viewpoint

the magazine for Chelsea investors

issue 29 • June 2011

Soak up this Summer's investment opportunities

Re-emerging talent

Time to look again at the US and Europe?

WRITTEN BY CHELSEA THE UK'S LEADING DISCOUNT BROKER

Welcome


DR JOHN M HOLDER
Chairman

Welcome to our Summer edition of Viewpoint. Markets have been rather bumpy in the second quarter this year, though market falls have largely been followed by a swift recovery, which indicates that corrections are being used by investors as a buying opportunity. Further analysis of recent market turbulence can be found opposite in Market view.

I have been aware that investors were favouring emerging markets or UK funds and avoiding other developed markets, but I was shocked to realise that Chelsea's investors hold less than 3% in US funds. So we asked two managers to explain, on pages 30 and 31, why both the US and Europe are not markets you can afford to ignore.

Liontrust is a name with which many of you will be familiar. They were a popular investment fund provider some years ago, but subsequently lost a couple of their high profile managers and had to rebuild their team. However, they are firmly back on track and producing some excellent performance. They talk to us about their transformation on pages 34 and 35.

The Middle East conflict has increased the volatility of the oil price and the cost and supply of energy has been headline news. So Artemis' launch of their Global Energy fund is quite timely and manager John Dodd discusses his long-term interest in this area of investment (page 32).

Another headline-grabbing area of investment is China, which receives a considerable amount of negative press. So is there an opportunity for investors in China? James Chong from Martin Currie answers this question and many more on page 29.

There has been a proliferation of funds which utilise shorting. But what is shorting and how does it work in an investment fund? James Clunie, SWIP's short-selling expert, explains the process and what to look out for on page 38.

Finally, there are all our usual features on VCTs and pensions and our lists of selected funds to help you with your investment decision-making, along with application forms for ISA and investment fund investing, as well as a transfer form.

I hope you find Viewpoint both informative and useful.

Dr John M Holder
Chairman, Chelsea Financial Services Plc

Contents

Important Notice

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. All the investments in this Viewpoint should be regarded as medium to long-term investments. Tax assumptions are subject to statutory change and the value of any tax relief will depend on your individual circumstances.

Chelsea Financial Services offers a direct offer/execution-only service. If you require individual investment guidance you should seek expert advice. Whilst we may draw attention to certain investment products we cannot know which of them, if any, is best for your particular circumstances and must leave that judgement to you. Nor can we accept liability to clients who purchase two ISAs in one fiscal year, or otherwise do not comply with ISA rules.

Discounts are subject to receipt of commission and may be subject to change if commission levels are altered. Chelsea Financial Services is authorised and regulated by the Financial Services Authority. Cofunds is the ISA Plan Manager for the Chelsea Portfolio.

Market view

DARIUS McDERMOTT
Managing Director

Markets have been rather turbulent this year. In fact the FTSE 100 has largely moved between 5830 and 6100, but the swiftness of both the up and downturns means that it has crossed the 6000 level 20 times so far in 2011!

On the positive side it looks as though any downturn has been used by investors as a buying opportunity for those wanting more exposure to equities, and we have generally seen a reasonably swift move back up to 6000.

Why so nervous?

Markets were initially concerned by conflict in the Middle East, which pushed the oil price up over $100/barrel – a level not seen since 2008. At this level, oil prices have quite a negative impact on global GDP growth, with every $10 increase in the oil price reducing global GDP by 0.4% per annum. But it was the tragic events in Japan on March 11th that really derailed markets, with the FTSE 100 falling to the year's low of 5598 on March 16th, though by the beginning of April it had climbed back to breach 6000 again.

At the end of April market nervousness took the form of a sell-off in commodities, which have had an incredibly strong run. Commentators are divided on whether this is a temporary setback in a long-term bull market or a bubble bursting. Silver was one of the hardest hit, declining by over 30%, and even oil temporarily slid back below $100/barrel. This was partly a result of concern regarding inflation in China, where interest rates continue to rise. We remain concerned about emerging market inflation. The price of food continues to rise and in these economies it is a larger proportion of CPI. For instance, food constitutes 30% of CPI in China, compared with less than 10% in the UK.

Market worries have been exacerbated by further rumblings on the European debt front, a bailout for Portugal being announced in May and potentially a further bailout for Greece. It is largely accepted that Greece will need to restructure its debt (a default by any other name) but whether or not other European banks, which hold that debt, can afford to take the hit is in question. On the other hand, Germany continues to flourish. The ECB raised interest rates in April from 1% to 1.25%, a move which only serves to highlight the disparities in the region – Germany can easily afford it, but the periphery will only flounder further.

The US has also played its part in making markets jittery, with fears abounding about the completion of QE2 at the end of June. Both equity and bond markets alike are holding their breath and awaiting Armageddon. However, I suspect that with everyone on tenterhooks it will turn out to be a damp squib and markets may well perk up once they realise that the world has not come to an end. Of course if things do look rather bleak, I suspect that they may decide to embark on QE3, as their policy seems to be spend, spend, spend. I wonder whether, on Obama's recent visit, he and Cameron discussed the relative merits of their entirely different approaches to fiscal policy. Surely the US will one day have to address its spiralling debt, but Obama evidently prefers it not to be on his watch.

In the UK, the Bank of England maintains interest rates at the low of 0.5%, despite Mervyn King's admission that inflation could rise to 5%. He is clearly nervous about choking our anaemic growth and inflation is largely imported, rather than driven by wage rises, so his capacity to control it is limited. Finally, there is the belief that inflation will decline once the VAT hike and fuel price rises have worked their way through. So we believe that interest rates are likely to remain low for quite some time – it’s possible we may not see a rate rise this year at all. The UK consumer is still battling against the headwinds of higher food and fuel prices, combined with low wage inflation and tax increases. Fund managers are hence largely avoiding the UK retail sector which, with a few exceptions, is struggling to pass on its increased input costs (the price of cotton has doubled in the last year) to the struggling UK consumer.

Before you reach for the Prozac...

Never forget that markets are forward looking. We might be full of doom and gloom about the current climate but stock markets have already taken that negativity on board and are looking ahead, hopefully to better times. If all the bad news is in the price, then any positive signs, however small, will boost share prices.

Whilst we do expect market volatility to continue, this can provide opportunities for active fund managers. We have plenty of good stock-picking fund managers on our Chelsea Leaders panel and they are best placed to avoid those stocks which suffer most in a difficult economic climate and pick those which can outperform. Don't forget that whilst the economic outlook is opaque there are still a great many companies out there with strong earnings growth.

In the current low interest rate environment, a fall in markets, due to risk aversion, serves to raise their yield, which is probably why we have seen such strong rebounds from any market falls. A fund investing in dividend-paying stocks offers investors some protection.

After such a strong rally in both commodities and emerging markets, we urge investors to look at their weightings in these areas and contemplate whether it would be wise to recycle some profits into developed markets. We might have lower GDP growth, but over the past year the FTSE 100 is up 16% and the S&P 500 up 23%, which further illustrates how tenuous the link is between economies and markets.

ISA update

SAM HOLDER
Head of Operations

You can shelter up to £10,680 from the tax man this year. Plus every fund in Viewpoint is available at 0% initial charge within your ISA – saving you up to £587.

Market-leading discounts, low costs and personal service

- Manage your ISA online or through the post.
- Buy your ISA over the phone in minutes.
- Online valuations available 24 hours a day, 7 days a week.
- Two clear statements a year, with market views and fund commentary on many of the funds you hold.
- If you ever have a question about ISAs, or investments in general, you can call us on 020 7384 7300.
- Our long-standing team of friendly, knowledgeable staff give stability and continuity and are names you can come back to year after year.

Junior ISAs – the new tax-free way to save for children

Junior ISAs are expected to be the new tax-free savings and investment accounts for children.

Expected to launch on 1st November 2011, Junior ISAs will replace Child Trust Funds. So if you're interested in saving for a child's future, they could be a great option.

Call our brochure line free on 0800 071 3333 and we'll send you more information on the Junior ISA when it becomes available.

Estate planning – don't leave your investments in a mess

If your investments are consolidated within Cofunds it is much easier for your executors to administer for the following reasons:

- The death certificate and grant of probate only has to be sent to one place.
- The investments do not have to be sold. Your funds will remain invested and can be moved into the beneficiaries' names at no charge.
- You can have multiple beneficiaries.
- Chelsea Financial Services will assist your family members, your executors or your solicitors with the probate valuations and stock transfer at no charge.
- To consolidate your portfolio simply complete and return the form on page 22 or call 020 7384 7300 to discuss.

THREE EASY WAYS TO BUY YOUR ISA:

1 By telephone
Simply call 020 7384 7300
Please have your debit card to hand

2 Online
Visit our website, www.chelseafs.co.uk, and click on 'Invest Online'

3 By post
Complete the form on page 23

Recommend a friend

If you recommend us to a friend, we'll send you up to £50 worth of Marks & Spencer vouchers to say thank you.

Many of our clients come to us having been 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 who is new to Chelsea Financial Services – 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.)

All you need to do is fill in the form below and return it to us. You can recommend as many people as you like – there's no limit.

If you wish to recommend more people, simply attach their details on a separate sheet of paper and return it along with the form below.

Your details

Name:

Address:

Postcode:

Friend's details

Title: First name:

Surname:

Address:

Postcode:

Friend's details

Title: First name:

Surname:

Address:

Postcode:

"I was recommended to Chelsea by my father-in-law and am delighted with the service that I receive."

Mr James Brack, Worcester

"I bought my ISA directly from the fund managers for years and used to waste hundreds of pounds in initial charges. My friend suggested that I buy through Chelsea Financial Services and, not only do I now save money, I also enjoy all the investment information."

Mr David Barnard, Solihull

The Chelsea Easy ISA

investing made easy – with no initial charges

JULIET SCHOOLING LATTER
Head of Research

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. So we have selected funds for the Chelsea Easy ISA and put them together within four different portfolios. All you have to do is choose one of the four options based upon your own requirements and attitude to risk: Cautious; Balanced; Aggressive or Income. Your ISA investment will then be spread equally across the corresponding six funds, within our fund supermarket the Chelsea Portfolio (for more details see page 20).

Once you have selected your preferred Easy ISA option, simply fill in the ISA application form on page 23, ticking one box only to select either Cautious, Balanced, Aggressive or Income, and send the application back to us in the pre-paid envelope enclosed.

- The Chelsea Easy ISA is also available for ISA transfers.
- If you would like to know more about the funds we have chosen, details are provided on pages 11-18.
- Please note that the minimum investment is £2,100 lump sum or £150 per month into any Easy ISA.

EASY ISA CHANGES

Balanced Growth – M&G American replaces Schroder US Mid Cap.

NB This replacement is simply due to the closure of Schroder US Mid Cap, a decision made by Schroder to protect existing investors.

Income – Threadneedle UK Equity Alpha Income replaces Standard Life UK Equity High Income.

PLEASE NOTE:

We are not able to manage these portfolios for you.

It is up to you to switch funds if you wish, either online or by simply writing to us. You may wish to sign up to our regular e-Viewpoint to keep in touch with any fund manager changes or simply check the portfolios to see if we have made any alterations each time a new Viewpoint comes out.

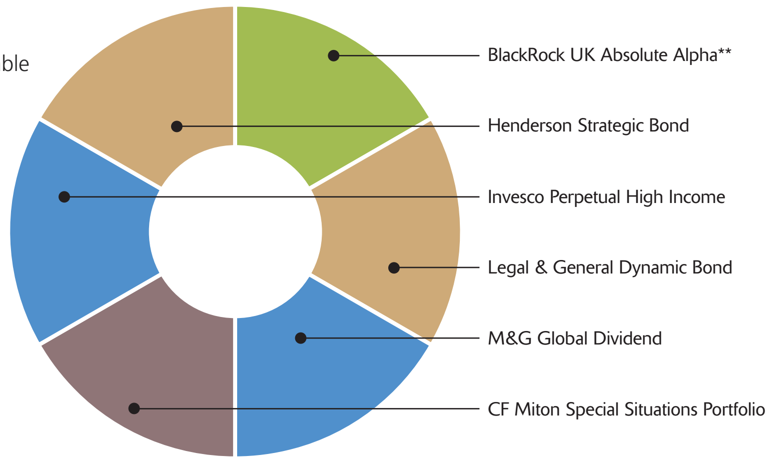
We select the funds for the Chelsea Easy ISA, but it is up to you to decide whether this selection will suit your investment requirements. Returns cannot be guaranteed, and your attention is drawn to the Important Notice on page 2.

CAUTIOUS GROWTH

(Average Chelsea Risk Rating 3.66)*
Application form on page 23

Cautious Growth is for those who feel uncomfortable with a higher level of risk. This aims to provide a steady level of growth, with limited volatility. Approximately one third of the portfolio is in corporate bonds, which lowers the exposure to equities and thus stock-market volatility. A large proportion of your investment (over 60%) will be in the UK, thereby reducing any fluctuations in foreign markets and there is a bias towards large-cap stocks, which tend to be less volatile.

Zero initial charge after CFS discount
Average annual management charge: 1.42%**



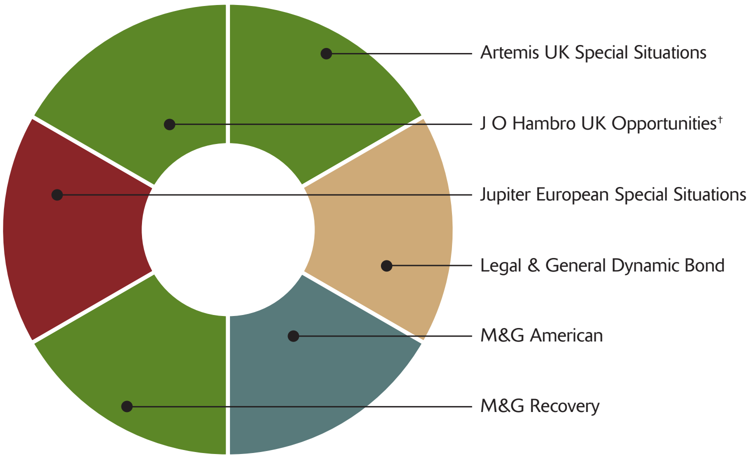
Note: *The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
**A performance fee may be applied – See page 18 for more details.

BALANCED GROWTH

(Average Chelsea Risk Rating 5.17)*
Application form on page 23

This offers you a medium level of risk. It gives broader exposure to developed foreign markets to provide diversification outside the UK and has a slightly more aggressive UK stance, with some exposure to smaller companies. This is balanced with lower risk fixed interest and equity income holdings. With approximately 64% in the UK, foreign exposure is limited to approximately 16% in the US and 16% in Europe.

Zero initial charge after CFS discount
Average annual management charge: 1.42%†

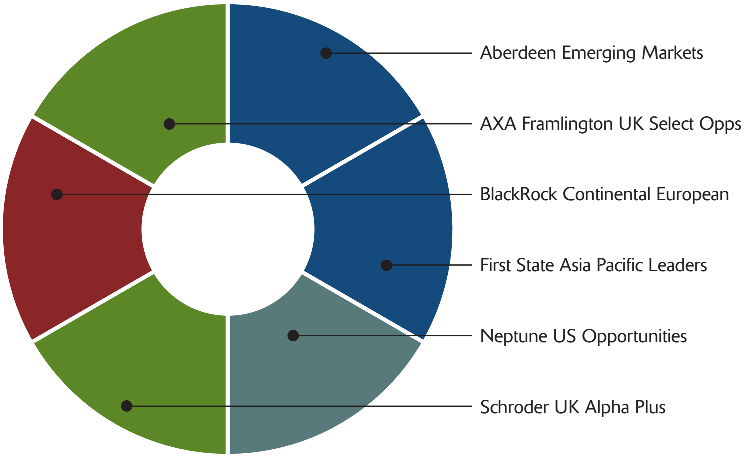


AGGRESSIVE GROWTH

(Average Chelsea Risk Rating 7.42)*
Application form on page 23

If you have a sufficiently long time horizon and feel comfortable with a certain amount of risk, you may wish to choose Aggressive Growth. This encompasses a greater degree of volatility, with the prospect of higher long-term growth. It offers a broad-based portfolio, with global exposure, enabling you to take advantage of any upturn in markets worldwide. It combines large, medium and small-cap companies.

Zero initial charge after CFS discount
Average annual management charge: 1.56%

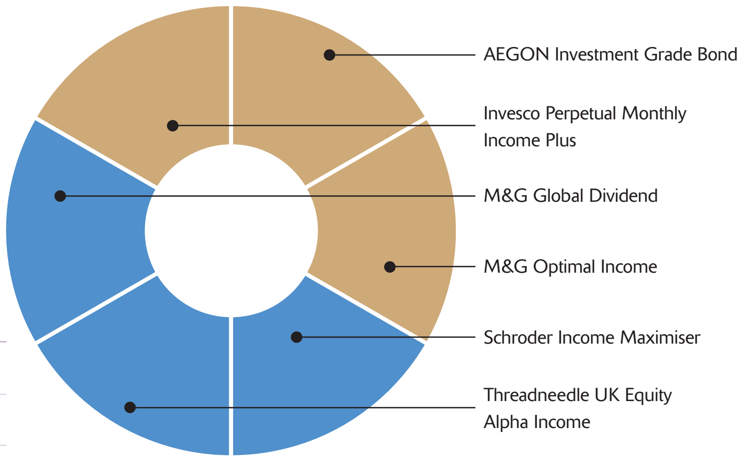


INCOME

(Average Chelsea Risk Rating 3.25)*
Application form on page 23

If your priority is income, the Chelsea Easy ISA Income option could suit your requirements. A combination of corporate bond and equity income funds provides a regular income with an element of capital appreciation. This should enable you to maintain the real value of both your capital and income. **The average yield for this portfolio is 4.92%+.**

	Yield+	Paid out
AEGON Investment Grade Bond	4.45%	Jan, Apr, Jul, Oct
Invesco Perpetual Monthly Income Plus	6.52%	Monthly
M&G Global Dividend	3.31%	Mar, Jun, Sep, Dec
M&G Optimal Income	4.19%	Jun, Dec
Schroder Income Maximiser	7.00%	Feb, May, Aug, Nov
Threadneedle UK Equity Alpha Income	4.80%	Jan, July



Zero initial charge after CFS discount
Average annual management charge: 1.38%

+*Source: Financial Express 3rd May 2011*

Note: *The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk.
†A performance fee may be applied – See page 11 for more details.

SPOTLIGHT

Here we take a more in-depth look at some of our Chelsea Leaders. Fund managers talk about their investment process and their asset class, to give you a more comprehensive view of how your money is managed.

Jupiter Absolute Return

PHILIP GIBBS
Fund Manager,
Jupiter Absolute Return

I have been at Jupiter since 1997 and managed a variety of funds, including Jupiter Financial Opportunities, of which I am now deputy manager, and I now run Jupiter Absolute Return and Jupiter International Financials. Before Jupiter, I was a stockbroking analyst specialising in UK financial equities. I have a degree from Cambridge University and am a Chartered Accountant.

I manage Jupiter Absolute Return using an unconstrained approach in terms of global market sectors and investment strategies, within a robust risk framework and focusing on particular areas of expertise. Initially, I take a macroeconomic view of the economy and examine how current themes might affect different business sectors and regions. Next, I look for mispriced companies through which to best play out these themes. I am not afraid to back strong convictions about a company with a sizeable weighting.

In order to deliver returns for unit holders, I believe it is sensible to concentrate the fund’s assets only on my best ideas and typically hold 25-50 positions. There is a high degree of competition between holdings: each must work hard for inclusion in the portfolio and I regularly adjust positions to maximise returns. Additionally, if I anticipate a change in market sentiment, I will move to restructure the portfolio to increase the prospect of positive performance and protect client capital.

The fund since launch

I have been consistently cautious in my investment strategies since the launch of the fund in December 2009. My primary concern has been the ability of risk assets to make significant and sustained gains against a backdrop of high debt to GDP ratios in OECD countries (particularly Japan, the Eurozone and the US) and the implications for asset prices of a potential sovereign debt crisis. We have, therefore, kept our exposure to these areas very low. Indeed, the fund has held a significant short position in Japanese government bonds (JGBs) for some time. However, yields have not yet risen, despite the country’s 225% debt to GDP ratio (as at the end of 2010).

Instead risk assets have continued to benefit from a weak US dollar and the US’s quantitative easing programme. An increasing volume of cheap money has pursued higher, short-term returns and forced equity, bond, property and commodities markets higher. Against this backdrop our limited market exposure has caused the fund to underperform against its peers and benchmark. However, I continue to believe such caution is justified and that my strategy will deliver positive returns for investors over the medium term.

JUPITER ABSOLUTE RETURN PERFORMANCE

Source: Financial Express

Current view

The biggest concern for markets is the cycle of rising inflation and the tightening of interest rates to curb it. The problem this time is that Western economies are so fragile, central banks cannot raise interest rates very far without damaging what little growth there is.

The European Central Bank raised interest rates by 0.25% in April but, in my view, this will simply push peripheral countries like Greece and Ireland further into penury. So, we remain short the euro against the Swiss franc, the Swedish krona and the Norwegian krone. More importantly, against a backdrop of rising interest rates and weak consumer demand, we remain very cautious on equities in general, and European retailers in particular.

Markets are currently being supported by better than expected economic data and corporate profits, but, given inflationary pressures and the inevitable rate rises, one needs to consider how long they can remain so. It's also possible that, at some point, the US will be compelled to address its ballooning deficit (which dwarfs those of the EU peripherals). Once its quantitative easing programme ends, the artificially depressed dollar could rise, prompting a switch out of commodities into sectors like financials.

In Japan, even before the earthquake and tsunami struck, the country’s debt to GDP ratio was the highest in the world and yields were very low (less than 2%). The cost of the reconstruction effort is likely to stretch this ratio even further, perhaps eventually to breaking point.

On a more positive note, the Swiss and Norwegian economies are in excellent shape. The latter, as an oil-rich nation at a time of rising energy demand and prices, is particularly well placed. In Brazil, too, we see potential for growth, given the country’s strong balance sheet and positive demographics. At the same time, the Brazilian real is offering an overnight lending rate of 11%. We also retain some exposure to the Hong Kong property sector, which has flourished on the back of robust regional growth and low US interest rates (due to the soft currency peg).

In conclusion, we continue to invest in line with our macro-driven strategy, which has proved successful over the long term. We remain particularly concerned about high inflation and the potential for interest rate rises, especially against a backdrop of muted growth and unsustainable debt levels in the West.

Schroder Income Maximiser

THOMAS SEE
Fund Manager,
Schroder Income Maximiser

I am head of structured fund management at Schroders. I have over 20 years' experience in structuring and derivatives and a BA (Double first with Distinction) and a PhD in Engineering from Cambridge University.

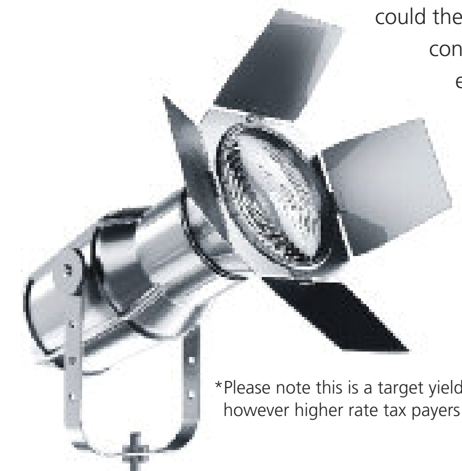
It can be difficult to achieve a high income during periods of persistently low interest rates, which erode yields on financial assets across the board. Schroder Income Maximiser is designed to address this, targeting a yield of 7%* per annum. To do this, the fund employs a two pronged approach, investing in an actively-managed portfolio of UK large and mid-cap stocks, while boosting income through the sale of covered call options.

In the first step, Nick Kirrage and Kevin Murphy, co-managers of the underlying Schroder Income fund, create a portfolio of stocks that they feel have low share prices relative to the companies' long-term earnings potential and the amount of cash they will be able to generate. These stocks will also tend to be high yielding, offering a generous dividend payment as well as the ability to grow that dividend over time.

How is this high yield generated?

My team then looks to generate additional income by selling options on these holdings on a three-month rolling basis. This income stream is produced because we exchange some of the potential capital upside on selected holdings (above a certain level) in return for an upfront cash payment (premium) over this period. In other words, exchanging some potential capital growth for some certainty of income.

In combination, these strategies give investors exposure to equity markets, but with the security of a regular income (although the actual amount will vary) and lower volatility than a similar fund without the option strategy. The trade off is that the performance or capital value of the fund may be eroded. If the market rises strongly, for example, the exchange of capital for income means we are likely to underperform. This impact could then be compounded over consecutive three-month periods, eroding capital value by capping the gains and taking the falls. That said, we also have the potential to outperform when the market falls, with the yield acting as a cushion for returns. The yield is the sum of the four quarterly distributions that comprise the fund year, each calculated by dividing the quarterly distribution amount by the unit price at the start of that quarter. The 7%* target yield is not guaranteed, but we have consistently shown our ability to hit this target, delivering 7%* every year since launch, more than five years ago.



SCHRODER INCOME MAXIMISER PERFORMANCE

Source: Schroder, bid to bid price with net income reinvested

Outlook

The fund has maintained its ability to generate the target yield over a number of economic scenarios, and there is little to suggest that demand for call options will weaken in the foreseeable future. Indeed, the value of the options we write, and demand for them, is essentially governed by market volatility. Irrespective of what UK policymakers may decide to do about inflation and interest rates, we expect to see continued option demand, leaving us confident that we can continue to generate an attractive level of income.

It is also worth noting that we take an active approach in applying the option strategy. This is where we are able to differ from typical equity income funds (where stocks are selected on the basis of share price value and dividend yield), as we have the ability to look at the combination of share price value, dividend yield and option premium potential. As such, we have the flexibility to augment the yield on a specific stock or, indeed, create a yield where one previously did not exist. We do not have to sell out of low or non-dividend paying stocks at any price in order to maintain our yield. Equally, we can actively select non-dividend paying stocks for the underlying portfolio that offer attractive total returns without sacrificing our yield objective.

An example of how this approach works is the position we took with BP following last year's oil disaster. At the peak of BP's volatility, income fund managers with a yield target to meet were selling their positions after BP cut its dividend. In contrast, we were able to buy into the stock as prices fell, to take advantage of the value we felt was appearing. Moreover, we were also able to generate a premium from the stock by selling options on our holding.

*Please note this is a target yield and not guaranteed. It is quoted net of basic rate tax, however higher rate tax payers should note that they may be liable for further deductions.

Investing in Chelsea Leaders

...a guide to building your own portfolio

Larger sum to invest? Chelsea Easy ISA doesn't meet your personal requirements? Looking for a new fund to complement your existing investments? Then the Chelsea Leaders could be for you.

Over the next eight pages we offer our selection of funds that have been hand-picked by our dedicated research team. They have interviewed all the fund managers featured on these pages and exhaustively examined their research processes. These 34 favoured funds are selected from the 1,474 funds available on our fund supermarket, the Chelsea Portfolio. They are divided into sectors and given a Chelsea Risk Rating, in order to aid your fund selection.

Where does the Chelsea Premier League fit in?

This is our wider buy list. It offers a greater choice of funds, possibly for those investors who have a much larger portfolio. You will also find some more specialist funds here that we cannot fit into our shorter Chelsea Leaders' list.

How should my portfolio look?

We recognise that, for investors with a larger sum to invest, the Chelsea Easy ISA may be too restrictive and you may wish to invest in a greater number of funds, with a wider spread of sectors.

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 sensible split, we have provided the portfolios below.

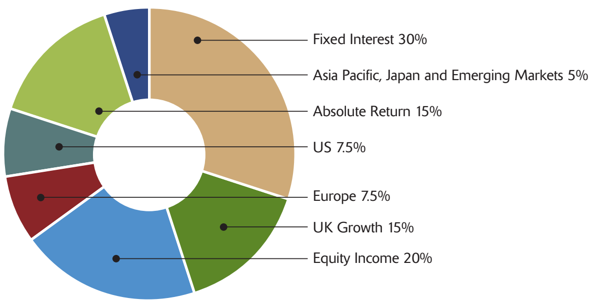
The idea is that you determine your own attitude to risk. If you are comfortable with short-term losses and happy to invest for a long period of time (probably a younger investor), then you might think of yourself as 'Aggressive'. However, if swings in your valuation worry you and perhaps you are closer to retirement, you might prefer to take a 'Cautious' stance.

Portfolios can sometimes simply be the result of random purchases made over many years. However, there is a huge benefit to taking some time to analyse your portfolio to prevent sector and country biases creeping in. We suggest that you may wish to look at your portfolio on an annual basis and rebalance it where it has moved out of line with your goals.

Here we provide some model portfolios as a guide. Obviously they can be altered to reflect your own preferences. It is important to have diversification to reduce risk, but spreading your assets across too many funds means that those which perform strongly will have little impact on overall performance. The number of funds held within these portfolios will vary depending upon the amount invested. As a rough guide, we would expect to have c.10 funds in a £20,000 portfolio and 20-25 in one of £100,000. So check how your holdings stack up against them and, if you notice some important gaps, you can easily switch or utilise your ISA allowance in order to redress any imbalance.

CHELSEA LEADERS' CAUTIOUS PORTFOLIO

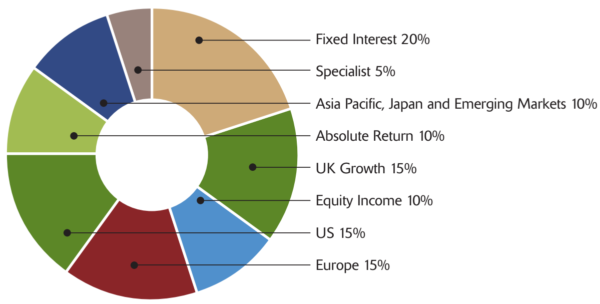
Average Chelsea Risk Rating 3-4



This portfolio is designed for those who have a low tolerance to risk, perhaps an investor closer to retirement. With a higher proportion in bonds it should be less volatile. Those close to retirement should have an even higher allocation to fixed interest.

CHELSEA LEADERS' BALANCED PORTFOLIO

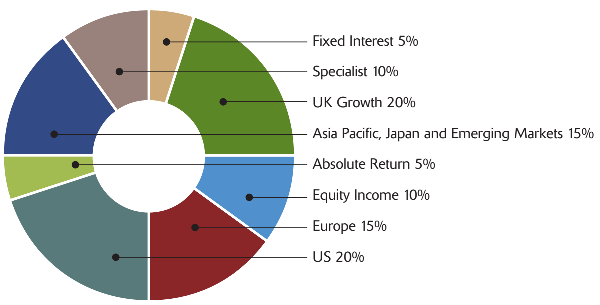
Average Chelsea Risk Rating 4-6



With a moderate level of risk, this portfolio aims to achieve growth but will have greater volatility. Investment is predominantly in equities.

CHELSEA LEADERS' AGGRESSIVE PORTFOLIO

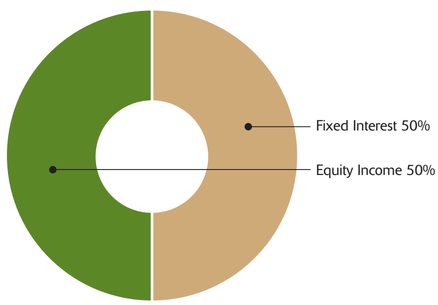
Average Chelsea Risk Rating 7-8



An aggressive portfolio is for investors who are comfortable with a higher degree of risk and may have a longer time horizon, so that any volatility in markets can be mitigated over time.

CHELSEA LEADERS' INCOME PORTFOLIO

Average Chelsea Risk Rating 2-4



This is for those who wish to obtain a growing income. Yields for these funds can be found on the Chelsea Leaders pages. The equity income portion should be a combination of UK and overseas.

UK Growth funds (focusing on capital growth rather than income)

ARTEMIS UK SPECIAL SITUATIONS

This fund targets long-term capital appreciation through investment in UK equities. Derek Stuart and Ruth Keattch seek companies in special situations, such as those requiring funding, in recovery or stocks that are currently unloved by the market. The fund tends to have a small to mid-cap bias, though the managers are not constrained on this basis. Focus is on stocks in which the managers have the most conviction and this will lead to a relatively concentrated portfolio.

Yield	1.17%
Standard and Poor's fund rating	–
OBSR fund rating	AAA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc

AXA FRAMLINGTON UK SELECT OPPORTUNITIES

This fund aims to provide long-term capital growth through a diversified portfolio of UK equities. Nigel Thomas has the freedom to invest across the whole cap spectrum, though the fund will tend to have a small and mid-cap bias. A bottom-up approach is used to identify stocks capable of producing above-average returns and a single holding will not account for more than 3% of the portfolio. In general, around 30% of the fund will be invested in stocks listed on the FTSE 100.

Yield	1.60%
Standard and Poor's fund rating	–
OBSR fund rating	AAA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc or Inc

FIDELITY SPECIAL SITUATIONS

This is a fund seeking to provide long-term capital appreciation primarily through investment in UK equities. Sanjeev Shah is a contrarian investor and looks to identify stocks which he believes are trading at a discount to their true value. There are few constraints on the manager, though the portfolio will tend to have a small and mid-cap bias. Sanjeev also has the option to invest up to 20% overseas and can use derivatives to increase returns.

Yield	–
Standard and Poor's fund rating	AA
OBSR fund rating	AA
Standard initial charge	3.50%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc

J O HAMBRO UK OPPORTUNITIES

This fund aims to produce an absolute return. The investment approach is a blend of top-down analysis and bottom-up stock selection to create a concentrated portfolio. John Wood may invest up to 10% of the fund overseas, should he identify suitable opportunities. He also has a strong sell discipline and will seek to top-slice holdings when they account for 5% of the fund. Any outperformance of its benchmark (FTSE All-Share Total Return Index) is subject to a 15% performance fee.

Yield	3.04%
Standard and Poor's fund rating	AA
OBSR fund rating	AA
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	5.5
Unit type	Acc or Inc

M&G RECOVERY

The aim of this fund is to produce capital appreciation over the long term. Investment is into UK equities across the cap spectrum, with Tom Dobell taking a contrarian stance and focusing on companies that have lost favour with the market. Tom is supported by an assistant manager and a team of sector specialists, who actively work with companies to aid their recovery. There is generally a small to mid-cap bias, though at least 40% of the fund will usually be in the FTSE 100.

Yield	0.55%
Standard and Poor's fund rating	AAA
OBSR fund rating	AAA
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	5
Unit type	Acc or Inc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics please refer to pages 40-41.

Notes:

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†The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk. All data sourced from Financial Express, 25/05/2011.

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UK Growth funds (continued)

MARLBOROUGH SPECIAL SITUATIONS

This fund invests in a combination of small-cap UK companies, new stocks and those currently in a period of recovery. Giles Hargreave can also invest into larger-cap companies to improve the liquidity of the fund if he sees fit. It is a diverse portfolio, typically with over 100 holdings. Since the launch of the fund, the management has been outsourced to Giles' own company, Hargreave Hale.

Yield	0.21%
Standard and Poor's fund rating	–
OBSR fund rating	–
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	8
Unit type	Acc

SCHRODER UK ALPHA PLUS

This is a highly concentrated portfolio, typically with just 20-40 holdings. Investment will mainly be in large-cap UK equities, though up to 20% of the fund can be in gilts and/or cash. Richard Buxton has a contrarian investment approach and seeks to identify stocks capable of rising at least 10-20% in the next three years. He is prepared to wait for long-term ideas to come to fruition.

Yield	0.62%
Standard and Poor's fund rating	–
OBSR fund rating	AAA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7
Unit type	Acc or Inc

Equity Income funds

ARTEMIS INCOME

This fund invests largely within the FTSE 350 and targets rising income, coupled with long-term capital growth. Adrian Frost and Adrian Gosden are relatively unconstrained in their approach and often focus on a company's cashflow as a method of evaluating stocks. They regularly utilise their capacity to invest up to 20% overseas where opportunities arise. Income is paid in January and July.

Yield	4.37%
Standard and Poor's fund rating	–
OBSR fund rating	AAA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4
Unit type	Acc or Inc

INVESCO PERPETUAL HIGH INCOME

Neil Woodford's team pair a global macro view with in-depth research of sectors and stocks. However, the fund places a greater emphasis on total return than pure income. Neil has the ability to invest overseas if he identifies suitable opportunities and often invests in the US. A top-down investment approach is used, which can lead to large sector weightings. Dividends are paid in March and September.

Yield	3.70%
Standard and Poor's fund rating	AAA
OBSR fund rating	AAA
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4
Unit type	Acc or Inc

M&G GLOBAL DIVIDEND

Managed by Stuart Rhodes, this fund invests in a concentrated portfolio of around 50 global income stocks. He employs a bottom-up stock-picking approach, combined with strong quantitative screening, which is driven by the fundamental analysis of individual companies and earnings upgrades. Stuart looks for companies with strong capital discipline and potential to increase dividends. Income is paid in March, June, September and December.

Yield	3.32%
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc or Inc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics please refer to pages 40-41.

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Equity Income funds (continued)

NEWTON ASIAN INCOME

This fund invests in companies with strong, sustainable fundamentals. Jason Pidcock, supported by a strong team of global sector analysts, identifies global investment themes and translates these into appropriate sector and stock selection using a bottom-up process. New holdings must have a prospective yield greater than the index at purchase, and will be sold if the yield falls below a 15% discount. The portfolio has a low turnover and will typically comprise 40-50 stocks. Income is paid in March, June, September and December.

Yield	5.35%
Standard and Poor's fund rating	AA
OBSR fund rating	A
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7.5
Unit type	Inc

RATHBONE INCOME

Carl Stick aims to invest in UK companies identified as capable of providing a sustainable income and preservation of capital. As such, emphasis will be on FTSE 350 listed stocks, but there may also be some small-cap exposure. The manager is relatively unconstrained in his stock selection, though no single holding can account for more than 3% of the fund. Income is paid in January and July.

Yield	4.28%
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	5.50%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4.5
Unit type	Acc or Inc

SCHRODER INCOME MAXIMISER

A derivative of the Schroder Income fund, it seeks to provide a high income, with long-term capital growth through investment in UK equities – the emphasis being on those in the FTSE 350. The investment process is bottom-up and the manager will also utilise call options to provide a target yield of 7% p.a. Due to the nature of the fund, it will tend to perform well in sideways and falling markets, though it may slightly underperform in strong rising markets. Income is paid in February, May, August and November.

Yield	7%
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4
Unit type	Acc or Inc

THREADNEEDLE UK EQUITY ALPHA INCOME

Experienced manager Leigh Harrison begins his investment process by assessing the macroeconomic environment in order to identify sectors that are likely to outperform in the prevailing market conditions. The key theme, however, is one of buying quality stocks that have a strong dividend culture, trading at attractive valuations. The resultant portfolio is made up of 25-35 quality, generally large-cap stocks that exhibit good earnings growth, sustainable cashflow and rising dividends. Income is paid in January and July.

Yield	4.90%
Standard and Poor's fund rating	AA
OBSR fund rating	A
Standard initial charge	3.75%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4.5
Unit type	Acc or Inc

European funds

BLACKROCK CONTINENTAL EUROPEAN

This multi-cap fund is managed by Vincent Devlin, via a team-based process. He has a flexible investment approach but there is a preference for companies with medium to long-term earnings power that is greater than the market. Position sizes will not exceed a 5% active overweight compared with the index. There are country restrictions of 15% exposure to non-benchmark countries and 5% to non-benchmark non-EU countries. The fund typically holds between 35-65 stocks.

Yield	0.32%
Standard and Poor's fund rating	AAA
OBSR fund rating	AA
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc or Inc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics please refer to pages 40-41.

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European funds (continued)

JUPITER EUROPEAN SPECIAL SITUATIONS

Manager Cedric de Fonclare takes a dynamic and flexible approach, resulting in a portfolio that pays little regard to the index and will vary according to the underlying market dynamics. He focuses on analysing companies with a strong operating niche. He also has a distinct bottom-up stock-picking approach, with a large-cap bias. His best ideas form the core of the portfolio but with 4% as a maximum holding. The portfolio is still reasonably concentrated, comprising between 50-70 stocks.

Yield	0.40%
Standard and Poor's fund rating	AA
OBSR fund rating	AA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc

NEPTUNE EUROPEAN OPPORTUNITIES

Managed by Rob Burnett, this fund provides an unconstrained and actively-managed European equity portfolio. The fund is reasonably concentrated, with around 50 stocks. It invests across the market-cap spectrum, with no predetermined style bias. Neptune's investment process of forming positive views on global industry sectors and then using bottom-up stock-picking can result in large sector bets.

Yield	1.17%
Standard and Poor's fund rating	–
OBSR fund rating	AA
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.75%
Chelsea Risk Rating†	7
Unit type	Acc or Inc

SCHRODER EUROPEAN ALPHA PLUS

This fund is managed by Leon Howard-Spink who invests in European equities across the market-cap range, but with a focus on mid caps. He generates many of his own ideas but is able to cross-reference his ideas with the group's 18 European analysts. As the bottom-up investment process is not benchmark driven, the portfolio will often differ from the index at both the sector and the country level. The portfolio will typically comprise around 50-70 stocks with a mid to long-term investment horizon.

Yield	0.65%
Standard and Poor's fund rating	–
OBSR fund rating	AA
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc or Inc

Specialist funds

ARTEMIS STRATEGIC ASSETS

Manager William Littlewood uses a macroeconomic view to influence his investment decisions. He aims 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. The fund is predominantly invested in equities, but William also uses derivatives in order to exploit both rising and falling markets. He often takes advantage of shorting individual securities or currencies that he believes are overpriced.

Yield	0.67%
Standard and Poor's fund rating	–
OBSR fund rating	–
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	6
Unit type	Acc

JPM NATURAL RESOURCES

This fund seeks to provide long-term capital growth through investment in global equities based in commodity sectors such as energy, gold and other precious metals. The fund has a neutral position of 30% invested in gold and precious metals, 30% in base metals, 30% in energy and the final 10% in other commodity stocks. In practice this can vary significantly, though no more than 50% of the fund may be invested in any single sector.

Yield	–
Standard and Poor's fund rating	–
OBSR fund rating	AA
Standard initial charge	4.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	10
Unit type	Acc

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Specialist funds (continued)

CF MITON SPECIAL SITUATIONS PORTFOLIO

The goal of this fund is to provide investors with long-term positive returns through investments in an array of asset classes including global equities, bonds, cash and collective investment schemes. Martin Gray and James Sullivan seek to stabilise the fund by investing around 30% in more defensive asset classes. There are no formal sector or stock constraints placed upon the manager. This fund tends to underperform strongly rising markets but does well in tougher markets.

Yield	–
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	4
Unit type	Acc

Asia Pacific, Japan and Emerging Markets funds

ABERDEEN EMERGING MARKETS

A strong team of 35 specialists is lead by Devan Kaloo. They have six offices in the emerging markets to ensure that they have the very best coverage of companies in their area. A strict bottom-up approach is used to identify good quality companies that they understand and are growing. They insist on having a good relationship with the companies they invest in and tend to own those companies' shares for over five years. This is a multi-cap fund, but with a bias towards large-caps, and typically holds between 45-60 stocks.

Yield	0.30%
Standard and Poor's fund rating	AA
OBSR fund rating	AAA
Standard initial charge	4.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.75%
Chelsea Risk Rating†	10
Unit type	Acc

ALLIANZ RCM BRIC STARS

Managed by Michael Kostantinov, this fund invests with a large-cap bias in Brazil, Russia, India and China (with an approximate 25% spilt). The fund may also invest in other assets related to BRIC regions. His investment process combines top-down analysis and bottom-up research, with an emphasis on the latter. He is also able to draw upon extensive global research resources to select stocks for his concentrated portfolio of 60-80 stocks.

Yield	0.25%
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.75%
Chelsea Risk Rating†	10
Unit type	Acc

FIRST STATE ASIA PACIFIC LEADERS

Experienced managers, Angus Tulloch (based in Edinburgh) and Alistair Thompson (based in Singapore) take a stock-driven approach, with a top-down overlay, where the economic environment is closely examined and company meetings are key. They source their investment ideas from the regional analysts and focus on fundamental analysis, seeking a concentrated portfolio of around 60 large/mid-cap undervalued stocks, with above-average growth and a mid to long-term investment horizon.

Yield	0.53%
Standard and Poor's fund rating	AAA
OBSR fund rating	AAA
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7.5
Unit type	Acc

FIRST STATE GREATER CHINA GROWTH

Co-managers Martin Lau (based in Hong Kong) and Hsiu-Mei Ho (based in Singapore) offer investors a multi-cap portfolio of stocks in China, Hong Kong and Taiwan. These highly regarded managers have a contrarian style and use a bottom-up stock-picking approach. They are supported by other experienced members of the Greater China team. With an absolute return mindset and an investment time horizon of three to five years, this fund aims to hold between 40-70 stocks.

Yield	0.28%
Standard and Poor's fund rating	AAA
OBSR fund rating	AAA
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.75%
Chelsea Risk Rating†	10
Unit type	Acc

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Asia Pacific, Japan and Emerging Markets funds

JUPITER JAPAN INCOME

This fund will invest in Japanese equities to produce long-term capital growth, allied with an income yielding 30% higher than the Topix index. Simon Somerville frequently travels to Japan and places emphasis on in-depth assessment and understanding of the stocks in which he invests. Whilst Simon aims to invest in companies participating in the growing dividend culture, the yield attained by this fund will not be comparable to UK equity income funds.

Yield	2.30%
Standard and Poor's fund rating	AA
OBSR fund rating	A
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	9.5
Unit type	Acc or Inc

Fixed Interest funds

AEGON INVESTMENT GRADE BOND

This fund, managed by David Roberts, invests primarily in investment grade bonds. As a global investment grade bond fund, it may hold non-sterling issues as long as they are hedged back into sterling. He also uses a combination of top-down strategy with bottom-up stock-picking to build this portfolio, which typically holds between 40-120 positions. The level of cash is limited to a maximum of 20%. Income is paid in January, April, July and October.

Yield	4.47%
Standard and Poor's fund rating	–
OBSR fund rating	AA
Standard initial charge	4.50%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	1
Unit type	Acc or Inc

HENDERSON STRATEGIC BOND

Co-managers Jenna Barnard and John Pattullo take an active approach with this fund by exploiting a wide and flexible mandate in which they can invest in government bonds, corporate bonds, high yield bonds and other fixed income sectors. With the aid of a well-resourced team of credit analysts and UCITS III sophistication, they are also able to invest up to 20% in non-sterling bonds and typically hold between 120-150 positions. Income is paid in March, June, September and December.

Yield	6.80%
Standard and Poor's fund rating	AA
OBSR fund rating	AA
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	1.5
Unit type	Inc

INVESCO PERPETUAL MONTHLY INCOME PLUS

At least 80% (managed by Paul Causer and Paul Read) is invested in bonds and up to a maximum of 20% (managed by Neil Woodford) is invested in UK equities. There is a focus on income generation, together with security of capital. Using a bottom-up approach, fixed interest investments are normally focused on sub-investment grade bonds, but there is flexibility to move up the credit scale. The equity portfolio is constructed similarly to Neil's High Income fund.

Yield	6.48%
Standard and Poor's fund rating	AA
OBSR fund rating	AAA
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	2.5
Unit type	Acc or Inc

LEGAL & GENERAL DYNAMIC BOND

This fund has been managed by Richard Hodges since inception and is an unconstrained global strategic bond fund aiming to generate an attractive return within a closely controlled risk framework. The manager allocates actively between investment grade corporate bonds, high yield, gilts and cash and uses derivatives extensively to manage the fund's positions and risk profile. Supported by a strong fixed income team, he combines top-down analysis and bottom-up research. Income is paid in March, June, September and December.

Yield	5.50%
Standard and Poor's fund rating	AA
OBSR fund rating	AA
Standard initial charge	3.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	1.5
Unit type	Acc or Inc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics please refer to pages 40-41.

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Fixed Interest funds (continued)

M&G OPTIMAL INCOME

Manager Richard Woolnough provides a diversified fixed interest portfolio, moving between gilts, investment grade bonds and high yield bonds depending on where value is identified. Richard may also implement his strategy through derivatives and equities. He primarily adopts a top-down approach and draws on M&G's specialist teams for stock selection ideas. There is no limit on credit or global exposure, provided that at least 80% is hedged back into sterling. Income is paid in June and December.

Yield	3.60%
Standard and Poor's fund rating	AAA
OBSR fund rating	AA
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	1.5
Unit type	Acc or Inc

US funds

INVESTEC AMERICAN

This fund targets long-term capital growth, primarily through investment in large-cap American equities with a focus on stocks with sound fundamentals deemed to be trading at a discount to their true value. Connor Browne and Ed Maran work with a team of analysts and portfolio managers for Thornburg Investment Management and are based in Santa Fe. The managers also have the freedom to purchase fixed income securities if they see fit.

Yield	0.46%
Standard and Poor's fund rating	–
OBSR fund rating	AA
Standard initial charge	4.50%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7
Unit type	Acc

M&G AMERICAN

Long-term capital growth is the aim of this fund and Aled Smith uses a bottom-up stock-picking approach to identify North American (including Canadian) investment opportunities. The manager aims for 60-75 holdings, with 3% of the fund being the likely maximum held in any one stock, and he is not bound by any particular style or cap bias.

Yield	–
Standard and Poor's fund rating	AA
OBSR fund rating	A
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7
Unit type	Acc or Inc

NEPTUNE US OPPORTUNITIES

Felix Wintle and Rebecca Young aim to create capital growth via investment into a concentrated portfolio of North American (including Canadian) equities, with a large-cap bias. They use a top-down approach to identify promising sectors before finding the leading stocks in those sectors and backing them with conviction, which leads to substantial sector bets.

Yield	–
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.60%
Chelsea Risk Rating†	8
Unit type	Acc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics please refer to pages 40-41.

Notes:

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Absolute Return funds

Absolute Return funds are a relatively new concept for the retail investor, with a low correlation to equities. Their aim is to make a positive return in all market conditions. This is achieved by utilising the capacity to short currencies, stocks and other asset classes e.g. enabling the managers to reduce risk within the portfolio and potentially capitalise on falling markets.

BLACKROCK UK ABSOLUTE ALPHA

This fund aims to achieve an absolute return through Mark Lyttleton and Nick Osborne taking long positions in stocks that they believe will rise, along with shorting stocks that they believe will fall. Pairs trading is also used to buy and short two or more companies in the same sector, allowing the managers to reduce risk in the portfolio and potentially capitalise on falling markets. The benchmark for the fund is three-month LIBOR and any outperformance will be subject to a 20% performance fee.

Yield	–
Standard and Poor's fund rating	AA
OBSR fund rating	A
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	5
Unit type	Acc

GARTMORE UK ABSOLUTE RETURN

The aim of this fund is to produce returns by taking up long and short positions in UK equities. Although the fund can invest in stocks of any market capitalisation, there will be a bias towards those listed on the FTSE 100. The fund is benchmarked against three-month LIBOR and any outperformance is subject to a 20% performance fee.

Yield	–
Standard and Poor's fund rating	–
OBSR fund rating	A
Standard initial charge	5.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	7
Unit type	Acc

JUPITER ABSOLUTE RETURN

Managed by Philip Gibbs, who had a successful track record running Jupiter Financial Opportunities, this fund aims to generate positive returns in all market conditions. The fund has a global investment remit and Philip will make use of both long and short investments. Due to the nature of this fund it will perform better in falling or sideways markets than in rising markets, as in 2010. The benchmark for the fund is three-month LIBOR and any outperformance will be subject to a 15% performance fee.

Yield	–
Standard and Poor's fund rating	–
OBSR fund rating	–
Standard initial charge	5.25%
ISA charge after Chelsea discount	0%
Annual management charge	1.25%
Chelsea Risk Rating†	5
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 aims to achieve LIBOR + 5% by investing about 70% of the portfolio in internal Standard Life equity and bond funds. The remainder is invested using 'relative value strategies' in equities, fixed income securities, currencies and cash positions. The fund usually has equity exposure of 15%-40% and is currently invested in Europe 17.3%, the UK 22.1%, the US 3% and in other international markets 15.5%.

Yield	0.67%
Standard and Poor's fund rating	A
OBSR fund rating	A
Standard initial charge	4.00%
ISA charge after Chelsea discount	0%
Annual management charge	1.50%
Chelsea Risk Rating†	5
Unit type	Acc

All Chelsea Leaders available at zero initial charge within an ISA. For performance statistics refer to pages 40-41.

Notes:

We always strive to reduce your costs to a minimum. Units bought with No Initial Charge are described as being bought at the Creation/NAV. You can see from our table of funds that we have secured this Creation/NAV on all of the funds highlighted in the tables.

†The Chelsea Risk Rating denotes a fund's risk profile, where 1 is the least risky and 10 has the highest risk. All data sourced from Financial Express, 25/05/2011.

These discounts apply to new ISA purchases only. ISA transfers will also attract the same discounts. Please telephone 020 7384 7300 for further details.

Funds Focus

THREADNEEDLE LATIN AMERICA

This is an area with enormous long-term potential. The outlook remains positive for Latin American equities, with consumer spending driving earnings growth. This area is also a resources play. Brazil has been enjoying a booming economy thanks to the thriving exploitation of their resources, such as iron ore, oil, coffee and orange juice. More broadly across the region, oil and gas demand remains set to stay stable in 2011. The only major fear is that inflation may get out of control. With its major positions in Brazil and Mexico and a large overweight position in financials, this fund has had a good run over the last five years when you consider the global downturn; it returned 86.5% to investors over that period.

One of our golden rules when choosing funds is to look for steady management. Unfortunately this fund underwent a recent fund manager change and it is far too soon to assess the impact of that change. Hence, we have removed our buy rating until we have met the new manager and assessed his capability. We maintain a watching brief.

Chelsea Rating: HOLD

F&C STEWARDSHIP INCOME

Ted Scott ran this fund with considerable skill for a number of years. He has since made way for Catherine Stanley – a manager who impressed us greatly. Catherine has over 17 years of investment experience and is head of the UK smaller companies team. She joined F&C from Framlington in in 2000, and took over the fund in June 2009..

However, despite some good stock calls, like many ethical funds performance has been disappointing over the last five years. While the fund has shown, in patches, that strict ethical guidelines do not mean forgoing the benefits of investing in shares – in the last year it has returned an impressive 15.1% – in the main the fund has not kept pace with its peers: over three years it has only returned 2% compared with a sector average of 13.1%. The strong performance of mining stocks has made it difficult for ethical funds to perform well. You do not need to part with your principles to get performance, but a heavy ethical screen makes it a far harder task, particularly when you are benchmarked against managers who can choose from the entire universe.

F&C have a large ethical team which spends much time engaging with companies. This team operates under the guidance of an independent Committee of Reference, which oversees the principles with which it invests. One to consider if you are an ethical investor with an income requirement.

Chelsea Rating: BUY

JUPITER EUROPEAN

Jupiter European manager Alex Darwall's use of clever stock-picking has allowed him to deliver outperformance in tough European markets. Darwall would admit there are some severe peripheral problems but the core of Europe remains very strong, and even in the trouble spots there are areas of opportunity. Darwall is very positive on Germany, and believes Europe's powerhouse will grow from strength to strength.

Overall, he believes European exports remain competitive thanks to a weak euro and that the industrial sector is very robust. Europe has a large and diverse stock market littered with fantastic companies, but Darwall sees growth as fragile and thus is looking at defensive areas such as pharmaceuticals.

Sometimes in portfolio investing, it is important to separate the company from the country and your portfolio from politics. I believe Europe is an overlooked area and Alex Darwall has done a very good job of navigating the choppy waters in what has been a difficult period. This fund has returned an impressive 65.8% over five years, while the peer group delivered a return of 21.5%.

Chelsea Rating: BUY

OLD MUTUAL UK SELECT MID-CAP

Once our favoured mid-cap fund, we put it on hold at the end of 2008 when star fund manager Ashton Bradbury handed over management of the fund to his former deputy Richard Watts (although Bradbury remains at the company and exerts some influence over the fund). Watts stuck with the existing process, seeking to capture capital growth from positions primarily in medium-sized UK companies, using a combination of top-down and bottom-up analysis. He currently maintains a bias towards stocks with strong overseas earnings.

Watts was handed a difficult challenge. 2009 was an astonishing year for mid-caps. Frustratingly, the fund underperformed the FTSE 250 index in 2009 as cyclical stocks rallied and their bias was towards quality stocks. However, Old Mutual do have a strong mid and small-cap team.

Since the beginning of his tenure he has returned 93.63%, while the FTSE 250 returned 120.31%. The fund retains its buy rating for the time being but we will keep a close eye on its progress.

Chelsea Rating: BUY

THE BENEFITS OF OUR FUND SUPERMARKET

Our fund supermarket, the Chelsea Portfolio, is administered by Cofunds, which is a separate, independent company. We strongly believe that holding all your investments on one platform is the best way to invest.

It's not just what we recommend to you, the staff at Chelsea Financial Services also invest via the Chelsea Portfolio. Once you have looked through the following advantages we think you'll agree that, whether you are starting out with £50/month into your first ISA or you have a large portfolio, using our fund supermarket is the easiest way to manage your investments.

HOW CAN I MOVE MY CURRENT HOLDINGS INTO THE CHELSEA PORTFOLIO FUND SUPERMARKET?

Re-registration is the process of consolidating all your investments under one umbrella. Administration is by Cofunds but your funds are managed in exactly the same way by each fund manager. There are no charges for re-registration and your funds are not sold, so you are never out of the market.

HOW DO I RE-REGISTER?

Please fill in the re-registration form on page 22 with details of all your holdings and return it to us. We will then send you completed forms which you merely need to sign and date. In most circumstances, the process will take approximately six weeks.

>MONTHLY INVESTING MADE EASY AND COST-EFFECTIVE: it attracts the same leading discounts as lump sum investing (often not the case outside the Chelsea Portfolio), with a minimum of just £50/month.

>LARGE FUND SELECTION: access to more than 1,600 funds from over 90 different providers.

>FUND REVIEW: we are now providing fund commentary on nearly 500 of the most popular funds within the Chelsea Portfolio.
If you hold any of these funds, our commentary, Chelsea Risk Rating (from 1 to 10) and the buy/hold/switch rating will be enclosed with your statement. If you register on our website you can read every individual review of the top 500 funds.

>LESS PAPERWORK: you receive one statement, every six months, detailing all your investments during that period. **Investments outside an ISA will receive a consolidated tax voucher in June each year.**

>CASH RESERVE: Our supermarket offers a temporary Cash Reserve facility (currently paying 0.1% interest, 0.4% below the Bank of England base rate) for ISAs. Whilst the interest rate is currently low, this is a valuable facility which allows you to switch in and out of cash without losing your ISA status. It is also free to switch to cash.

>FANTASTIC DISCOUNTS: we are able to offer at least the same discount as if you were investing via ourselves with a single provider and in some cases the discount is greater.

>ONLINE ACCESS: you are now able to manage your portfolio online: you can buy, switch, top up and check valuations and transaction histories. **Just go to www.chelseafs.co.uk to register.**

>TELEPHONE DEALING SIMPLY CALL 020 7384 7300: we can now offer telephone dealing for purchases within the Chelsea Portfolio.
You will need to have a valid debit card.

>CHEAP SWITCHING CHARGES: all fund switches are charged at a maximum of creation/NAV + 0.25%. Switches into the Cash Reserve are free. Switches can be conducted quickly and easily online or via post.

>INCOME REINVESTED FOR FREE: all income and dividends can be either paid out or reinvested for **free**. Many fund managers **charge** for this service **outside the supermarket**. This can make a big difference over time, especially on income funds.

>INDEPENDENCE: unlike its closest rival, our fund supermarket is independent, with six major shareholders – Jupiter, Legal & General, Newhouse Capital, Prudential, Threadneedle and IFDS.

>NO ADDED COSTS VIA THE CHELSEA PORTFOLIO: for re-registration and no double charging.

>ANNUAL ISA ALLOWANCE: can be invested across different funds and fund providers in the same tax year, giving you more choice and enabling you to spread the risk of your investments.

>SIPP/PENSION: you can now manage your pension as you do your ISA on the same platform. See page 37 for further details.

>CASH ACCOUNT: for those looking to switch non-ISA monies into cash, currently paying 0.1% (0.4% below the Bank of England base rate). Please note, the only way to switch into the Cash Account is via postal applications or over the telephone.

>IS THERE A DOWNSIDE? You will not receive the annual reports for the underlying funds (though these are available free of charge on our website) and income payment dates will vary slightly from those of the underlying fund providers.

Re-registration:
Getting it together

Life is so much easier with all your investments in one place: no more endless pieces of paper from different fund providers; no more time-consuming transfers and no more having to stick to one provider per tax year.

One major advantage is our online valuation service. We know from speaking to many of you that using websites can be daunting. However, we have done everything we can to make our website as user-friendly as possible. All you need to do is to register on our home page and, once enabled, you can buy, switch or top-up your investments or simply look up their current value. We thought that you might like to take a look at a snapshot of our website (see right) and what your portfolio might look like.

Chelsea Portfolio investors' experience

More and more of our clients are re-registering their investments to the Chelsea Portfolio. Here are some of our investors' experiences of investing within the Chelsea Portfolio:

Ben Davis from Swansea:

"I had investments with 9 different fund managers and was worried that my family would have trouble tracking down the investments upon my death. I decided to re-register my investments to Cofunds and have the peace of mind that they are now held in one place.

These investments can now be moved into my wife's name easily and I know that she with have the helpful assistance of the Chelsea Financial team."

Mr D Farr from Wimbledon

"Excellent range of products, combined with great service and a very user-friendly investment platform."

Robert and Margaret Lloyd from London:

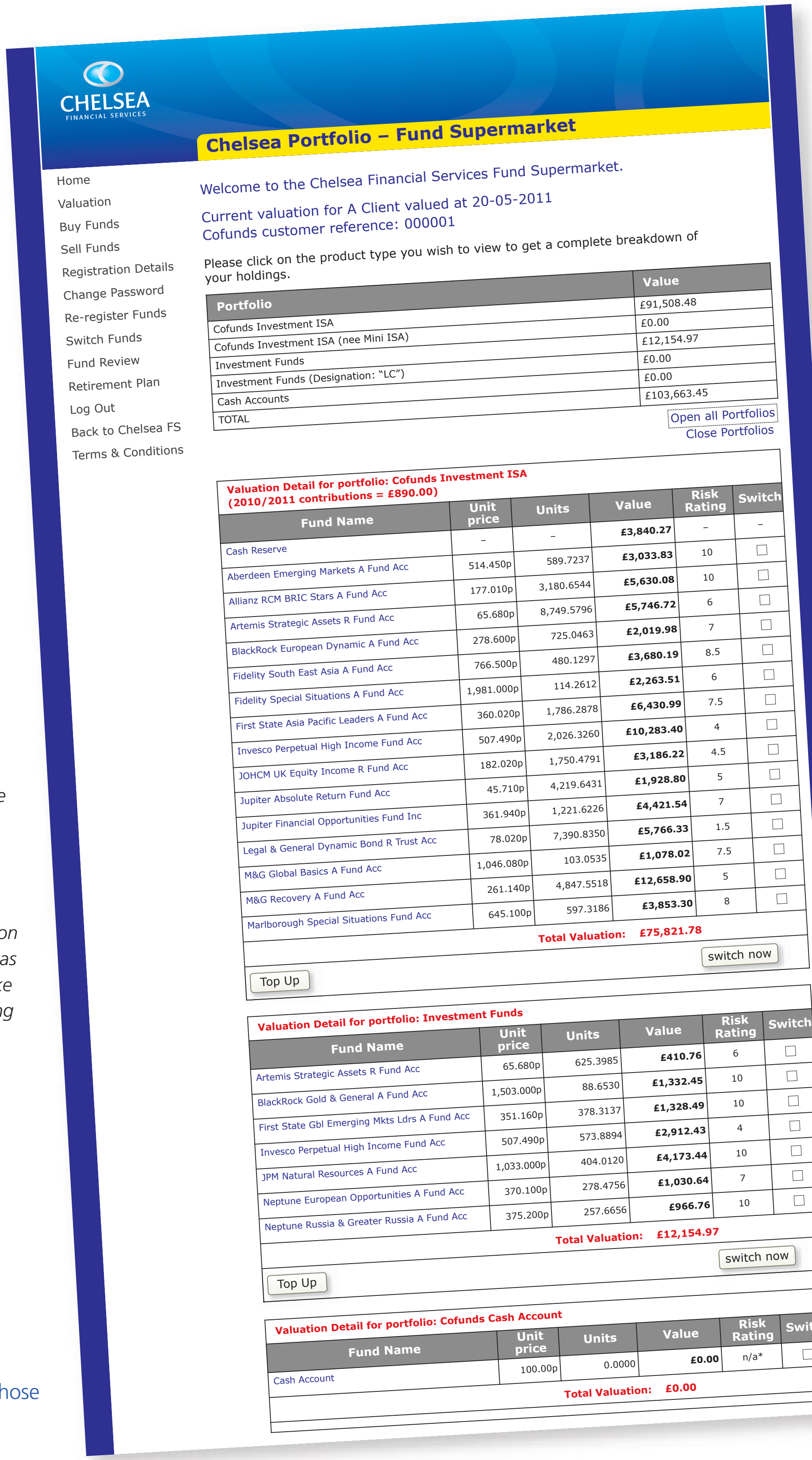
"Just a note to say how much we both appreciate the excellent support you have provided us with in connection with our Cofunds ISA accounts. Your customer service has always been excellent in every respect, and we would like you to know how important that is to us, as well as being extremely rare in today's world!"

Mr K Bolton from Derbyshire

"I've been with Chelsea for 20-25 years – I've saved a considerable amount and always found the service to be excellent."

Mr DR Chandler from Bromley

"I like you. And I'm very fussy."



CHELSEA FINANCIAL SERVICES

Chelsea Portfolio – Fund Supermarket

Home
Valuation
Buy Funds
Sell Funds
Registration Details
Change Password
Re-register Funds
Switch Funds
Fund Review
Retirement Plan
Log Out
Back to Chelsea FS
Terms & Conditions

Welcome to the Chelsea Financial Services Fund Supermarket.

Current valuation for A Client valued at 20-05-2011
Cofunds customer reference: 000001

Please click on the product type you wish to view to get a complete breakdown of your holdings.

Portfolio	Value
Cofunds Investment ISA	£91,508.48
Cofunds Investment ISA (nee Mini ISA)	£0.00
Investment Funds	£12,154.97
Investment Funds (Designation: "LC")	£0.00
Cash Accounts	£0.00
TOTAL	£103,663.45

Open all Portfolios
Close Portfolios

Valuation Detail for portfolio: Cofunds Investment ISA (2010/2011 contributions = £890.00)

Fund Name	Unit price	Units	Value	Risk Rating	Switch
Cash Reserve	–	–	**£3,840.27**	–	–
Aberdeen Emerging Markets A Fund Acc	514.450p	589.7237	**£3,033.83**	10	☐
Allianz RCM BRIC Stars A Fund Acc	177.010p	3,180.6544	**£5,630.08**	10	☐
Artemis Strategic Assets R Fund Acc	65.680p	8,749.5796	**£5,746.72**	6	☐
BlackRock European Dynamic A Fund Acc	278.600p	725.0463	**£2,019.98**	7	☐
Fidelity South East Asia A Fund Acc	766.500p	480.1297	**£3,680.19**	8.5	☐
Fidelity Special Situations A Fund Acc	1,981.000p	114.2612	**£2,263.51**	6	☐
First State Asia Pacific Leaders A Fund Acc	360.020p	1,786.2878	**£6,430.99**	7.5	☐
Invesco Perpetual High Income Fund Acc	507.490p	2,026.3260	**£10,283.40**	4	☐
JOHCM UK Equity Income R Fund Acc	182.020p	1,750.4791	**£3,186.22**	4.5	☐
Jupiter Absolute Return Fund Acc	45.710p	4,219.6431	**£1,928.80**	5	☐
Jupiter Financial Opportunities Fund Inc	361.940p	1,221.6226	**£4,421.54**	7	☐
Legal & General Dynamic Bond R Trust Acc	78.020p	7,390.8350	**£5,766.33**	1.5	☐
M&G Global Basics A Fund Acc	1,046.080p	103.0535	**£1,078.02**	7.5	☐
M&G Recovery A Fund Acc	261.140p	4,847.5518	**£12,658.90**	5	☐
Marlborough Special Situations Fund Acc	645.100p	597.3186	**£3,853.30**	8	☐

Total Valuation: £75,821.78

switch now

Top Up

Valuation Detail for portfolio: Investment Funds

Fund Name	Unit price	Units	Value	Risk Rating	Switch
Artemis Strategic Assets R Fund Acc	65.680p	625.3985	**£410.76**	6	☐
BlackRock Gold & General A Fund Acc	1,503.000p	88.6530	**£1,332.45**	10	☐
First State Gbl Emerging Mkts Ldrs A Fund Acc	351.160p	378.3137	**£1,328.49**	10	☐
Invesco Perpetual High Income Fund Acc	507.490p	573.8894	**£2,912.43**	4	☐
JPM Natural Resources A Fund Acc	1,033.000p	404.0120	**£4,173.44**	10	☐
Neptune European Opportunities A Fund Acc	370.100p	278.4756	**£1,030.64**	7	☐
Neptune Russia & Greater Russia A Fund Acc	375.200p	257.6656	**£966.76**	10	☐

Total Valuation: £12,154.97

switch now

Top Up

Valuation Detail for portfolio: Cofunds Cash Account

Fund Name	Unit price	Units	Value	Risk Rating	Swit
Cash Account	100.00p	0.0000	**£0.00**	n/a*	☐

Total Valuation: £0.00

This is a genuine valuation for one of our clients, whose name has been removed to protect their identity.

Consolidate your portfolio

CHELSEA

Re-registration Form

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 Financial Services. 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.

CFSFLF 08.03

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.

The Chelsea Portfolio, in association with cofunds

Investment ISA (stocks and shares) 2011/2012 Tax Year

The disclosure documentation applicable to this transaction is: 0 2 1 0

This application form is used to subscribe to a stocks and shares ISA with Cofunds. By completing this application, you agree to subscribing to a 2011/2012 tax year stocks and shares ISA and each subsequent year until further notice. You are not obliged to invest in subsequent tax years unless you choose to do so.

The ISA allowance for all investors is £10,680 for the 2011/2012 tax year.

You will require a Cofunds authorisation code before being able to transact business. If you do not include this we will not be able to process this application. Please note our system will be updated to link the client to this Intermediary Authorisation Code.

Cofunds Intermediary Authorisation Code 7 7 | Intermediary Client/Deal Ref. VP29 | % Initial Commission Waived 100%

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

1 Personal Details (Please complete this section in full)

Existing Cofunds Client Reference

Did you receive advice from an adviser in relation to this investment?
If you do not answer this question we will assume you received advice.

☐ Advised ☑ Not Advised

Mr/Mrs/Ms/Miss/Other

Surname

Full First Name(s)

Email Address

Daytime Tel No.

Male ☐ Female ☐ Date of birth __ __ / __ __ / __ __ __ __ (D D M M Y Y Y Y)

National Insurance Number __ __ / __ __ / __ __ / __ __ / __

You should be able to find your NI number on a payslip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book.

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

Current Permanent Residential Address

Postcode

Time at this Address yrs mths

If at current address for less than 2 years, please supply previous address and time there

Postcode

Time at this Address yrs mths

If more than one previous address in the last 2 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 Investment Selection

Your total ISA subscription for each tax year must not exceed your ISA allowance. For details refer to the Key Features of the Cofunds Platform on pages 42-55.

I wish to invest in the Chelsea Easy ISA (please choose one of the portfolios below). **See pages 6 & 7 for details.**

Minimum Portfolio investment lump sum £2,100; Minimum regular savings £150 per month.

		Lump Sum Min portfolio investment £2,100	Monthly Min investment £150 per month
Either	Cautious Growth Easy ISA	£	£
Or	Balanced Growth Easy ISA	£	£
Or	Aggressive Growth Easy ISA	£	£
Or	Income Easy ISA (please complete income payment above)	£	£

Or select your own funds and complete this section overleaf:

I wish to invest in the funds indicated (for further details of the funds available, please refer to the Fund Key Features). Please ensure the funds are available through Cofunds. 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.

Your investment will be made in the Retail Share Class.

Fund Manager and Fund Name	Type of Unit/Share *(delete as appropriate)**	Lump Sum *(minimum £500 per fund)*	Monthly amount per fund *(minimum £50 per fund)*
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
	ACC/INC	£	£
Cash Reserve (if required)†		£	£
TOTAL INVESTMENT AMOUNT		**£**	**£**

***ACC/INC** If you do not specify ACC or INC in this column, and have not completed section 3, Cofunds will invest into accumulation units/shares where available.

†Monies may be held for short periods in the Cash Reserve. Such holdings are deemed 'destined for investment'.

Your cheque payment Cheques must either be drawn on your own or your 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. We do not accept payments from other third parties. We do not accept payment by any other method.

Your 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.

3 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. 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

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

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 or future investment.

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.

5 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 and ordinarily 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 and ordinarily 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 been provided with the Terms & Conditions of the Cofunds Platform and by signing this application form I agree to be bound by them.
- I understand that the Terms & Conditions of the Cofunds Platform 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 form my customer agreement with Cofunds Ltd.
- 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.

Signature X Date

Data Protection
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 Adviser.

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 provide your email address and telephone number on this form, Chelsea will keep a record of it. Chelsea may use it to contact you 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 client services department on 020 7384 7300.

If you require a fund prospectus, please contact your adviser 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.

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

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.

We will apply a £20 administration charge per fund for each request to attend/vote at unit holder and shareholder meetings, and for each request to receive paper copies.

6 Completed Application Forms Check List

Completed Application Forms should be returned to: Chelsea Financial Services PLC, St. James' Hall, Moore Park Road, London SW6 2JS.

Have you:

- Completed your National Insurance number?
- Completed your date of birth? (This will be necessary to validate your Plan)
- Completed the investment selection section?
- Completed the Direct Debit mandate if saving monthly?
- Completed your Bank/Building Society details if you have chosen to receive income payments?
- Enclosed your personal cheque(s) made payable to Cofunds Limited if investing a lump sum? – for full details of acceptable forms of payment please refer to the Cofunds Key Features.
- Signed the declaration?

Investment by Direct Debit for Monthly Savers

Instruction to your Bank or Building Society to pay Direct Debits
Please fill in the whole form and send it to: Chelsea Financial Services PLC, St James' Hall, Moore Park Road, London SW6 2JS.

DIRECT Debit

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)

Branch Sort Code

Bank/Building Society Account Number

Reference Number (office use only)

Originator's Identification No. (office use only)

6	0	0	2	6	7

Signature X Date

Instruction to your Bank or Building Society

Please pay Cofunds Limited Direct Debits from the account detailed on 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, will be passed on electronically to my Bank/Building Society. Banks and Building Societies may not accept Direct Debit instructions for some types of account.

Issued and approved by Cofunds Limited, 1st Floor, 1 Minster Court, Mincing Lane, London EC3R 7AA.
Registered in England and Wales No. 3965289. Authorised and regulated by the Financial Services Authority (FSA) under FSA Registration No. 194734.
CA07_2011/2012_Non CVI 05/11

The Chelsea Portfolio, in association with cofunds

Investment ISA (stocks and shares) Transfer Application

The disclosure documentation applicable to this transaction is: 0 2 1 0

The ISA allowance for all investors is £10,680 for the 2011/2012 tax year.

Please complete this Application Form using black ink and BLOCK CAPITALS and return to: Chelsea Financial Services PLC, St James' Hall, Moore Park Road, London SW6 2JS
You will require a Cofunds authorisation code before being able to transact business. If you do not include this we will not be able to process this application.

Cofunds Intermediary Authorisation Code 7 7 | Intermediary Client/Deal Ref. **VP29** | % Initial Commission Waived **100%**

1 Personal Details (Please complete this section in full)

Existing Cofunds Client Reference

Did you receive advice from an adviser in relation to this investment?
If you do not answer this question we will assume you received advice.

☐ Advised ☑ Not Advised

Mr/Mrs/Ms/Miss/Other

Surname

Full First Name(s)

Daytime Tel No.

Email

Male ☐ Female ☐ Date of birth __ __ / __ __ / __ __ __ __
D D M M Y Y Y Y

National Insurance Number __ __ / __ __ / __ __ / __ __ / __

You should be able to find your NI number on a payslip, form P45 or P60, a letter from the HM Revenue & Customs, a letter from the DWP, or pension order book.

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

Current Permanent Residential Address

Postcode

Time at this Address yrs mths

If at current address for less than 2 years, please supply previous address and time there

Postcode

Time at this Address yrs mths

If more than one previous address in the last 2 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 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. 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

3 Income

Complete this section if you have requested income units/shares ('INC'). The option you choose will be applied to all income units/shares on this application.
Note: If you are taking regular withdrawals from your cash account you may only select the 'Cofunds Cash Account' or 'Retain in the fund' options.

☐ **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 or future investment.

☐ **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.

4 Declaration and Authorisation

I declare that:

- All investment subscriptions made now and in the future belong to me. (Delete if you will not be subscribing to this ISA).
- 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. (Delete if you will not be subscribing to this 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 and ordinarily 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 and ordinarily resident or to perform such duties, or be married to or in a civil partnership with a person who performs such duties. (Delete if you will not be subscribing to this ISA).

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 been provided with the Terms & Conditions of the Cofunds Platform and by signing this application form I agree to be bound by them.
- I understand that the Terms & Conditions of the Cofunds Platform 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 form my customer agreement with Cofunds Ltd.
- 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.

Signature X Date

Data Protection

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 Adviser.
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 adviser 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 report and accounts, please tick this box ☐

To receive report and accounts or attend/vote at unit holder or shareholder meetings, these services are subject to a charge of £20.00 per communication. However, report and accounts can be obtained free of charge from the Cofunds website at www.cofunds.co.uk.

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 Client reference

Please complete all details requested

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

Address

Postcode

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.

Mr/Mrs/Ms/Miss/Other

Surname

Full First Name(s)

Signature X

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.

Fund Manager and Fund Name	A/C or Plan Nos. (*This must be completed*)	Type of Unit/Share (*delete as appropriate*)*	Please tick if this fund is part of your current year subscription (✓)
		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. If you have chosen income units/shares, please ensure you complete section 3 of the Investment ISA (stocks and shares) Transfer Application to have income paid to you.

2 Funds that you wish to SELL (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 Manager and Fund Name	A/C or Plan Nos. (*This must be completed*)	Please tick if this fund is part of your current year subscription (✓)

3 Cash ISA Transfer

If applicable, please indicate either of the following to be transferred into your Cofunds stocks and shares 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 Easy ISA (please tick one of the portfolios below). Minimum Transfer of £2,100. See pages 6 & 7 of Chelsea Viewpoint for details.

Existing Cofunds Client ref

	(✓)
Cautious Growth Easy ISA	
Balanced Growth Easy ISA	
Aggressive Growth Easy ISA	
Income Easy ISA (please complete income payment overleaf)	

Or select your own funds and complete this section below:

Fund Manager and 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 2 and, if applicable, Section 3 of the Transfer Application form, Cofunds will invest into accumulation units/shares where available.

† Monies may be held for short periods in the Cash Reserve. Such holdings are deemed 'destined for investment'.

CO 407/CFS002 05/10

The Chelsea Portfolio, in association with cofunds

Investment Funds Application

The disclosure documentation applicable to this transaction is: 0 2 1 0

Please complete this Application Form using black ink in BLOCK CAPITALS and return to: Chelsea Financial Services PLC, St James' Hall, Moore Park Road, London SW6 2JS
You will require a Cofunds authorisation code before being able to transact business. If you do not include this we will not be able to process this application.

Cofunds Intermediary Authorisation Code 7 7 Intermediary Client/Deal Ref. **VP29**

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

Private/Corporate Investor(s) 'Primary' Holder. *Please see section 4 to add additional holders.*

Existing Cofunds Client Reference

Did you receive advice from an adviser in relation to this investment?
If you do not answer this question we will assume you received advice.

☐ Advised ✓ Not Advised

Mr/Mrs/Ms/Miss/Other

Surname

Full First Name(s)

or Company Name

Email Address

Daytime Tel No.

Male ☐ Female ☐ Date of Birth __ __ / __ __ / __ __ __ __
D D M M Y Y Y Y

For corporate investors please ensure you have completed all the signatory requirements in Section 9.

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 2 years, please supply previous address and time there

Postcode

Time at this Address yrs mths

If more than one previous address in the last 2 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 Designations (You can designate an account here using a maximum of 8 alpha/numeric 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 cash account.

3 Joint Holder (You can nominate one additional holder)

Please include the full name and address of each holder. All correspondence will be sent to 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 yrs mths

Male ☐ Female ☐ Date of Birth __ __ / __ __ / __ __ __ __
D D M M Y Y Y Y

If at current address for less than 2 years, please supply previous address and time there

Postcode

Time at this Address yrs mths

If more than one previous address in the last 2 years, please provide full details including the time at each address on a separate sheet of paper and staple securely to this application form.

4 Funding your investment

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

☐ **Cheque** £ . Amount

☐ **Cofunds Cash Account** £ . Amount

Please ensure that all the joint holders and the designation (if specified) on this application form match this cash account.

☐ **Monthly Direct Debit** (please ensure you complete the 'Investment by Direct Debit for Monthly Savers' on page 2).

5 Nominated Bank Account

Complete this section if you have not provided us with your nominated bank account details. 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

6 Income

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

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

☐ **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 or future investment.

☐ **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.

7 Investment Selection (Please refer to My Trading Terms and complete in full)

Minimum investment £1,000 per fund (Lump Sum) or £100 per month per fund (Monthly savings). Your investment will be made in the Retail Class. For details of Funds available, please refer to the Fund Key Features. Please ensure the funds are available through Cofunds.

Fund Manager and Fund Name	Type of Unit/Share *(delete as appropriate)**	Lump Sum Minimum £500 per fund	Monthly Minimum £50 per fund	Commission** WAIVE: All (✓)	or Specific Amount	OR TAKE: Specific Amount
	ACC/INC	£	£		%	
	ACC/INC	£	£		%	
	ACC/INC	£	£		%	
	ACC/INC	£	£		%	%
	ACC/INC	£	£		%	
	ACC/INC	£	£		%	
	ACC/INC	£	£		%	
TOTAL INVESTMENT AMOUNT		£	£			

***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.

****Commission** The initial commission available depends on the fund selected. Please refer to My Trading Terms for details of rates and funds available through Cofunds. Please state the amount of commission you wish to waive or the percentage of commission you wish to take. You can only choose one option. Commission waivers should be entered for each fund. Please note, if you wish to waive all commission please tick the 'ALL' box. Please specify a particular percentage amount in the last column. If you choose to take commission it must be for all of the investments, as a specific percentage. Any entries, other than those detailed above, will result in investments being made at your default commission terms.

†Monies may be held for short periods in the Cash Reserve. Such holdings are deemed 'destined for investment'.

Your cheque payment Cheques must either be drawn on your own or your 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. We do not accept payments from other third parties. We do not accept payment by any other method.

Your 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.

8 Declaration and Authorisation

I/We confirm that:

I/We have been provided with the Terms & Conditions of the Cofunds Platform and by signing this application form I/We agree to be bound by them.

I/We understand that the Terms & Conditions of the Cofunds Platform are the standard terms upon which Cofunds intends to rely, and it is important that I/We read and understand the terms before agreeing to be bound by them. If there is any term or point I/We do not understand or do not wish to be bound by, I/We understand that I/We can request further information before signing this application.

I/We understand that my signed application form (once accepted by Cofunds) together with the Terms & Conditions of the Cofunds Platform form my/our customer agreement with Cofunds Ltd.

I/We 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/our identity. To do so, the reference agency may check the details I/we supply against any particulars on any database (public or otherwise) to which they have access. They may also use my/our details in the future to assist other companies for verification purposes. A record of the search will be retained as an identity search.

I/We declare that the information contained in this application form is correct to the best of my/our knowledge and belief.

I am/We are aged 18 or over.

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 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 Adviser.

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 adviser or Fund Manager directly.

Primary Holder Signature X	Date	Second Holder Signature	Date
Capacity (if applicable)		Capacity (if applicable)	

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

Issued and approved by Cofunds Limited, 1st Floor, 1 Minster Court, Mincing Lane, London EC3R 7AA. Registered in England and Wales No. 3965289.
Authorised and regulated by the Financial Services Authority (FSA) under FSA Registration No. 194734. CA03 02/11

Investment by Direct Debit

cofunds

Instruction to your Bank or Building Society to pay Direct Debits

DIRECT Debit

Please fill in the whole form and send it to:
Cofunds Limited, PO Box 1103, Chelmsford CM99 2XY.

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

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

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

DIRECT Debit

- 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 5 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.

China today

China is frequently featured in the press, with concerns often raised about high inflation rates and a potential property bubble. Here we ask James Chong, manager of Martin Currie China, to address these issues and highlight the opportunities for investors in this market.

JAMES CHONG
Fund Manager,
Martin Currie China

What's your background?

I was born in Shanghai, but moved to Hong Kong when I was a child, I therefore speak both Mandarin and Cantonese. After studying in the UK, I worked as an accountant with PriceWaterhouse Coopers before beginning my investment career as a China analyst. I joined Martin Currie in 2006.

There's been a lot of talk about a 'China bubble'. In particular, there's been a great deal of concern about the property market and the policies targeted at it.

With property prices in China's major cities still stubbornly high, policy-tightening is likely to persist for the foreseeable future. But while that may pose problems for real estate firms (and their share prices), it does nothing to diminish the spectacular long-term opportunities thrown up by the far-reaching change that China will undergo in the years ahead.

We tend to forget that most of China's population – more than 700 million people – still lives in rural areas, not in the gleaming metropolises where property prices are soaring. For these people, the 'real' China is much as it has been for centuries – rice paddies and wheat fields, livestock and a lifetime of toil on the farm. But the latest five-year plan has reaffirmed the government's determination to shift huge sections of the population from China's rural heartland to new towns, cities and suburbs. The scale of this shift is simply staggering. In the next five years, the authorities plan to build an additional 36 million units of public housing. Over the same period, they are seeking to create some 45 million new jobs in urban areas.

And that's just the start. By 2025, the Chinese authorities aim to have increased the urban proportion of China's population from 45% to 70% – equivalent to moving the entire population of the US from the countryside to the cities.

So what is the opportunity for investors here?

The immediate beneficiaries will be construction and infrastructure companies. In the longer term, though, growing urbanisation means growing aspirations. As more and more of China's population adopts city living, so living standards will rise. And with higher living standards comes a taste for luxury. High-end retailers and producers of luxury goods will enjoy vast new markets as millions of people find themselves with higher earnings.

What other opportunities are you seeing now?

E-commerce is a sector with huge potential, as it provides a low-cost means of penetrating China's more remote cities and towns. But we see the best opportunities not in the companies that are flocking to sell their products online but in the internet portals and advertisers that are benefiting from this shift. Firms are spending so much on promoting e-commerce that the real winners, for now, are the companies paid to do that promotion: firms like Sina, which owns China's answer to Twitter, and Focus Media, a digital-advertising specialist.

We also favour companies that are producing increasingly sophisticated products and services. Chinese manufacturers are now taking an ever-greater market share from importers and are able to produce components used in advanced industries such as high-speed rail.

MARTIN CURRIE CHINA

- Launched March 2010
- All-cap, growth-oriented fund
- Strong emphasis on research and management meetings (over 1,000 each year)
- Has returned 13.6% since launch compared with a sector average of 5.6%
- 60 holdings; the largest sector weightings are currently in IT and industrials

When do you see a good entry point for investors?

The biggest worry for both foreign and domestic investors in China has been inflation. Food prices have been rising sharply. In response, the authorities have raised interest rates three times this year and have tightened the banks' reserve requirements to record levels. But inflation should peak soon; already, food prices are showing some signs of softening. So policy risk should ease substantially, with a consequent improvement in sentiment. Investors would do well to buy into China before that improved sentiment becomes the consensus.

How do you approach the Chinese market?

We are bottom-up stockpickers. Our large team of Shanghai-based analysts, all of whom speak Mandarin, enables us to take a very labour-intensive approach to research. We also look at China in its global context; in our Edinburgh office, I hold regular discussions with members of Martin Currie's Asia, Emerging Markets and Global teams. This allows us to combine fundamental research at the company level, with an awareness of the changes resulting from China's growing global prominence.

Chelsea View

Martin Currie have been active in China since 1994 so have considerable local knowledge fuelled by a strong team of China specialists based in Shanghai. The fund is well-placed to invest in companies that will benefit from the ongoing urbanisation of China's population.

Chelsea Risk Rating: 10

Standard initial charge: 5%
ISA initial charge after discount: 0%
Annual management charge: 1.5%

Developed markets

Many investors have been eschewing developed markets for several years now. We were shocked to realise that our investors have on average less than 3% invested in the US, the world's largest economy. But then emerging markets offer greater growth so why bother with the US and Europe? Well it might surprise you to learn that, over the last year, investing in Europe has given you a return of almost four times as much as China, with the US giving you a return of almost one and a half times that of China. Furthermore, investment in these economies gives important diversification within a portfolio. So, firstly we have invited Legg Mason US Smaller Companies' manager Lauren Romeo to discuss why the US is not to be ignored. Then Chris Rice, manager of Cazenove European, explains that there is much more to Europe than headline-grabbing debt bailouts.

LAUREN ROMEO
Fund Manager,
Legg Mason
US Smalller Companies

Legg Mason US Smaller Companies

In the giddy excitement about China's progress in recent years, it has been easy to forget that the US remains the largest and most flexible economy in the world. Not only are US companies among the key beneficiaries of the growth in emerging markets, they also have some significant advantages in their own right.

Whatever the view on the growth outlook for the domestic US economy, it is clear many US companies are making hay from the growth in emerging markets. Emerging markets are seeking out US technical know-how and products, while US industrial companies are deriving anything up to 50% of their revenues from outside the US. The same is true for technology companies, which is a key sector in the Legg Mason US Smaller Companies fund. As developing economies industrialise, the disposable income of their citizens increases and with it their demand for consumer electronics. Natural resource companies have been among the most obvious beneficiaries of the growth in emerging markets and many companies domiciled in the US have been participants of this trend.

But many of these companies also have drivers from within the US. In technology, for example, corporations deferred critical spending projects as earnings declined during the recession but will now have to play catch up. This pent-up demand is already being seen in technology companies' earnings figures for the final quarter of 2010 and first quarter of this year.

Quantitative easing in the US may be due to end in June, but its effects are still boosting economic numbers and corporate earnings. Like many others, we are concerned that the long-term effect will be inflationary, but holding real assets should be a good hedge against that and is part of the rationale for the high weighting in industrials and resources across our funds.

Companies in the US are also starting to put their chunky cash balances to work, which should be supportive for markets. For example, merger and acquisition activity is picking up strongly. In the first quarter of 2011, deal volume in the US was double that of the previous year, according to data from Reuters. Dividends are also expected to grow.

LEGG MASON US SMALLER COMPANIES

- Lauren Romeo has worked on Legg Mason US Smaller Companies since its inception in 2004
- Outsourced to Royce & Associates, Legg Mason's dedicated smaller companies specialist with almost 40 years experience investing in high quality smaller companies
- The fund has delivered an 11.7% annualised return since inception (as at 31st March 2011)
- S&P 'AA' rated and OBSR 'AA' Rated

A wealth of opportunities

The US market is the most sophisticated in the world and offers a wealth of choice. The US stock exchange has more than double the number of companies listed on its nearest rival (London). There are types of company that are simply not available anywhere else. Again, the technology sector is a good example of this.

US smaller companies have established themselves as an asset class in their own right, outperforming all major developed equity markets in 2010. Indeed they now represent a $1.5 trillion market with around 2,000 businesses from which to select. There is a misperception that smaller companies are more domestic in nature – many are global leaders in their own right. Around 20% of the revenues of Russell 2000 companies come from overseas, but we have around double that in our portfolio.

Investors neglect the US at their peril. It still leads the world in many areas and it is in smaller companies where much of that talent is showcased. V

Chelsea View

We like the highly experienced team who specialise in US smaller companies. Their contrarian approach to stock-picking means they have a concentrated portfolio of 'out-of-favour' stocks which should generate good returns over the long term.

Chelsea Risk Rating: 8.5

Standard initial charge: 4.25%
ISA initial charge after discount: 0%
Annual management charge: 1.5%

...dead and buried?

CHRIS RICE
Fund Manager,
Cazenove European

Cazenove European

Taken as a whole, Europe represents the largest economy in the world and, owing to the diverse nature of its constituent economies, continues to be a unique area in which to invest. It was thought that the introduction of the single currency would bring greater dynamism and harmony, but while there have been successes associated with the euro, the recent crisis has laid bare its limitation, namely that a successful currency union is impossible without a fiscal one.

The current disparity in economic performance between a booming Germany and a hobbled periphery highlights the crisis in confidence in the euro project the market has reflected over the last two years. In the past, Greece and Ireland would have devalued their currencies to re-establish lost competitiveness, but no more. So just why should one consider investing in Europe?

Peripheral European sovereign debt continues to make the headlines. Whilst one cannot ignore the issue, it is important to consider it in relation to Europe as a whole. Indeed, those nations that have caused most concern recently (Portugal and Greece) each form less than 1% of the FTSE Europe ex UK Index. At the other end of the scale France, Germany and Switzerland combined form over 50% of the index.

I am a pragmatic business cycle investor. Whilst understanding the specific dynamics of a company and its market position is crucial, it is also essential to recognise that companies do not operate in a vacuum – their profits and valuations are heavily influenced by the ebb and flow of the business cycle. I think that at this stage developed markets offer more opportunities than emerging markets. Within emerging markets there is a trade off between strong growth and inflation. Inflation has been driving part of that growth and has reached an unfavourable tipping point where inflation is accelerating beyond the point at which growth can be kept under control. Emerging markets must now tighten monetary policy. The West, however, is at a much slower rate of growth and much earlier in the business cycle.

Within Europe, large-cap businesses with good balance sheets (pharmaceuticals, insurance, and some utilities and telecommunications companies) are trading at very attractive valuations. Valuation is important within Europe but, more importantly, those valuations are not under pressure. Therefore the acceleration of inflation is good for growth.

CAZENOVE EUROPEAN

- Chris adopts a pragmatic, business cycle approach to investing which has led to outperformance against the sector and FTSE Europe ex UK Index since taking over in December 2002*
- 74 stocks with no sector or geographical constraints
- 'AA' rated by OBSR
- Has returned 44.86% over the last 5 years compared with the sector average of 29.41%**

*Source: Lipper, net income reinvested 18/12/02 to 30/04/11.
** Source: Financial Express Analytics 23/5/11.

European markets can generate more growth than they have done up to now as valuations can move up with expectations for growth. Indeed they could, in some cases, expand them as southern European economies face austerity measures and a little inflation, for them, is good news.

Monetary policy is still too loose in both the West and the East. Inflationary pressures are therefore likely to increase. Headline inflation, dominated by the rising cost of food and oil will increase: however there will be 'second round' inflation as these core costs feed through. This will feed wage inflation – a problem in the East as it is currently running at double digit levels. In the West, however, wage inflation is around 2% and needs to move up to give the consumer more purchasing power – something that is required in order to see sustainable economic growth.

Chelsea View

We like Cazenove's approach which gives individual managers real freedom. Chris Rice's willingness to back up his macroeconomic views with considerable sector positions has led to solid outperformance over the long term.

Chelsea Risk Rating: 6

Standard initial charge: 5%
ISA initial charge after discount: 0%
Annual management charge: 1.5%

Finding the energy

JOHN DODD
Fund Manager,
Artemis Global Energy

At a time when the price of oil is continuing to rise and demand for energy is ever-increasing, John Dodd talks to us about his newly-launched Artemis Global Energy fund which invests in companies that benefit from this global need.

Not least from sovereign debt, uncertainties abound. So it is some bitter-sweet comfort to realise that one thing will not change: global demand for energy will go on rising.

Estimates vary, of course, but demand is forecast to rise by 45% between now and 2035. As the chart below shows, this demand is as varied – nuclear, renewables, gas, coal, oil – as it is vigorous. And yet there are 1.4 billion people in the world today without access to electricity, some 85% of them in rural areas.* So clearly, there is ample scope for growth.

Meanwhile, observers note a persistently high level of spending on energy imports by many countries. Total spending on oil and gas imports will more than double from $1.2 trillion in 2010 to $2.6 trillion in 2035.* The United States will be overtaken by China around 2025 as the world's biggest spender on oil imports, and India will overtake Japan around 2020 as the world's third-largest spender.*

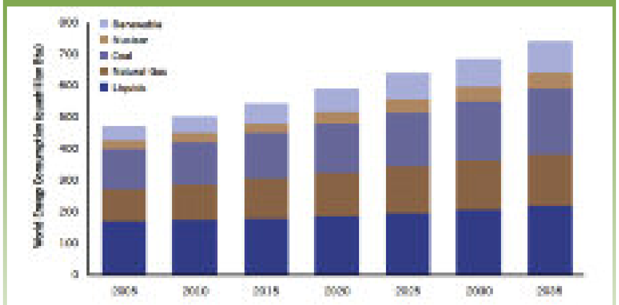
At the same time, there is a paradox: global energy intensity – the amount of energy needed to generate each unit of GDP – has fallen steadily over the last several decades. This is because of several factors including improvements in energy efficiency, fuel switching and structural changes in the global economy away from energy-intensive industries.

ARTEMIS GLOBAL ENERGY

- Invests in around 30 stocks in the Oil & Gas sector, energy transmission & generation and renewables
- Globally unconstrained with a mid-cap bias
- Launched 11th April 2011
- Managed by John Dodd who has specialised in the energy sector throughout his career, with support from Gas & Oil consultant Richard Hulf with whom he has worked for six years

The implications for global energy consumption and environmental pollution have been significant: if no improvements in energy intensity had been made between 1980 and 2008, global energy consumption would be 32% higher today, roughly equivalent to the combined current consumption of the United States and the European Union.*

THE CASE FOR ENERGY: WORLD CONSUMPTION



*Source: Energy Information Administration (EIA)

But what does all this mean for investors?

Aren't these opportunities and facts 'in the price' already? Critically, we believe that the investment case for energy isn't cyclical, but secular. Demand for energy is becoming increasingly insensitive to price. And as Western economies look increasingly towards renewables for their energy generation and Eastern nations continue to focus on petrochemicals, the energy sector grows ever more multi-faceted.

For investors, this all means one thing: opportunity. But which stocks, and in which sectors?

In keeping with our 'high conviction' approach, the Artemis Global Energy fund holds a relatively small number of stocks – around 30 – which I believe will outperform their peers.

Investment process

So the key to this fund is sectoral and stock selection, based on many factors. Fundamental research informs the portfolio, based on detailed analysis of a company's record and prospects; its financial strength; the quality of its management; and its price: one consistent criterion of stock selection is to buy at a discount to net asset value.

The investment process continues with three key elements: stock screening, a qualitative judgement and a portfolio and risk analysis. Even before the earthquake and damage to nuclear installations in Japan, we identified greater interest in gas as an energy source, and a blurring of the line between gas companies and utilities.

There are big changes afoot here. One example is China Light & Power in Hong Kong. It is a large utility but, like others, it is starting to move both upstream and downstream in the energy chain. The boundaries are changing, driven by demand and opportunity. Centrica and RWE are doing the same. Exxon has been doing it for years.

Getting the right combination of activity is vital to a company's prospects. When oil prices rise, those companies active in upstream production and development benefit. When oil prices fall, companies active in downstream refining benefit as margins improve with lower crude oil prices.

So even as oil continues its seemingly inexorable rise, we are confident in the nature of our fund's proposition. This is not an oil trade. We would do this if the oil price was at $50/barrel. We are looking for companies with long-term planning, steady cashflow, longevity, and no surprises. We are finding ourselves, very happily, spoilt for choice.

Chelsea View

We like the combined experience of the management team whose knowledge of this increasingly exciting sector makes this fund an interesting investment choice.

Chelsea Risk Rating: 10

Standard initial charge: 5.25%
ISA initial charge after discount: 0%
Annual management charge: 1.5%

Liontrust: refurbished and re-energised

In October 2010, The Savoy hotel reopened its doors after a near three year and £220 million refurbishment. Not unlike The Savoy, Liontrust Asset Management, which is based in Savoy Court, has undergone significant refurbishment and the results are clear for investors to see.

Liontrust has specialised in UK and European equity funds since its launch in 1994 and currently has some of the leading funds in these sectors. Since Liontrust was founded, we have run money based on our own investment processes. These processes aim to exploit investment opportunities created by human behaviour and invest in those few companies with intangible strengths that form the basis of sustainable competitive advantage. These processes are rigorous, scalable and repeatable and are explained in detail in documents that are publicly available. Such is the fund managers' confidence in the merits of the investment processes over the longer term that they all invest in funds they run.

Such an emphasis on proprietary and distinct investment processes has a number of potential advantages for investors. You know exactly how your money is going to be managed because it has been documented in detail. These processes, therefore, provide a consistency and predictability of investment approach, which reduces the effects of human emotion and error. By sticking to their investment processes, Liontrust's fund managers also ensure they do not get distracted by short-term information and "market noise".

What has changed?

The refurbishment of Liontrust began at the start of 2009, with new fund managers taking over our flagship Income fund and the UK Growth fund. The executive management of Liontrust has also changed significantly over the past couple of years, which has in turn re-energised the business. The new Liontrust is worth revisiting, if you have not already done so, because two fund management teams at the company are now carving out strong reputations and are helping the firm to attract an expanding number of investors into our funds.

Anthony Cross and Julian Fosh manage three UK equity funds – UK Growth, Special Situations and UK Smaller Companies - using the Economic Advantage investment process. James Inglis-Jones and Gary West manage the Income, European Growth and European Absolute Return funds using the Cashflow Solution investment process. The next page explains these investment processes and highlights a couple of these funds.

Liontrust is an independent business that does not have a corporate parent. The company provides an environment that enables fund managers to manage all their funds according to their own investment processes rather than be restricted to a house view. Liontrust is structured so the fund managers can concentrate on the implementation of these investment processes and not be encumbered by bureaucracy and internal meetings.

Liontrust outsources many administrative functions to sharpen the focus on core areas of a fund management company – managing the funds, sales and marketing. We don't try to be all things to all men. The company has always focused on asset classes where it believes it can add value for investors, and this will continue into the future.

The key to future success is to maintain strong fund performance, especially over the longer term, and the communication and service we provide investors. There are well-documented concerns about the outlook for economic growth in the UK and continental Europe but our fund managers have shown there are world-leading businesses in these markets and other companies that can grow their earnings and profits in the current environment.

We will expand our fund management capability beyond UK and European equities when we find teams that have robust investment processes and run money in asset classes for which there is strong demand. We believe they will be attracted by the environment and infrastructure we provide at Liontrust. These shared visions are united to produce the best returns for our clients.

Chelsea View

Liontrust have turned around fund performance and strengthened their management and investment team. They now have a strong boutique franchise.


ANTHONY CROSS
Fund Co-manager,
Liontrust Special Situations


JULIAN FOSH
Fund Co-manager,
Liontrust Special Situations

Liontrust Special Situations

Anthony Cross and Julian Fosh manage Liontrust Special Situations, Liontrust UK Growth and Liontrust UK Smaller Companies. Here Anthony explains how their investment process works.

Liontrust Special Situations is managed using the Liontrust Economic Advantage investment process. It is a UK best ideas fund that can invest in any stocks regardless of their size or sector, enabling the fund to find the best opportunities from across the UK stock market. Regardless of your view of the UK economic environment, the fund can find companies that are growing their earnings and profits. These can be companies with a high proportion of their sales and revenue from overseas, notably emerging markets, or companies with a dominant domestic market position.

Julian and I believe that the secret to successful investing is to identify those few companies that have a durable Economic Advantage that allows them to sustain a higher than average level of profitability for longer than expected. This surprises the market and leads to strong share price appreciation.

Economic Advantage is the collection of distinctive characteristics of a company that competitors struggle to reproduce, even if those competitors have understood the benefits arising from those characteristics. In our experience, the hardest to replicate of these particular characteristics fall into the following three categories of intangible assets: intellectual property; strong distribution channels and significant recurring business (at least 70% of annual turnover).

Other less powerful, but nonetheless important, intangible strengths include franchises and licenses, good customer databases and relationships, effective procedures and formats, strong brands and company culture. It is our key belief that only distinctive and hard to replicate intangible assets can form the basis of a sustainable competitive advantage. These assets deliver pricing power, protect margins and thus drive sustained profitability. The market rewards excess profitability, particularly when it is higher than consensus expectations.

LIONTRUST SPECIAL SITUATIONS PERFORMANCE

Source: Financial Express

Companies with the strongest Economic Advantage form our respective investment universes. We measure our universe of Economic Advantage companies for the market's appreciation of their potential earnings growth. Under-appreciated companies have the strongest potential for share price growth.

Chelsea Risk Rating: 6

Standard initial charge: 5%
ISA initial charge after discount: 0%
Annual management charge: 1.75%


JAMES INGLIS-JONES
Fund Co-manager,
Liontrust European Growth


GARY WEST
Fund Co-manager,
Liontrust European Growth

Liontrust European Growth

James Inglis-Jones and Gary West run Liontrust European Growth, Liontrust Income and Liontrust European Absolute Return utilising their unique process, which James explains.

Liontrust European Growth is managed using the Liontrust Cashflow Solution investment process and has a concentrated portfolio of companies from developed Europe. Gary and I do not speak to analysts or read their research and do not meet company management. Regardless of the current macroeconomic environment, Europe is home to some of the world's leading companies on attractive valuations.

Our investment philosophy is based on the mistakes people make forecasting. Our particular focus is on the profit forecasts made by company managers. Investment decisions taken by company managers to support their forecasts often create profit expectations in the stock market that are unsustainable. Errors in company profit forecasts are magnified in stock markets as investors adopt unreliable company forecasts to value future profits. These errors are predictable and identifiable and create our investment opportunities, particularly at key stages of a company's development. The best way to exploit these investment opportunities is to focus on company cashflow.

LIONTRUST EUROPEAN GROWTH PERFORMANCE

Source: Financial Express

Cashflows reveal valuable information about the scale of a company's investment decisions. Strong company cashflows (after investment spending) are a good indicator of strong growth in future reported profits. Conversely, weak cashflows often predict a collapse in reported profits. We aim to buy companies with good cashflows that are likely to beat investors' low profit expectations. To help us achieve this, two cashflow measures are used: cashflow relative to operating assets and cashflow relative to enterprise value.

We combine our two cashflow measures to generate a list of companies with the best combination of our cashflow measures. By combining our cashflow ratios, we generate a list of stocks cheaper than the market (as measured by cashflow yield) with cash returns on operating assets that are better than the market.

Chelsea Risk Rating: 6

Standard initial charge: 5%
ISA initial charge after discount: 0%
Annual management charge: 1.75%

Good news for VCTs and EISs

MATTHEW WOODBRIDGE
Head of
Investment Products

The chancellor announced in the March Budget that the rules concerning the size of companies in which VCTs can invest will be relaxed from next tax year and, more importantly, there were no detrimental changes to VCTs. Hence, investing in a VCT still attracts generous tax benefits for investors, including:

- 30% income tax relief on the amount subscribed (this will be forfeited if the VCT shares are held for less than 5 years)
- Tax-free distributions and capital gains tax-free growth

Investing at the beginning of the tax year rather than at the end might seem slightly unnatural but is advantageous. As with ISAs, the earlier you start making investments, the quicker you will receive tax benefits. Prompt VCT investors can write to their HM Revenue & Customs office and ask them to change their tax coding under the PAYE system. You can then receive the income tax relief on a monthly basis through your salary.

£365m was invested in VCTs in the 2010/11 tax year, which is the fourth highest amount since VCTs were launched in 1995. This renewed interest in VCTs is due to a number of reasons but higher levels of personal taxation, particularly the additional rate of income tax at 50%, and restrictions on pension contributions for higher earners are two of the main drivers. We expect interest in VCTs to continue to be strong and we will make our clients aware of the most attractive offerings via our website (www.chelseafs.co.uk) and mailings.

There was also good news in the Budget for **Enterprise Investment Schemes** (EIS) when the chancellor confirmed the Government's commitment to EIS. It was announced the initial income tax relief for investing in these schemes has been increased from 20% to 30%. An investment in an EIS also attracts capital gains tax deferral, exemption from capital gains tax for any gains made on EIS qualifying shares held for three years, inheritance tax relief and even loss relief. However, unlike with VCTs, dividends are not tax free and the shares are very illiquid. Minimum investments are usually higher, around £25,000 (VCTs usually have a minimum of £5,000), and the underlying investments are often more esoteric than with VCTs, such as in TV production or recording artists.

However, with the increase in tax relief coupled with a three-year holding period, it is probable these investments will attract more interest and mainstream providers, so if you are considering an EIS please telephone us on 020 7384 7300 to be added to our list of potential investors. As with VCTs, Chelsea Financial Services offers substantial discounts on EIS initial charges to reduce the cost of investing.

Here is a table illustrating the differences between a VCT and an EIS. As you can see, the investment limit for EISs far exceeds VCTs and will be increased further to £1m, from the next tax year.

VCTs AND EISs COMPARED

	VCT	EIS
Annual investment limit	£200,000	£500,000
Income tax relief	30%	30%
Minimum holding period	5 years	3 years
Tax-free dividends?	Yes	No
Tax-free capital gains?	Yes	Yes
Able to defer capital gains?	No	Yes
Loss relief	No	Yes
Able to carry back income tax relief?	No	Yes
Inheritance tax free?	No	Yes
Secondary market for shares?	Yes	No

Another plus is that an EIS investment can be passed on to your heirs without incurring inheritance tax (IHT) if you have held the investment for at least two years, unlike VCT shares which would incur IHT after your £325,000 allowance has been used.

Another important difference between VCTs and EISs is the number of companies held in the portfolios. A mature generalist VCT could have holdings in over 40 companies, whereas an EIS just 15, reducing the diversification and increasing the risk. Moreover, with a generalist EIS fund, although the minimum holding period is just three years, you cannot exit until the underlying companies are sold so it should be considered a seven to ten year investment. However, it is likely this year will see the launch of more 'planned exit' EIS funds, which aim to provide a return shortly after the minimum holding period, thereby enabling the investor to reinvest in another tax-efficient vehicle.

Please check our website for details of the VCT discounts which help to lower the cost of investing, (www.chelseafs.co.uk/vcts) or call our office on 020 7384 7300 for more details.

Chelsea funds-only SIPP:

Flexible pensions: online and in control

Perhaps now is the time to review your pension and decide whether your retirement fund could be better served elsewhere?

Imagine a simpler way to control your pension fund. Shouldn't it be treated just like any other investment vehicle?

We believe so and that's why we introduced the **Chelsea Flexible Retirement Plan**, giving you flexibility and control over your pension. Online access means you can check your pension's value each day and make changes if required. Naturally, many of you will have accumulated several private pensions over your working life, often run by different insurance companies. In many cases these will offer just a limited range of funds, often with higher charges. Before you decide to transfer into the Chelsea Flexible Retirement Plan, do check that there isn't a comparable investment choice for the same cost where your Protected Rights are, or indeed a stakeholder plan that may suit your needs better. In addition, please consider any guarantees you may be giving up by moving the plan(s) as well as any surrender penalties your current provider may levy. If you are still unsure of whether to make a transfer after making these checks, give us a call on 020 7384 7300 to see if we can help.

WHY CHOOSE THE CHELSEA FLEXIBLE RETIREMENT PLAN?

- NO initial charges on all funds, saving you up to 5.5%
- NO charge for switching between funds
- NO set-up charge (usually £120)
- Low annual charge
- Online access via the Chelsea Financial Services website – ability to view your pension online and switch between funds
- Ability to consolidate – you may have personal pensions with more than one provider
- Likely to be a wider choice of funds available than within your existing contract
- Consolidated bi-annual statements together with your ISAs and investment funds (if held within the Chelsea Portfolio)
- Reduced paperwork and time taken to monitor performance
- Opportunity to invest in the Chelsea Easy Retirement Portfolios – carefully constructed by our research team
- Access to the Chelsea Fund Review – commentary on funds held by you in the Chelsea Portfolio with Buy/Hold/Switch recommendations

Alternatively, if you have £50,000 or more in personal pensions and are looking to consolidate your pensions you may be interested in the **Cofunds Pension Account** which has recently been launched.

If you transfer your personal pensions into the Cofunds Pension Account, all you will pay is the annual management charges of the funds chosen, potentially saving you hundreds of pounds in charges.

To apply for the Cofunds Pension Account, please call 0800 071 3333 for an application form and key features.

If you transfer your pension before 26/8/11 Cofunds has agreed to waive its standard transfer fee, saving you even more.

A short guide to short selling

JAMES CLUNIE
Fund Manager,
SWIP UK Flexible Strategy

Short selling has gained in popularity since the introduction of the UCITS III investment directive in 2002. This legislation provided fund managers in the European Union with increased flexibility in the development of new funds. As a result, the practice has been permitted in a broader range of funds. We thought it would be useful to examine exactly how short selling works so we asked James Clunie, fund manager of the SWIP UK Flexible Strategy fund, to take us through the fundamentals.

Profiting from a loss by selling something you don't actually own may seem rather surreal, but it happens all the time in investing. It's known as short selling and, as an investment director at SWIP, it's something I do all the time.

The overall concept of short selling is simple enough. As a short seller, I borrow shares in the expectation of selling them at a high price and buying them at a low one (as opposed to long stocks where one would hope to buy at a low price and sell them at a high one). Let's say I make a short sale of a stock at 50p a share and its price falls to 40p. I can buy the shares at 40p to replace the borrowed ones and keep the 10p per share as profit. Of course, if the share price goes up to, say, 60p, I must fulfil my delivery obligations to the purchaser and buy the shares back at a loss of 10p a share.

Short selling enables me to fully exploit my ability to forecast stock-market returns through the use of instruments such as derivatives, which are contracts between two parties that derive their value from one or more underlying assets. I use derivatives with the intention of reducing the volatility of returns, although this cannot be guaranteed, meaning that derivatives can lead to increased price volatility. However, by using them, I aim to create a more 'informationally efficient' portfolio.

For professional fund managers like me, short selling is all about stock-picking. It gives me the opportunity to act on my view that a particular stock is overpriced or likely to underperform. This can be either in absolute terms (meaning I think the stock is trading above its perceived fair value or is expected to fall in price) or relative to the price of another stock (I think Company A's share price will rise less than Company B's).

If I have a strong negative view of a stock, short selling enables my view to be expressed much more effectively than merely holding less of it relative to the fund's benchmark (under-weighting), or not holding it at all (zero-weighting).

What are the risks?

It is important to be aware that, while there are benefits with a fund that can employ short-selling strategies, the use of these introduces a number of other risks to a portfolio that are not captured by traditional statistical analyses, such as crowded exits. This is where short sellers hold large positions relative to normal trading volume in a stock and attempt to cover (i.e. buy-back) their positions simultaneously. The share price can rise in these situations as liquidity in the stock is limited compared with the scale of buying, and short sellers can lose money.

Ordinary investors are unlikely to undertake much short selling, although there are some alternative investment vehicles, such as single-stock futures and spread betting, that allow them to do so. But there are significant risks attached to the practice. If I own a stock, my potential return is unlimited but my maximum loss is only the price I paid, but if I short sell it, it's the other way around – I open myself up to an unlimited loss. For this reason, retail investors are often discouraged from short selling.

SWIP UK FLEXIBLE STRATEGY

- A small, all-cap, value-oriented fund whose manager has a PhD in short selling
- No performance fee, unlike many other similar funds
- Launched May 2006 (managed by Clunie since August 2009)
- 40 long stocks (can hold 20-50); 13 short stocks (can hold 5-30)
- Since August 2009 has delivered 19.92% against the benchmark return of 5.10% and the FTSE All Share return of 30.2%*

*Source: Financial Analytics total return bid to bid net of fees from 01/09/09 to 31/03/11.

For investors, the implication is clear. While it's always a good idea to select a manager with stock-picking expertise, it's particularly true when selecting a fund that makes use of derivative transactions. It's vital to find out exactly what a fund can and can't do, and the implied risks, before investing.

Risk management is an integral part of what I do managing the SWIP UK Flexible Strategy fund. As it is a flexible fund, I am able to reduce market exposure through the use of financial derivatives, meaning that I can aim for long-term returns comparable to those available from UK equities, but with lower volatility.

To find out more, visit swip.com where you can find my 'Guide to Short Selling' which explains the concept in more depth.

Chelsea View

We like the flexibility of this fund to use both long and short positions to achieve long-term returns in all market conditions without the constraints of adhering strictly to the benchmark.

Chelsea Risk Rating: 6

Standard initial charge: 5%
ISA initial charge after discount: 0%
Annual management charge: 1.5%

Active or passive?

DARIUS McDERMOTT
Managing Director

A number of clients have asked us about which type of fund is best to invest in, active or passive?

This question has been further complicated by the advent of ETFs (exchange traded funds). At Chelsea Financial Services we prefer active funds, although we can see some of the attractive points to passive investing.

What are Index tracker and ETF funds?

Index funds tend to cover equity markets. They generally cost between 0.3%-1% TER (total expense ratio) and will track all the major markets. Tracker funds are priced once on a daily basis and have no initial charges.

ETFs, although they behave like trackers, are actually traded like shares. This means you can buy and sell them throughout the day, but you also incur fees to buy and sell them. There is a wide and growing range of ETFs or ETCs (exchange traded commodities) that track things other than equities. For instance, some track the market in oil, gold, the price of orange juice, cotton or even lean hogs.

You can also gain access to more complex themes such as water or timber. This does however lead to some of these products being very complicated. I recall a fund manager who tried to gain access to the scarcity of water and almost bought an ETF which gave him the opposite exposure!

The argument for passive funds is entirely based around cost, performance and risk. Some investors believe these funds to be both cheaper and less risky. This has been the historic view of active v passive but the discussion has grown wider with the rise in the prominence of ETFs.

Risk

Most investors looking for a cheap way to track the UK market will buy a FTSE 100 tracker or an ETF. But what are you actually getting with this? Well, what you are getting is 42% exposure to the two largest sectors (financials and oil and gas). This does not strike me as very diversified. You are also getting 37% in commodities via the oil and gas and basic materials (mining) sector. These figures are made even more concentrated by the recent addition of Glencore to the FTSE 100. This is fine as long as an investor appreciates they will have just under 40% of their money in commodities, traditionally a volatile area.

You also need to be aware that there is a degree of counterparty risk involved in SWAP based ETFs and you should read carefully any prospectus before purchasing. Furthermore, it is very difficult to ascertain what collateral the investment bank is offering to support your ETF, indeed the investment bank could support your FTSE 100 ETF with unrated corporate bonds or even Japanese small-cap equities. In Europe ETFs only have to be 50% asset backed and not 100%, as in the US.

Cost

Well, trackers and ETFs are cheaper, but not as cheap as they necessarily appear. If you buy an ETF you will also have to pay a dealing fee (as they are traded as direct equities) when you both buy and sell. Plus, as with all funds, you need to look at the TER (Total Expense Ratio), which gives a true reflection of the actual cost of holding these funds. In general they are cheaper, with the average annual management charge on an active fund being 1.5%.

Performance – so what do I get for the extra charges I pay with an active manager?

Hopefully, and usually, if you select from our Chelsea Leaders, you should get substantial outperformance. If we look at the decade of the noughties, the FTSE 100 returned -22% in capital terms and 8% total return if dividends are included. If you compare this with Invesco Perpetual High Income, the most popular fund with Chelsea investors, you would have received a total return of 138.6% **after charges**. The top-performing UK fund during the period, Fidelity Special Situations, gave you a staggering 179.9% return.

Indeed you are structurally bound to underperform the markets with a tracker or ETF, as you still have to deduct their fees. A number of journalists in the national newspapers appear to favour trackers/ETFs as they are cheaper but we can do better. They will often use the argument that a tracker will outperform the average fund and hence they are expensive, but in the noughties the average UK Growth fund returned an unspectacular 9.5% and the average income fund returned 26.1%, well ahead of any trackers during that same time period.

Summary

If you are looking for a simple and cheap exposure to markets then a low-cost tracker or ETF will provide that. If you are looking to outperform the market then you will need an active fund. If you compare two of the funds that have been on the Chelsea Leaders panel (pages 11-18) for over five years, M&G Recovery and AXA Framlington UK Select Opportunities, then you would have had excess returns of 73.09% and 43.30% after charges over the FTSE 100 during the noughties.

All performance figures quoted cover the period 31/12/1999 – 31/12/2009, source Financial Express.

The Chelsea Premier League

All these funds are available at 0% initial charge within an ISA.
Saving you up to 5.5% or £587 within your 2011/12 ISA allowance.†

	Fund size*	Yield %	6 MONTHS % Growth	6 MONTHS Rank	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank
UK ALL COMPANIES												
Artemis UK Special Situations	1216.7	1.17	11.63	32	15.54	89	20.92	51	25.47	60	132.58	9
AXA Framlington UK Select Opportunities	2667	1.6	9.61	60	23.88	20	27.66	27	37.73	24	119.3	14
BlackRock UK Special Situations	1431.2	0.79	12.89	16	25.8	13	32.09	22	44.16	12	129.25	10
Fidelity Special Situations	3045	0.01	4.43	298	3.62	301	15.17	88	23.13	70	142.18	4
JOHCM UK Opportunities	813	3.04	6.53	231	11.49	212	16.09	75	35.65	27	-	-
Jupiter UK Growth	868	0.7	6.6	226	11.82	195	6.19	207	13.39	162	57.44	55
Legal & General UK Alpha	202.4	-	15.31	8	31.66	6	71.67	3	112.18	1	-	-
Legal & General UK Index	4591.3	2.4	7.81	125	12.2	185	12.21	119	20.06	92	48.97	74
Liontrust Special Situations	89.8	0.51	16.83	4	34.55	3	58.56	4	71.63	5	-	-
M&G Recovery	6761.9	0.54	9.14	71	15.22	98	25.34	33	43.8	15	126.02	12
Marlborough UK Leading Companies	53.4	0.13	14.76	9	30.17	7	34.21	17	48.64	7	147.61	3
Rensburg UK Mid Cap Growth Trust	460.8	0.48	16.53	5	23.72	21	48.52	8	78.1	4	194.35	1
Schroder UK Alpha Plus	2810	0.62	8.02	112	14.16	121	20.59	57	34.38	30	-	-
Standard Life UK Equity Unconstrained	415.4	0.08	20.18	1	33.27	5	75.55	2	97.83	2	-	-
Sector average and number in sector	-	-	8.02	304	14.33	302	12.05	284	16.39	248	48.07	165
UK EQUITY INCOME												
Artemis Income	3926.7	4.37	5.31	85	11.92	70	16.71	18	23.09	22	92.27	9
BlackRock UK Income	744.4	3.45	5.5	82	12.37	62	27.48	4	26.97	13	85.11	11
Invesco Perpetual High Income	10661	3.7	5.58	78	14.9	29	11.06	39	30.27	6	132.31	1
Neptune Income	1133.2	4.12	6	69	13.51	53	13.46	26	20.01	28	-	-
Rathbone Income	482	4.28	7.37	45	13.54	52	5.66	65	4.11	65	88.25	10
Schroder Income Maximiser	814	6.94	3.16	96	6.41	97	21.31	12	29.96	9	-	-
Threadneedle UK Equity Alpha Income	239.4	4.9	9.77	10	16.64	15	13.76	25	-	-	-	-
Sector average and number in sector	-	-	7.09	100	13.52	99	10.92	85	12.35	76	64.02	56
UK SMALLER COMPANIES												
BlackRock UK Smaller Companies	517.2	0.4	19.21	5	37.66	13	36.42	19	41.84	10	179.14	8
Investec UK Smaller Companies	282.2	0.28	15.81	23	38.4	9	63.2	4	69.33	3	293.93	3
Marlborough Special Situations	383.5	0.21	18.78	7	40.09	7	48.11	12	62.13	4	309.17	1
Old Mutual UK Select Smaller Companies	546.2	0.1	12.6	41	26.33	30	36.33	21	55.16	6	293.87	4
Sector average and number in sector	-	-	14.62	59	28.49	58	29.12	56	25.73	47	99.37	37
CORPORATE BOND												
AEGON Investment Grade Bond	221.7	4.47	0.93	20	5.1	71	21.43	24	-	-	-	-
AEGON Sterling Corporate Bond	373.2	4.55	1.23	12	6.29	37	17.32	48	12.5	52	54.45	18
Invesco Perpetual Corporate Bond	5785.2	4.89	0.52	42	6.36	33	26.14	12	31.59	5	80.05	3
M&G Strategic Corporate Bond	3194.5	3.89	0.69	33	6.71	23	41.93	1	47.06	1	-	-
Sector average and number in sector	-	-	0.52	93	5.69	90	18.3	83	16.16	75	48.69	50
HIGH YIELD BOND												
AEGON High Yield Bond	397.6	5.79	4.47	8	10.87	3	37.07	2	39.81	2	-	-
Threadneedle High Yield Bond	746.9	8	4.38	10	8.89	10	30.37	5	34.67	5	88.73	1
Sector average and number in sector	-	-	4.4	22	8.78	22	30.66	21	34.16	21	80.92	16
STRATEGIC BOND												
AEGON Strategic Bond	439.7	3.74	2	30	5.61	37	28.81	7	29.98	4	-	-
Artemis Strategic Bond	554.5	4.88	3.65	6	8.87	8	24.24	13	28.91	6	-	-
Henderson Strategic Bond	1130	6.8	2.06	29	2.75	64	23.89	15	28.56	7	73.14	6
Invesco Perpetual Monthly Income Plus	3265.2	6.44	3.62	7	8.82	10	31.12	5	38.38	1	102.24	1
Investec Strategic Bond	319.8	4.01	0.38	49	4.48	55	25.33	10	26.03	10	58.81	9
Legal & General Dynamic Bond	1568.4	5.5	1.04	41	5.23	46	55.94	1	-	-	-	-
M&G Optimal Income	3951.5	3.6	2.15	28	7.13	17	40.64	2	-	-	-	-
Sector average and number in sector	-	-	1.61	68	5.81	66	18.55	55	19.67	45	59.3	22
EUROPE EX UK												
BlackRock Continental European	426.1	0.32	11.38	34	21.86	12	33.6	5	57.55	4	94.09	7
BlackRock European Dynamic	1013.3	0.12	11.51	33	28.03	1	49.45	2	75.61	2	81.27	13
Cazenove European	1058.2	1.4	9.54	84	11.92	97	14.79	25	39.58	10	65.57	30
Henderson European Growth	1060	-	11.21	38	16.13	54	19.77	17	37.64	16	-	-
HSBC European Growth	289.7	0.73	13.5	11	21.58	13	24.1	13	35.31	19	76.27	20
Ignis Argonaut European Alpha	366.8	0.16	8.21	101	12.07	95	19.72	18	38.35	14	-	-
Ignis Argonaut European Income	453.5	4.41	8.39	99	15	70	4.18	73	22.03	47	-	-
Jupiter European	1727.1	0.3	12.59	17	23.68	8	43.49	3	70.71	3	161.13	2
Jupiter European Special Situations	586	0.4	12.74	16	17.74	39	21.51	15	38.61	12	151.58	3
Liontrust European Growth	58.4	0.94	13.21	15	24.76	5	24.38	12	-	-	-	-
Neptune European Opportunities	1222.7	1.16	8.49	95	13.88	76	8.31	47	33.02	23	-	-
Schroder European Alpha Plus	835.1	0.65	11.58	31	19.1	27	17.67	22	34.42	22	-	-
Sector average and number in sector	-	-	10.85	110	16.33	110	9.21	97	24.24	81	60.62	62

	Fund size*	Yield %	6 MONTHS % Growth	6 MONTHS Rank	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank
JAPAN												
GLG Japan Core Alpha	1034	0.62	5.95	45	-5.4	46	21.12	4	11.59	2	24.39	2
Invesco Perpetual Japan	352.6	0.16	5.4	50	-12.83	62	27.95	2	7.29	3	-2.42	6
Jupiter Japan Income	404	2.3	9.01	20	0.05	9	12.47	14	-4.16	4	-	-
Neptune Japan Opportunities	136.9	-	11.11	8	-11.51	60	75.02	1	30.19	1	-	-
Sector average and number in sector	-	-	7.7	64	-3.66	63	4.41	54	-21.35	47	-16.54	36
NORTH AMERICA												
Investec American	804.2	-	13.51	24	2.39	82	27.18	24	25.36	27	-	-
M&G American	2469.7	-	9.72	82	5.33	51	23.68	38	22.21	35	7.33	15
Neptune US Opportunities	731.2	-	6.26	96	1.31	90	33.33	10	36.95	4	-	-
Threadneedle American Select	1264.6	-	14.4	12	4.51	66	30.61	17	31.02	18	12.21	9
Sector average and number in sector	-	-	11.97	99	5.22	97	21.77	85	21.45	65	-1.99	45
ASIA PACIFIC EX JAPAN												
Aberdeen Asia Pacific	2200	0.6	0.74	69	13.13	37	42.08	14	83.97	18	303.2	3
Fidelity Emerging Asia	607	-	-4.28	75	-	-	-	-	-	-	-	-
Fidelity South East Asia	2618	0.01	6.2	15	17.46	10	51.74	6	118.99	3	257.49	5
First State Asia Pacific Leaders	5390	0.53	6.44	12	15.71	15	45.65	12	112.65	6	-	-
Invesco Perpetual Asian	628.5	0.5	4.21	29	13.95	29	39.47	17	81.14	25	218.68	14
Newton Asian Income	823.8	5.33	7.54	7	20.67	2	57.59	2	88.72	13	-	-
Newton Oriental	1057.8	0.57	4.2	30	16.87	11	39.14	19	83.91	20	253.3	6
Schroder Asian Alpha Plus	89.7	0.4	6.37	14	18.22	7	56.28	4	-	-	-	-
Sector average and number in sector	-	-	3.4	78	12.44	74	31.82	68	78.11	59	206.25	45
GLOBAL EMERGING MARKETS**												
Aberdeen Emerging Markets	2600	0.3	0.44	37/52	13	6/47	53.56	3/35	109.48	2/31	434.04	1/20
Allianz RCM BRIC Stars	850.9	0.25	-0.77	104/150	2.4	108/141	0.22	87/104	64.14	20/68	-	-
Fidelity Emerging Europe Middle East and Africa	96	0.01	7.23	39/150	12.52	35/141	37.74	17/104	-	-	-	-
Fidelity India Focus	2147.1	-	-13.67	19/34	-2.04	11/32	7.12	25/28	39.29	20/20	-	-
First State Global Emerging Markets Leaders	1796	0.27	4.93	4/52	13.85	3/47	52.74	5/35	104.75	4/31	-	-
First State Greater China Growth	641	0.28	0.1	5/27	11.36	8/27	40.75	3/19	133.15	2/14	-	-
HEXAM Global Emerging Markets	61.6	-	-1.36	48/52	4.34	45/47	-	-	-	-	-	-
JPM New Europe	280.4	-	2.12	86/150	7.47	65/141	3.42	78/104	42.08	34/68	473.72	5/33
Martin Currie China	37	-	3.48	1/27	15.67	2/27	-	-	-	-	-	-
Neptune Russia & Greater Russia	599.5	-	12.41	17/150	12.7	34/141	16.12	54/104	72.88	17/68	-	-
ABSOLUTE RETURN												
BlackRock UK Absolute Alpha	1799.1	-	1.61	30	2.47	24	8.03	15	33.55	3	-	-
Gartmore UK Absolute Return	338.2	-	3.79	13	5.08	14	-	-	-	-	-	-
Jupiter Absolute Return	652	-	0.13	39	-3.9	42	-	-	-	-	-	-
Newton Real Return	3573.4	3.45	4.45	8	10.15	5	30.42	4	48.32	1	-	-
Standard Life Global Absolute Return Strategies	7270.8	0.4	-0.31	42	4.78	15	-	-	-	-	-	-
Sector average and number in sector	-	-	2.2	55	3.39	48	10.27	21	20.37	9	-	-
MISCELLANEOUS**												
Artemis Strategic Assets	970.9	0.67	7.3	47/135	8.92	77/131	-	-	-	-	-	-
AXA Framlington Global Technology	183.6	-	16.63	3/11	17.73	3/11	81.18	1/10	67.39	1/10	10.15	2/8
CF Eclectica Agriculture	177	-	5.7	51/150	16.39	23/141	-15.12	101/104	-	-	-	-
CF Miton Special Situations Portfolio	614.2	-	0.78	151/152	2.21	146/146	18.46	18/119	29.95	8/94	145.66	1/57
City Financial Strategic Gilt	102.6	0.89	-0.69	28/31	2.86	29/29	17.13	18/26	-	-	-	-
Henderson Global Technology	429.3	-	9.52	8/11	7.57	9/11	48.8	4/10	58.64	2/10	-15.97	6/8
HSBC Open Global Return	133.1	0.02	5.24	21/167	7.42	61/154	15.6	42/117	-	-	-	-
Investec Global Gold	184.8	-	-0.23	100/150	18.73	17/141	57.44	5/104	98.47	6/68	-	-
J O Hambro Global Select	493.1	-	11.36	40/229	20.32	5/224	-	-	-	-	-	-
JPM Natural Resources	2615.5	-	7.98	32/150	20.61	15/141	33.43	22/104	69.27	19/68	735.94	2/33
Jupiter Financial Opportunities	848.4	-	-4.94	132/150	-6.05	136/141	28.46	27/104	18	49/68	168.72	15/33
Legal & General UK Property Trust	510	2.9	4.93	17/43	8.29	24/43	2.79	13/40	2.94	5/22	-	-
M&G Global Basics	6608.8	-	9.47	91/229	15.06	21/224	19.8	52/198	51.75	9/154	247.53	1/101
M&G Global Dividend	1088.4	3.2	9.31	97/229	12.69	43/224	-	-	-	-	-	-
Newton Global Higher Income	1819.3	4.58	8.46	121/229	13.63	33/224	15.57	90/198	41.46	18/154	-	-
Old Mutual Global Strategic Bond	468.6	0.2	-4.07	69/71	4.25	28/70	47.72	11/57	62.16	7/49	96.76	7/32
Rathbone Global Opportunities	129.8	-	11.81	30/229	20.19	6/224	15.76	88/198	33.86	30/154	-	-
Schroder Global Property Securities	604.2	0.5	6.5	11/43	12.52	9/43	9.46	9/40	18.17	3/22	-	-

* Fund sizes (£m) are collected one month in arrears

** Position in sector omitted due to sector amalgamation

† Please note that investment outside of the ISA wrapper is Creation/NAV + 1%

Whilst every effort has been made to ensure the accuracy of this information, including discounts, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein.

Please read the Important Notice on page 2. Past performance is not a guide to future returns.

Source: Financial Express Analytics: 3rd May 2011. Yield figures as at 24th May 2011.

The Chelsea Relegation Zone

Despite the market gaining six per cent since we last published the Relegation Zone, the list of perennial underperformers continues to grow. The number of funds has now reached 94, up eight from 86. Underperforming assets now stand at £25.99bn, up more than £7.5bn since December – a startling rise of 41%.

Never too big to go down

The rise in assets under management in the Relegation Zone can be largely attributed to a number of new entrants with assets over £0.5 billion. In the previous Relegation Zone, there were four funds with over £0.5bn under management, now there are 13. The combined total of these 13 funds alone comes to a whopping £18.19bn, the largest of which – the Halifax UK Growth fund – has a staggering £4.16bn under management.

However, predictably, the names of many of the fund management groups who run these funds will be very familiar to regular readers of the Relegation Zone. Life insurers and banks are the principal culprits. Halifax, SWIP/Scottish Widows, Prudential and Barclays all populate the lowly ranks of the Relegation Zone. SWIP/Scottish Widows' ubiquitous presence continues with six entries, whilst Halifax's two entries have assets under management with a combined total of nearly £6bn. Once again, Scottish Widows/SWIP have claimed the rather ignominious title of being the most populous fund management group in the Relegation Zone, with six funds underperforming. Legal & General, an investment house with a normally strong range, will be disappointed with five entries. In the UK All Companies sector, well-known providers such as Invesco and JP Morgan are also represented. Most notably, the Legal & General Equity trust, a UK equity fund, underperformed its peer group by 16.23% over three years. The prevalence of flagship funds by big providers illustrates that choosing a big name fund does not necessarily correlate with outperformance. Investors should regularly review their investments to weed out any serial underperformance and remember: inertia remains the biggest killer of returns in portfolio management.

Paying the true price for underperformance – TERs:

While it is the annual management charge (AMC) that all fund managers publish as the yearly cost levied to pay for the effective running of the fund, it is actually the total expense ratio (TER) that is the 'true' cost paid by investors. We have highlighted five cases (see table), four of which are multi-manager funds, that are the worst offenders.

FUND NAME	TER%	MULTI-MANAGER
CF GHC MultiManager Global Equity	3.3	Yes
Elite Hurlingham Balanced Portfolio	2.98	Yes
Aberdeen Multi Manager Emerging Markets Portfolio	2.97	Yes
Ignis Multi Manager Cautious	2.58	Yes
Neptune Asia Pacific Opportunities	2.5	No

The GHC MultiManager Global Equity fund, administered by Capita Financial, appears to charge its investors 1.5% per annum but it is actually shaving off 3.3% of its investors' capital every year. That is 1.8% in additional charges that would otherwise have been reflected in the performance of the investment. We see no need to pay through the nose for bad fund management, especially when the fund is merely picking other funds.

Tread with caution

We at Chelsea have been concerned about the Cautious Managed sector. Despite the explicit label applied this should not be taken too literally. The sector is in reality a spread of multi-asset, multi-manager and asset allocation funds with varying degrees of risk. Funds are allowed to invest up to 60% of the fund in equities and with at least 30% invested in fixed interest and cash. Equity holdings can be in UK or non-UK equities.

This is not what many cautious investors may have bargained for in terms of risk. This is all too evident in the performance of a number of cautious managed funds. Of the ten cautious managed funds listed in the Relegation Zone, seven have lost money over three years, with the Elite Cautious Managed Portfolio and the Insight Diversified Income portfolio being the worst of the offenders delivering a negative return of 11.37% and 8.03% respectively. If you make an investment in the Cautious Managed sector take a good look under the bonnet of any fund before purchasing.

THE RELEGATION ZONE – THE 'DIRTY DOZEN'

	Largest funds in the Relegation Zone	Fund size (millions)
1st	HALIFAX UK GROWTH	£4161.2
2nd	PRUDENTIAL UK GROWTH	£2407
3rd	LEGAL & GENERAL EUROPEAN INDEX	£1916.3
4th	HALIFAX INTERNATIONAL GROWTH	£1815.6
5th	SCOTTISH WIDOWS UK GROWTH	£1596.6
6th	SWIP MULTIMANAGER UK EQUITY FOCUS	£1223.6

	Worst Performers	% under-performance from sector average*
1st	UBS ABSOLUTE RETURN BOND	-42.93%
2nd	UBS UK SMALLER COMPANIES	-41.18%
3rd	MFM TECHINVEST SPECIAL SITUATIONS	-40.64%
4th	SVM GLOBAL OPPORTUNITIES	-34.22%
5th	ARTEMIS UK SMALLER COMPANIES	-31.65%
6th	RENSBURG UK SMALLER COMPANIES TRUST	-26.83%

*Based on three-year cumulative performance

UK ALL COMPANIES

	3 year % growth	Quartile position
Architas MM UK Equity Portfolio	3.6	4
Artemis Capital	-2.98	4
Barclays UK Alpha	5.43	3
CAF UK Equitrack	7.8	3
CF Canlife General	1.56	4
CF Canlife Growth	2.02	4
CF Taylor Young Opportunistic	-6.58	4
EFA OPM UK Equity	-5.91	4
Family Charities Ethical	-8.33	4
Franklin Templeton UK Equity	-6.87	4
Halifax UK Growth	6.89	3
Ignis Balanced Growth	-2.02	4
Invesco Perpetual UK Growth	1.05	4
JPM Premier Equity Growth	-5.01	4
JPM UK Managed Equity	4	4
Legal & General Equity	-5.08	4
Legal & General UK Active Opportunities	1.5	4
Marks & Spencer UK Select Portfolio	2	4
Premier Castlefield UK Equity	4.65	4
Prudential UK Growth	5.04	3
PSigma UK Growth	-0.87	4
R&M UK Equity Unconstrained	-9.68	4
Scottish Widows UK Growth	4.44	4
SJP UK & General Progressive	-0.4	4
SWIP MultiManager UK Equity Focus	2.8	4
Sector Average	11.15	

UK EQUITY INCOME

	3 year % growth	Quartile position
Henderson Higher Income	-11.57	4
PSigma Income	4.51	4
Scottish Widows UK Equity Income	4.83	4
UBS UK Equity Income	-3.65	4
Sector Average	10.57	

UK SMALLER COMPANIES

	3 year % growth	Quartile position
Artemis UK Smaller Companies	-4.43	4
Jupiter UK Smaller Companies	13.06	4
Lazard UK Smaller Companies	20.93	3
MFM Techinvest Special Situations	-13.42	4
Octopus Investments CF Octopus UK Micro Cap Growth	2.48	4
Rensburg UK Smaller Companies Trust	0.39	4
UBS UK Smaller Companies	-13.96	4
Sector Average	27.22	

EUROPE EXCLUDING UK

	3 year % growth	Quartile position
Franklin Templeton Europe	-0.37	4
Henderson European Value	0.27	4
Ignis European Growth	5.9	3
JPM Europe	4.35	3
Legal & General European Index	6.56	3
Scottish Widows European Growth	0.65	4
Standard Life European Equity Index Tracker	5.19	3
Standard Life European Ethical Equity	-3.03	4
WDB European	0.52	4
Sector Average	8.56	

JAPAN

	3 year % growth	Quartile position
AXA Rosenberg Japan	-9.41	4
Gartmore Japan Opportunities	-5.3	4
Newton Japan	-19.42	4
Scottish Widows Japan Select Growth	-5.31	4
Standard Life Japan Equity Growth	-10.22	4
SWIP Japanese	-1.32	3
Sector Average	5.38	

NORTH AMERICA

	3 year % growth	Quartile position
Invesco Perpetual US Equity	12.88	4
Legal & General (Barclays) MultiManager US Alpha S2†	2.5	4
Legal & General North American	12.21	4
Martin Currie North American	9	4
Martin Currie North American Alpha	8.49	4
PSigma American Growth	13.73	4
Sector Average	21.75	

ASIA PACIFIC EXCLUDING JAPAN

	3 year % growth	Quartile position
Henderson Asian Dividend Income	12.71	4
Ignis Pacific Growth	20.89	4
Martin Currie Asia Pacific	14.74	4
Neptune Asia Pacific Opportunities	10.9	4
Old Mutual Asian Select	20.25	4
Standard Life Pacific Basin Manager Of Managers	24.64	3
Threadneedle Asia	20.96	4
Sector Average	31.06	

GLOBAL EMERGING MARKETS

	3 year % growth	Quartile position
Aberdeen Multi Manager Emerging Markets Portfolio	8.74	4
GLG Global Emerging Markets	-0.55	4
Sector Average	21.98	

GLOBAL GROWTH

	3 year % growth	Quartile position
Architas MM Global Equity Portfolio	1.38	4
AXA Rosenberg Global	3.18	4
Barclays Global Core	-8.33	4
CF GHC MultiManager Global Equity	8.93	3
City Financial Multimanager Growth	-1.09	4
Clerical Medical International Managed	7.5	4
First State Global Growth	4.35	4
Halifax International Growth	7.98	3
Legal & General (Barclays) Worldwide Trust†	8.44	3
Legal & General Global Growth	6.35	4
Martin Currie Global Alpha	-4.8	4
SVM Global Opportunities	-21.19	4
Sector Average	13.03	

GLOBAL BOND

	3 year % growth	Quartile position
City Financial Strategic Global Bond	2.74	4
EFA New Horizon High Income	5.07	4
JPM Global Ex UK Bond	3.93	4
The 140 Investment Managers Broadway ICVC Income	17.05	4
UBS Absolute Return Bond	-15.27	4
Sector Average	27.66	

CAUTIOUS MANAGED

	3 year % growth	Quartile position
AXA Defensive Distribution	-1.45	4
Barclays Cautious Portfolio	6.73	3
CF Miton Global Income Portfolio	-4.28	4
CF 7IM Sustainable Balance	3.07	4
Elite Hurlingham Balanced Portfolio	-5.77	4
Elite LJ Cautious Managed Portfolio	-11.37	4
Ignis Multi Manager Cautious	2.93	4
Insight Diversified High Income	-8.03	4
Sarasin GlobalSar Cautious	-0.65	4
Thesis Optima Multi Asset Strategy	-3.6	4
Sector Average	9.99	

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.

† The management of the Legal & General (Barclays) funds is carried out by Barclays Wealth; Legal & General are responsible for the administration only.

All cumulative statistics % change, bid to bid, net income reinvested, three years to 3/5/11.

Source: Financial Express 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 contained therein.

Past performance is not a guide to future returns.

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Fund details explained

This section provides you with guidance on how to read the fund details contained within the next section. Please review the example below along with corresponding explanations.

c•funds

1 Unit/Share type: Accumulation ('ACC') units or shares retain all income; income (INC) units or shares pay income out.

2 Fund Type: This can be a unit trust, OEIC or ECIV – see 'the 'Questions and Answers' section later in this document for an explanation of these fund types.

3 Standard Initial Charge: This is deducted from each lump sum or monthly contribution when it is first invested. The 'standard' initial charge is shown, which means it does not include discounts or commission waivers that may be applied.

4 Trustee/Depositary: The party who is legally responsible for the safe custody of the units or shares in the fund; a depositary in the case of OEICs, a trustee in the case of unit trusts.

5 Annual Management Charge: This covers the ongoing cost of managing a fund and is charged by the fund manager.

6 Total Expense Ratio (TER): This is the total of the Annual Management Charge plus any additional charges and expenses applied by the fund manager. Additional charges might cover, for example, fees paid to trustees. The amount of additional charges and expenses can be found by deducting the Annual Management Charge from the TER.

7 Reduced Investment Yield (RIY): This shows by how much charges might reduce the annual growth rate of the investment over a period of 10 years. This assumes an underlying growth rate (UGR) and deduction of standard charges. The actual reduced investment yield will depend on the real growth rate in the fund, how long you remain invested and whether you receive any discounts/waivers on the initial or annual charge. The reduced investment yield reflects standard initial charges and does not take into account any discounts or commission waivers that may be available.

8 Underlying growth rate (UGR): This assumes the annual rate of growth for the fund, based on a lump sum investment over 10 years. This growth rate is not guaranteed. The actual rate of growth could be higher or lower, depending on the fund's performance. The Underlying Growth Rate and the Reduced Investment Yield are based on calculations laid down by the Financial Services Authority.

Example Fund

Unit/Share type: **Acc** 1 Fund type: **OEIC** 2

Investment Aims – To achieve capital growth through investment in leading North American companies. 9

Trustee 4 **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR** ISA 6%
2,3,8 10	**4.00%** 3	**1.50%** 5	**0.30%** 6	**3.78%** 7
RIY UT/OEIC based on UGR UT/OEIC 6%**	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.82 8	**Single**	**12:00**	**11:00**	

Notes 11

9 Fund Objective: This is the stated investment objective of the fund. The fund manager must invest in line with this objective at all times.

10 Special Risk Factors: As well as general risks, a fund may carry risks associated specifically with the type of assets in which it invests. The special risk factors which relate to the fund(s) you have selected are listed in the 'Specific risks' section in numerical order. Check these numbers against the list of Specific risks shown later in this document.

11 Important information: From time to time, the fund manager may detail important information specific to a particular fund.

ABERDEEN UNIT TRUST MANAGERS LIMITED

Aberdeen Emerging Markets Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The Fund aims to provide long term capital growth from direct or indirect investment in emerging stock markets worldwide or companies with significant activities in emerging markets.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**4.25%**	**1.75%**	**1.89%**	**4.56%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.58%	**Single**	**12:00**	**11:00**	**Global Emerging Markets**

AEGON FUND MANAGEMENT UK PLC

AEGON Investment Grade Bond Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The primary investment objective is to maximise total return (income plus capital) by investing primarily in investment grade and government bonds denominated in sterling and other currencies. The fund may hold a maximum of 20% in high yield bonds and may also hold cash. A minimum of 80% of the fund will be hedged back to £. The fund may also invest in deposits, money market instruments and forward transactions.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,4,6,7,9,11,14	**4.50%**	**1.25%**	**1.32%**	**5.12%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
4.14%	**Single**	**12:00**	**11:00**	**£ Corporate Bond**

Notes: Investors should be aware that their right to sell units may be suspended by the fund manager in situations where there is insufficient uninvested cash or assets which are readily realisable to meet investor demand for the sale of units.

ALLIANZ GLOBAL INVESTORS (UK) LTD

Allianz Global Investors RCM BRIC Stars Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The aim of the fund is to produce long-term capital growth by investing predominantly in the equity markets of Brazil, Russia, India and China. Up to a third of the fund's assets may be invested in companies based in other countries that are likely to benefit from the BRIC phenomenon.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**4.00%**	**1.75%**	**1.95%**	**4.52%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.55%	**Single**	**12:00**	**11:00**	**Specialist**

ARTEMIS FUND MANAGERS LIMITED

Artemis Income

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – This fund aims to provide an increasing income and capital growth from investing mainly in ordinary shares, preference shares, convertible bonds and fixed interest securities in the UK. We will not be restricted in our choice of investments, either by the size of the company, the industry it trades in, or the geographical split of the portfolio.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,5,8,12	**5.25%**	**1.50%**	**1.54%**	**4.81%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.83%	**Dual**	**12:00**	**11:00**	**UK Equity Income**

Notes: The Fund Manager has highlighted this as a higher volatility fund where there is likely to be significantly greater movements in the price of units. To understand how this may affect your investment please contact your adviser.

Artemis Strategic Assets

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – This fund aims to achieve long-term growth by investing in a portfolio of UK and international assets. The fund will take a broadly 'multi-asset' approach, with the aim to perform well when markets are favourable, and preserve capital when markets are poor. This fund aims to provide longer-term positive returns under most market conditions, outperforming both cash and equities over three-year periods. We will not be restricted in our choice of investments, either by the size of the company, the industry it trades in, or the geographical spread of the portfolio. We may invest in overseas assets, including currencies.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,4,6,8,9,13,17	**5.25%**	**1.50%**	**1.58%**	**4.77%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.79%	**Dual**	**12:00**	**11:00**	**Active Managed**

Notes: The Fund Manager has highlighted this as a higher volatility fund where there is likely to be significantly greater movements in the price of units. To understand how this may affect your investment please contact your adviser.

Artemis UK Special Situations

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – This fund aims to achieve long-term capital growth by exploiting special situations. The fund invests mainly in UK equities and in companies which have their headquarters in the UK or carry out a significant part of their activities in the UK, and are quoted on a regulated stock market outside the UK. We will not be restricted in our choice of investments, either by the size of the company or the industry it trades in.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
3,8	**5.25%**	**1.50%**	**1.56%**	**4.79%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.81%	**Dual**	**12:00**	**11:00**	**UK All Companies**

AXA FRAMLINGTON UNIT MANAGEMENT LIMITED

AXA Framlington UK Select Opportunities

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – To achieve capital growth by investing in companies, primarily of UK origin, where the Manager believes above average returns can be realised.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3	**5.25%**	**1.50%**	**1.55%**	**4.80%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.82%	**Dual**	**12:00**	**11:00**	**UK All Companies**

BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED

BlackRock Continental European Class A

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – To achieve long-term capital growth for investors. The Fund invests primarily in the shares of larger companies incorporated or listed in Europe excluding the UK. The Fund may also invest in collective investment schemes.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8 (Acc) 2,3,6,8 (Inc)	**5.00%**	**1.50%**	**1.69%**	**4.68%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.70%	**Dual**	**12:00**	**11:00**	**Europe Excluding UK**

BlackRock UK Absolute Alpha Class P

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – To achieve a positive absolute return for investors. The Fund invests primarily in a portfolio of equities and equity-related securities(including derivatives) of companies incorporated or listed in the UK, although from time to time cash and near cash may be held. The Fund may also invest in other transferable securities, permitted money market instruments, permitted deposits and units in collective investment schemes. The Fund will invest in derivatives providing both long and synthetic short positions principally through the use of contracts for difference.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
6,8,9,18	**5.00%**	**1.50%**	**1.67%**	**4.70%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.72%	**Dual**	**12:00**	**11:00**	**Absolute Return**

FIDELITY INVESTMENTS

Fidelity Special Situations Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The Fund's investment objective is to achieve long term capital growth from a portfolio primarily made up of the shares of UK companies. The Fund will have a blend of investments in larger, medium and smaller sized companies. The Authorised Corporate Director is not restricted in its choice of companies either by size or industry, and will choose stocks largely determined by the availability of attractive investment opportunities. The Fund may also invest in other transferable securities, units in collective investment schemes, money market instruments, cash and deposits. Derivatives and forward transactions may also be used for investment purposes.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
3,8	**3.50%**	**1.50%**	**1.70%**	**4.83%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.85%	**Single**	**12:00**	**11:00**	**UK All Companies**

FIRST STATE INVESTMENTS (UK) LIMITED

First State Asia Pacific Leaders Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – This fund aims to achieve long term capital growth. The fund invests in large and mid capitalisation equities in the Asia Pacific region (excluding Japan, including Australasia).

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**4.00%**	**1.50%**	**1.57%**	**4.91%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.93%	**Single**	**12:00**	**11:00**	**Asia Pacific Excluding Japan**

First State Greater China Growth Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The Fund aims to achieve long-term capital growth. The Fund invests in equity and equity type securities issued by companies established or having a predominant part of their economic activities in the People's Republic of China, Hong Kong and Taiwan.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**4.00%**	**1.75%**	**1.86%**	**4.62%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.64%	**Single**	**12:00**	**11:00**	**Asia Pacific Excluding Japan**

GARTMORE FUND MANAGERS LIMITED

Gartmore UK Absolute Return Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The fund aims to provide a positive return over the long term whether markets go up or down by investing in UK company shares. Derivatives will be used to help the fund achieve its objective. The fund aims to typically deliver absolute (more than zero) returns in each year, although an absolute return performance is not guaranteed. Over the short term it may experience periods of negative returns so the fund may not achieve this objective.

Trustee **HSBC Bank plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8,9,11,16,18	**5.00%**	**1.50%**	**1.65%**	**4.72%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.74%	**Single**	**12:00**	**11:00**	**Absolute Return**

HENDERSON GLOBAL INVESTORS LIMITED

Henderson Strategic Bond Class A

Unit/Share type: **Inc** Fund type: **OEIC**

Investment Aims – To provide a return by investing in higher yielding assets including high yield bonds, investment grade bonds, government bonds, preference shares and other bonds. The Fund may also invest in equities. The Fund will take strategic asset allocation decisions between countries, asset classes, sectors and credit ratings. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,4,6,7	**4.00%**	**1.25%**	**1.39%**	**5.10%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
4.12%	**Single**	**12:00**	**11:00**	**£ Strategic Bond**

INVESCO PERPETUAL

Invesco Perpetual High Income

Unit/Share type: **Acc/Inc** Fund type: **ICVC**

Investment Aims – The Invesco Perpetual High Income Fund aims to achieve a high level of income, together with capital growth. The fund intends to invest primarily in companies listed in the UK, with the balance invested internationally. In pursuing this objective, the fund managers may include other investments that they consider appropriate which may include units in collective investment schemes, warrants and other permitted investments and transactions.

Trustee **Citibank**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,5,8,12	**5.00%**	**1.50%**	**1.69%**	**4.68%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.70%	**Single**	**12:00**	**11:00**	**UK Equity Income**

Invesco Perpetual Monthly Income Plus

Unit/Share type: **Acc/Inc** Fund type: **ICVC**

Investment Aims – The Invesco Perpetual Monthly Income Plus Fund aims to achieve a high level of income whilst seeking to maximise total return through investing in high yielding corporate and Government bonds, together with UK equities. In pursuing this objective, the fund managers may include investments that they consider appropriate which include transferable securities, money market instruments, warrants, collective investment schemes, deposits and other permitted investments and transactions.

Trustee **Citibank**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,4,5,6,7,12,13	**5.00%**	**1.25%**	**1.44%**	**4.94%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.96%	**Single**	**12:00**	**11:00**	**£ Strategic Bond**

INVESTEC FUND MANAGERS LIMITED

Investec American Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The Fund aims to achieve long term capital growth primarily through investment in a portfolio of equities issued by USA companies and in derivatives, the underlying assets of which are equities issued by USA companies.

Trustee **State Street Trustees Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,8	**4.50%**	**1.50%**	**1.61%**	**4.82%**
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.84%	**Single**	**12:00**	**11:00**	**North America**

Notes: Please note, transfers are accepted for the Investec American Fund with the share type B.

J O HAMBRO CAPITAL MANAGEMENT LIMITED

J O Hambro (CM) UK Opportunities

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The proposed objective of the Fund is to achieve long-term capital appreciation through investment in a concentrated portfolio primarily invested in transferable securities of UK companies. Up to 10% of the value of the Fund may be invested in non-UK companies. The Fund may also invest in money market instruments, deposits, warrants and units in other collective investment schemes. The benchmark against which performance is measured is the FTSE All Share Total Return Index in Sterling. At all times at least two thirds of the Fund's assets will be invested in equity securities of companies domiciled or exercising the predominant part of their economic activity in the United Kingdom.

Trustee **HSBC Bank plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,8,11,18	**5.00%**	**1.25%**	**1.33%**	**5.05%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
4.07%	**Single**	**12:00**	**11:00**	**UK All Companies**

JPMORGAN ASSET MANAGEMENT

JPMorgan Natural Resources Class A

Unit/Share type: **Acc/Inc** Fund type: **ICVC**

Investment Aims – The Fund aims to invest primarily in the shares of companies throughout the world engaged in the production and marketing of commodities. The fund aims to provide capital growth over the long term.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8 (Acc) 1,2,3,6,8,10, 16 (Inc)	**4.25%**	**1.50%**	**1.67%**	**4.78%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.80%	**Single**	**12:00**	**11:00**	**Specialist**

JUPITER UNIT TRUST MANAGERS LIMITED

Jupiter Absolute Return

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – The Fund seeks to generate absolute return, independent of market conditions, by investing on a global basis. The Fund invests in a global portfolio of equities, equity related securities (including derivatives), cash, near cash, fixed interest securities, currency exchange transactions, index linked securities, money market instruments (MMIs) and deposits. At times the portfolio may be concentrated in any one or a combination of such assets and, as well as holding physical long positions the Manager may create synthetic long and short positions through derivatives.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8,9,18	**5.25%**	**1.25%**	**1.49%**	**4.86%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.88%	**Dual**	**12:00**	**11:00**	**Absolute Return**

Jupiter European Special Situations

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – The objective of the Fund is to achieve long-term capital growth by exploiting special situations principally in Europe. The Fund's investment policy is to attain the objective by investing principally in European equities, in investments considered by the manager to be undervalued.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,8	**5.25%**	**1.50%**	**1.80%**	**4.54%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.56%	**Dual**	**12:00**	**11:00**	**Europe Excluding UK**

Jupiter Japan Income

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – The objective of the Fund is to achieve long-term capital and income growth. The Fund's policy is to attain its objective by investing in a combination of Japanese equities and convertible bonds as well as cash, deposits and money market instruments. The Manager may enter into derivative transactions on behalf of the Fund to the extent that these are for the purposes of efficient management of the portfolio, as permitted under the Scheme Particulars. The Manager will only enter into derivative transactions for the purposes of hedging and tactical asset allocation, and not for speculative purposes.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,4,6,8,12	**5.25%**	**1.50%**	**1.77%**	**4.57%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.59%	**Dual**	**12:00**	**11:00**	**Japan**

LEGAL & GENERAL UNIT TRUST MANAGERS LIMITED

Legal & General Dynamic Bond Trust Class R

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – To achieve a total return (capital and income) by investing principally in a range of fixed and variable rate income securities.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 6%
1,2,4,5,6,9,13	**3.00%**	**1.25%**	**1.42%**	**4.39%**
RIY UT/OEIC based on UGR UT/OEIC 5%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.41%	**Dual**	**12:00**	**11:00**	**£ Strategic Bond**

M&G INVESTMENTS

M&G American Class A Fund

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The Fund's aim is long-term capital growth through investment wholly or mainly in securities of North American (including Canadian) issuers. When not wholly invested as above, it may only invest in companies which are listed, registered or trading within North America.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,8	**4.00%**	**1.50%**	**1.66%**	**4.82%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.84%	**Single**	**12:00**	**11:00**	**North America**

M&G Global Dividend Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The Fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The Fund aims to grow distributions over the long-term whilst also maximising total return (the combination of income and growth of capital).

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,5,8,12	**4.00%**	**1.50%**	**1.68%**	**4.80%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.82%	**Single**	**12:00**	**11:00**	**Global**

M&G Optimal Income Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The Fund aims to provide a total return to investors based on exposure to optimal income streams in investment markets.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
4,5,7,9,12,13	**4.00%**	**1.25%**	**1.42%**	**5.07%**
RIY UT/OEIC based on UGR UT/OEIC 5%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.11%	**Single**	**12:00**	**11:00**	**£ Strategic Bond**

M&G Recovery Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The Fund's sole aim is capital growth by investing predominantly in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. There is no particular income yield target.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**4.00%**	**1.50%**	**1.65%**	**4.83%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.85%	**Single**	**12:00**	**11:00**	**UK All Companies**

MARLBOROUGH FUND MANAGERS LTD

Marlborough Special Situations Class A

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – The objective of the scheme is to provide investors with capital growth by following a speculative policy investing in smaller companies, new issues and companies going through a difficult period with good recovery prospects.

Trustee **HSBC Bank plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8	**5.00%**	**1.50%**	**1.51%**	**4.87%**
RIY UT/OEIC based on UGR UT/OEIC 6%	Single/Dual Priced	Valuation Pricing Time	Dealing cut Off time	Sector
3.89%	**Dual**	**12:00**	**11:00**	**UK Smaller Companies**

MITON ASSET MANAGEMENT LTD

Miton Special Situations Portfolio Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The investment objective of the Fund is to provide long-term growth by investing in a portfolio of other authorised funds, worldwide equities, fixed interest stocks, cash and money market instruments. The investment manager will take a fundamental and value driven approach to portfolio allocation, dependent on the relevant attractions of the world equity, fixed interest and currency markets. The Fund will take an aggressive view of the stock market weightings in the portfolio, when compared to a neutral world market capitalisation.

Trustee **Bank of New York Mellon Trust & Depositary Co. Ltd**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,7,8,12	5.00%	1.50%	1.75%	4.62%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.64%	Single	12:00	11:00	Balanced Managed

NEPTUNE INVESTMENT MANAGEMENT LIMITED

Neptune European Opportunities Class A

Unit/Share type: **Acc/Inc** Fund type: **OEIC**

Investment Aims – The investment objective of Neptune European Opportunities Fund is to generate capital growth by investing predominantly in a concentrated portfolio of securities selected from European markets, excluding the UK, with a view to attaining top quartile performance within the appropriate peer group.

Trustee **State Street Trustees Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8,11 (Acc) 1,2,8,9,16 (Inc)	5.00%	1.75%	1.79%	4.58%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.60%	Single	12:00	11:00	Europe Excluding UK

Neptune US Opportunities Class A

Unit/Share type: **Acc** Fund type: **OEIC**

Investment Aims – The investment objective of the Neptune US Opportunities Fund is to generate capital growth by investing predominantly in a concentrated portfolio of Northern American securities which may include Canada as well as the US, with a view to achieving top quartile performance within the appropriate peer group.

Trustee **State Street Trustees Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,8,11	5.00%	1.60%	1.59%	4.78%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.81%	Single	12:00	11:00	North America

BNY MELLON FUND MANAGERS LIMITED (NEWTON)

Newton (BNY Mellon) Asian Income Class A

Unit/Share type: **Inc** Fund type: **OEIC**

Investment Aims – The objective of the Sub-Fund is to achieve income together with long-term capital growth predominantly through investments in securities in Asia Pacific ex Japan (including Australia & New Zealand) region. The Sub-Fund may also invest in collective investment schemes.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,3,5,6,8,10, 11,12	4.00%	1.50%	1.66%	4.82%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.84%	Single	12:00	11:00	Asia Pacific Excluding Japan

RATHBONE UNIT TRUST MANAGEMENT LIMITED

Rathbone Unit Trust Management Income

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – The objective of the fund is to achieve above average and maintainable income but without neglecting capital security and growth. The Manager intends to achieve the objective primarily through the purchase of ordinary shares with an above average yield. There is no restriction on the economic sectors or geographic areas in which the fund may invest. However, investments will always be predominantly in the ordinary shares of UK companies.

Trustee **Royal Bank of Scotland plc**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,5,6,8,12	5.50%	1.50%	1.56%	4.76%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.78%	Dual	12:00	11:00	UK Equity Income

SCHRODER UNIT TRUSTS LIMITED

Schroder UTL European Alpha Plus

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – The Fund's investment objective is to provide capital growth through investment in European and other companies. The emphasis of the Fund will be investment in European companies. The Fund may also invest in companies headquartered or quoted outside Europe where those companies have material or critical operations within or derive significant business from Europe. Fixed interest securities may be included in the portfolio. Investment will be in directly held transferable securities. The Fund may also invest in collective investment schemes, warrants and money market instruments.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,8,11	5.25%	1.50%	1.68%	4.66%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.69%	Dual	12:00	11:00	Europe Excluding UK

Schroder UTL Income Maximiser

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – The Fund's investment objective is to provide income with potential for capital growth primarily through investment in equity and equity related securities of UK companies. The fund will also use derivative instruments to generate additional income. The Manager may selectively sell short dated call options over securities or portfolios of securities held by the fund or indices, in order to generate additional income by setting target 'strike' prices at which those securities may be sold in the future. The Manager may also, for the purpose of efficient management, use derivative instruments which replicate the performance of a basket of short dated call options or a combination of equity securities and short dated call options. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, derivatives, cash, deposits, warrants and money market instruments.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,5,6,8,9,12	5.25%	1.50%	1.66%	4.68%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.71%	Dual	12:00	11:00	UK Equity Income

Schroder UTL UK Alpha Plus

Unit/Share type: **Acc/Inc** Fund type: **Unit Trust**

Investment Aims – The Fund's investment objective is to provide capital growth through investment in UK and other companies. In order to achieve the objective the manager will invest in a focussed portfolio of securities. The emphasis of the Fund will be investment in UK companies. The fund may also invest in companies headquartered or quoted outside the UK where those companies have material or critical operations within, or derive significant business from, the UK. Fixed interest securities may be included in the portfolio. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, warrants and money market instruments.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
8,11	5.25%	1.50%	1.67%	4.67%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.70%	Dual	12:00	11:00	UK All Companies

STANDARD LIFE INVESTMENTS LIMITED

Standard Life Investments Global Absolute Return Strategies Class R

Unit/Share type: **Acc** Fund type: **Unit Trust**

Investment Aims – The Standard Life Investments Global Absolute Return Strategies Fund aims to provide positive investment returns in all market conditions over the medium to long term. The investment team who actively manage the fund have a wide investment remit to help them try to achieve this aim. The team look to exploit market inefficiencies through active allocation to highly diversified market positions. The fund manager utilises a combination of traditional assets (such as equities and bonds) and investment strategies based on advanced derivative techniques resulting in a highly diversified portfolio. The fund can take long and short positions in markets, securities and groups of securities through derivative contracts.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
2,3,4,8,9,13	4.00%	1.50%	1.60%	4.88%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.90%	Single	07:30	15:00	Absolute Return

THREADNEEDLE INVESTMENTS

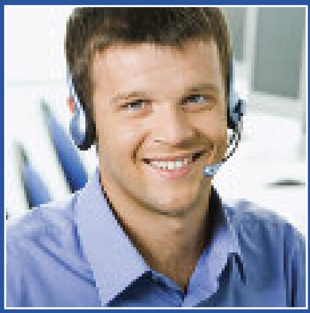
Threadneedle UK Equity Alpha Income Class 1

Unit/Share type: **Inc** Fund type: **OEIC**

Investment Aims – The fund aims to achieve a reasonable and growing income with the prospects of capital growth from a concentrated portfolio of UK equities. The alpha income investment approach is a highly focused management style, which gives the manager the flexibility to take significant stock and sector positions.

Trustee **J.P. Morgan Trustee and Depositary Company Limited**

Special Risk Factors	Standard Initial Charge	Annual Management Charge	TER	RIY ISA based on UGR ISA 7%
1,2,5,6,8,11,12	3.75%	1.50%	1.63%	4.88%
RIY UT/OEIC based on UGR UT/OEIC 6%	**Single/Dual Priced**	**Valuation Pricing Time**	**Dealing cut Off time**	**Sector**
3.90%	Single	12:00	11:00	UK Equity Income



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