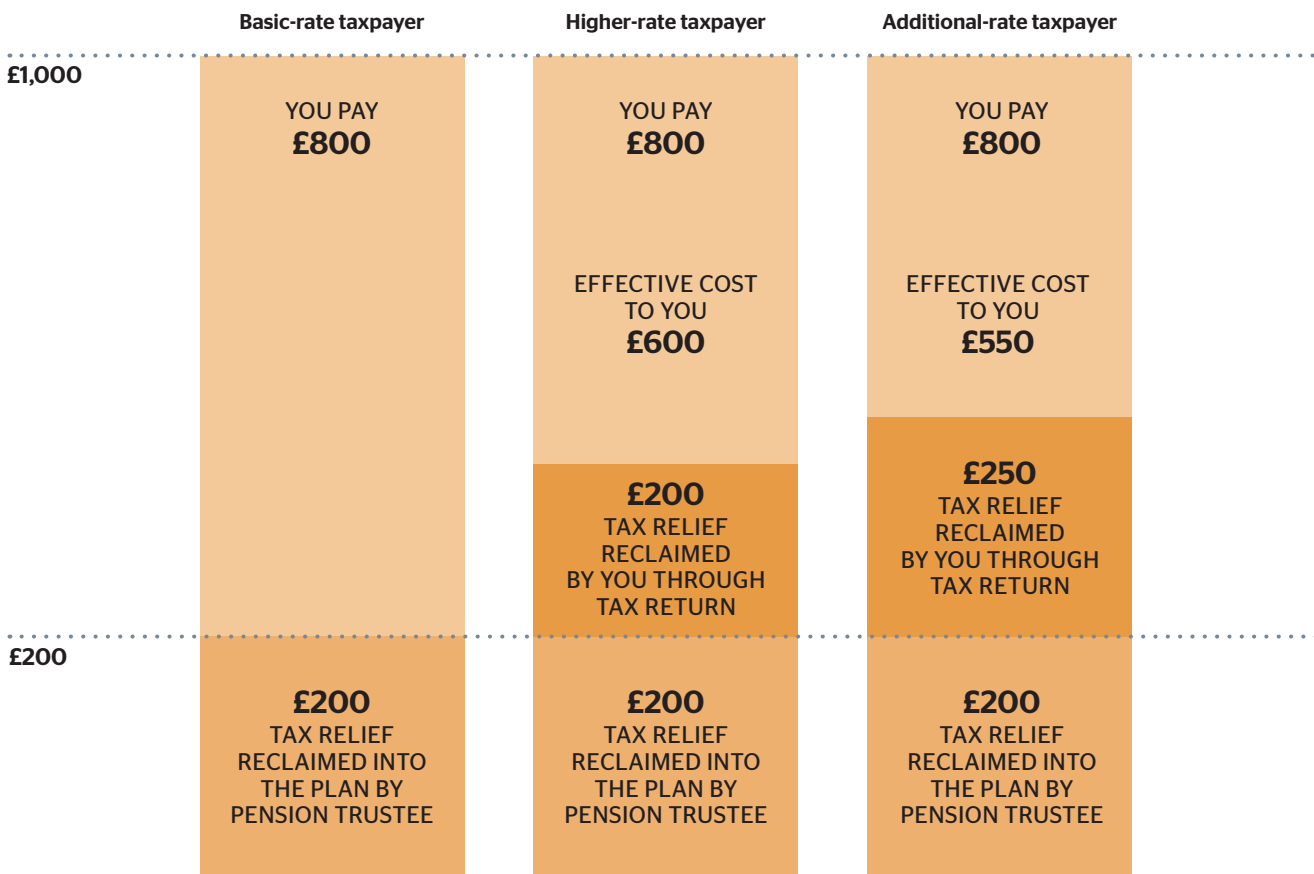
\*\*beneficiaries' marginal rate of tax

### BE AWARE OF THESE IMPORTANT POINTS

- Avoid the scams - unfortunately there are some unscrupulous people around, looking to take advantage of the new pensions freedoms. Be very careful not to be unwittingly caught out. If it sounds too good to be true, it probably is.
- Taking income, through flexi-access - you will trigger money purchase annual allowance. This means that your annual allowance will drop to £10,000/year. If you only take the tax-free lump sum, your annual allowance will remain at £40,000 (based on relevant earnings)

- Potential tax implications when going into drawdown - take care that you are not caught out and end up paying more to the taxman than necessary. Withdrawing your pension could push you into a higher tax bracket.
- If the scheme member dies before the age of 75 the fund must be designated as a dependant's death benefit within a two-year period in order to retain the tax-free benefit.
- Don't forget about ISAs, they are tax-efficient wrappers which can also be used to take an income at retirement.
- There is a minimum initial contribution of £5,000 (either from a contribution and/or transfer) to open a pension with us.

## To contribute £1,000 in a pension plan



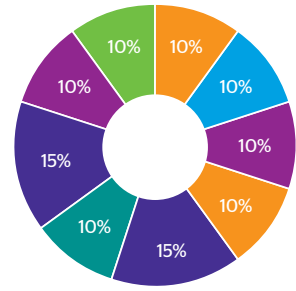
Current rules, as at May 2015  
Please note £800 must be paid into the pension plan to achieve a gross contribution of £1,000

## Cautious EasySIPP

The Cautious Growth EasySIPP offers diversification via equities, bonds, property and targeted absolute return funds. This diversification should offer the cautious investor lower volatility than a portfolio solely focused on equities. However, please be aware that this portfolio still contains up to 40% in equities, which means there will still be a moderate amount of volatility and this is likely to increase at times of market stress.

AVERAGE ANNUAL MANAGEMENT CHARGE (AMC): 0.73%  
 AVERAGE ONGOING CHARGES FIGURE (OCF): 0.85%

- Artemis Global Income 10%
- Artemis Strategic Assets 10%
- BNY Mellon Absolute Return Equity 10%
- Fundsmith Equity 10%
- GLG Strategic Bond 15%
- Henderson UK Property 10%
- Jupiter Strategic Bond 15%
- Premier Defensive Growth 10%
- Woodford Equity Income 10%



## Balanced Growth EasySIPP

The Balanced Growth EasySIPP currently invests approximately 50% in equities, but could reach a maximum of 70%, with bonds, property and targeted absolute return funds offering diversification. With an increased weighting in equities than that of the Cautious EasySIPP, this portfolio may be ideal for investors who have a longer time horizon and those who are comfortable with a higher degree of risk.

AVERAGE ANNUAL MANAGEMENT CHARGE (AMC): 0.73%  
 AVERAGE ONGOING CHARGES FIGURE (OCF): 0.91%

- BlackRock European Dynamic 10%
- BNY Mellon Absolute Return Equity 10%
- Evenlode Income 10%
- GLG Strategic Bond 10%
- Henderson Cautious Managed 10%
- Henderson UK Property 10%
- JOHCM UK Opportunities\*\* 10%
- Jupiter Strategic Bond 10%
- Legg Mason Clearbridge US Aggressive Growth 10%
- Somerset Emerging Markets Dividend 10%

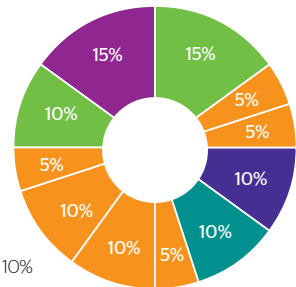


## Aggressive EasySIPP

The Aggressive EasySIPP is for investors who are comfortable with a higher degree of risk. The portfolio currently comprises approximately 65% in equities, but could be higher, with exposure to Asia, emerging markets, Europe and North America. This portfolio has the potential to produce greater returns, in the long term, but with less investment in bonds and property funds, this is only for those who are prepared to accept a high level of risk.

AVERAGE ANNUAL MANAGEMENT CHARGE (AMC): 0.75%  
 AVERAGE ONGOING CHARGES FIGURE (OCF): 0.92%

- AXA Framlington UK Select Opportunities 15%
- Baillie Gifford Japanese 5%
- First State Asia Pacific Leaders 5%
- Henderson Strategic Bond 10%
- Henderson UK Property 10%
- Invesco Perpetual Hong Kong and China 5%
- Jupiter European 10%
- Legg Mason Clearbridge US Aggressive Growth 10%
- M&G Global Emerging Markets 5%
- Marlborough UK Micro-Cap Growth 10%
- Old Mutual Global Equity Absolute Return Hedged 15%

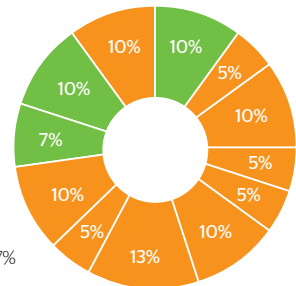


## High Alpha EasySIPP

The High Alpha EasySIPP comprises a range of equity funds that tend to be high risk in nature. This is a globally-diverse portfolio, with 100% of the holdings in equities and over 60% of the portfolio investing overseas. Due to the nature of these investments, this could be a highly volatile portfolio, and is more appropriate for long-term investing. Those who invest in this portfolio may see higher returns, but should only be invested in by those willing to take a higher level of risk.

AVERAGE ANNUAL MANAGEMENT CHARGE (AMC): 0.76%  
 AVERAGE ONGOING CHARGES FIGURE (OCF): 0.95%

- AXA Framlington UK Select Opportunities 10%
- Baillie Gifford Global Discovery 5%
- First State Asia Pacific Leaders 10%
- JOHCM Asia Small & Mid-Cap\*\* 5%
- JOHCM Japan\*\* 5%
- Jupiter European 10%
- Legg Mason Clearbridge US Aggressive Growth 13%
- M&G Global Dividend 5%
- M&G Global Emerging Markets 10%
- Marlborough UK Micro-Cap Growth 7%
- Neptune UK Mid Cap 10%
- Rathbone Global Opportunities 10%



- Absolute Return
- Multi-Asset
- UK Equity
- Fixed Interest
- Property
- Overseas Equity

**Important Notice**  
 Please be aware that none of the funds available via Chelsea FundStore are without risk, and the Key Investor Information Documents, for each fund, should be read before investing.

Chelsea is an execution-only business and cannot give advice. If you feel you need advice on your pension, you should consult a financial adviser. The government has also launched an impartial guidance service [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

You can also get a state pension forecast from [www.gov.uk/state-pension-statement](http://www.gov.uk/state-pension-statement)

If you are interested in opening and/or transferring a pension with Chelsea, please complete the slip on page 30 and we will send you some more information in the post. Alternatively, why not call us on **020 7384 7300** and have a chat about your options.

\*\*There is a 15% performance fee on outperformance of the benchmark.



# VCTs: Helping you plan for your retirement

With the lifetime personal pension allowance having fallen to £1.25m and expected to fall further to £1m in April 2016, thousands of people are looking at the prospect of paying up to 55% on the excess.

Some investors, who are willing to take a higher risk, are now looking at other tax-efficient products such as Venture Capital Trusts (VCTs). VCTs invest in small, unquoted but potentially high-growth businesses.

**VCTs come with advantageous tax benefits for subscriptions of up to £200,000 per tax year (tax benefits are dependent on individual circumstances):**

## TAX BENEFITS OF VENTURE CAPITAL TRUSTS

- Initial income tax relief of 30% (if held for five years)
- Tax-free dividends
- Capital gains tax exemption on sale of VCT shares

Whilst investing in smaller companies is inherently a riskier investment than others, the VCT managers, who are experts in identifying companies with a high potential of success, build a portfolio of around 30-40 companies, which mitigates a certain amount of this risk.

## RETIREMENT PLANNING

Investors often turn their attention to VCTs when they are coming to the end of their personal pension allowance, not only for the tax benefits mentioned above, but also because of the, often overlooked, benefit that many VCTs pay out attractive dividends on a regular basis. This means that an investor can potentially receive a steady, tax-free stream of dividends upon retirement.

With most share offerings nowadays being 'top-up' offers, investors are given the opportunity to invest into mature VCT portfolios, some of which have a record of

paying constant tax-free dividends going back for over 15 years.

For more information on VCTs, visit our website [chelseafs.co.uk/products/vct](http://chelseafs.co.uk/products/vct)

## CURRENT CHELSEA OFFERS

- The **Downing One VCT** for example offers a minimum 4% annual dividend. They have a 17-year track record of returning an average of 5.4% per annum (including income tax relief).\* This is one of the UK's largest and offers greater diversification than other VCTs, as they have a portfolio of over 100 investments, as well as industry low running costs which are capped at 2.75%. Downing One are currently offering investors the opportunity to invest in new Ordinary shares in this VCT, giving you the usual 30% tax relief (must be held for five years).
- Another Generalist VCT which is offering Ordinary Share top-ups to existing portfolios and is worth close consideration is the **Albion VCT**, which aims to offer investors the attractive return of 6%. They aim to provide a regular, consistent income by investing in both lower-risk, asset-backed, income-generating investments and higher risk investments offering greater growth opportunities.

Please check our website for details of the VCT discounts, which help to reduce the cost of investing ([chelseafs.co.uk/products/vct/offer](http://chelseafs.co.uk/products/vct/offer)) or call our office on **020 7384 7300** for more details.

"VCTs give you a tax-free income, which can help you plan for your retirement years."

Senior Operations Consultant, Chelsea

## IMPORTANT NOTICE: VCTs

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. The level of charges are often greater than unit trusts and OEICs and they can be harder to sell than more mainstream investments. Past performance is not necessarily a guide to the future. The value of investment, 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. VCTs should be regarded as long term investments and only suitable for sophisticated investors. If you invest in a VCT through Chelsea Financial Services we do not offer financial advice and you must make your own assessment of your expertise and the suitability of a VCT for your circumstances. If you have any doubts you should seek expert advice. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

NAME OF VCT	TYPE OF VCT	MINIMUM INVESTMENT	AMOUNT RAISING	INITIAL CHARGE	CHELSEA DISCOUNT	CHARGE AFTER DISCOUNT
Albion VCTs Prospectus Top Up	Generalist	£6,000	£36m	3.00%	0.00%	3.00%
Amati VCTs Top Up	AIM	£3,000**	£9.5m	2.00%	0.00%	2.00%
Downing ONE VCT Top-Up	Generalist	£5,000	£10m	4.00%	2.25%	1.75%
Downing THREE VCT 'J' Share	Generalist	£5,000	£25m	4.00%	2.25%	1.75%
Foresight VCT Top-Up	Generalist	£3,000	£20m	5.50%	3.00%	2.50%
Hargreave Hale AIM VCT 1&2 Top-Up	AIM	£5,000	£20m	3.50%	1.00%	2.50%
Octopus AIM VCT & VCT 2 Top-Up	AIM	£5,000	£30m	5.50%	2.50%	3.00%
Octopus Apollo VCT Top-Up	Generalist	£5,000	£30m	5.00%	2.50%	2.50%
Octopus Eclipse VCT Top-Up	Generalist	£5,000	£3.8m	5.50%	2.50%	3.00%
Octopus Titan VCT Top-Up	Generalist	£5,000	£70m	5.50%	2.50%	3.00%

Source: Chelsea Financial Services

For details of the latest totals, please visit the VCT page on our website where application forms can be downloaded before being sent to us.

\*\* (£3,000 if investing in only one VCT; £2,500 in each VCT if investing in both)

\* Source: Downing LLP, 14/01/2015

# Happy 1st Birthday FundCalibre

We introduced you to our new fund ratings service FundCalibre in our October 2014 Viewpoint. Here Tony Yousefian, of FundCalibre, reflects on the company's first year.



TONY YOUSEFIAN  
FundCalibre



Ok, so you have decided to invest more of your hard-earned cash. With over 3000 funds in the UK how do you decide which fund to invest in? It's only natural to want to invest with the best, but then how do you know who is rated and who is not? This is where

FundCalibre comes to your rescue. FundCalibre was launched at the end of July 2014 with the sole intention of providing a refreshingly new and effective rating methodology to identify and rate talented fund managers and make the research available free of charge for use by private investors. Such has been the success of the website that in less than a year it has received more than 26,000 (up to end of April 2015) hits from independent investors. The website currently has over 40 investment houses on its list and in excess of 100 funds which are rated, and labeled as Elite funds.

With around 3,000 investable funds, this may not sound much but the methodology and the process used in rating funds is extremely rigorous. We aim to rate no more than 10% of the funds in each sector, thus maintaining the selectivity of the rating. The rating appraisal is a two-stage process. There are many funds that pass stage one which is a quantitative process, but fail stage two, the qualitative assessment. Only funds that pass both stages will receive a rating.

FundCalibre is a joint venture between Albemarle Street Partners (ASP) and Chelsea Financial Services. The rating process makes use of Chelsea's well-respected research and ASP's quantitative skills. ASP is an investment management consultancy firm, managed by an experienced team of former fund managers. With over eight people involved on qualitative research, the combined team carry out more than 500 fund manager visits each year. The business model at FundCalibre is deliberately designed to be independent, in order to be able to provide a totally unbiased view of the funds, and as a result will not have any affiliation with any fund management group at any time.

## THE IMPACT OF FUND SELECTION ON YOUR WEALTH

There are plenty of empirical studies to show that after what the experts call "asset allocation" (deciding which type of assets you would like to invest your money in such as UK equities, European equities, property etc.) by far the most important factor in how much or how little money you make is "stock selection", in our case that would be fund selection. Just as an example, if we take a look at IA's UK All Companies sector, there are 260 funds with three-year track records in this sector. Over the past three years to 1st May 2015, the average fund grew by a respectable 44.51% and the worst performing by a derisory 11.80%. A massive difference by anyone's standard. It's the difference of flying premium economy as opposed to cattle class. However, if you were fortunate enough to have picked not necessarily the best-performing fund, but say the tenth best performer, your returns would have been a massive 87.90%. Now that's first class flying.



FundCalibre has a quantitative appraisal process which is rigorously back tested and has proved to be robust enough in identifying funds and fund managers that have consistently displayed investment skills superior to their competitors, resulting in superior returns for their investors.

## MORE THAN JUST A RATINGS WEBSITE

Those of you who have not visited and registered on the website, I urge you to do so. You will find by registering you will be able to have access to all of our fund research, which is consumer oriented. You can elect to receive our newsletter and market commentary. You will be able to build your own portfolio of funds and keep up to speed with latest market news.

FundCalibre has come a long way in its first year of existence, but we are not resting on our laurels, and have ambitious plans for further refining and development of the website. However, our guiding premise will always be to provide the consumer with a robust and reliable validation process for their investment decisions free of charge.

[www.fundcalibre.com](http://www.fundcalibre.com)

The screenshot shows the FundCalibre website interface. At the top, there's a navigation bar with links for 'FIND ELITE RATED FUNDS', 'THE ELITE RATING', 'KNOWLEDGE CENTRE', 'ABOUT FUNDCALIBRE', and 'NEWS & VIEWS'. A search bar is also present. The main content area features a large banner with the text: 'We research 1000s of funds and give an Elite rating to just a selection. Are your funds among the Elite?'. Below the banner, there are several sections: 'Do you need to invest for your future?' with a sub-section 'How do I use FundCalibre?' featuring an image of a magnifying glass over a document; 'Build a portfolio of Elite Rated funds'; 'Our nine new Elite Rated funds'; and a newsletter sign-up section with the text 'Sign up to our monthly newsletter' and a 'SIGN UP' button. At the bottom, there are three columns of links: 'ABOUT FUNDCALIBRE' (Who we are, The Elite Rating, Quick tips, Press presence), 'FIND ELITE RATED FUNDS' (Search funds, Learn more, Guide to FundCalibre filters), and 'KEEP UP TO DATE' (News & Views, Register for newsletter, Contact us).



“An excellent record of maximising growth while still protecting against volatility.”  
Operations Consultant, Chelsea

# PruFund:

## Looking for an alternative income stream outside your pension or ISA?

For investors approaching, or already in retirement, most want the potential for both growth and income, as well as a level of security. It is also important to make your savings and investments work as hard as possible without exposing yourself to risk that you are not comfortable taking. Prudential offers a unique and wide range of funds, called the PruFund Range of Funds, which are designed to provide a return in excess of inflation, but with lower volatility than the stock market.

One fund popular amongst clients is the PruFund Growth fund. It aims to maximise growth as well as provide a regular income stream over the medium to long term by investing in shares, property, fixed interest, index-linked securities and other specialist investments\*. The fund is managed by Prudential's 25-strong multi-asset team, who are supported in their research by fund manager M&G.

Currently PruFund Growth has a 6% expected annual growth rate of return before charges\* (annual charge up to 1.05%), although from November 2004 to August 2014 the PruFund Growth over-delivered, with a return of 6.66% per annum\*. However, please note that returns are not guaranteed.

### VALUABLE TAX-EFFICIENT OPPORTUNITIES:

- Investment bonds could be a tax-efficient option available to investors who have used up their pension and ISA allowances.
- There is no personal liability to capital gains tax or basic rate income tax on the

proceeds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

- You can take withdrawals of up to 5% of the originally invested amount each year and this does not affect your personal or age tax allowances.
- Tax is deferred until encashment and so could be useful for higher and additional rate taxpayers who expect to pay a lower tax rate in future.
- If the annual 5% allowance is not used, it accumulates. For example, after five years of no withdrawals an investor could take up to 25% of the balance originally invested, tax deferred.
- The capital value of the bond does not count as part of your estate when you are being assessed for care costs. However, if it is believed you invested in the bond specially to remove this money from assessment it will fall foul of the exemption.

### SPECIAL FEATURES

**Monthly income is tax deferred** - receive up to 5% tax deferred income paid out on a monthly basis

**Smoothed returns** - a process that attempts to manage volatility and provides a more predictable income stream

**Low handling fee** - no Chelsea ongoing charge, just one small, upfront handling charge

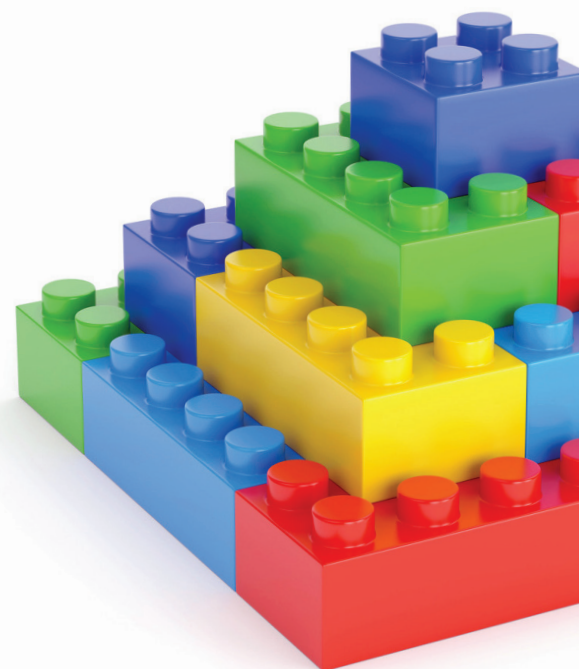
**Joint ownership** - can be held in a joint account providing the primary life assured is under 79 years old

**Long-term planning** - not normally included for care home means testing

### INVEST NOW

Lump sums & top ups can be made from £10,000 up to £1,000,000.

To find out more information please call our office on **020 7384 7300** or visit our website [www.chelseafs.co.uk/products/prufund-range-of-funds](http://www.chelseafs.co.uk/products/prufund-range-of-funds).



### PRUFUND GROWTH, FIVE-YEAR PERFORMANCE

31/01/14 to 31/01/2015	31/01/13 to 31/01/2014	31/01/12 to 31/01/2013	31/01/11 to 31/01/2012	31/01/10 to 31/01/2011
6.25%	6.20%	6.55%	9.38%	10.73%

\*Source: [www.pruadviser.co.uk/content/ourfunds/egr/pip](http://www.pruadviser.co.uk/content/ourfunds/egr/pip)

INVEST, MONITOR AND MANAGE YOUR PORTFOLIO WITH

# the Chelsea FundStore

POWERED BY **c-funds**

'FUNDSTORE' COMBINES CHELSEA'S REPUTATION FOR OUTSTANDING SERVICE WITH COFUNDS' EXPERT ADMINISTRATION.

Chelsea and Cofunds are separate, regulated companies. Chelsea introduces you as a client to Cofunds, who have the systems, the expertise and the financial backing to safeguard and administer your investments.

## Invest online

### INVESTMENT ISA

Lump sum or monthly savings, select one of our EasyISA portfolios, or choose from more than 2,500 funds

### INVESTMENT FUNDS (NON-ISA)

Use our tools and research to diversify your portfolio

## Manage your investments online

### ALL YOUR INVESTMENTS IN ONE PLACE

Seeing all your investments together gives you a holistic view of your portfolio

### FREE ONLINE DEALING

No additional dealing costs (including switching between funds at 0% charge)

### MONITOR PERFORMANCE

Keeping track of your portfolio means you're always in control

### ACCESS 24 HOURS A DAY, 365 DAYS A YEAR

No need to wait for a statement in the post to get valuations

### MONITOR YOUR PENSION

Hold your pension within FundStore and benefit from free switching, competitive charges and low-cost drawdown.

## FundStore benefits

- 24/7 ACCESS TO YOUR FUNDSTORE ACCOUNT
- FREE SWITCHING
- FANTASTIC DISCOUNTS
- COMPETITIVE PENSION CHARGES
- INCOME REINVESTED FOR FREE
- ONLINE CHELSEA FUND REVIEW
- VALUATION STATEMENT TWICE A YEAR
- LESS PAPERWORK
- A MORE FLEXIBLE ISA
- MORE INVESTMENT CHOICE
- INVEST IN A JUNIOR ISA
- LUMP SUM OR MONTHLY SAVINGS PLANS
- CASH RESERVE FACILITY
- EASIER ESTATE PLANNING
- TELEPHONE DEALING OPTION



### IS THERE A DOWNSIDE?

You will not receive the annual reports for the underlying funds and income payment dates will vary slightly from those of the underlying fund providers.

You will need to complete a withdrawal form or send in a written instruction to sell your funds. Please note that this process can take 5-10 working days.



### SET UP A FUNDSTORE ACCOUNT TODAY

To register, go to [chelseafs.co.uk](http://chelseafs.co.uk) and select 'Sign in/out' on the home page

Select 'Create a new account' on the right-hand side and complete your details

### DON'T WANT TO INVEST ONLINE?

No problem. Many clients prefer to deal with us by post or telephone at no extra charge:



#### BY POST

Write to Chelsea Financial Services,  
St James Hall, Moore Park Road, London SW6 2JS



#### BY TELEPHONE

Call us on **020 7384 7300** 9am-5pm Monday-Friday

Chelsea FundStore is powered by **c-funds** - an independent regulated company, and one of the UK's leading investment platforms.

# Would you **recommend** Chelsea?

Many of our clients come to us after being recommended by an existing client. We are very pleased and grateful that many people are so happy with our service that they feel confident enough 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 will send to you:

- £50 worth of Marks & Spencer vouchers if they invest or transfer over £25,000
- £25 worth of Marks & Spencer vouchers if 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:	



"I can't write too highly of the Chelsea staff who are always so pleasant, helpful and reliable. I have been with you for many years and I recommend you to anyone and everyone. My sincere thanks for your very efficient service."

Sylvia Morris, AMERSHAM

"I would like to express my appreciation of all the staff at Chelsea. The courtesy, information and service which I have received is always first rate."

David Barnard, SOLIHULL

# Unhappy with your IFA or platform? (And unhappy about their charges?)

Remember: All transactions within the Chelsea FundStore are available at 0% charge.



## WHAT FREE TRANSACTIONS MEAN FOR YOU:

- Get rid of poor-performing funds at 0%. Thanks to free switching, Chelsea clients have saved thousands of pounds.
- Switching enables you to make changes to your portfolio with ease, allowing you to rebalance your portfolio or readjust as you see fit.
- Access to over 2,500 funds, from more than 90 different providers, all available at 0% charge.
- Cash Reserve ISA: if you're unsure where to invest or just want to sit outside the market, you can hold cash within your ISA then switch into funds at 0% charge.



## ...and **free consolidation** too

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. However, some platforms may charge an exit fee, but if they do we should be able to pay it for you. Please call our helpdesk on 020 7384 7300 to find out more.

*Re-registration is easy.*

Simply complete and return the form on page 54.

Make sure you benefit from  
**0% transaction charges**  
with all your funds...

**If you have a Cofunds account with another intermediary, and you do not need advice, all you need to do is to appoint Chelsea as your servicing agent - just complete and return the form below:**



CLIENT NAME:	CLIENT REFERENCE:
I wish to appoint Chelsea Financial Services as the servicing agent for my Cofunds investments.	
SIGNED:	DATE:

Only complete if you have a Cofunds account and haven't previously submitted a ShareClass Conversion form.

This form is to be used for Self-directed Explicit Pricing Model clients only.

This form is to be used for share class conversions. This includes conversion between commission-included to commission-free share class funds and between commission-free share class funds. Please complete this application form using black ink in BLOCK CAPITALS and return to: Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS

## 1 Intermediary Details

Cofunds Intermediary Authorisation Code

## 2 Personal Details (Please complete this section in full)

I have not received financial advice in relation to this investment.

### Primary holder

Existing Cofunds Client Reference

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Current permanent residential address

Postcode

### Secondary holder

Existing Cofunds Client Reference

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Current permanent residential address

Postcode

## 3 Segmentation (For intermediary use only)

Please enter the name of the segment in full using BLOCK CAPITALS:

## 4 Choose Account

Please note: These instructions will convert all funds to commission-free as available to your intermediary.

### Account Level

All Accounts - convert all accounts where the client is the primary holder

## 5 Choose Product/Funds

We will move all funds requested in accordance with your selection unless the requested fund(s) are not available to be converted, in which case we will not be able to fully complete your request for these fund(s). Go to <http://www.cofunds.co.uk/docs/GBUB/cofunds-fund-list-gbub.pdf> for a full list of available funds.

All Products

## 6 Convert Existing Regular Contribution

Convert the existing regular contribution in accordance with the option and accounts as indicated above (if applicable).

## 7 Service charge (To be completed by the intermediary)

Service Charge model name:  Annual Service Charge\*:

\*This is an annual charge taken on a monthly basis.

It is Cofunds' normal business practice to process your conversion following receipt of your instruction. The instruction to convert is then passed to the fund manager who will convert and confirm back to Cofunds upon completion. Cofunds upon receipt of confirmation will then reflect the change(s) to the clients Accounts. This process is subject to change dependant on volumes and individual fund manager processing procedures.

**Authorisation**

I authorise Cofunds to convert on my behalf as indicated above. I understand that if applicable, any application to convert ISA funds will be deemed to include all former ISA and PEP products. I confirm that I have received the relevant product key features/fund specific information and/or Key Investor Information Documents relating to my investment.

I confirm that I have been provided with the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing Model) (the Customer Agreement) and, by submitting this application form, I agree to be bound by that agreement.

I understand that the Customer Agreement sets out the standard terms upon which Cofunds intends to rely, and it is important that I should read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.

I understand that there is a fee associated with the Cofunds Explicit Pricing Model (the Platform Charge). I authorise Cofunds to collect the Platform Charge from my applicable Cofunds Cash Account/Trading Account.

For the L&G Portfolio Plus/SIPP and L&G International Portfolio Bond, where there is insufficient money in my cash account to pay the Platform Charge and I have an existing Sale for Regular Payment mandate or Fund Sale Instruction, I authorise Cofunds to sell funds from my ISA and/or Investment Funds in accordance with this mandate to cover the charge. I understand that this may result in commission-included share class funds being sold to cover this charge.

**I agree to**

- The Platform Charge
- The Sale for Regular Payment Process in respect of the Platform charge in circumstances where I have an existing mandate or model portfolio.

I understand and accept that if the fund(s) selected in this form are not available to my intermediary, Cofunds will automatically select a comparable fund available to my intermediary when processing my application. I understand and accept that I am entitled to cancel my application in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to the product I am investing in and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.

**Fund Sale Instruction**

If a Fund Sale Instruction applies to the segment linked to my investment, I accept and agree that funds will be sold to settle any outstanding fees and charges which have accrued prior to this date and all fees and charges payable hereafter.

**Service Charge**

I confirm that I have received my Fees and Charges Schedule and understand which fees and charges are applicable to my investment. I hereby instruct Cofunds to pay my intermediary the Service Charge specified in Section 7 of this form and in my Fees and Charges Schedule from my relevant payment account.

Cofunds will accept authority from the primary holder only, in most circumstances.

For trusts and Powers of Attorney more than one signature may be required.

If I have an active Sale for Regular Payment mandate or the segment linked to my investment applies to a Fund Sale Instruction (as described in my Fees and Charges Schedule) and there is insufficient money within the relevant payment account, I authorise Cofunds to sell enough of my platform assets to pay the Service Charge in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to my investments/assets. I understand and accept that this may result in commission-included share class funds being sold to cover the Service Charge, if I have an account level SFRP instruction.

Primary Holder Signature		Date
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Secondary Holder Signature		Date
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The disclosure documentation applicable to this transaction is: **0 4 1 5 S D E**

**This form is to be used for Self-directed Explicit Pricing clients only. For Key Features of the Cofunds platform and/or Key Investor Information Documents please refer to your personal disclosure at [chelseafs.co.uk/pd](http://chelseafs.co.uk/pd) or telephone us for a copy.**

**The ISA allowance is £15,240 for the 2015/16 tax year.**

Please complete this Application Form using black ink and BLOCK CAPITALS and return to: Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS

Cofunds Authorisation Code **7 7**

## 1 Personal Details (Please complete this section in full)

Existing Cofunds Client Reference

I have not received advice from a financial adviser in relation to this investment.

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Email

Daytime telephone number

Male  Female  Date of Birth  /  /  /  /  /

National Insurance Number  /  /  /  /

If you do NOT have a National Insurance Number, please tick here.

Please read the following sentence and confirm by ticking the box if applicable. I confirm that I am solely UK resident for tax purposes and not a US citizen.   
If you can't confirm and tick the box, please complete the Individual FATCA Self-Certification form that can be issued to you by Chelsea.

Current permanent residential address

Postcode

Time at this address  yrs  mths

If at current address for less than two years, please supply previous address and time there

Postcode

Time at this address  yrs  mths

If more than one previous address in the last two years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this application form.

## 2 Segmentation (For intermediary use only)

Please enter the name of the segment in full using BLOCK CAPITALS: **STANDARD SELF DIRECTED SEGMENT (Only apply if client is not already segmented)**

## 3 Funding Your Investment

I will be funding my investment by (tick all that apply):

**Cheque**  £  .  Amount

**Cofunds Cash Account**  £  .  Amount

**Monthly Direct Debit.** Please complete the Direct Debit mandate on page 55.

**Cheque payment**  
Cheques must either be drawn on your own account or joint account. Please make your cheque payable to **Cofunds Limited**. For a Building Society cheque or banker's draft your name must appear on the front of the cheque, or on the back of the cheque accompanied by the Building Society's or bank's official stamp and signature.

## 4 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. You can only have one nominated bank account at any given time.

If you are paying by cheque then no action is required. For all other funding options you can send a void signed cheque or a bank statement issued within the last three months with this application. If you are an existing customer, only complete this section if you would like to change your nominated bank account details. Any change to your nominated bank account will not be applied to your regular monthly investments.

Name of Account Holder

Bank Name

Branch Sort Code  -  -  Bank/Building Society Account Number

Building Society Roll Number

## 5 Income

Complete this section if you have requested income units/shares ('INC'). The option you choose will be applied to all income units/shares you hold within this product.

If you have selected the option to 'Retain in fund' this will only be applied to the commission-free share classes you hold, any commission-included share classes you hold will continue to pay income in accordance with your previous instruction.

**Consolidated Monthly Income**  
Income generated from your investment funds will be consolidated into your cash account and paid to your nominated bank account on a monthly basis.

**Cofunds Cash Account**  
Income generated will be paid into your cash account to be held on platform for withdrawals, future investment or charges.

**Retain in the fund**  
Income generated from this investment will be retained in the fund.

If you do not tick one of these boxes we will select the 'Retain in the fund' option by default.

## 6 Investment Selection

I wish to subscribe to an Investment ISA (stocks and shares) for the tax year **2015/16** for the amount of: £

I wish to invest in the funds indicated (for further details about the available funds, please refer to the Key Investor Information Documents (KIID) and/or Fund Key Features Document).

Please note: your total ISA subscription for each tax year must not exceed your ISA allowance. For details, please refer to the Key Features of the Cofunds Investment ISA.

Please note: if your intermediary has agreed exclusive share classes with a Fund Manager for your selected funds, we'll always invest in that exclusive share class and not the share class you've selected below.

Fund name(s) or EasyISA Portfolio	Type of unit/share (delete as appropriate)*	Lump sum (£50 per fund minimum)	Monthly saving (£50 per fund minimum)**
<input type="checkbox"/> Cautious Growth EasyISA <input type="checkbox"/> Balanced Growth EasyISA <input type="checkbox"/> Aggressive Growth EasyISA <input type="checkbox"/> Income EasyISA <input type="checkbox"/> Global Income EasyISA (please complete income payment section overleaf)                        (Tick one option only)	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
CASH RESERVE†		£	£
<b>TOTAL INVESTMENT AMOUNT</b>		<b>£</b>	<b>£</b>

\***ACC/INC** If you do not specify ACC or INC in this column, and have not completed Section 5, Cofunds will invest into accumulation units/shares where available.

†**Cash Reserve** Please note: this will be included as part of your ISA allowance and not placed into your cash account.

\*\***Monthly saving** For monthly savings we will automatically collect on or just after the 25th day of each month. For applications received up until the last day in any month, the first Direct Debit collection will be made on or just after the 25th day of the following month. Please complete the Direct Debit mandate.

**Cheque payment** Cheques must either be drawn on your own account or joint account. The cheque must be made payable to **Cofunds Limited**. For a Building Society cheque or banker's draft your name must appear on the front of the cheque, or on the back of the cheque accompanied by the Building Society's or bank's official stamp and signature.

## 7 Service Charge (To be completed by the intermediary)

Service Charge model name: **STANDARD SELF-DIRECTED SEGMENT**

Annual Service Charge: **0.40%\***

\*This is an annual charge taken on a monthly basis.

## 8 Declaration and Authorisation

### I declare that:

- All investment subscriptions made now and in the future belong to me.
- I am aged 18 years or over.
- I have not subscribed and will not subscribe to more than my overall subscription allowance in total to a Cash ISA and a Stocks and Shares ISA in the same tax year.
- I have not subscribed and will not subscribe to another Stocks and Shares ISA in the same tax year that I subscribe to this Stocks and Shares ISA.
- I am resident in the United Kingdom for tax purposes, or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to or in a civil partnership with a person who performs such duties. I will inform Cofunds Limited if I cease to be so resident or to perform such duties, or be married to or in a civil partnership with a person who performs such duties.

### I authorise Cofunds Limited to:

- Hold my cash subscription, ISA investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash.
- Make on my behalf any claims to relief from tax in respect of my ISA investments.

### I confirm that:

- I have not received investment advice from Chelsea for this transaction.
- I have viewed the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) and by signing this application form I agree to be bound by them.
- I have viewed the relevant product key features and fund specific information and/or Key Investor Information Documents (KIID) relating to my investment.
- I understand that there are fees (the Cofunds Platform Charges) for the use of Cofunds services. I authorise Cofunds to collect these fees from my Cofunds Cash Account. If there is insufficient money in my account, I authorise Cofunds to sell enough of my Platform Assets to pay these fees in accordance with the 'Our Charges' section of the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing).
- I understand that the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) are the standard terms upon which Cofunds intends to rely, and it is important that I read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.
- I understand that my signed application form (once accepted by Cofunds) together with the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) form my customer agreement with Cofunds Limited.
- I understand that the commencement of my ISA may be delayed or rejected if this application form is not complete in all respects. You may undertake a search with a reference agency for the purposes of verifying my identity. To do so, the reference agency may check the details I supply against any particulars on any database (public or otherwise) to which they have access. They may also use my details in the future to assist other companies for verification purposes. A record of the search will be retained as an identity search. I declare that the information contained in this application form is correct to the best of my knowledge and belief.
- I understand and accept that I am entitled to cancel my application in accordance with the relevant Key Features applicable to the product I am investing in and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.

### Fund Sale Instruction

If a Fund Sale Instruction applies to the segment linked to my investment, I accept and agree that funds will be sold to settle any outstanding fees and charges which have accrued prior to this date and all fees and charges payable hereafter.

### Data Protection

Cofunds is a registered Data Controller and a fully owned subsidiary of Legal & General Group Plc.

Cofunds Limited will use your information for the administration and servicing of your investments and other related activities. We may disclose your information to our agents and service providers for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.

With the exception of the preceding provisions, we will not pass on your information to any other third party without your permission, but we will disclose information concerning your investment to your nominated intermediary.

Cofunds may transfer your information to countries outside of the EEA for the servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act.

If you require a Fund prospectus, please contact your intermediary or Fund Manager directly. If you wish to attend/vote at unit holder or shareholder meetings, please tick this box.

If you wish to receive reports and accounts, you can download them free of charge at [https://investors.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://investors.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)

If you wish to receive paper copies of reports and accounts please speak to your Intermediary.

You can also request to receive paper copies of reports and accounts by writing to us at Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.

### Service Charge

I confirm that I have received my Fees and Charges Schedule and understand which fees and charges are applicable to my investment. I hereby instruct Cofunds to pay my intermediary the Service Charge specified in Section 7 of this form and in my Fees and Charges Schedule from my relevant payment account.

Cofunds will accept authority from the primary holder only, in most circumstances. For trusts and Powers of Attorney more than one signature may be required.

If I have an active Sale for Regular Payment mandate or the segment linked to my investment applies to a Fund Sale Instruction (as described in my Fees and Charges Schedule) and there is insufficient money within the relevant payment account, I authorise Cofunds to sell enough of my platform assets to pay the Service Charge in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to my investments/assets. I understand and accept that this may result in commission-included share class funds being sold to cover the Service Charge, if I have an account level SFRP instruction.

If you provide your email address and telephone number on this form, Chelsea will keep a record of it. Chelsea may use it occasionally about products and services which may be of interest to you. However, if you prefer not to receive such information you may withdraw your consent by contacting Chelsea on 0207 384 7300.

Signature 

Date

The disclosure documentation applicable to this transaction is: **0 4 1 5 S D E**

This form is to be used for Self-directed Explicit Pricing clients only.

Please ensure that this form is used with the correct Transfer Authority. Please note Cofunds normal business practice (and by signing this application, you agree to such practice) is to convert commission-included share classes to their commission-free share class equivalent within the same funds that are available to your intermediary on receipt of the assets from the ceding provider. If a commission-free share class is not available, we will be unable to transfer the asset to Cofunds as stock.

Please complete this Application Form using black ink and BLOCK CAPITALS and return to:  
Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS

Cofunds Authorisation Code **7 7**

## 1 Personal Details (Please complete this section in full)

Existing Cofunds Client Reference

I have not received advice from a financial adviser in relation to this investment.

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Email

Telephone

Male  Female  Date of Birth  /  /  /  /  /

National Insurance Number  /  /  /  /

If you do NOT have a National Insurance Number, please tick here.

Please read the following sentence and confirm by ticking the box if applicable. I confirm that I am solely UK resident for tax purposes and not a US citizen.   
If you can't confirm and tick the box, please complete the Individual FATCA Self-Certification form that can be issued to you by Chelsea.

## 2 Segmentation (For intermediary use only)

Please enter the name of the segment in full using BLOCK CAPITALS:

## 3 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. Please note: you will need to verify this bank account before it can be used in conjunction with your Cofunds account. If you are paying by cheque then no action is required. For all other funding options you can send a void signed cheque or a bank statement issued within the last three months with this application. If you are an existing customer, only complete this section if you would like to change your nominated bank account details. Any change to your nominated bank account will not be applied to your regular monthly investments.

You can only have one nominated bank account at any given time.

Name of Account Holder

Bank Name

Branch Sort Code  -  -  Bank/Building Society Account Number

Building Society Roll Number

## 4 Income

Complete this section if you have requested income units/shares ('INC'). The option you choose will be applied to all income units/shares you hold within this product.

If you have selected the option to 'Retain in Fund' this will only be applied to the commission-free share classes you hold, any commission-included share classes you hold will continue to pay income in accordance with your previous instruction.

- Consolidated monthly income**  
Income generated from your investment funds will be consolidated into your cash account and paid to your nominated bank account on a monthly basis.
- Cofunds Cash Account**  
Income generated will be paid into your cash account to be held on platform for withdrawals, future investment or charges.
- Retain in fund**  
Income generated from this investment will be retained in the fund.

If you do not already hold income units/shares within this product and you do not tick one of these boxes we will select the 'Retain in fund' option by default. If you already hold income units/shares within this product and you do not tick one of these boxes we will apply your existing income option to all funds within this product.

## 5 Service Charge (To be completed by the intermediary)

Service Charge model name: STANDARD SELF-DIRECTED SEGMENT	Annual Service Charge*: 0.4%	*This is an annual charge taken monthly.
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## 6 Declaration and Authorisation

### I declare that:

- All investment subscriptions made now and in the future belong to me.
- I am aged 18 years or over.
- I have not subscribed and will not subscribe to more than my overall subscription allowance in total to a Cash ISA and a Stocks and Shares ISA in the same tax year.
- I have not subscribed and will not subscribe to another Stocks and Shares ISA in the same tax year that I subscribe to this Stocks and Shares ISA.
- This application is to transfer my existing ISA and, if applicable, entitles me to subscribe to a Stocks and Shares ISA in the current tax year and each subsequent year until further notice. I understand that this does not mean that I am obliged to invest with Cofunds in the following or future tax years. However, if I wish to do so, I may not be required to complete a further application form.
- I am resident in the United Kingdom for tax purposes, or, if not so resident, either perform duties which, by virtue of Section 28 of Income Tax (Earnings & Pensions) Act 2003 (Crown employees serving overseas), are treated as being performed in the United Kingdom, or I am married to or in a civil partnership with a person who performs such duties. I will inform Cofunds Limited if I cease to be so resident or to perform such duties, or be married to or in a civil partnership with a person who performs such duties.

### I authorise Cofunds Limited to:

- Hold my cash subscription, ISA investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash.
- Make on my behalf any claims to relief from tax in respect of my ISA investments.

### I confirm that:

- I confirm that I have not received investment advice from Chelsea for this transaction.
- I have viewed the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) and by signing this application form I agree to be bound by them.
- I have viewed the relevant product key features and fund specific information and/or Key Investor Information Documents (KIID) relating to my investment.  
A copy of the KIID can be found via the following link: [https://www.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://www.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)
- I understand that it is Cofunds normal business practice to process my conversion following receipt of my assets from my previous Fund/Provider. The instruction to convert is then passed to the Fund/Plan Manager who will convert and confirm back to Cofunds upon completion. Cofunds upon receipt of confirmation will then reflect the changes(s) to my accounts. This process is subject to change dependent on volumes and individual Fund/Plan Manager processing procedures. I authorise Cofunds to convert on my behalf as outlined above.
- I understand that Cofunds will convert commission-included share class funds to their commission-free exclusive share class equivalent where available to my intermediary.
- I understand that Cofunds will convert commission-free share class funds to commission-free exclusive share class funds where available to my intermediary.
- I understand that there are fees (the Cofunds Platform Charges) for the use of Cofunds services. I authorise Cofunds to collect these fees from my Cofunds Cash Account. If there is insufficient money in my account, I authorise Cofunds to sell enough of my Platform Assets to pay these fees in accordance with the 'Our Charges' section of the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing).
- I understand that the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) are the standard terms upon which Cofunds intends to rely, and it is important that I read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.
- I understand that my signed application form (once accepted by Cofunds) together with the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) form my customer agreement with Cofunds Limited.
- I understand that instructions may be delayed or rejected if this application form is not complete in all respects. You may undertake a search with a reference agency for the purposes of verifying my identity.

To do so, the reference agency may check the details I supply against any particulars on any database (public or otherwise) to which they have access. They may also use my details in the future to assist other companies for verification purposes. A record of the search will be retained as an identity search. I declare that the information contained in this application form is correct to the best of my knowledge and belief.

I understand and accept that I am entitled to cancel my application in accordance with the relevant Key Features applicable to the product I am investing in and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.

### Fund Sale Instruction

If a Fund Sale Instruction applies to the segment linked to my investment, I accept and agree that funds will be sold to settle any outstanding fees and charges which have accrued prior to this date and all fees and charges payable hereafter.

### Data Protection

Cofunds is a registered Data Controller and a fully owned subsidiary of Legal & General Group Plc.

Cofunds Limited will use your information for the administration and servicing of your investments and other related activities. We may disclose your information to our agents and service providers for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.

With the exception of the preceding provisions, we will not pass on your information to any other third party without your permission, but we will disclose information concerning your investment to your nominated intermediary.

Cofunds may transfer your information to countries outside of the EEA for the servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act.

If you require a Fund prospectus, please contact your intermediary or Fund Manager directly.

If you wish to attend/vote at unit holder or shareholder meetings,  please tick this box

If you wish to receive reports and accounts, please tick this box

Reports and accounts can be obtained free of charge from the Cofunds website at [www.cofunds.co.uk](http://www.cofunds.co.uk).

### Service Charge

I confirm that I have received my Fees and Charges Schedule and understand which fees and charges are applicable to my investment. I hereby instruct Cofunds to pay my intermediary the Service Charge specified in Section 5 of this form and in my Fees and Charges Schedule from my relevant payment account.

Cofunds will accept authority from the primary holder only, in most circumstances. For trusts and Powers of Attorney more than one signature may be required.

If I have an active Sale for Regular Payment mandate or the segment linked to my investment applies to a Fund Sale Instruction (please check with Chelsea if you're not sure) and there is insufficient money within the relevant payment account, I authorise Cofunds to sell enough of my platform assets to pay the Service Charge in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to my investments/assets. I understand and accept that this may result in commission-included share class funds being sold to cover the Service Charge, if I have an account level SFRP instruction.

### Number of attached Transfer Authority Forms

Signature 	Date
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# ISA Transfer Authority

This transfer authority should only be used for either the transfer of a Stocks and Shares ISA or a cash ISA into a Cofunds Stocks and Shares ISA. Please note that a separate authority will be required for each Plan/Account Manager. If transferring from more than one Plan/Account Manager, please request more Transfer Authority Forms from your adviser. Please ensure that you have signed both the Transfer Application Form and the Transfer Authority Form.

Existing Cofunds Client reference

I hereby instruct my current ISA Manager to either transfer my holdings to Cofunds Nominees Limited or liquidate the assets within my ISA with immediate effect, and forward the proceeds as specified below to my new Plan/Account Manager at **Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY. This transfer should include, where relevant, all former ISA and PEP investments.** I confirm that the re-registration of the funds listed will not change the beneficial ownership from the current holder. I confirm that this transaction is exempt from SDRT by virtue of paragraph 6 of Schedule 19 of the Finance Act 1999.

## Please complete all details requested

Name of Plan/Account Manager (from whom you wish to transfer)


Address

Postcode

Mr/Mrs/Ms/Miss/Other

Surname

Full First Name(s)

Signature  Date

### 1 Funds that you wish to KEEP via re-registration (stock transfer)

Please list all funds that you hold with the above Plan/Account Manager that you wish to retain when you transfer your investment to Cofunds. Please note that the funds you re-register will be moved into the clean share class

Fund Name	A/C or Plan Nos. (This must be completed)	Type of Unit/Share (delete as appropriate)*	Number of units
		ACC/INC	
		ACC/INC	
		ACC/INC	
		ACC/INC	
		ACC/INC	

### 2 Funds that you wish to SELL (Stocks and shares cash transfer)

Please list all funds that you hold with the above Plan/Account Manager that you wish to sell and transfer the proceeds to Cofunds. Please also complete Section 3 (if applicable) and Section 4 to tell us which funds you wish to reinvest into. **Please ensure the funds you choose are available through Cofunds.**

Fund Name	A/C or Plan Nos. (This must be completed)

### 3 Cash ISA Transfer

If applicable, please indicate either of the following to be transferred into your Cofunds Investment ISA:

All my cash ISA  **OR** An amount of my cash ISA £  .  Sort Code  -  -

Is there any notice period for you to transfer your cash ISA?  Days A/C or Plan Nos. (This must be completed)

### 4 Transfer Investment Choices (Please refer to the fund charge schedule and complete in full)

I wish to transfer the proceeds of my existing ISAs into the Chelsea EasyISA (please tick one of the portfolios below). Minimum Transfer of £2,100. See [chelseafunds.co.uk/products/isa/easy](http://chelseafunds.co.uk/products/isa/easy) for details.

Existing Cofunds Client ref

Cautious Growth EasyISA	(✓)
Balanced Growth EasyISA	
Aggressive Growth EasyISA	
Income EasyISA (please complete income on previous page)	
Global Income EasyISA (please complete income on previous page)	

Or select your own funds and complete this section below:

Fund Name	Type of Unit/Share (ACC/INC)*	Transfer %
	ACC/INC	
	ACC/INC	
	ACC/INC	
	ACC/INC	
	ACC/INC	
† Cash Reserve (if required)		

**Total 100%**

\* ACC/INC  
If you do not specify ACC or INC in this column, and/or have not completed Section 4 of the Transfer Application form, Cofunds will invest into accumulation units/shares where available.

† This will be included as part of your ISA allowance and not placed into your cash account.

The disclosure documentation applicable to this transaction is: **0 4 1 5 S D E**

Cofunds Authorisation Code

**7 7**

**This form is to be used for Self-directed Explicit Pricing clients only.**  
**Please complete this application form using black ink in BLOCK CAPITALS and return to:**  
**Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS**

## 1 Personal/Company Details (Please complete this section in full)

**Personal/Company Investor(s) primary holder.** Please see Section 4 to add additional holders.

Existing Cofunds Client Reference

I have not received advice from a financial adviser in relation to this investment.

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

or company name

Telephone

Email

Male  Female  Date of Birth / / -----

*If more than one previous address in the last two years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this application form.*

For corporate investors please ensure you have completed all the signatory requirements in Section 10.

Please read the following sentence and confirm by ticking the box if applicable. I confirm that I am solely UK resident for tax purposes and not a US citizen.

*If you can't confirm and tick the box, please complete the Individual FATCA Self-Certification form that can be issued to you by Chelsea.*

Current permanent residential address (if registering in the name of a company, please provide the company address here)

Postcode

Time at this address  yrs  mths

If at current address for less than two years, please supply previous address and time there

Postcode

Time at this address  yrs  mths

### 1A. THIRD PARTY DETAILS (PLEASE COMPLETE IF RELEVANT)

Please complete this section if the person funding all or part of this investment is not the applicant listed in Section 1. A Confirmation of Verification of Identity (CVI) will also be required.

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Date of Birth / / -----

Current permanent residential address

Postcode

## 2 Segmentation (For intermediary use only)

Please enter the name of the segment in full using BLOCK CAPITALS:

## 3 Designations (You can designate an account here using a maximum of eight alphanumeric characters)

If you wish to specify a unique designation for this account, please ensure that the designation reference does not make a meaningful word. Only the named applicants of this investment will be recognised as beneficial owners. If this section is not completed we will not designate this account. If you are funding this investment from a Cofunds Cash Account please ensure this designation is identical to that of the Cofunds Cash Account.

## 4 Joint Holders

Please include the full name and address of each holder. All correspondence will be sent to the primary holder. Joint holders must have the same investment service as the primary holder.

### Second named holder

Mr/Mrs/Ms/Miss/Other
Surname
Full first name(s)
Current permanent residential address
Postcode
Time at this address <input type="text"/> <input type="text"/> yrs <input type="text"/> <input type="text"/> mths

Male  Female  Date of Birth  /  /

If at current address for less than two years, please supply previous address and time there
Postcode

Time at this address      yrs      mths  
*If more than one previous address in the last two years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this application form.*

### Third named holder

Mr/Mrs/Ms/Miss/Other
Surname
Full first name(s)
Current permanent residential address
Postcode
Time at this address <input type="text"/> <input type="text"/> yrs <input type="text"/> <input type="text"/> mths

Male  Female  Date of Birth  /  /

If at current address for less than two years, please supply previous address and time there
Postcode

Time at this address      yrs      mths  
*If more than one previous address in the last two years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this application form.*

## 5 Funding your investment

I will be funding my investment by (tick all that apply)

<input type="checkbox"/>	<b>Cheque</b>	£ <input type="text"/> . <input type="text"/>	Amount
<input type="checkbox"/>	<b>Cofunds Cash Account</b>	£ <input type="text"/> . <input type="text"/>	Amount

**Monthly Direct Debit** (please ensure you complete the Investment by Direct Debit instruction on page 55)

## 6 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. Please note: you will need to verify this bank account before it can be used in conjunction with your Cofunds account. If you are paying by cheque then no action is required. For all other funding options you can send a void signed cheque or a bank statement issued within the last three months with this application. If you are an existing customer, only complete this section if you would like to change your nominated bank account details. Any change to your nominated bank account will not be applied to your regular monthly investments. You can only have one nominated bank account at any given time.

Name of account holder
Bank or Building Society name and address
Postcode

Branch Sort Code       -    -

Bank/Building Society account number   

Building Society Roll Number   

## 7 Income

Complete this section if you have requested income units/shares ('INC'). The option you choose will be applied to all income units/shares you hold within this product.

Note: If you are taking regular withdrawals from your cash account you may only select the 'Cofunds Cash Account' or 'Retain in fund' options.

If you have selected the option to 'Retain in fund' this will only be applied to the commission-free share classes you hold, any commission-included share classes you hold will continue to pay income in accordance with your previous instruction.

**Consolidated monthly income**  
Income generated from your investment funds will be consolidated into your cash account and paid to your nominated bank account on a monthly basis.

**Cofunds Cash Account**  
Income generated will be paid into your cash account to be held on platform for withdrawals, future investment or charges.

**Retain in fund**  
Income generated from this investment will be retained in the fund.

If you do not already hold income units/shares within this product and you do not tick one of these boxes we will select the 'Retain in fund' option by default. If you already hold income units/shares within this product and you do not tick one of these boxes we will apply your existing income option to all funds within this product.

## 8 Investment Selection

Minimum investment £50 per fund (lump sum) or £50 per month per fund (monthly savings). For further details about the available funds, please refer to the Key Investor Information Documents (KIID) and/or Fund Key Features Document.

Please ensure the funds are available through Cofunds. You can only choose commission-free share class funds. If you do not indicate the share class, we'll select the commission-free share class fund, where available.

Please note: if your intermediary has agreed exclusive share classes with a fund manager for your selected funds, we'll always invest in that exclusive share class and not the share class you've selected below.

Fund name	Type of unit/share (delete as appropriate)*	Lump sum (£50 per fund minimum)	New monthly saving (£50 per fund minimum)**
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
<b>TOTAL INVESTMENT AMOUNT</b>		<b>£</b>	<b>£</b>

**\*ACC/INC**  
If you do not specify ACC or INC in this column, and have not completed Section 7, Cofunds will invest into accumulation units/shares where available.

**Cheque payment**  
Cheques must either be drawn on your own account, joint account or the account of the person detailed in Section 1A (third party details). The cheque must be made payable to **Cofunds Limited**. For a Building Society cheque or banker's draft your name must appear on the front of the cheque, or on the back of the cheque accompanied by the Building Society's or Bank's official stamp and signature. For other methods of funding your investment please see Section 5.

**\*\* New monthly saving**  
For monthly savings we will automatically collect on or just after the 25th day of each month. For applications received up until the last day in any month, the first Direct Debit collection will be made on or just after the 25th day of the following month.

## 9 Service Charge (To be completed by the intermediary)

Service Charge model name: STANDARD SELF-DIRECTED SEGMENT	Annual Service Charge*: 0.40%	*This is an annual charge taken on a monthly basis.
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## 10 Declaration and Authorisation

### I confirm that:

I have not received investment advice from Chelsea for this transaction.  
I have viewed the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) and by signing this application form I agree to be bound by them.  
I have viewed the relevant product key features and fund specific information and/or Key Investor Information Documents (KIID) relating to my investment. A copy of the KIID can be found via the following link:  
[https://www.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://www.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)  
I understand that there are fees (the Cofunds Platform Charges) for the use of Cofunds services. I authorise Cofunds to collect these fees from my Cofunds Cash Account. If there is insufficient money in my account, I authorise Cofunds to sell enough of my Platform Assets to pay these fees in accordance with the 'Our Charges' section of the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing).  
I understand that the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) are the standard terms upon which Cofunds intends to rely, and it is important that I read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.  
I understand that my signed application form (once accepted by Cofunds) together with the Terms & Conditions of the Cofunds Platform (Self-directed Explicit Pricing) form my customer agreement with Cofunds Limited.  
I understand that instructions may be delayed or rejected if this application form is not complete in all respects.  
You may undertake a search with a reference agency for the purposes of verifying my identity. To do so, the reference agency may check the details I supply against any particulars on any database (public or otherwise) to which they have access. They may also use my details in the future to assist other companies for verification purposes. A record of the search will be retained as an identity search.  
I declare that the information contained in this application form is correct to the best of my knowledge and belief.  
I am aged 18 or over.  
I understand and accept that I am entitled to cancel my application in accordance with the relevant Key Features applicable to the product I am investing in and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.

### Fund Sale Instruction

If a Fund Sale Instruction applies to the segment linked to my investment, I accept and agree that funds will be sold to settle any outstanding fees and charges which have accrued prior to this date and all fees and charges payable hereafter.

### Please note that all joint holders must sign this application


Where there are two signatories for a corporate investor, please delete reference to primary and second holder.

### Data Protection

Cofunds is a registered Data Controller and a fully owned subsidiary of Legal & General Group Plc.  
Cofunds Limited will use your information for the administration and servicing of your investments and all other related activities. We may disclose your information to our agents and service providers for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.  
With the exception of the above provisions, we will not pass on your details to any other third party without your permission, but we will disclose information concerning your investment to your nominated intermediary.  
Cofunds may transfer your information to countries outside the EEA for the servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act.  
If you require a fund prospectus, please contact your intermediary or Fund Manager directly.

### Service Charge

I confirm that I have received my Fees and Charges Schedule and understand which fees and charges are applicable to my investment. I hereby instruct Cofunds to pay my intermediary the Service Charge specified in Section 9 of this form and in my Fees and Charges Schedule from my relevant payment account.  
Cofunds will accept authority from the primary holder only, in most circumstances. For trusts and Powers of Attorney more than one signature may be required.  
If I have an active Sale for Regular Payment mandate or the segment linked to my investment applies to a Fund Sale Instruction (please check with Chelsea if you're not sure) and there is insufficient money within the relevant payment account, I authorise Cofunds to sell enough of my platform assets to pay the Service Charge in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to my investments/assets.

Primary holder signature 	Date
Capacity (if applicable)	
Second holder signature	Date
Capacity (if applicable)	
Third holder signature	Date
Capacity (if applicable)	

If you are completing this as a company you must include a copy of the Articles of Association.



The disclosure documentation applicable to this transaction is: **0 4 1 5 S D E**

**This form is to be used for Self-directed Explicit Pricing clients only. For Key Features of the Cofunds platform and/or Key Investor Information Documents please refer to your personal disclosure at [chelseafs.co.uk/pd](http://chelseafs.co.uk/pd) or telephone us for a copy.**

This application form is used to open a Stocks and Shares Junior Investment ISA with Cofunds and/or make subscriptions until the child is 18 years old.

The Junior Investment ISA allowance for all investors is £4,080 for the 2015/16 tax year.

Please complete this Application Form using black ink and BLOCK CAPITALS and return to: Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS.

Cofunds Intermediary Authorisation Code **7 7**

I have not received advice from a financial adviser in relation to this investment.

## 1 Child Details (Please complete this section in full)

Existing Cofunds Client Reference

I apply to open a Junior Investment ISA and/or make subscriptions for

Master/Miss

Surname

Full first name(s)

Male  Female  Date of Birth / / ---

D D M M Y Y Y Y

Current permanent residential address

Postcode

National Insurance Number / / / /  (if held)

If the child does not have a National Insurance Number, please tick here.

## 2 Applicant Details – Registered Contact\* (Please complete this section in full)

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Telephone

Email

Date of Birth / / ---

D D M M Y Y Y Y

Current permanent residential address

Postcode

\*The registered contact is a person with parental responsibility, or the child aged 16-18, if they so wish.

## 3 Third Party Details (Please complete if relevant)

Please complete this section if you are not the child or registered contact but are funding the Junior Investment ISA.

Existing Cofunds Client Reference

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Telephone

Date of Birth / / ---

D D M M Y Y Y Y

Current permanent residential address

Postcode

Please enter your relationship to the child

## 4 Segmentation (For intermediary use only)

Please enter the name of the segment in full using BLOCK CAPITALS:

## 5 Funding Your Investment into the JISA

I will be funding my investment into the JISA by (tick all that apply):

**Cheque**  Amount

**Monthly Direct Debit.** Please complete the Direct Debit mandate on page 55.

**Cheque payment**  
Please make your cheque payable to **Cofunds Limited**

Please note that the amount subscribed is a gift to the child and cannot be repaid to the subscriber if at a later date they change their mind.

## 6 Income



**Retain in the fund** Income generated from this investment will be retained in the fund. We don't pay income from a Junior ISA.

## 7 Investment Selection

I wish to subscribe to a Junior ISA (stocks and shares) for the tax year **2015/16** for the amount of: £ .

I wish to invest in the funds indicated (for further details about the available funds, please refer to the Key Investor Information Documents (KIID) and/or Fund Key Features Document).

Please note: the total Junior ISA subscription for each tax year must not exceed the Junior ISA allowance. For details, please refer to the Key Features of the Cofunds Junior Investment ISA. You can only choose commission-free share class funds. If you do not indicate the share class, we'll select the commission-free share class fund, where available.

Please note: if your intermediary has agreed exclusive share classes with a Fund Manager for your selected funds, we'll always invest in that exclusive share class and not the share class you've selected below.

See page 7 of your recent Viewpoint for details of the Junior EasyISA.

Fund name or Junior EasyISA portfolio	Type of unit/share (delete as appropriate)*	Lump sum	Monthly amount per fund**
<input type="checkbox"/> Core Equity Portfolio <input type="checkbox"/> Balanced Equity Portfolio <input type="checkbox"/> Aggressive Equity Portfolio	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
<b>CASH RESERVE</b>	ACC/INC	£	£
<b>TOTAL INVESTMENT AMOUNT</b>		<b>£</b>	<b>£</b>

### \*ACC/INC

If you do not specify ACC or INC in this column, Cofunds will invest into accumulation units/shares where available.

### Cash Reserve

Please note: this will be included as part of your ISA allowance and not placed into your cash account.

### Cheque payment

Cheques must either be drawn on your own account, joint account or the account of the person detailed in Section 3 (third party details). The cheque must be made payable to **Cofunds Limited**. For a Building Society cheque or banker's draft your name must appear on the front of the cheque, or on the back of the cheque accompanied by the Building Society's or bank's official stamp and signature.

### \*\*Monthly savings

For monthly savings we will automatically collect on or just after the 25th day of each month. For applications received up until the last day in any month, the first Direct Debit collection will be made on or just after the 25th day of the following month.

Please complete the Direct Debit mandate on page 55.

## 8 Declaration and Authorisation

### I declare that:

The child named above will be the beneficial owner of the account investments.

- I am aged 16 years or over.
- I am the child/I have parental responsibility for that child (delete which does not apply).
- I/the child does not have a Child Trust Fund account.
- I will be the registered contact for the Junior Investment ISA.
- The child is resident in the UK, or is a UK Crown servant, a dependant of a UK Crown servant or is married to/in a civil partnership with a UK Crown servant.
- I have not subscribed and will not subscribe to another Stocks and Shares Junior ISA for this child.
- I am not aware that this child has another Stocks and Shares Junior ISA within this tax year.
- I am not aware of other Junior ISA subscriptions that will result in this child exceeding the annual limit.
- I will not knowingly make subscriptions to Junior ISAs for this child that will result in the subscription limit being exceeded.

### I authorise Cofunds Limited to:

- I agree to the Terms and Conditions of the Cofunds Junior Investment ISA and confirm that to the best of my belief the information in this form is true.
- to make on the child's behalf any claims to relief tax in respect of Junior Investment ISA investments.

I agree to the Terms and Conditions of the Cofunds Junior Investment ISA and confirm that to the best of my belief the information on this form is true.

### I confirm that:

- I have not received investment advice from Chelsea for this transaction.
- I have viewed the Terms & Conditions of the Cofunds Junior Investment ISA and by signing this application form I agree to be bound by them.
- I have viewed the relevant product key features and fund specific information and/or Key Investor Information Documents (KIID) relating to my investment. A copy of the KIID can be found via the following link [https://www.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://www.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)
- I understand that the Terms and Conditions of the Cofunds Junior Investment ISA are the standard terms upon which Cofunds intends to rely, and it is important that I read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.
- I understand that my signed application form (once accepted by Cofunds) together with the Terms and Conditions of the Cofunds Junior Investment ISA form my customer agreement with Cofunds Ltd.
- I understand and accept that I am entitled to cancel my application in accordance with the Junior ISA Key Features and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.
- I understand that the commencement of my Junior Investment ISA may be delayed or rejected if this application form is not complete in all respects. You may undertake a search with a reference agency for the purposes of verifying my identity. To do so, the reference agency may check the details I supply against any particulars on any database (public or otherwise) to which they have access. They may also use my details in the future to assist other companies for verification purposes. A record of the search will be retained as an identity search. I declare that the information contained in this application form is correct to the best of my knowledge and belief.

### Fund Sale Instruction

If a Fund Sale Instruction applies to the segment linked to my investment, I accept and agree that funds will be sold to settle any outstanding fees and charges which have accrued prior to this date and all fees and charges payable hereafter.

### Data Protection

Cofunds is a registered Data Controller and a fully owned subsidiary of Legal & General Group Plc.

Cofunds Limited will use your information for the administration and servicing of your investments and other related activities. We may disclose your information to our agents and service providers for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.

With the exception of the preceding provisions, we will not pass on your information to any other third party without your permission, but we will disclose information concerning your investment to your nominated intermediary.

Cofunds may transfer your information to countries outside of the EEA for the servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act.

If you require a Fund prospectus, please contact your intermediary or Fund Manager directly. If you wish to attend/vote at unit holder or shareholder meetings, please tick this box.

If you wish to receive reports and accounts, you can download them free of charge at [https://investors.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://investors.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)

If you wish to receive paper copies of reports and accounts please speak to your Intermediary.

You can also request to receive paper copies of reports and accounts by writing to us at Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.

### Service Charge

I confirm that I have received my Fees and Charges Schedule and understand which fees and charges are applicable to my investment. I hereby instruct Cofunds to pay my intermediary the Service Charge from my relevant payment account.

Cofunds will accept authority from the primary holder only, in most circumstances. For trusts and Powers of Attorney more than one signature may be required.

If I have an active Sale for Regular Payment mandate or the segment linked to my investment applies to a Fund Sale Instruction (as described in my Fees and Charges Schedule) and there is insufficient money within the relevant payment account, I authorise Cofunds to sell enough of my platform assets to pay the Service Charge in accordance with the relevant Terms and Conditions of the Cofunds Platform or Customer Agreement applicable to my investments/assets. I understand and accept that this may result in commission-included share class funds being sold to cover the Service Charge, if I have an account level SFRP instruction.

If you provide your email address and telephone number on this form, Chelsea will keep a record of it. Chelsea may use it occasionally about products and services which may be of interest to you. However, if you prefer not to receive such information you may withdraw your consent by contacting Chelsea on 0207 384 7300.

Signature  
(Registered Contact) 

Date

The disclosure documentation applicable to this transaction is:

J I S A 0 4 1 5 S D E

Cofunds Intermediary  
Authorisation Code

7 7

**This form is to be used for Self-directed clients only, on Explicit Pricing.**

This application form is to be used to transfer assets/money from an existing Child Trust Fund (CTF) to a Cofunds Junior Investment ISA. On receipt of any assets re-registered from your previous provider it will be Cofunds normal business practice (and by signing this application, you agree to such practice) to convert to the commission-free share class equivalent available to your intermediary. If a commission-free share class is not available, we will be unable to transfer the assets to Cofunds.

The Junior Investment ISA allowance is £4,080 for the 2015/2016 tax year. The minimum investment in to a Cofunds Junior Investment ISA is £500.

Please complete this application form using black ink and BLOCK CAPITALS and return to: Chelsea Financial Services, St James Hall, Moore Park Road, London SW6 2JS.

**1 Child Details (Please complete this section in full)**

Existing Cofunds Client Reference

I have not received advice from a financial adviser in relation to this investment.

Mr/Mrs/Miss/Other

Surname

Full first name(s)

Current permanent residential address

Postcode

Male  Female  Date of Birth  /  /

**2 Applicant Details – Registered Contact\* (Please complete this section in full)**

Existing Cofunds Client Reference

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Telephone number

Email

Current permanent residential address

Postcode

\*The registered contact is a person with parental responsibility, or the child aged 16-18, if they so wish.

**3 Segmentation (For intermediary use only)**

STANDARD SELF-DIRECTED SEGMENT (Only apply if client is not already segmented)

**4 Income**

**Retain in fund** - Income generated from this investment will be retained in the fund. We don't pay income from a Junior ISA

**5 Declaration and Authorisation**

**I declare that:**

I am 16 years of age or over.

I am the child /I have parental responsibility for that child.

I am the Registered Contact for the Junior Investment ISA.

**I authorise Cofunds to:**

Hold the child's subscriptions, Junior Investment ISA, interest, dividends and any other rights or proceeds in respect of those investments and cash, and;

Make on behalf of the child any claims to relief from tax in respect of Junior Investment ISA.

**I confirm that:**

I have not received investment advice from Chelsea for this transaction  
I have viewed the Terms and Conditions of the Cofunds Junior Investment ISA (Self-directed Explicit Pricing) and by signing this application form I agree to be bound by them.  
I have viewed the relevant product Key Features and Fund specific information and/or Key Investor Information Documents (KIID) relating to my investment.

A copy of the KIID can be found via the following link (if you have difficulty locating your fund, please contact your intermediary):

[https://www.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://www.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)

I understand that it's Cofunds normal business practice to process my conversion following receipt of my assets from my previous Fund/Plan Manager. The instruction to convert is then passed to the Fund/Plan Manager who will convert and confirm back to Cofunds upon completion. Cofunds upon receipt of confirmation will then reflect the change(s) to my accounts. This process is subject to change dependant on volumes and individual Fund/Plan Manager processing procedures. I authorise Cofunds to convert on my behalf as outlined above.

I understand that Cofunds will convert commission-included share class funds to their commission-free share class equivalent where available to my intermediary.

I understand that Cofunds will convert commission-free share class funds to commission-free exclusive share class funds where available to my intermediary.

I understand that the Terms and Conditions of the Cofunds Junior Investment ISA (Self-directed Explicit Pricing) are the standard terms upon which Cofunds intends to rely, and it is important that I read and understand the terms before agreeing to be bound by them. If there is any term or point I do not understand or do not wish to be bound by, I understand that I can request further information before signing this application.

I understand that my signed application form (once accepted by Cofunds) together with the Terms and Conditions of the Cofunds Junior Investment ISA (Self-directed Explicit Pricing) form my customer agreement with Cofunds Limited.

I understand and accept that I am entitled to cancel my application in accordance with the Key Features of the Cofunds Junior Investment ISA and that if I chose to cancel my application, my investment shall be subject to market movement during the period from the date when my application is processed to the date my investment is sold.

**Data Protection**

Cofunds Limited is a registered Data Controller and a fully owned subsidiary of Legal & General Group Plc. Cofunds Limited will use your information for the administration and servicing of your investments and all other related activities.

We may disclose your information to other companies within the Legal & General group of companies, future owners of our business, and suppliers we engage to process data on our behalf for these purposes. We may also disclose your information to organisations for compliance with legal and regulatory requirements.

With the exception of the above provisions, we will not pass on your details to any other third party without your permission.

Cofunds may transfer your information to countries outside of the EEA for the administration and servicing of your investments. In such cases, contracts will be put in place to ensure that the service providers protect your information in accordance with the requirements of the Data Protection Act or any legislation that may be enacted to replace that Act.

If you require a Fund prospectus, please contact your intermediary or Fund Manager directly.

If you wish to attend/vote at unit holder or shareholder meetings, please tick this box

If you wish to receive reports and accounts, you can download them free of charge at:

[https://www.cofunds.co.uk/Investors/Reports\\_and\\_Accounts\\_Investors.aspx](https://www.cofunds.co.uk/Investors/Reports_and_Accounts_Investors.aspx)

If you wish to receive paper copies of reports and accounts please speak to your intermediary.

You can also request to receive paper copies of reports and accounts by writing to us at Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.

Signature  Date

Please note: this form will be returned if it's not signed and dated.

# Child Trust Fund to Junior Investment ISA Transfer Authority

This form is to be used for Self-directed clients only, on Explicit Pricing.

This transfer authority should only be used to transfer a Child Trust Fund (CTF) into a Cofunds Junior Investment ISA.

Existing Cofunds Client reference

I hereby instruct my current Child Trust Fund provider to either transfer my holdings to Cofunds Nominees Limited or liquidate the assets within my Child Trust Fund with immediate effect, and forward the proceeds as specified below to my new Plan/Account Manager at Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY. I confirm that the re-registration of the funds listed will not change the beneficial ownership from the current holder. I confirm that this transaction is exempt from SDRT by virtue of paragraph 6 of Schedule 19 of the Finance Act 1999.

## Please complete all details requested

Name of existing Child Trust Fund provider

Address

Postcode

### Type of Child Trust Fund with current provider to be transferred:

- Cash
- Stocks and Shares
- Stakeholder CTF

CTF Unique Reference Number \_\_\_\_/\_\_\_\_/\_\_\_\_/\_\_\_\_/\_\_\_\_

## 1 Child Details (Please complete this section in full)

Existing Cofunds Client Reference

I apply to open a Junior Investment ISA for

Mr/Mrs/Miss/Other

Surname

Full first name(s)

Male  Female  Date of Birth / / - - -

Current permanent residential address

Postcode

National Insurance Number \_\_\_\_/\_\_\_\_/\_\_\_\_/\_\_\_\_/\_\_\_\_ (if held)

If the child does not have a National Insurance Number, please tick here.

## 2 Applicant Details – Registered Contact\* (Please complete this section in full)

Existing Cofunds Client Reference

Mr/Mrs/Ms/Miss/Other

Surname

Full first name(s)

Telephone number

Email

Current permanent residential address

Postcode

\*The registered contact is a person with parental responsibility, or the child aged 16-18, if they so wish.

Signature   Date

## 2A. TRANSFERRING A STAKEHOLDER CTF (Only complete if relevant)

The following stakeholder CTF features will **NOT** be included in a Junior ISA:

- Lifestyling from age 15
- Minimum subscriptions of £10 allowed
- Annual charge cap of 1.5%

I confirm that I understand the above and wish to proceed.

### 3 Funds that you wish to KEEP via re-registration (Stock transfer)

Please list full names of the funds that you hold with the Child Trust Fund provider, that you wish to keep when you transfer your investment to Cofunds.

Please ensure the funds you choose are available on Cofunds. All funds held in the CTF must be transferred to a Cofunds Junior Investment ISA at the same time.

Fund Name(s)	CTF A/C or Plan Nos. (This must be completed)	Type of Unit/Share (delete as appropriate)*
		ACC/INC
		ACC/INC
		ACC/INC
		ACC/INC
		ACC/INC

\*If you do not specify ACC or INC in this column, Cofunds will not be able to process your application.

### 4 Funds that you wish to SELL (cash transfer) Please also complete section 6

Please list full names of the funds you'd like to sell and transfer the proceeds to Cofunds.

Fund Name(s)	CTF A/C or plan nos. (This must be completed)

### 5 Declaration and Authorisation

**I declare that:**

I am the Registered Contact for the Child Trust Fund.

I am the child /I have parental responsibility for that child.

**I authorise my existing Child Trust Fund provider (as specified above) to:**

Transfer the Child Trust Fund which the Unique Reference Number listed refers to, to Cofunds.

Provide Cofunds with any information, written or non-written, concerning the Child Trust Fund and to accept any instruction from them relating to the Child Trust Fund being transferred.

**I authorise Cofunds to:**

Hold the child's subscriptions, Junior Investment ISA, interest, dividends and any other rights or proceeds in respect of those investments and cash, and;

Make on behalf of the child any claims to relief from tax in respect of Junior Investment ISA.

**I understand:**

Where I must give notice to close or transfer part of the existing Child Trust Fund, or the existing Child Trust Fund contains an investment which is designed and intended to be held for full terms and has yet to reach redemption, I instruct my existing Child Trust Fund provider to either (please tick one box):

- Wait for the full notice to end, or wait until redemption (whichever is relevant) before going ahead with this transfer.
- Carry out the transfer as soon as possible, depending on the terms and conditions. I accept any consequential loss of income, capital or charges that may be applied.

Applicant's Signature	Date
-----------------------	------

(Registered Contact)

### 6 Transfer Investment Choices - Junior ISA

I wish to transfer the proceeds of any investments sold, in accordance with the Transfer Authority into the following investments, within a Cofunds Junior Investment ISA.

Fund Name(s) or Junior EasyISA portfolio	Type of Unit/Share (delete as appropriate)	Transfer %
<input type="checkbox"/> Core Equity Portfolio <input type="checkbox"/> Balanced Equity Portfolio <input type="checkbox"/> Aggressive Equity Portfolio                        (Tick one option only)	ACC/INC	
	ACC/INC	
	ACC/INC	
	ACC/INC	
	ACC/INC	
	ACC/INC	

# Re-registration form

THE EASY WAY TO CONSOLIDATE YOUR PORTFOLIO

The Chelsea **FundStore**

Move all your fund investments to ONE account. This will reduce the amount of paperwork you currently receive, provide you with ONE valuation statement twice yearly, and give you the information necessary to CONTROL your portfolio.

Please list below all your ISA and/or unit trust/OEIC investments that were purchased outside Cofunds and return to Chelsea. We can then print the necessary transfer forms and send them to you for your review and signature.

## Personal Details - Please complete this section in full and in block capital letters

Full name of unit holder(s)  Title

Current address

Postcode

e-mail address  Male  Female

Date of birth  National Insurance number

Daytime telephone  Existing Cofunds number (if applicable)

## ISA investments - Please complete in block capital letters

Fund Provider	Fund Name	Account Number/ Plan Reference	Unit Type ACC/INC	Tick if current tax year	Tick if saving monthly
SAMPLE FUND MANAGERS LIMITED	SAMPLE HIGH INCOME FUND	12345	INC		

## Unit Trusts/OEICs outside an ISA wrapper - Please complete in block capital letters

Fund Provider	Fund Name	Account Number/ Plan Reference	Account designation (if applicable)	No of Units	Unit Type ACC/INC
SAMPLE FUND MANAGERS LIMITED	SAMPLE UK GROWTH FUND	56789		ALL	ACC

**Please photocopy this form if you require additional space.**  
 Issued by Chelsea Financial Services, which is authorised and regulated by the Financial Services Authority.  
 Registered Office: St James' Hall, Moore Park Road, London SW6 2JS. Registered in England No. 1728085.

CFSFLF 08.03



Instruction to your Bank or Building Society to pay Direct Debits



Name and full postal address of your Bank or Building Society

To the Manager	Bank or Building Society
Address	
Postcode	

Name(s) of Account Holder(s)

Bank/Building Society Account Number

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Branch Sort Code

--	--	--	--	--	--	--	--	--	--

**Banks and Building Societies may not accept Direct Debit instructions from some types of account.**

Service User No.

6	0	0	2	6	7
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Reference Number

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

**For Cofunds LTD official use only**

This is not part of the instruction to your bank or building society.

**Instruction to your Bank or Building Society**

Please pay Cofunds Limited Direct Debits from the account detailed in this instruction subject to the safeguards assured by the Direct Debit Guarantee. I understand that this instruction may remain with Cofunds Limited and, if so, details will be passed on electronically to my Bank/Building Society.

Signature

Date

This Guarantee should be detached and retained by the payer.

**The Direct Debit Guarantee**

- This Guarantee is offered by all Banks and Building Societies that accept instructions to pay Direct Debits
- If there are any changes to the amount, date or frequency of your Direct Debit Cofunds Ltd will notify you five working days in advance of your account being debited or as otherwise agreed. If you request Cofunds Ltd to collect a payment, confirmation of the amount and date will be given to you at the time of the request
- If an error is made in the payment of your Direct Debit, by Cofunds Ltd or your Bank or Building Society, you are entitled to a full and immediate refund of the amount paid from your Bank or Building Society
  - If you receive a refund you are not entitled to, you must pay it back when Cofunds Ltd asks you to
- You can cancel a Direct Debit at any time by simply contacting your Bank or Building Society. Written confirmation may be required. Please also notify us.



# We're here to help

We're proud to offer our clients a very personal service.

Unlike others, we're not 'online only'.

And we haven't 'outsourced our customer support function'.

We have a team in our office in Chelsea.

And we'd be pleased to help.

So if you need little extra help or guidance, you can call us on **020 7384 7300**.

