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The magazine for Chelsea Investors

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CHELSEA
Investment Intelligence™

WELCOME TO VIEWPOINT

Dr John Holder
Chairman, Chelsea

Welcome to our Autumn edition of Viewpoint. It's a very special edition, as it marks the 35th anniversary of Chelsea Financial Services. Although Chelsea has changed a lot since 1983, we continually strive to deliver the same quality of service to our clients for whom we are privileged to serve. You can read about our history on pages 6-7, and we update you on the one-year performance of our new VT Chelsea Managed Funds on pages 8-11.

This Viewpoint is also full of insights and opinions from leading fund managers, including fund launches from some of the best in the industry (see pages 26-29). We have managed to negotiate special offers for you on each of these new funds.

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Important Notice: Chelsea Financial Services is authorised and regulated by the Financial Conduct Authority and offers an execution-only service. Past performance is not a reliable guide to future returns. Market and exchange-rate movements may cause the value of investments to go down as well as up. Yields will fluctuate and so income from investments is variable and not guaranteed. You may not get back the amount originally invested. Tax treatment depends of your individual circumstances and may be subject to change in the future. 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. Investors are not normally entitled to compensation through the UK Financial Services Compensation Scheme for offshore funds. Aegon is the ISA Plan Manager for the Chelsea FundStore, the Chelsea EasyISA and the Chelsea Junior ISA. Unless stated otherwise all performance figures have been sourced from FE Analytics, bid to bid, net income reinvested on 01/09/2018 and are believed to be correct at the time of print. FundCalibre is an appointed representative under Chelsea Financial Services.

MARKET VIEW

Darius McDermott
Managing Director,
Chelsea

While the 10th anniversary of the collapse of Lehman Brothers has allowed us to reflect on the rapid passing of time, those of us of, ahem, with a far longer tenure in the industry recognise the abnormality of financial conditions of the past decade, distorted by quantitative easing from the world's major central banks.

Amid all the doom and gloom that followed those dark days in September 2008, it's worth remembering that investors have made a lot of money since. Indeed, 22 August this year represented something of a landmark date as the US S&P 500 – a benchmark for the world's largest equity market – passed the previous record for the longest-ever sustained bull market run of 3,453 days.

That does not mean we've seen a straight line of growth. There have been four major market falls during that time, where the index lost more than 10% (a loss of more than 20% represents a move to a bear market phase and a period of falling share prices) but the US, and other developed markets including the UK, have largely delivered sustained returns that should bring investors cheer.

As a football man, I see the period since March 2009 as something of a game of two halves. The years immediately following the financial crisis was a boom time for 'quality', defensive, 'non-cyclical' growth stocks. For example, Nestle and Unilever, where consumers are still going to buy their baby milk and toothpaste whatever the economic conditions. As investors have been willing to pay more for these types of companies in a low-growth environment, so the price of company shares have become more and more expensive.

It wasn't until a few years later that people began to talk about the so-called FAANG tech stocks (Facebook, Apple, Amazon, Netflix and Google) which dominate the US market today. It is these stocks that are most expensive of them all, with Apple and Amazon each surpassing a milestone of $1trillion in value. Share prices have continued to rise since then in August and September.

A common way to judge how expensive the market looks is to use the 'Shiller Cyclically-Adjusted PE Ratio'. Without bogging you down with details about what this is and how it works, the key takeaway is the S&P 500 stood at a measure of over 32x as of June this year against a long running average of around 25x, according to JP Morgan*. In a nutshell, the market looks expensive, and the FAANGs are much to blame for this (find out more about the investment case for technology on page 34).

But does this mean we're forgetting value in other markets? Compared to the US, we think the UK looks fair value, while you could make a relative argument for value in some European and Asian markets too. A strong dollar since April has adversely hit emerging markets, but we think this represents an attractive buying opportunity, given favourable long-term prospects. US money tends to flow to emerging markets when the dollar is weak, because of potential superior returns, but when the dollar is strong, the money returns home. Underneath all of this short-term noise, demographics and the rise of the consumer in these developing countries are stories that look robust.

So how should we be navigating through the months ahead? We think investors need to remain aware of these expensive valuations, and so diversify their portfolios between different equity markets and other asset classes. As regular readers will know, we think bonds are expensive too, so putting our faith in good fixed income managers who can guide us through what could be difficult times ahead will be key.

Amid all the doom and gloom that followed those dark days in September 2008, it's worth remembering that investors have made a lot of money since

*JP Morgan, Guide to the markets, Q3 2018

POLITICAL RISK

From Brexit to Trump, the headlines have been full of political change and uncertainty. As a consequence, there have been some big swings in equity markets.

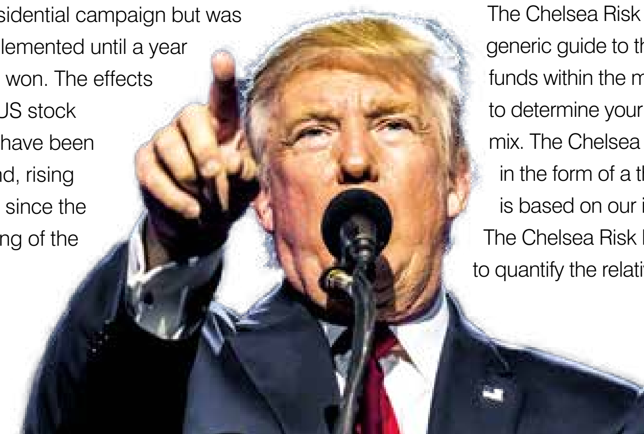
Ryan Lightfoot-Brown
Research Analyst,
Chelsea

While there is a lot of short-term political noise, the long-term affects on returns are less clear. So how should investors consider politics when making their investment choices?

The primary risk is where politics and economics collide. One example is interest rates, one of the key tools for managing an economy. These should be managed independently by central banks for the benefit of the economy, but often politicians can interfere for their own short-term gain. This has arguably been happening in Turkey, where President Erdogan has kept interest rates artificially low, and appointed his son-in-law as head of the central bank. In emerging markets, currencies and stock markets tend to be correlated – as one rises, so does the other. This means politics are even more important.

Political changes can also offer opportunity. India and Japan are good examples of this. Respective Prime Ministers Modi and Abe have won elections based on economic reform. In Modi's case, cutting red tape, stamping out corruption and encouraging business growth. In Japan, Abe has focused on increasing inflation and GDP growth after years of deflation. The stock markets of both countries have done well since they came to power.

US President Donald Trump's tax cut is a further example. It was promised throughout the presidential campaign but was not implemented until a year after he won. The effects on the US stock market have been profound, rising 12.95% since the beginning of the 2018*.



Sometimes key policies can also have a direct impact on particular industries. During the 2016 US Presidential campaign, both candidates targeted the healthcare sector. Trump's political aim to repeal Obamacare and frequent comments on drug pricing caused volatility among these companies. The repeal ultimately didn't go through and despite all the headlines, the MSCI Healthcare sector is actually 0.74% ahead of the S&P500** since Trump took office.

When markets view a policy negatively, they often fall indiscriminately and sharply. In these moments of panic the sell-offs can be overdone, with fear taking over from fundamentals. It is then that cool heads prosper, separating the rhetoric from the reality and being brave when others are fearful. Active managers often see these moments as opportunities to add to their holdings.

As the situation evolves, the political goals campaigned on are often watered down or dropped altogether and sectors that had been affected by negative sentiment can recover.

This is one of the many reasons why we like active management. Fund managers can take advantage of short-term factors and add value as others panic, as well as avoiding the areas where they foresee issues. This is one way for investors to mitigate political risk. Another is the benefit of diversified portfolios and having a range of asset classes, currencies and geographies to spread their risk exposure.

How to use the Chelsea Risk Rating

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

CHELSEA RISK THERMOMETER

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

*FE Analytics 01/01/2018-31/08/2018 S&P500 in GBP
** FE Analytics 20/01/2017-31/08/2018 S&P500 up 23.84% vs MSCI World Healthcare 24.58%.

35 YEARS OF CHELSEA

From pioneering discount broking to managed funds

1983 was an exciting year. The economy was accelerating. UK GDP growth was 4.7%. Inflation was finally under control. The first compact disc went on sale in the UK and Blackadder appeared on our screens. Meanwhile, the stock market was buoyant, up 29% in 1983 alone.* People wanted to get in on the action, but the average saver didn't have the time to research and manage their own stocks. The alternative was to buy an investment fund, but this was impossible without paying an expensive initial charge, usually around 5%.

Enter Dr John Holder. While working in the City, John realised that the average private investor was getting a raw deal. As the initial charge on investment funds was kept by an intermediary, John's revolutionary idea was to give most of this charge back to the private investor. He launched a pioneering new firm - Chelsea Financial Services – which was the first intermediary to discount initial charges on unit trust and bonds, and later PEPs and ISAs (Individual Savings Accounts).

Chelsea was immediately popular with its customers but, like many disruptive companies, it was universally disliked by its peers in the industry. Several very large fund providers, under pressure from IFAs, stopped doing business with Chelsea. Customers were outraged and the story hit the front page of *The Times money section.* A storm of negative publicity followed and the fund providers were forced to relent and started doing business with Chelsea again. The industry was changed forever. The private investor was now able to keep more of their hard-earned savings for themselves. Since it launched, Chelsea has saved its customers tens of millions of pounds.

When John founded Chelsea it wasn't just about offering a better price, it was about providing investors with more choice. While working in the City, John observed how clients were often tied into a certain range of funds. He wanted to offer Chelsea customers as much choice as possible so they had access to the very best fund managers, not just the mediocre.

A big part of what we do at Chelsea is researching funds. We pride ourselves on finding the best funds before they become well known. Opposite are just a handful of the top funds we have featured in our mailings and Viewpoint magazine over the years. The numbers speak for themselves and highlight why the stock market remains the best way to grow your savings over the long-term for those with the time horizon, and patience, to ride out the inevitable falls.

Jupiter Financial Opportunities

Mailed to clients in June 1997, this fund has featured consistently on the Chelsea Selection and is on it today. Originally managed by Philip Gibbs and now Guy de Blonay, it is our most successful mailing so far, returning more than 17 times its initial investment in just over 20 years.

Investment	Now worth
£10,000 on 02/06/97	£172,495
+1,624.95% since 02/06/97***	

Invesco Perpetual High Income

Featured in our list of favourite unit trusts in the September 1995 Viewpoint, this fund was famously managed by Neil Woodford until he left Invesco in 2014. Over his tenure it returned three times the peer group average. The fund is now run by Mark Barnett.

Investment	Now worth
£10,000 on 01/09/95	£99,353
+893.53% since 01/09/95***	

Marlborough UK Micro Cap Growth

Managed by Giles Hargreave and Guy Feld, details of this fund were mailed to Chelsea clients at launch in 2004. This fund, or its larger brother Marlborough Special Situations, have featured on the Selection list ever since. Marlborough UK Micro Cap Growth is currently on the Core Selection.

Investment	Now worth
£10,000 on 04/10/04	£80,283
+702.83% since 04/10/04***	

Fundsmith Equity

Information about this fund was mailed to clients as soon as it was available to buy on the platform in December 2012. Run by the outspoken and experienced Terry Smith, with a 'back to basics' approach, the fund has had a place on the Selection or Core Selection since that date.

Investment	Now worth
£10,000 on 06/12/12	£31,008
+210.08% since 06/12/12***	

Stewart Investors Asia Pacific

Originally named First State Asia Pacific, this fund first featured in the October 2001 Viewpoint. It was so successful, it was subsequently closed to new investments. A sister fund, First State Asia Pacific Leaders, was launched for new investors, which was also highlighted to our clients.

Investment	Now worth
£10,000 on 01/10/01	£114,408
+1,044.08% since 01/10/01***	

Fidelity Special Situations

First featured on the Chelsea Selection in the June 2001 Viewpoint, this fund was run by Anthony Bolton, one of the most famous UK fund managers of all time, and delivered 19.5% annualised growth throughout his tenure. ^ The fund is now managed by Alex Wright.

Investment	Now worth
£10,000 on 01/06/01	£50,173
+401.73% since 01/06/01***	

Jupiter European

Managed by Alexander Darwell since 2001, this fund first featured on our list of unit trusts in the November 1996 Viewpoint. Consistently one of our favourite choices in this asset class, it has appeared regularly in the magazine over the years and is on our Core Selection today.

Investment	Now worth
£10,000 on 01/11/96	£135,945
+1,259% since 01/11/96***	

And we are not resting on our laurels now. Last year, we launched our own fund of funds. These are an option for those who don't have time to research and manage their own portfolios and want access to our research teams views. All four funds have had a fantastic first year, outperforming their benchmarks (see more on page 8-11).

Our fee for these funds (before the cost of the underlying funds and administration costs) is just 0.30%. Many other popular fund of funds charge as much as 0.75%**. Our prices are already substantially cheaper than many larger fund of funds and we are working to lower them further by negotiating with fund providers on your behalf to reduce the underlying fund costs. We are also able to get discounts using our scale – and on these occasions, we pass these back into the funds for your benefit, continuing the work pioneered by John. Once again we are shaking up the industry so that your savings work harder for you and we will continue to do so in the future.

*FE Analytics MSCI United Kingdom 01/01/1983-31/12/1983
**FE Analytics 12/09/2018
***All above FE main units and assuming all income re-invested and no initial charge. Data to 07/08/2018
^Who will take over Anthony Bolton's Crown by Paul Farrow 14/09/2018 https://www.telegraph.co.uk/finance/newsbysector/banksandfinance/2821047/Who-will-take-over-Anthony-Boltons-crown.html

THE VT CHELSEA MANAGED FUNDS

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

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

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

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

Our four-step process

1 Examine the macroeconomic environment

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

2 Select the funds

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

3 Build the portfolios

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

4 Monitor & modify

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

How to invest

Call us on **020 7384 7300**

Visit at **chelseafs.co.uk**

Send us a completed application form (see booklet)

THE YEAR IN REVIEW: FIRST ANNIVERSARY REFLECTIONS

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

The Chelsea investment philosophy

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

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

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

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

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

VT CHELSEA Managed FUNDS

Strong conviction

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

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

Specialist investment

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

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

Top performers

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

Looking to the future

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

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

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

See overleaf for performance data

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

VT Chelsea Managed Cautious Growth

our most defensive portfolio

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

One-year Performance (%)

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

Key facts

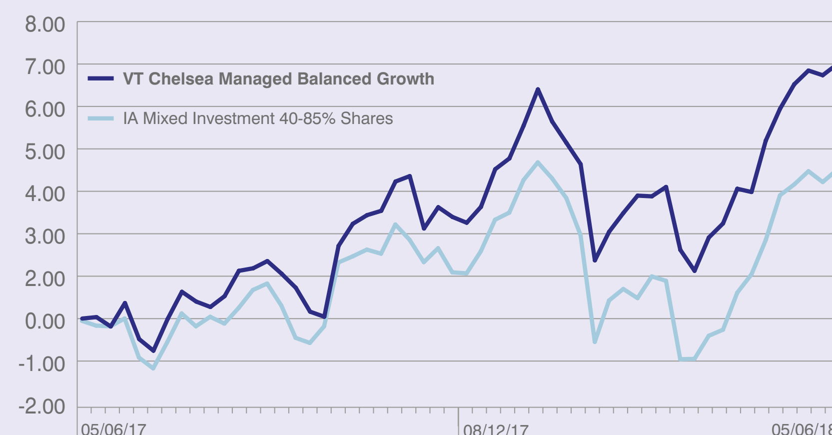
- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with a 40%–50% equity target
- **Ongoing charges figure:** 1.39%^
- **Payment dates:** 30 June, 31 December
- **Indicated yield:** 1.52%
- **One-year performance:** 3.06%
- **Sector average:** 2.26%

VT Chelsea Managed Balanced Growth

our 'happy medium' portfolio

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

One-year Performance (%)



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

Key facts

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

What are the risks?

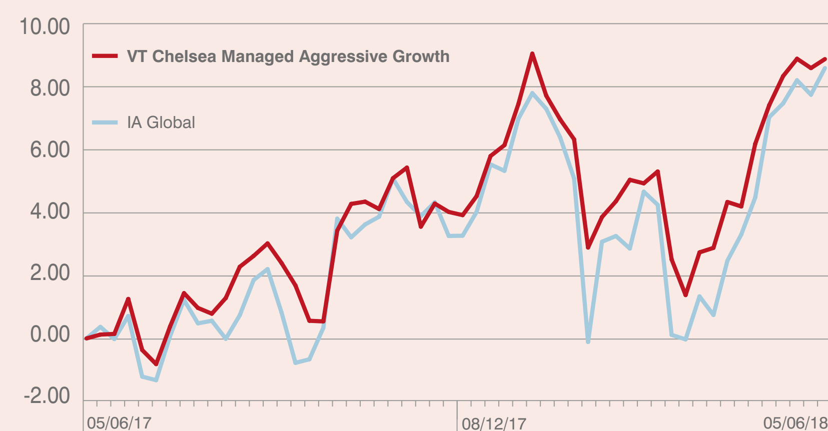
It is important to understand that investments can go down as well as up in value. You may not get back the amount originally invested and income payments are not guaranteed.

VT Chelsea Managed Aggressive Growth

our purest growth play

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

One-year Performance (%)



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

Key facts

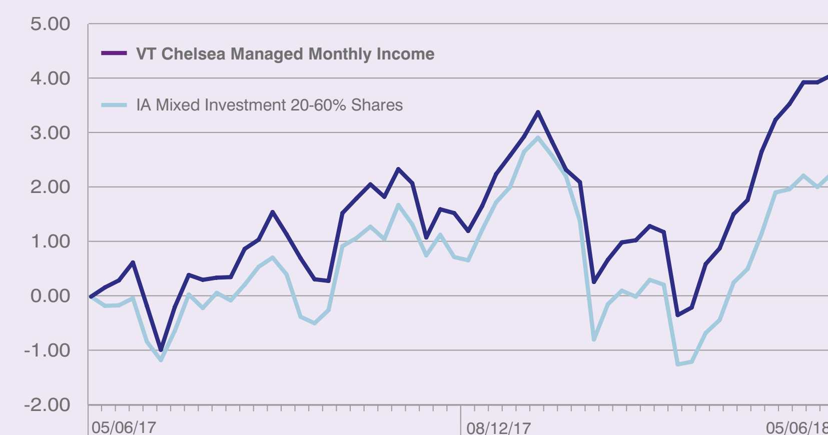
- **Where does it invest?** Globally
- **Asset mix:** Multi-asset, with up to 100% in equities
- **Ongoing charges figure:** 1.27%^
- **One-year performance:** 8.70%
- **Sector average:** 8.42%

VT Chelsea Managed Monthly Income

our fund for yield

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

One-year Performance (%)



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

Key facts

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

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

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

CHELSEA CORE SELECTION

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

UK Equities

AXA Framlington UK Select Opportunities

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

Chelsea Risk Rating	6
Annual Management Charge	0.85%#
Ongoing Charges Figure (OCF)	0.93%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	1.65%
Unit Type	ACC or INC

JOHCM UK Dynamic

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

Chelsea Risk Rating	6
Annual Management Charge	0.63%*#
Ongoing Charges Figure (OCF)	0.69%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.41%
Unit Type	ACC or INC

Liontrust Special Situations

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

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.87%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.83%
Unit Type	INC

NEW ENTRY LF Livingbridge UK Micro Cap

Ken Wotton levers the extensive resource of the private equity background of Livingbridge – who also run the Baronsmead VCT range – for this fund. The process is well honed,and searches in four areas technology, consumer goods, healthcare and business services for differentiated companies with unique businesses. Each stock will have a maximum of £250m market cap. The team often know these companies from their nascent stages and will actively engage with management to help the business plan deliver, including putting analysts on the board if necessary. Stocks are ranked on a conviction score to formalise the buying, sizing and selling of their 40-50 holding portfolio.

Chelsea Risk Rating	8.5
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.98%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.62
Unit Type	ACC or INC

Marlborough UK Micro-Cap Growth

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

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

Marlborough UK Multi-Cap Growth

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.82%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.63%
Unit Type	INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information.
For performance statistics please refer to pages 24-25.
All data sourced from FE Analytics, 01/09/2018. Yields per annum as at 13/09/2018, from Income units.
* There is a performance fee payable to the fund manager on outperformance of the benchmark. See the KIID for further details.
† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). ^ **Includes Chelsea discount.**

Equity Income

Artemis Global Income

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

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	2.97%
Unit Type	ACC or INC

M&G Global Dividend

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.76%
Unit Type	ACC or INC

SPOTLIGHT Man GLG UK Income

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

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	5.16%
Unit Type	ACC or INC

Rathbone Income

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

Chelsea Risk Rating	5
Annual Management Charge	0.65%# ^
Ongoing Charges Figure (OCF)	0.70%† ^
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.92%
Unit Type	ACC or INC

Standard Life UK Equity Income Unconstrained

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

Chelsea Risk Rating	6
Annual Management Charge	1.00%#
Ongoing Charges Figure (OCF)	1.15%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	4.21%
Unit Type	ACC or INC

TB Evenlode Income

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

Chelsea Risk Rating	5
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.20%
Unit Type	ACC or INC

Threadneedle UK Equity Alpha Income

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

Chelsea Risk Rating	5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.88%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	4.00%
Unit Type	INC

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

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

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues. **We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 5 for further details.**

Europe

BlackRock European Dynamic

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.11%
Unit Type	ACC or INC

Jupiter European

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

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.03%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.50%
Unit Type	ACC or INC

Threadneedle European Select

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

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

US

AXA Framlington American Growth

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

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

Fidelity American Special Situations

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

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

LF Miton US Opportunities

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.97%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information.

For performance statistics please refer to pages 24-25.

All data sourced from FE Analytics, 01/09/2018. Yields per annum as at 13/09/2018, from Income units.

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Asia Pacific, Japan and Emerging Markets

Invesco Perpetual, Hong Kong & China

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

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

JPM Japan

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

Chelsea Risk Rating	10
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	0.28%
Unit Type	ACC or INC

Man GLG Japan Core Alpha

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

Chelsea Risk Rating	10
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	2.51%
Unit Type	ACC or INC

Matthews Asia Pacific Tiger

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

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	ACC 1.25% INC 1.10%
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC or INC

SPOTLIGHT RWC Global Emerging Markets

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

Chelsea Risk Rating	10
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	1.26%†
FundCalibre rating	–
Morningstar rating	–
Yield	–
Unit Type	ACC

Schroder Asian Alpha Plus

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

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.34%
Unit Type	ACC or INC

Stewart Investors Asia Pacific Leaders

The fund was previously managed by veteran Angus Tulloch, who has handed over full responsibility to the previous co-manager David Gait. The fund maintains its strong focus on capital preservation by considering corporate governance and social responsibility in order to maintain a sense of stewardship over investors' money. The portfolio is concentrated at 40-60 stocks, with the top 10 making up around 40% of the whole portfolio. David makes meeting company management an integral part of company analysis, and the stocks will typically be large cap, with firms under around $1bn removed from the stock selection process.

Chelsea Risk Rating	7.5
Annual Management Charge	0.85%#
Ongoing Charges Figure (OCF)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.99%
Unit Type	ACC or INC

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

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

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues. **We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 5 for further details.**

Global

Fidelity Global Special Situations

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

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

Fundsmith Equity

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

Chelsea Risk Rating	6
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.58%
Unit Type	ACC or INC

Rathbone Global Opportunities

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

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

NEW ENTRY T. Rowe Price Global Focused Growth Equity

Lead manager David Eiswert is supported by T Rowe Price's large global analyst network. David combines his macroeconomic view with his analysts' best ideas to build a portfolio of around 80 growth stocks. He targets businesses with accelerating returns on capital over the next 12 to 24 months. The fund currently has almost a third invested in technology and unlike some global funds it does invest in emerging markets.

Chelsea Risk Rating	7.5
Annual Management Charge	0.50%^#
Ongoing Charges Figure (OCF)	0.67%^†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

Fixed Interest

Invesco Perpetual Monthly Income Plus

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

Chelsea Risk Rating	3.5
Annual Management Charge	–
Ongoing Charges Figure (OCF)	0.67%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	5.09%
Unit Type	ACC or INC

Janus Henderson Strategic Bond

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

Chelsea Risk Rating	3
Annual Management Charge	0.60%#
Ongoing Charges Figure (OCF)	0.69%†
FundCalibre rating	–
Morningstar rating	SILVER
Yield	3.00%
Unit Type	ACC or INC

Jupiter Strategic Bond

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

Chelsea Risk Rating	2.5
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.73%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.50%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information.

For performance statistics please refer to pages 24-25.

All data sourced from FE Analytics, 01/09/2018. Yields per annum as at 13/09/2018, from Income units.

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

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

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Fixed Interest continued

Kames Investment Grade Bond

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

Chelsea Risk Rating	2.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.78%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.64%
Unit Type	ACC or INC

Baillie Gifford Strategic Bond

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

Chelsea Risk Rating	3
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.52%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.40%
Unit Type	ACC or INC

TwentyFour Dynamic Bond

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

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

Targeted Absolute Return

BlackRock UK Absolute Alpha

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

Chelsea Risk Rating	4
Annual Management Charge	0.75% §#*
Ongoing Charges Figure (OCF)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Janus Henderson UK Absolute Return

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

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

Merian Global Equity Absolute Return Hedged

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

Chelsea Risk Rating	5
Annual Management Charge	0.75%§#
Ongoing Charges Figure (OCF)	0.81%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

SVS Church House Tenax Absolute Return Strategies

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

Chelsea Risk Rating	4
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.79%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.84%
Unit Type	ACC or INC

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

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

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues. **We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 5 for further details.**

CORE SELECTION SPOTLIGHT

RWC GLOBAL EMERGING MARKETS

John Malloy
Fund manager,
RWC Global Emerging Markets

I have been portfolio manager of the RWC Global Emerging Markets Fund since its launch in December 2015. I have 25 years of investment experience, having previously worked for both Everest Capital and Barings.

We use macro-economic views and detailed individual company research to identify countries, themes and businesses with high return potential. We target growth opportunities trading at reasonable prices and we pursue an idea-focused rather than index-driven approach. Our approach to idea generation is a dynamic one in which the whole investment team participate, scouring our universe of some 7,000 companies in more than 60 countries and analysing information on a sectoral, country-specific and thematic level. We conduct more than 1,700 company meetings a year and participate in regular meetings with RWC's other portfolio managers, analysts and our macroeconomist.

Country example – South Korea

Korea's economy is maintaining momentum on exports and we believe that it will continue to see stronger domestic demand, with consumption accelerating and continued growth in capital expenditures. Inflation remains low, monetary policy will be tightened very gradually and credit growth is accelerating. We feel that the country's on-going unification with the North is also encouraging.

South Korea's workforce is expected to decline over the next 20 years by 10 million from today's 26 million workers, while the labour force in the North stands at close to 20 million today with little future decline forecast. While differences in language and culture represent an obvious short-term hurdle, a full integration of the workforces of the North and South may significantly boost the region's economic growth over the long term.

Thematic example – Technology Disruption

We are looking for technology companies that are disrupting the way an industry works, creating a new business model or where the technology is changing so dramatically that the number of companies able to compete in this area shrinks to an effective oligopoly.

E-commerce (business conducted online) is part of this theme, but in emerging markets much of that experience is actually leap-frogging the desktop computer and moving straight to smartphones. Internet media, advertising and classifieds represents another avenue.

Rapid changes in technology can lead to a significant reduction in the number of competing companies. One such example is Samsung Electronics, which is one of the world's largest technology companies and is the global leader in memory production with roughly half of global market share. We believe that the company will continue to benefit from the increasing penetration of smartphones, data-centres and artificially intelligent devices. The company's semiconductor division continues to thrive, and we believe margins will stay at peak levels given ongoing discipline with only three other players in the industry.

Sector positioning

Currently, we are substantially overweight in the industrials and materials sectors, and slightly overweight energy, as we believe that the business cycle is currently in an expansionary phase. Our industrial exposure is diversified across Asia, as we see significant infrastructure growth potential in India, China and Vietnam amongst other economies.

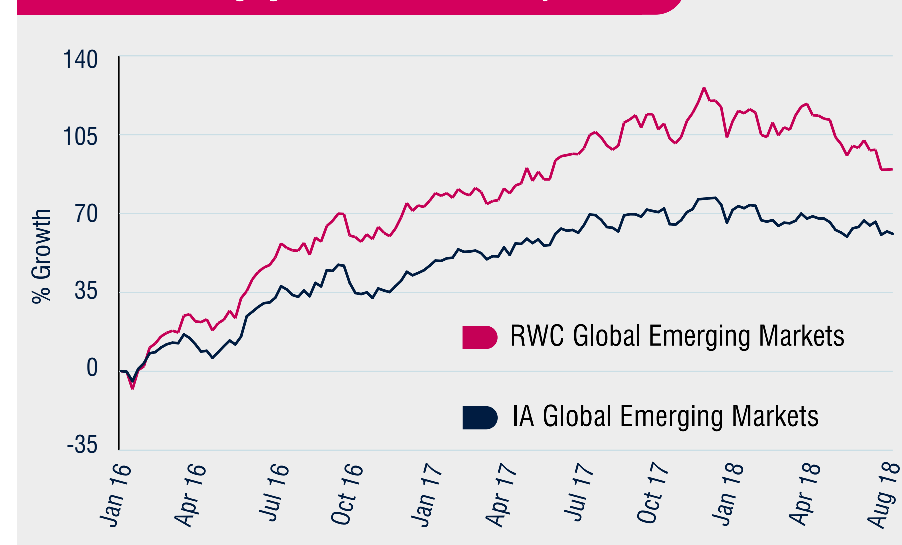
The fund's materials exposure includes holdings principally relating to steel, copper and cement. We feel that an increase in long term structural demand, led by the rise of electric vehicles in addition to supply constraints such as decreasing ore grades, should benefit the copper price.

The thesis in relation to some of our energy investments surrounds growth in production, balance sheet deleveraging and stable to rising oil prices. Asset sales and cost control programs have been implemented and the subsequent reduction in capital expenditures shows significant growth in free cash flow yields.

THE CHELSEA VIEW

We think this funds macro-economic overview makes a lot of sense in emerging markets which are often more vulnerable to shocks than their developed market counterparts. The team is well resourced and has an excellent long-term track record.

RWC Global Emerging Markets - since January 2016



Source: FEAnalytics 29/01/2016-31/08/2018

CORE SELECTION SPOTLIGHT

MAN GLG UK INCOME

ELITE RATED BY FUNDCALIBRE

Henry Dixon
Fund manager, Man GLG UK Income

Man GLG UK Income fund is managed by me, Henry Dixon, with the support of two analysts: Alice Owen and James Houlden. Collectively, we have nearly 30 years' experience in the UK stock market.

This fund invests predominantly in UK-based companies. We aim to deliver both income and growth. Our income target is to deliver a dividend yield greater than that of the FTSE All-Share Total Return index*, which is now paid monthly. Our second focus is on increasing our customers' initial investments, as we believe this is a good means of ensuring a steadily appreciating dividend steam over time.

Our approach to investing for income and growth

We employ a three pronged approach. Firstly, we include those stocks uncovered by a strict value process, which places an emphasis on cash generative, self-sustaining companies in a strong financial positions – but whose assets or profit streams, in our view, have not been adequately valued by the market. We adhere to a number of rules to reach this point, such as price-to-replacement cost (the price of replacing a company asset – like a building – at the same or equal value) and net returns on invested capital. These ensure that the companies that are in the fund provide better value than the market as a whole and have the tools and potential to recover. The stocks must also exhibit a dividend yield of at least that of the market.

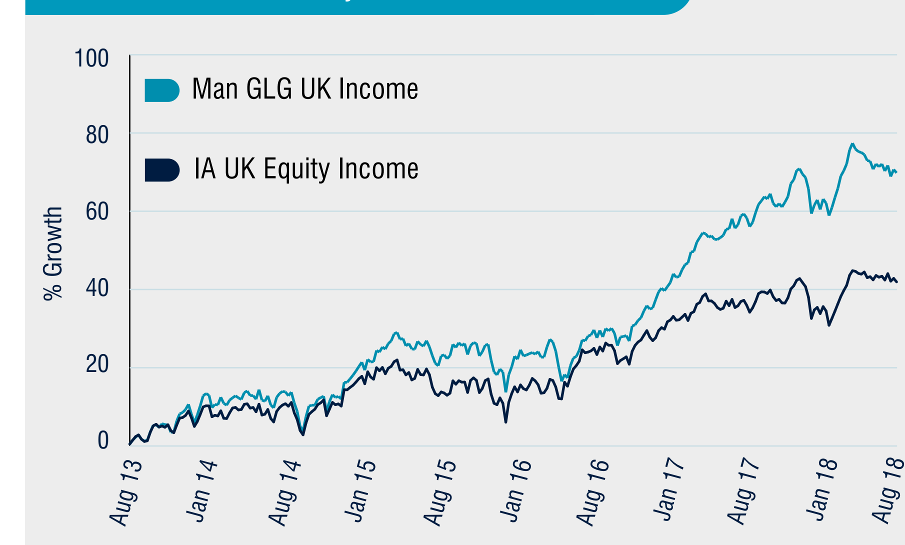
The second strand focuses on companies with materially stronger balance sheets than the market (as defined by net cash), and a superior free cash flow yield. This metric measures the difference between cash generated and cash used, divided by the company's market capitalisation. By focussing on these metrics the hope is that dividend growth will be better than expected and will lead to an increase in share price.

The third element in our investment approach is somewhat unique: we have the ability to allocate a proportion of our portfolio to debt instruments such as corporate bonds. Where the team has established positive equity value for a company, further analysis can occasionally expose attractive income opportunities in the capital structure. For example, concerns regarding Italy and further US interest rate rises caused some of the bonds in Prudential Plc to fall to a c20% discount to their issue price. While the bond is a 'perpetual', meaning it has no maturity date and is generally not redeemable, it did have the option to be redeemed in 2021 at the same value as it was issued, which made it look attractive. Furthermore, the running yield was just just shy of 6%. This typifies the combination of attractive yield and capital growth that we try to isolate.

Uncertainty: frustrations and opportunities

Brexit and trade wars present us with uncertainty. This is frustrating but, given the market's dislike of uncertainty, it is unsurprising that UK companies are currently out of favour. The resulting share price decline has provided an opportunity to buy at a lower price. This value opportunity is complimented by extremely modest expectations and, looking back through history, there has been a strong correlation of positive returns with low expectations. As a result, we feel there are a number of instances where we can find companies that are both good value and are improving earnings as identified by our value process. Furthermore, as we look at the other strands of the process we see an increased ability to deploy capital. This has allowed us to construct a portfolio that we believe is good value. As ever it is this starting point that gives us confidence in the prospects for the rest of the year.

Man GLG UK Income - five years



Source: FEAnalytics 30/08/2013-31/08/2018

* The FTSE All-Share Index represents the performance of all eligible companies listed on the London Stock Exchange's (LSE) main market, which pass screening for size and liquidity. The index captures 98% of the UK's market capitalisation.

THE CHELSEA VIEW

This fund has a unique and disciplined investment process. We particularly like the fund's ability to invest in companies of all sizes and even bonds if they are deemed to offer better value. The fund has been the top performer in the IA UK Equity Income sector since Henry assumed control in late 2013.

THE CHELSEA EASYISA

Juliet Schooling Latter
Research Director,
Chelsea

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

With the Chelsea EasyISA portfolios, all you have to do is choose one of the five options, based upon your own requirements and attitude to risk. Your ISA will then be spread equally across the corresponding six funds, within the Chelsea FundStore. These EasyISAs are simply suggested portfolios and, due to their exposure to equities, may be subject to volatility, and thus potential capital loss. **The EasyISAs are not managed.**

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

How much can you invest?

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

An alternative solution for investors who want managed funds.

The EasyISA portfolio changes are detailed below and you need to make any switches yourself. However, our new VT Chelsea Managed Funds are monitored daily and you don't need to worry about making any changes, as the portfolio changes are all done for you. **For more details, see pages 8-11.**

Portfolio Changes

Aggressive Growth Easy ISA: LF Miton US Opportunities replaces Fidelity American Special Situations

The LF Miton US Opportunities fund has continued to produce strong performance and its bias to mid and small cap holdings makes it a more appropriate fit for the Aggressive Growth Easy ISA.

Global Income Easy ISA: Man GLG UK Income replaces Fidelity Enhanced Income

Fidelity Enhanced Income has generated a good yield but its total return has been disappointing. We think the Man GLG UK Income fund offers better potential for dividend growth over the long-term.

What to do next

1 **Select the EasyISA which best suits you** (read the KIID & pre-sale illustration^ for each relevant fund)

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

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

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

How to invest

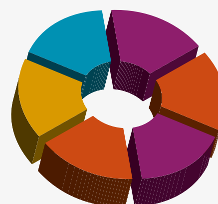
Call us on **020 7384 7300**

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

Send us a completed application form (see booklet)

Cautious Growth EasyISA

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



- Baillie Gifford Strategic Bond
- BlackRock UK Absolute Alpha*
- Jupiter Strategic Bond
- Merian Global Equity Absolute Return Hedged*
- Rathbone Global Opportunities
- TB Evenlode Income

Average Annual Management Charge	0.86%*#
Average Ongoing Charges Figure (OCF)	0.95%†
Benchmark	1/3 Strategic Bond (sector average) 2/3 Mixed Investment 20-60% (sector average)

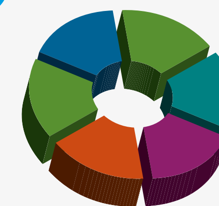
	Cautious Growth Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	18.94%	16.66%	20.67%
5 Year Performance	36.14%	25.87%	30.17%
10 Year Performance	80.26%	60.80%	62.75%

FE Analytics data as at 01/09/2018 compiled by Chelsea. *A performance fee may be applied, see the KIID for further details. **Sector average

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees. # The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). These portfolios do not include cash allocations. Charges as at 17/09/18. ^Yields per annum as at 13/09/18

Balanced Growth EasyISA

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



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

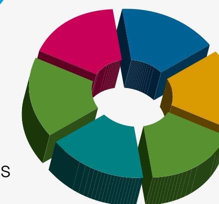
Average Annual Management Charge	0.77%*#
Average Ongoing Charges Figure (OCF)	0.87%†
Benchmark	1/3 UK All Companies (sector average) 1/3 Global (sector average) 1/3 Mixed Investment 20-60% shares (sector average)

	Balanced Growth Portfolio	Benchmark	Mixed Investments 40-85% Shares**
3 Year Performance	30.78%	35.76%	30.73%
5 Year Performance	50.84%	49.04%	42.89%
10 Year Performance	104.17%	100.71%	85.99%

FE Analytics data as at 01/09/2018 compiled by Chelsea. *A performance fee may be applied, see the KIID for further details. **Sector average

Aggressive Growth EasyISA

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



- BlackRock European Dynamic
- Fundsmith Equity
- JOHCM UK Dynamic*
- LF Miton US Opportunities
- Marlborough UK Micro-Cap Growth
- Stewart Investors Asia Pacific Leaders

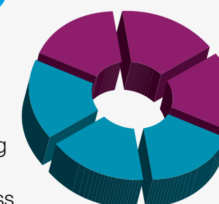
Average Annual Management Charge	0.99%*#
Average Ongoing Charges Figure (OCF)	0.90%†
Benchmark	MSCI World Index

	Aggressive Growth Portfolio	Benchmark	Global**
3 Year Performance	59.29%	69.92%	57.73%
5 Year Performance	81.38%	93.71%	74.77%
10 Year Performance	157.32%	177.53%	134.51%

FE Analytics data as at 01/09/2018 compiled by Chelsea. **Sector average

Income EasyISA

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



- **Invesco Perpetual Monthly Income Plus** Yield: 5.09%^ Paid: Monthly
- **M&G Global Dividend** Yd: 2.76%^ Paid: Mar, Jun, Sep, Dec
- **Schroder High Yield Opportunities** Yield: 6.19%^ Paid: Monthly
- **SLI UK Equity Income Unconstrained** Yield: 4.21%^ Paid: Mar, Jul
- **Threadneedle UK Equity Alpha Income** Yield: 4.30%^ Paid: Jan, Jul
- **TwentyFour Dynamic Bond** Yield: 4.53%^ Paid: Mar, Jun, Sep, Dec

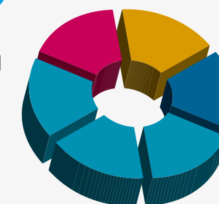
Average Annual Management Charge	0.75%#
Average Ongoing Charges Figure (OCF)	0.85%†
Benchmark	1/2 Strategic Bond (sector average) 1/2 UK Equity Income (sector average)

	Income Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	22.26%	19.52%	20.67%
5 Year Performance	34.37%	32.03%	30.17%
10 Year Performance	107.56%	87.35%	62.75%
Average Portfolio Yield	4.51%^		

FE Analytics data as at 01/09/2018 compiled by Chelsea. **Sector average

Global Income EasyISA

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



- **Artemis Global Income** Yield: 2.97%^ Paid: Oct, Apr
- **BlackRock Continental European Income** Yield: 3.93%^ Paid: Feb, May, Aug, Nov
- **Fidelity Global Enhanced Income** Yield: 4.82%^ Paid: Feb, May, Aug, Nov
- **Guinness Global Equity Income** Yield: 2.63%^ Paid: Aug, Feb
- **Man GLG UK Income** Yield: 5.16%^ Paid: Monthly
- **Schroder Asian Income** Yield: 4.07%^ Paid: Mar, Oct

Average Annual Management Charge	0.71%#
Average Ongoing Charges Figure (OCF)	0.91%†
Benchmark	Global Equity Income

	Global Income Portfolio	Benchmark	Global Equity Income**
3 Year Performance	47.4%	47.01%	47.01%
5 Year Performance	63.93%	60.16%	60.16%
10 Year Performance	N/A	134.50%	134.50%
Average Portfolio Yield	3.93%^		

FE Analytics data as at 01/09/2018 compiled by Chelsea. **Sector average

† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees. #The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). These portfolios do not include cash allocations. Charges as at 17/09/18. ^Yields per annum as at 13/09/18

MONTHLY SAVINGS: TAKING THE ANGST OUT OF INVESTING

Sam Slator
Head of Communications,
Chelsea

Making regular monthly contributions - no matter how small - into a savings plan can help you to grow your savings pot over the long term.

Whether you're new to investing, don't have a lot of disposable income, or you're worried that stock markets could be near their 'peak', investing at a particular point in time can be daunting. After all, no one wants to invest a large lump sum, only to see it fall in value the next day. In these instances, taking a 'little but often' approach could be the solution.

Advantages of regular savings

There are a number of potential benefits associated with committing to regular monthly savings.

Firstly, monthly savings strips emotion out of investment decisions. Many investors suffer poor returns because of bad timing and this is simply human nature. Individuals tend to invest near the top of the market, buoyed by positive news and rising asset prices. They then sell near the bottom of the market in the midst of market volatility. The benefit of taking emotion out of decision making should not be underestimated: very few investors – even hardened professionals – can successfully predict the direction of the market in the short-term, despite what they might say.

Peace of mind

Regular monthly savings also provides savers with peace of mind. Rather than making a big initial lump sum investment and worrying that the stock market could fall, we can sleep at night, knowing that we are investing smaller amounts on a regular basis and that the fluctuations in the value of our portfolio will be less pronounced.

Pound cost averaging

This ties in nicely with the third advantage: pound cost averaging. When we invest the same amount on a regular basis, we simply buy more units when an investment is cheaper and less units when it is more expensive. For example, a £100 investment into a fund with a unit price of £5 could provide you with 20 units during the first month. Say the unit price fell by month two, our £100 buys 25 units at a price of £4. We now have 45 shares at an average price of £4.44.

Finally, putting a little bit of money aside each month is a great discipline.

Good habits

You can invest as little as £10 a month with Chelsea and it can be taken directly out of your bank account. This means you don't have to remember to do it and it can become one of your regular monthly outgoings – only instead of paying a bill, it is going towards your future. Increasing your monthly savings by the same amount as a pay rise, as and when you get it, is another good habit to adopt.

THE CHELSEA JUNIOR ISA

FORGET THE BIRDS: INVEST IN A CHELSEA JUNIOR ISA INSTEAD!

Peter Hicks
Research Analyst,
Chelsea

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

In the film Mary Poppins, the curmudgeonly George Banks takes his children, Jane and Michael, on a day visit to his place of work, a reputable London bank. During the visit Jane and Michael are corralled by the Board of Directors and their father into investing their tuppence. Jane and Michael have other ideas, wanting to instead spend their penny on feeding the birds. A thoroughly entertaining and catchy scene ensues, culminating in a tussle between Michael and the decrepit Chairman of the bank.

While the scene is classic Disney at its finest and has thrilled generations of parents and children, it is also a sorry advert for the benefits of thrift and prudence. I'm afraid to say I side with George and the Board of Directors. "Waste your money on a lot of ragamuffin birds? Certainly not!" History shows, the earlier you start investing, the more you can benefit from the power of compound interest.

Junior ISA

You can start investing in a Junior ISA the moment (or perhaps a few weeks after) a child is born. With a Junior ISA, parents have the advantage of a lengthy time horizon. Modest sums invested over a long period of time can build a substantial nest egg for when your child turns 18. The savings can go towards anything, from university fees to a car, or can be rolled over into an adult ISA. The annual 2018/19 JISA allowance is £4,260.

Teach your child to save

Investing for your child's future is also a useful way to teach them about the practical benefits of saving, as well as encouraging positive financial habits. An exciting aspect of finance to introduce your child to is the power of compound interest, described by Albert Einstein as the 8th wonder of the world. For example, a small £30 monthly investment in a fund that achieves the average return of the IA UK Smaller Companies, started in August 2000, would now be worth over £20,000.* A cash saving of the same £30 per month would have only been worth a modest £7,431, assuming the Bank of England base rate.**

HOW DO I INVEST?

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

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

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

Unsure of where to invest?

Parenting is a full-time concern: from seemingly endless nappy changes to hectic school runs and heaps of admin that comes with their education and social life, which is invariably fuller than your own.

Portfolio management also takes time and careful consideration. So why not consider the VT Chelsea Managed Funds? They are diversified, actively managed fund of funds designed to offer the best possible returns for the least risk.

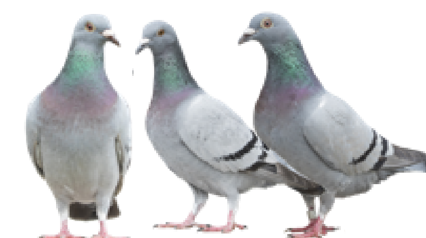
They offer a complete solution, with four options to suit the level of risk you want to take. Please see pages 8-11 for further details.

Alternatively, you might like to take a look at the full range of funds available on the Chelsea FundStore, our Selection (pages 24-25), and our Core Selection (pages 12-17).

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

*FE Anayltics, IA UK Smaller Companies sector average total returns, 31 August 2000 to 1 Aug 2018

**FE Analytics BoE total return 31 August 2000 to 1 Aug 2018



THE CHELSEA SELECTION

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

Fund	Core	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	Yield %	Fund Size (m)
UK All Companies													
Artemis UK Select NEW ENTRY			7	3.57	209	25.43	197	51.37	88	149.82	52	2.60	742.0
AXA Framlington UK Select Opportunities	●	✓	6	6.30	99	23.12	209	39.33	164	138.41	62	1.65	2827.9
Franklin UK Managers' Focus			7	6.66	91	32.11	133	70.99	26	180.25	30	-	403.2
Franklin UK Mid Cap		✓	6.5	9.17	47	29.92	157	66.22	35	265.67	8	2.01	1053.0
Invesco UK Alpha		✓	6	6.01	106	33.75	112	63.95	47	156.64	43	2.27	2146.6
JOHCM UK Dynamic	●	✓	6	6.95	87	44.18	26	60.57	57	203.53	22	3.41	1100.0
Jupiter UK Special Situations		✓	5	5.74	113	38.17	58	53.77	78	165.73	37	2.30	2010.7
Lindsell Train UK Equity			6.5	12.91	18	60.04	9	90.34	10	348.39	2	1.79	5832.0
Liontrust Special Situations	●	✓	6	14.49	11	58.88	10	80.17	15	311.41	5	1.82	3907.8
Marlborough UK Multi-Cap Growth	●	✓	7	10.39	36	65.32	5	103.02	8	254.79	10	0.63	363.5
MI Chelveton UK Equity Growth		✓	7.5	15.31	7	82.67	2	-	-	-	-	0.93	285.0
Schroder Recovery		✓	7.5	8.30	54	39.96	46	49.52	94	209.97	19	2.45	1210.9
Slater Growth NEW ENTRY			7	10.31	38	39.68	50	104.58	7	392.04	1	-	604.3
Threadneedle UK Extended Alpha		✓	7	4.72	158	34.32	107	56.00	73	123.23	87	-	130.4
Sector Average				**5.95**	**263**	**32.59**	**248**	**46.90**	**236**	**114.10**	**197**		
UK Equity Income													
Artemis Income		✓	5	5.09	24	33.07	17	48.24	22	136.17	11	4.15	6300.8
JOHCM UK Equity Income		✓	6	6.38	12	37.22	8	53.33	13	203.94	3	4.36	3800.0
LF Livingbridge UK Multi Cap Income NEW ENTRY			7.5	16.09	1	-	-	-	-	-	-	-	27.8
Man GLG UK Income SPOTLIGHT	●	✓	6	6.77	9	42.02	4	72.39	3	132.45	15	5.16	724.3
Marlborough Multi Cap Income		✓	7	5.67	16	19.50	71	57.35	8	-	-	4.38	1642.6
Montanaro UK Income		✓	7.5	6.26	102 / 263	37.19	68 / 248	71.74	25 / 236	231.29	14 / 197	3.60	320.0
Rathbone Income	●	✓	5	1.90	70	26.30	44	46.13	35	124.61	22	3.92	1282.5
Royal London UK Equity Income		✓	5.5	6.18	14	36.28	11	58.98	7	180.42	4	4.08	2084.0
Standard Life Investments UK Equity Income Unconstrained	●	✓	6	4.59	31	16.84	76	50.24	20	133.19	14	4.21	1469.3
TB Evenlode Income***	●	✓	5	11.99	24 / 263	56.44	15 / 248	82.86	14 / 236	-	-	3.20	2513.0
Threadneedle UK Equity Alpha Income	●		5	5.38	18	28.57	36	46.85	30	142.37	9	4.00	777.3
Sector Average				**3.54**	**87**	**27.03**	**80**	**43.29**	**76**	**112.04**	**55**		
UK Smaller Companies													
AXA Framlington UK Smaller Companies			8	8.52	33	49.62	21	117.76	11	301.76	13	0.55	307.9
Franklin UK Smaller Companies			8	13.76	15	39.23	33	87.37	25	150.17	40	1.02	395.9
LF Livingbridge UK Micro Cap	●	✓	8.5	19.26	9	59.24	14	132.23	6	-	-	0.62	170.7
Liontrust UK Micro Cap			8	23.65	4	-	-	-	-	-	-	-	34.6
Marlborough Special Situations		✓	7.5	12.74	20	59.08	15	117.83	10	356.53	8	-	1705.1
Marlborough UK Micro-Cap Growth	●	✓	8	12.09	22	64.18	11	123.30	8	440.14	4	-	1296.3
R&M UK Equity Smaller Companies			8	6.80	40	45.55	25	117.88	9	374.46	7	-	601.7
TB Amati UK Smaller Companies^ NEW ENTRY			8	21.24	5	92.35	4	153.85	3	420.66	5	-	204.9
Sector Average				**11.62**	**48**	**49.87**	**46**	**85.56**	**45**	**232.83**	**41**		
Sterling Corporate Bond													
BlackRock Corporate Bond		✓	2.5	0.39	8	16.69	17	31.64	16	96.08	10	2.86	762.6
Kames Investment Grade Bond	●	✓	2.5	-0.46	38	14.23	37	30.62	19	91.98	15	2.64	1487.0
Royal London Corporate Bond		✓	2.5	0.44	7	17.07	14	33.66	12	87.21	17	3.24	1191.8
TwentyFour Corporate Bond		✓	2.5	0.04	20	15.22	30	-	-	-	-	-	655.1
Sector Average				**-0.65**	**94**	**13.62**	**86**	**25.53**	**78**	**68.92**	**58**		
Sterling High Yield													
Aviva Investors High Yield Bond 2		✓	3.5	-0.59	34	11.09	29	27.74	8	-	-	4.70	139.3
Baillie Gifford High Yield Bond		✓	4	2.11	6	18.15	6	27.88	7	114.77	3	3.90	453.0
Royal London Short Duration Global High Yield Bond			2.5	1.53	15	8.82	30	18.71	24	-	-	5.14	1256.5
Schroder High Yield Opportunities			4	3.00	1	24.07	2	43.13	1	121.62	2	6.19	728.8
Sector Average				**1.48**	**34**	**14.97**	**32**	**22.97**	**28**	**85.00**	**19**		
Sterling Strategic Bond													
Artemis Strategic Bond			3	1.20	10	15.77	11	28.10	16	82.75	15	4.10	1333.8
Baillie Gifford Strategic Bond	●	✓	3	0.37	25	17.53	7	33.42	6	102.99	4	3.40	778.9
GAM Star Credit Opportunities*		✓	4	0.09	30	22.90	4	52.09	2	-	-	4.15	1202.5
Invesco Perpetual Monthly Income Plus	●	✓	3.5	-0.80	51	13.22	20	24.15	30	95.24	6	5.09	3159.6
Janus Henderson Strategic Bond^	●		3	-0.59	47	9.79	48	24.55	24	78.25	19	3.00	2169.1
Jupiter Strategic Bond	●	✓	2.5	-0.38	42	10.56	46	21.76	36	111.36	2	3.50	3913.6
TwentyFour Dynamic Bond	●	✓	3.5	0.95	14	12.46	31	30.06	11	-	-	4.53	1839.6
Sector Average				**-0.39**	**83**	**11.18**	**74**	**21.18**	**67**	**63.54**	**42**		
Targeted Absolute Return													
BlackRock UK Absolute Alpha	●	✓	4	-1.35	-	4.14	-	24.06	-	24.67	-	-	461.4
Janus Henderson UK Absolute Return	●	✓	4	1.16	-	9.11	-	23.99	-	-	-	-	2526.2
Jupiter Absolute Return***		✓	4.5	-4.63	-	5.75	-	13.02	-	-	-	-	1494.3
Merian Global Equity Absolute Return Hedged	●	✓	5	0.50	-	13.37	-	27.61	-	-	-	-	12472.0
Smith & Williamson Enterprise		✓	5	1.64	-	8.10	-	25.71	-	50.51	-	-	146.4
SVS Church House Tenax Absolute Return Strategies	●	✓	4	0.25	-	11.38	-	21.20	-	53.42	-	0.72	241.0
Sector Average				**-0.47**	**-**	**4.43**	**-**	**11.90**	**-**	**29.37**	**-**		
Europe Excluding UK													
Barings Europe Select Trust***		✓	8	7.29	13 / 26	74.87	9 / 23	108.59	10 / 20	266.31	4 / 19	1.40	2164.9
BlackRock Continental European Income		✓	7	-1.99	93	42.75	76	69.36	32	-	-	3.93	1890.0
BlackRock European Dynamic^	●	✓	7	7.15	14	63.63	10	94.89	4	262.81	3	1.11	3186.4
FP CRUX European Special Situations NEW ENTRY		✓	7	1.22	60	59.10	17	77.94	17	-	-	2.05	2141.8
GAM Star Continental European Equity		✓	7	-2.65	97	43.79	69	62.46	52	143.17	15	1.06	1483.4
Jupiter European	●	✓	6.5	21.10	1	78.35	2	120.12	3	290.15	1	0.50	6031.1
Marlborough European Multi-Cap		✓	8	0.01	78	88.39	1	122.12	2	148.20	13	1.00	448.6
Schroder European Alpha Income NEW ENTRY		✓	7.5	-3.41	105	48.83	41	82.15	8	-	-	3.16	1324.9
Threadneedle European Select	●	✓	7	5.15	24	52.56	27	71.77	29	200.46	6	1.00	3170.6
Sector Average				**1.85**	**113**	**47.05**	**103**	**63.28**	**94**	**108.09**	**73**		

Fund	Core	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	Yield %	Fund Size (m)
North America													
Artemis US Extended Alpha			7	18.41	61	94.50	12	-	-	-	-	-	1495.8
AXA Framlington American Growth	●	✓	7	31.31	4	85.88	32	143.13	12	305.44	10	-	570.2
Brown Advisory US Flexible Equity^		✓	7	22.37	-	83.21	-	-	-	-	-	-	264.1
Dodge & Cox US Stock			7	17.91	71	88.04	24	125.15	35	-	-	-	1147.1
Fidelity American Special Situations	●		7	12.32	125	61.17	110	112.77	62	242.05	38	-	948.1
Hermes US SMID Equity*		✓	8	19.09	12 / 15	72.98	9 / 14	107.97	7 / 11	-	-	-	844.3
LF Miton US Opportunities	●	✓	7	18.30	65	77.41	60	118.29	54	-	-	-	554.3
Sector Average				**17.62**	**141**	**72.64**	**127**	**110.45**	**109**	**223.37**	**82**		
Japan													
Baillie Gifford Japanese^		✓	10	11.91	17	86.93	5	112.11	6	244.13	2	0.85	2770.0
JPM Japan	●		10	23.01	1	85.54	8	127.72	3	231.51	3	0.28	894.3
Legg Mason IF Japan Equity			10	20.01	4	133.00	1	208.41	1	703.33	1	-	1113.3
Man GLG Japan Core Alpha	●	✓	10	6.27	57	53.13	52	82.90	20	180.02	7	2.51	2314.2
Sector Average				**8.76**	**75**	**59.58**	**71**	**79.96**	**60**	**135.75**	**50**		
Asia Pacific Excluding Japan													
Fidelity Asia Pacific Opportunities			8	8.27	4	92.05	6	-	-	-	-	-	95.0
Guinness Asian Equity Income NEW ENTRY			8	2.05	55	71.87	44	-	-	-	-	0.69	101.5
Invesco Perpetual Asian^			8	0.13	76	97.16	4	100.07	9	222.85	9	1.36	2395.5
JOHCM Asia ex Japan Small and Mid Cap			9	-12.11	99	20.61	92	54.23	66	-	-	-	23.3
Matthews Asia Pacific Tiger	●	✓	8	4.88	13	71.16	47	88.63	19	-	-	-	610.3
Schroder Asian Alpha Plus	●	✓	8	3.29	35	85.72	11	90.50	17	276.40	1	1.34	972.0
Schroder Asian Income		✓	7.5	2.39	50	67.00	55	69.27	34	211.75	11	4.07	1352.9
Stewart Investors Asia Pacific Leaders	●	✓	7.5	11.66	-	59.82	-	81.97	-	223.16	-	0.99	8199.7
Sector Average				**1.61**	**100**	**67.87**	**92**	**66.93**	**84**	**152.02**	**59**		
Global Emerging Markets**													
Aberdeen Latin American Equity		✓	10	-17.93	-	56.49	-	9.02	-	-	-	-	164.4
First State Greater China Growth*** NEW ENTRY		✓	10	7.59	4 / 40	82.82	14 / 37	86.07	16 / 35	248.23	2 / 21	-	468.7
GS India Equity Portfolio		✓	10	-0.26	-	63.45	-	218.79	-	267.13	-	-	2000.0
Invesco Perpetual Hong Kong & China^	●	✓	10	8.50	-	83.93	-	98.67	-	225.81	-	-	407.9
Janus Henderson Emerging Markets Opportunities			10	-7.43	81	48.22	77	48.68	42	54.15	32	2.00	542.5
Lazard Emerging Markets		✓	10	-10.30	94	50.16	71	32.59	72	73.92	27	2.10	1009.6
RWC Global Emerging Markets SPOTLIGHT	●		10	-7.95	84	-	-	-	-	-	-	-	874.3
Schroder Small Cap Discovery			10	-4.28	-	38.76	-	59.11	-	-	-	0.88	231.1
Sector Average				**-4.81**	**99**	**57.01**	**90**	**45.42**	**79**	**77.94**	**38**		
Global													
Baillie Gifford Global Discovery^		✓	8.5	43.10	1	109.57	2	155.07	4	480.42	1	-	715.9
Fidelity Global Special Situations	●	✓	7	12.71	87	77.43	28	115.18	19	151.68	74	-	2708.4
Fundsmith Equity	●	✓	6	17.52	29	100.77	5	166.00	3	-	-	0.58	16996.2
Investec Global Special Situations			7	13.88	66	76.48	31	107.37	28	219.72	21	1.02	70.0
Rathbone Global Opportunities	●	✓	6.5	22.12	13	81.34	18	129.67	8	239.19	18	-	1444.1
T. Rowe Price Global Focused Growth Equity	●	✓	7.5	23.48	9	102.06	4	149.39	5	181.73	47	-	700.2
Sector Average				**10.02**	**288**	**57.73**	**257**	**74.77**	**231**	**134.51**	**155**		
Global Equity Income													
Artemis Global Income	●	✓	6.5	8.96	10	53.53	17	92.92	1	-	-	2.97	4353.0
Fidelity Global Dividend		✓	6	5.53	33	54.82	14	79.51	7	-	-	2.95	890.0
Fidelity Global Enhanced Income			5.5	4.20	38	52.19	22	-	-	-	-	4.82	248.1
Guinness Global Equity Income		✓	6.5	11.93	3	62.82	4	77.05	10	-	-	2.63	431.3
M&G Global Dividend***	●	✓	7	12.03	103 / 288	72.36	53 / 257	71.91	152 / 231	198.66	34 / 155	2.76	6271.3
Newton Global Income		✓	6	6.73	23	63.75	3	84.38	3	168.60	2	3.11	5536.2
TB Evenlode Global Income NEW ENTRY			6	-	-	-	-	-	-	-	-	1.60	118.0
Sector Average				**5.31**	**54**	**47.01**	**45**	**60.16**	**36**	**134.50**	**12**		
Miscellaneous**													
Artemis Monthly Distribution		✓	4.5	2.79	-	34.55	-	63.32	-	-	-	4.06	920.9
Artemis Strategic Assets		✓	6	-0.43	135 / 153	16.81	120 / 137	15.68	118 / 119	-	-	-	751.6
AXA Framlington Global Technology		✓	10	34.43	3 / 16	142.18	2 / 12	214.37	2 / 12	483.94	2 / 11	-	637.3
F&C Real Estate Securities		✓	7.5	13.78	2 / 48	50.10	5 / 46	118.21	2 / 42	-	-	-	255.4
Guinness Global Energy			9	23.98	7 / 288	48.02	219 / 257	5.92	228 / 231	-	-	-	231.0
Jupiter Financial Opportunities			8	14.95	-	59.92	-	86.05	-	155.07	-	0.80	623.4
M&G Emerging Markets Bond		✓	4	-4.93	16 / 56	38.26	4 / 51	52.75	3 / 46	124.50	8 / 21	6.50	949.2
Merian Gold & Silver			10	-24.12	-	-	-	-	-	-	-	-	203.3
Polar Capital Biotechnology			10	18.46	-	67.67	-	-	-	-	-	-	393.1
Polar Capital Healthcare Opportunities		✓	8	20.88	-	46.90	-	154.47	-	390.91	-	-	1351.0
Premier Pan European Property Share		✓	7.5	12.31	4 / 48	24.55	28 / 46	88.28	3 / 42	130.09	6 / 27	3.77	286.7
VT Gravis UK Infrastructure Income			4	2.37	-	-	-	-	-	-	-	5.47	264.0

● **Funds featured in The Chelsea Core Selection (see pages 12-17).**

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

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

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

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

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

Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services take no responsibility for any errors, omissions or inaccuracies contained therein. The funds within the Chelsea Selection are based on our proprietary research, which is both qualitative and quantitative. Please note this is not investment advice nor does it imply that you should invest in any of these funds. Please read the Important Notice on page 2. Past performance is not a guide to future returns. Correct at time of print, 01/09/2018, but subject to change.

Source: FE Analytics, total return, IA universe, 01/09/2018.

Yields per annum as at 13/09/2018. Yields taken from Income unit versions of fund.

TRANSFERRING SKILLS
WHEN MANAGERS CAN REPLICATE AN INVESTMENT PROCESS

While past performance is not a guide to future returns, it can help you get a better insight into how a fund may behave in certain circumstances. So when picking a fund manager to trust with your money, it's important to look at how they have managed money in the past – through both good and bad times. Has the fund done what you would have expected? Has the manager stuck to their guns when their style has been out of favour?

These, and many more such questions, are all ones that we ask when considering funds for the Chelsea Selection. To get a decent answer, a manager needs to have been running the money for a significant length of time. This is why fund selectors, including our own research team, like a fund manager to have a track record of at least three years on a fund before it is highlighted to clients.

However, occasionally a newer fund will be launched by a lesser-known manager and we may think that their skills are good enough that the fund is worth a look, even without the three-year track record.

For instance, we met, liked, and backed Stuart Rhodes, manager of M&G Global Dividend, when he launched the fund in late 2008. It went on the Chelsea Selection when it was just six months old and has been there ever since. It's at times like that, that our two decades of fund research experience comes into its own.

At other times, fund managers we have known for some time and who have been very successful, may launch a new fund and we believe that their skills are transferable to a new mandate. They may have moved company and are now running a fund in a very similar way to their old one. Or they may have been running a UK equity fund and are now launching a global fund using the same investment process.

We've asked three managers to give us an overview of their new funds.

And the good news is we've also been able to negotiate discounts for you on each fund, through the Chelsea Fundstore.

Special offers through Chelsea

TB EVENLODE GLOBAL INCOME

Ben Peters
Fund manager,
TB Evenlode Global Income

At Evenlode we believe that equity investing is about owning stakes in real life businesses. It has been a privilege to put that philosophy into practice on behalf of our clients since we launched the TB Evenlode Income fund in 2009. Over that time we have grown the number of businesses that we have examined and expanded the team that searches for high quality investment opportunities in the market.

We are committed to managing our clients' savings for the long haul, and our evolution led us to a position where we felt able to expand our offering. We have been applying the Evenlode investment process to an increasingly global pool of potential investments over the past few years. With a broad investable universe of great businesses at our disposal, we decided to launch the TB Evenlode Global Income fund.

- **Seeks quality companies with a sustainable competitive advantage**
- **Targeting long-term dividend growth**
- **Concentrated portfolio of 35-40 holdings**
- **Pays income quarterly**

What are we looking for?

The Evenlode approach is to look for businesses that have sustainable competitive advantages, producing goods or services that people will need, want or desire over the long term. The sources of competitive advantage are many and varied, and getting to know these in diverse industries is one of the fun parts of being a fund manager. It might be trusted consumer brands in the case of Pepsi and Proctor & Gamble, research and development expertise from pharmaceutical companies Novartis and Sanofi, or network effects in play at Euronext (Europe's first pan-European exchange) and transport company, C H Robinson.

These businesses boast myriad consumer and societal benefits. From providing tasty foods, cleanliness and well-being, to lifesaving therapies and efficient distribution of goods, to name but a few. If companies can deliver these benefits, then they will be rewarded in kind by receiving attractive returns on the capital employed in their businesses.

With good returns on capital, the business concerned can reinvest some of the profits in further developing their services. That might be organic investment in facilities or capabilities, or buying other firms to infill those capabilities and expand operations. The rest can be returned to the shareholder, in the form of dividends or share buybacks. The steady stream of cash flow to the investor provides some payback today, and is a basis for capital appreciation tomorrow. The ultimate aim of our approach is to provide a good starting yield (around 2.7% expected for the fund's first full year), and real sustainable dividend growth in the long run.

^ TB Evenlode Global Income B Share Class
# TB Evenlode Global Income F Share Class
** Annual Management Charge
† Ongoing Charging Figure

Current positioning

One of our key favoured sectors at present is consumer goods, which makes up 30%* of the portfolio. Companies include PepsiCo, Proctor & Gamble and Nestlé. Healthcare is another, represent around 18%* of the fund, with a spread of pharmaceuticals, medical devices and diagnostic testing holdings in what is a truly multinational and diversified sector. Technology, at 17%* also makes up a significant portion of the portfolio – be it enterprise software from Microsoft, network infrastructure and security from Cisco Systems, or services from IBM. Elsewhere, business-to-business media makes its presence felt through mass media company Thomson Reuters, information services company Wolters Kluwer and PR group Publicis. A diverse range of other niche players in their respective sectors make up the balance. All of these businesses are, in our view, some of the best at what they do.

We feel the Evenlode Global Income fund's focus on companies with strong and growing free cash flow, high returns on capital and the ability to grow their dividends on a sustainable basis has the potential to provide investors with attractive returns in the long run.

*Source: TB Evenlode Global Income fund fact sheet, as at 31 August 2018

Chelsea Risk Rating	6
Standard AMC**	0.90% ^
AMC** for Chelsea	0.60%#
OCF† for Chelsea	0.60%

THE CHELSEA VIEW

We have been strong supporters of the Evenlode Income fund for many years and we believe this fund can follow in its footsteps. The original Evenlode Income fund always included a number of overseas holdings so this new fund is a natural transition. The fund has a very clear philosophy and process which we think can deliver over the long term.

FP CRUX UK SPECIAL SITUATIONS

Richard Penny
Fund manager,
FP CRUX UK
Special Situations

I joined CRUX Asset Management in June this year. It was a big move for me having spent 15 years at Legal & General, but one of the main attractions was CRUX's philosophy of aligning their interests with those of their clients. This marries perfectly with my investment style.

CRUX Asset Management is an employee-owned asset management business. Each of the fund managers, including myself, also invest our own money in the funds we run, co-investing along side our clients. One of the attributes I look for when researching the UK stock market is for companies whose management own shares in their own business.

One way or another, we all have skin in the game: our interests are aligned.

FP CRUX UK Special Situations

This new fund is a simple proposition: a concentrated portfolio of around 40 holdings, which are my best ideas. It will be similar to the L&G UK Special Situations fund I ran for many years, and is similar to the CRUX European Special Situations fund, run by my colleague Richard Pease. The difference is that with CRUX UK Special Situations we've started with a clean sheet of paper.

My stock picking approach seeks to discover the businesses that consistently earn high rates of return on invested capital, and which have opportunities to grow. And, as I've said, I also like it when the management teams of the companies we invest in buy shares or own stakes in their own business.

This fund will typically have more of a focus on medium and smaller companies than many of its peers. There will be some FTSE 100 names, and a few carefully chosen AIM-listed companies.

I have invested in UK companies for many years and have always believed that good businesses only make the right investments when they are bought at the right price. How do we find such investments?

We take one of two approaches:

1. Rising Stars: Firstly, we look for quality companies that are growing and have high returns on cash. Next we meet the management. We then review the resulting short-list for businesses that are cheap. These can be small or medium-sized businesses that, although established, have not risen to prohibitively expensive valuations. Past small cap winners have included Optimal Payments (an online payments company), Hutchison China Meditech (a bio-tech firm) and First Derivatives (a financial tech consultancy firm).

2. Hidden Gems and Fallen angels: Secondly, we look at the very cheapest shares in the market: the big price fallers and recovery companies, to see if there is hidden value and discarded quality. This approach has unearthed ideas such as Taylor Wimpey, the house builder, Johnson Service (a provider of textile and linen work-wear), and Restore Group, the office IT and document storage service provider.

I see around 250 companies a year. Some I have seen regularly over the 20-25 years I have been a fund manager. Sometimes its just identifying when an established company is in a good stage of its existence, at other times its about having to invest in a company early in its life.

What is interesting us right now?

While the timing is far from deliberate (it takes many months to launch a fund), I think now is a good time to be bringing this new offering to investors, as the UK remains out of favour and the uncertain environment creates attractive opportunities for experienced stock-pickers like myself.

Currently, we believe that UK consumer demand is weak and this should lead to some bargains in coming months. I am monitoring the much unloved retail and leisure sectors.

On the growth side, areas such as regulation, big data, internet security and gene sequencing are promising.

One bigger company we like is Prudential. The company's Asian insurance assets can often be overlooked due to the market's focus on its US and UK assets. As Asian consumers get richer, they are more likely to purchase more life insurance.

Please note this fund will be available on the Chelsea Fundstore from 12 October 2018

- Experienced manager
- Concentrated and very different to the index
- Multi-cap with a core of mid cap stocks
- Well aligned with investors

Chelsea Risk Rating	7
Standard AMC*	0.75%
Chelsea discount	0.05%
AMC* for Chelsea	0.70%
OCF† for Chelsea	0.88%

THE CHELSEA VIEW

We supported manager Richard Penny and his old L&G funds for many years. He is a true stock-picker who has shown an ability to consistently beat the market over the course of his career. We particularly approve of the high degree of alignment between the manager and investors with this fund.

* Annual Management Charge
† Ongoing Charging Figure

JUPITER GLOBAL VALUE EQUITY

Ben Whitmore
Fund manager,
Jupiter Fund
Management

We are value investors. In simple terms that means we invest in shares that we believe represent good value for money.

The main way we measure value is by looking at the ratio of a company's current stock market valuation to its average earnings over the previous ten years. If that ratio is significantly lower than usual, then that means the shares are currently being valued lowly by the stock market and we will do further research to determine whether we believe the company is worth investing in.

Generally speaking, the most lowly-valued shares in the stock market have tended to perform better than the highly-valued ones over the long-term. A value investment strategy certainly does not work every year, but it can reward patience and long-term discipline. So by focusing on this approach we feel we are giving our funds the best chance to perform well on behalf of our investors.

Careful stock selection is crucial

Looking at a company's average earnings over the previous ten years is a very important part of our investment process. The whole financial industry has a poor record at making accurate forecasts, so we want to base our analysis on real historic data. The additional research we do is key because, although history tells us that many lowly-valued shares will go on to perform well over the long-term, others among them will deliver only mediocre returns and some of the companies will go out of business altogether.

There will be a reason why a company has lowly-valued shares. Typically something will have gone wrong, perhaps a poor economic backdrop has hit its sales hard, the business is simply growing more slowly than the stock market had expected, or the company has been allocating its capital poorly.

It is crucial that, before buying shares for our funds, we are comfortable that although the company may be in a slump we have a reason to believe that its fortunes will improve in future. Some of the qualities we look for include a strong balance sheet, and a good track record of the company converting its earnings into cash profits. Characteristics like that should place the company on a firm footing to recover. Companies that are out of favour often have new management teams to address these issues.

A wide selection of lowly-valued stocks

A value investment style is nothing new – in fact it is a tried and tested strategy that many people have used for decades. We have been using this approach successfully in the UK stock market for many years in funds such as Jupiter UK Special Situations, which is on the Chelsea Selection.

The recently launched Jupiter Global Value Equity fund allows us to choose the most promising value shares from across world stock markets. There have been three periods in the last century when value investing has had relatively poor ten-year returns compared with growth stocks (growth stocks are the shares of companies that are expected to grow quickly, typically by making substantial investment in expanding their business).

We are in one of those periods now – the other two were the 1930s Great Depression and the technology boom of the late 1990s. The result of this, however, is that there are a lot of lowly-valued companies across the world at the moment, so we have an abundance of options and can afford to be choosy and invest in only the best 35-45 companies that we can find.

A promising investment could be found anywhere, but in general terms a stock market we find attractive at the moment is Japan, where companies are currently enjoying record levels of profitability and have strong balance sheets, but where we can still find lowly-valued opportunities in contrast to some more expensive stock markets in the West.

In contrast, while the US has a relatively strong economy and there are some stocks there that we find attractive, overall its stock market is highly-valued and opportunities to find the sort of companies we like are more scarce. Overall we feel that it is still possible to put together a portfolio of lowly-valued companies without having to sacrifice quality.

- Value investment philosophy
- Concentrated portfolio of around 35-45 stocks
- Experienced managers with a good track record of value investing
- Multi-cap portfolio

Chelsea Risk Rating	7
Standard AMC*	0.75%
Chelsea discount	0.05%
AMC* for Chelsea	0.70%
OFC† for Chelsea	0.90%

THE CHELSEA VIEW

Global funds are increasingly dominated by funds with growth mandates and value funds are increasingly rare. That makes this new fund a very interesting alternative option for investors. Lead manager Ben Whitmore is one of the few value managers who has been able to deliver consistence outperformance in recent years despite his value style being out of favour.

* Annual Management Charge
† Ongoing Charging Figure

ACHIEVING INCOME FROM AN EQUITY PORTFOLIO

Sam Holder
Operations Director, Chartered Financial Planner, Chelsea

While it is tempting to opt for all of the funds with the highest possible yields, there is actually much more for investors to think about than just the headline figure. So, how can investors build themselves the ultimate 'catch-all' income portfolio?

With interest rates still at historic lows, a portfolio that boasts an attractive stream of income is the holy grail for many investors.

Getting the right balance

Starting with the basics, some equity funds generate income for investors through investing in shares of companies that pay out dividends. A company's 'yield' is the percentage of its market price that it chooses to give back to shareholders as income; so, the higher a stock's yield, the more income it gives you.

But fund managers can't simply invest in the stocks with the highest yields. A stock may well have a high yield because its market price is low, rather than because it has chosen to pay out a generous income. This could mean that the stock is very high risk and could actually end up losing investors money in total return terms – a seemingly attractive income payout is useless if your total pot of money is still shrinking.

Consistency of income

Achieving consistency of income can be vitally important, especially if you are relying on that income to pay regular bills. With this in mind, here are four main factors to take into account when constructing an equity income portfolio.

Income growth is a good place to start – what may be sufficient income today, may not be enough tomorrow, especially if inflation picks up and our purchasing power falls. So a growing dividend can be vitally important. For instance, Evenlode Income, which is on the Chelsea Core Selection, has an historic yield of 3.30%*, which has increased consistently over time.

Had an investor bought into the fund at its launch in 2009, their personal yield would be above 7%.

A second factor which needs to be considered is income diversity – it's important for investors to diversify, in case one area of the market suddenly starts struggling. Many UK investors tend to stick to our home market, because the average yield from the UK Equity Income sector is 3.98%, while the average Global Equity Income fund's yield is 3.11%. However, not only does a diversified portfolio minimise risk, it opens up a wider range of attractive income opportunities. Increasingly, there are also regional income funds from which to choose: Asian, European and even US.

It's also important that your fund of choice can still maintain its income payouts during difficult times for markets. A consistent yield will compensate for any market falls and can prevent you from losing money. One fund that is particularly good at this is Rathbone Income, which is headed up by Carl Stick. It has managed to increase its income payouts during 24 out of the last 25 years!

Finally, it's also important to understand when a fund actually pays its income – how regularly and how smoothly. Does it pay monthly, or quarterly? Is each payment 'smoothed' to give you the same amount each time, or are the distributions 'lumpy'?

To sum up, there is no specific science to building an income portfolio – it depends on how much income an investor is looking for compared to how much risk they are willing to take. However, it's important not to focus all of your attention on yield alone and – more importantly – to understand all of the moving components of your income portfolio and how they work together.

Achieving consistency of income can be vitally important, especially if you are relying on that income to pay regular bills

*Source: FE Analytics, 10 September 2018.

FUNDS UPDATE

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

AXA Framlington UK Select Opportunities

MAINTAINED BUY

Industry veteran Nigel Thomas has announced his retirement, and is handing over the running of this fund to Chris St John, who has been part of the succession planning for the past 4 years. Chris, the successor, has worked alongside Nigel for over a decade, and manages the AXA Framlington UK Mid Cap and AXA WF Framlington UK funds. Nigel will continue to be involved in some capacity until March 2019, ensuring a smooth handover. Nigel will also keep his personal wealth in the fund, showing his faith in his successor.

The fund's well constructed, solid and repeatable process will remain in place. With such transparent succession planning to a manager who is well versed in the fund, we will maintain the fund's generic Buy rating.

Jupiter UK Smaller Companies

UPGRADED BUY

James Zimmerman took over the running of this fund in June 2016, having returned from a stint at an American hedge fund. Since he took over the fund, performance has been excellent and James has been touted as a rising star of the industry. UK Smaller Companies is a sector where manager skill can really shine through, and James has demonstrated this in his numbers.

The philosophy behind the process is based around management ownership and long-term goals. This space is very competitive, but we believe the fund should be upgraded to a generic Buy rating.

M&G Global Emerging Markets

DOWNGRADED HOLD

Matthew Vaight has run this fund since its inception in 2009. He has now decided to leave to pursue opportunities outside of the asset management industry. Lead management duties have been passed over to Michael Bourke, who has been running an M&G offshore Emerging Market Income fund.

Former deputy managers Alistair Bruce and Alice de Charmoy will remain. Due to the recent changeover we have downgraded the fund to a generic Hold rating until we meet the new manager.

Old Mutual Global Investors

On 29 June 2018, the single strategy business of Old Mutual Global Investors was acquired by its management, in partnership with private equity firm TA Associates. From 1 October 2018, this new entity was re-branded Merian Global Investors. At the same time, its funds were also renamed.

For example, Old Mutual Global Equity Absolute Return fund, which is on the Chelsea Selection, is now called Merian Global Equity Absolute Return fund. Old Mutual Gold & Silver is now called Merian Gold & Silver and is featured on page 32.

GOLD

MERIAN GOLD & SILVER

Ned Naylor-Leyland
Fund manager,
Merian Global Investors

The concept of a loss of buying power has become a more familiar one to Brits over the past couple of years, given the pound's decline in value against the dollar and euro since the Brexit vote. The price on that bottle of plonk from the south of France has edged up a pound or two since 2016, and holidays to the continent and the US have become more expensive.

When it comes to global investments, a loss of purchasing power in the world's most dominant currency, the US dollar, can have other consequences: in particular, it can push up the price of gold.

If investors think the real purchasing power of their cash will be eroded – perhaps due to higher inflation, or lower-than-expected interest rates – it's good for gold. If they believe their cash will buy more in real terms, gold will perform badly. Having gone sideways for several years, neither really gaining nor losing much value, we believe gold may be getting ready to shine once again.

As US and Eurozone central banks unwind their unprecedented monetary easing and asset purchases, there's a real risk of policy errors. This increases the possibility of stock markets falling, which could in turn drive real interest rates – and purchasing power – lower and trigger a rush to "safe-haven" assets such as gold. My outlook for the second half of 2018 is that gold priced in dollars and gold and silver mining equities could replicate the strong move seen in the first half of 2016, due to a change in momentum and sentiment in financial markets.

Global risks; gold rewards

Anything that could cause a move lower in the market's expectation of US real interest rates, the principal driver of the dollar-denominated gold price, would be a positive for the precious metal.

For example, a surge of inflation in the US that results in lower real interest rates (the rate of interest after allowing for inflation) is conceivable. This could come from a sustained increase in the oil price, perhaps due to curtailed supply from the Middle East. The impact of trade tariffs and restrictions imposed by the Trump administration is another risk factor.

Higher import prices would weigh on profit margins, family budgets and the economy. This slower growth could make the Federal Reserve (the US central bank) more cautious about rising interest rates higher.

Gold as a diversifier

We believe it makes sense to combine a holding in gold with sound investments in stocks, bonds, cash and other assets. The performance of the precious metal in previous market downturns, such as the 2008 financial crisis and 2002 dotcom collapse, corroborate this.

The make-up of the Merian Gold & Silver fund is currently around 18% bullion and more than 80% gold and silver mining equities. We invest only in miners operating in what are generally considered safe regions such as North America and Australia. Our top 10 holdings are little-changed over the last few quarters. We don't chase stocks that are trading at lower valuations, and we are ruthless about management teams.

By ruthless, we mean that the track record of management is a primary filter in our stock selection process. If a company's management does not have demonstrable track record of successful mine building or production, then we won't invest. After 15 years in the industry, we have a good sense about which executives can deliver.

We feel that a managed fund embracing both bullion and mining equities offers investors an optimal blend of underlying exposure for the medium to long term.

We see gold and silver as an important portfolio diversifier and a hedge against market changes and loss of buying power. It's something that every investor should think about. Especially after what's happened to the price of plonk.

- **30-50 holdings**
- **Combines mining equities with gold and silver bullion**
- **Macroeconomic environment determines ratio of bullion to equities**
- **High level of due diligence applied to every holding**

Chelsea Risk Rating	10
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.96%

THE CHELSEA VIEW

Ned and his team are highly experienced. We really like the due diligence they apply to all their holdings. This funds ability to invest in bullion as well as miners is another potential advantage which provides diversification and a source of liquidity.

BLACK GOLD

GUINNESS GLOBAL ENERGY

Jonathan Waghorn and Will Riley
Fund managers,
Guinness Global Energy

The oil sector has experienced a volatile time over the past five years. The price of oil has swung from highs of over $100 per barrel in 2014, to lows of under $30 per barrel in early 2016. It is now back at around $70 per barrel. So, what does the future hold for the oil price and companies in the oil sector?

Rise and fall of black gold

Having enjoyed a sustained period of prices in excess of $100 per barrel, increased new oil production, especially from US shale oil, eventually meant supply overwhelmed demand. The subsequent fall in the oil price after 2014 represented the end of a 14 year 'bull market' for the commodity.

Interestingly, throughout the period of falling prices, oil demand growth remained strong, led by the extraordinary rise of consumption in emerging market economies. It is sometimes forgotten that there are around 6 billion people living in emerging markets aspiring to the living standards of the 1 billion people living in developed markets.

Electric threat

Thinking about oil demand longer term, a threat looms from the political and economic momentum behind the rise of electric vehicles. However, there are two important factors to consider. First, electric vehicles are penetrating a growing market, so even with a rapid uptake, we see the global fleet of gasoline and diesel light vehicles not peaking before the late 2020s.

Second, the reality is that cars and light trucks account for around 26% of global oil usage, with other sources of demand (heavy transportation including air travel; industry; petrochemicals) making up the rest. We expect these other sources of oil demand to grow significantly over the next decade. This points to significant new oil resources being required to keep up with continuing demand growth, well into the 2030s.

While we expect the US oil system to continue to grow well into the next decade, we see other parts of the non-OPEC world struggling to grow, and volatility within OPEC countries could create uncertainty of supply.

Long-term oil price and valuations

Today, we believe OPEC (the intergovernmental organisation that co-ordinates and unifies petroleum policies) is striving to find a 'goldilocks' scenario for the market where member countries own economies are better satisfied, the world economy is kept stable and production from the rest of the world grows in a controlled manner. The price that achieves this, we think, is around $70 per barrel.

The valuation of companies in the oil sector remain at depressed levels, consistent with the low returns on capital that oil companies have offered in recent years. The positive news is that we have now started on a new upcycle of improving returns, led by vigorous cost-cutting, the cleaning up of balance sheets, and the tailwind of a better oil price. Indeed, free cash flow for many companies in the sector is better today than it was in 2013 (when the oil price averaged over $100).

Current positioning

We have been managing the Guinness Global Energy fund for nearly twenty years. We construct an equally weighted portfolio of thirty positions, choosing energy stocks from across the market capitalisation spectrum. Our investment decisions result from fundamental study of the underlying commodities they are exposed to, together with detailed stock by stock analysis. We remain fully invested and are value investors at heart. And we are pleased to say that our strategy has produced an annualised return of over 10%, since 1998*.

The fund currently maintains a high weighting to improving returns in the energy sector, via a combination of medium to large cap North American, European and Chinese major oil and gas companies. We also have good exposure to US shale oil growth, through ownership of well placed producers, service companies and pipeline companies. Beyond that, we own independent refiners, benefiting from the strong demand environment, and have exposure to emerging market natural gas demand growth.

Today, we see energy equities being valued by the market as if the oil price will average no higher than the mid to high $50 per barrel. Should the 'market implied' oil price recover to $60 per barrel over the next couple of years, then we would see around 25% upside in the portfolio, and more like 55% upside if $70 per barrel becomes the accepted long term oil price.

*Source: Guinness Asset Management, August 2018

- **Invests globally across the market cap spectrum**
- **Co-managed by James Waghorn and Will Riley**
- **Invests in exploration, production and distribution of oil and gas**
- **Equally weighted portfolio of around 35 stocks**

Chelsea Risk Rating	10
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	1.24%

THE CHELSEA VIEW

This fund has a very strong and experienced management team and a proven strategy. It is our preferred fund in the specialist energy sector.

ALEXA, IS TECHNOLOGY STILL A GOOD INVESTMENT?

Many of you will be familiar with the so-called FAANG stocks – Facebook, Amazon, Apple, Netflix and Google. From using your iPhone or iPad to FaceTime loved ones, to ordering that last minute gift on Amazon, through to watching your favourite show on Netflix: their influence on our day-to-day lives is undeniable.

James Yardley
Senior Research Analyst, Chelsea

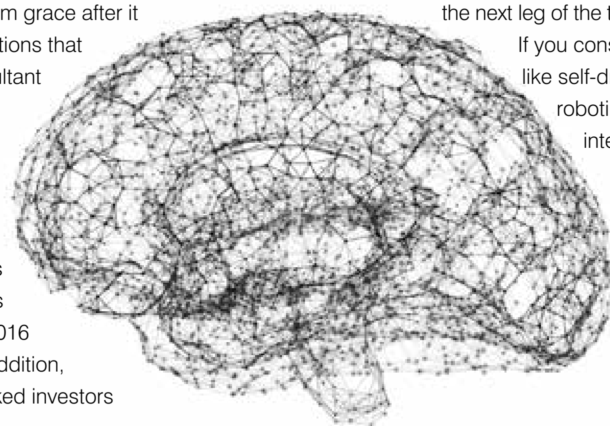
Moreover, their contribution to stock market gains has been substantial. Year-to-date, the MSCI World Information Technology Index has risen by 20.3%, outpacing an increase of 5.9% by the MSCI World Index*.

Investors who have had exposure to FAANGs over the past five years would be within their rights to feel smug. For example, Amazon – which now has a $1 trillion market capitalisation – saw its share price rise from $298 to $1,998 over the time period. This equates to a 570.5% increase**.

Do FAANGs still have bite?

Hindsight is a wonderful thing. But looking to the future, investors may be wondering: do the FAANGs still have some investment bite?

A raft of fines and negative headlines for some of the world's largest tech companies over the past 18 months indicates they are by no means infallible. Google received a €2.4 billion EU fine in June 2017 for allegedly breaking competition law. And, earlier this year, Facebook experienced a dramatic $145 billion fall from grace after it faced allegations that digital consultant Cambridge Analytica improperly accessed its data to build profiles on US voters during the 2016 election.In addition, Netflix shocked investors in its July earnings update after its new subscriber figures fell short of expectations, sparking a 13% share price fall.



Jeremy Gleeson, manager of AXA Framlington Global Technology, which is on the Chelsea Selection, has Facebook, Apple, Amazon and Alphabet (Google's parent company) in the fund's top 10 positions. He believes technology remains an attractive sector as it is supported by strong revenues, earnings and cashflow growth.

However, away from the tech giants he is keen to highlight a few unsung heroes. While the FAANGs attract the headlines, US software analytics company New Relic, and two other small and medium-sized software companies – PTC and Zendesk – were among the best performers in the fund over the six months to mid-July.

Artificial intelligence

For those who are keen to diversify away from the bigger names, it's important to think about the types of businesses that could lead the next leg of the tech rally.

If you consider trends like self-driving cars, robotics and artificial intelligence (to name a few), technological disruption is taking place across many sectors – even those you may not have anticipated.

Nigel Thomas, manager of the AXA Framlington UK Select Opportunities fund, points out that half of Rio Tinto's truck fleet were self-driving back in February. In three years' time, the miner's chief executive expects this figure to rise by 100%.

"The word 'disruption' is perhaps over-used when it comes to the adoption of the digital economy, but change is happening faster than you think," Thomas explained.

Looking ahead, commentators suggest that artificial intelligence (AI) could transform our lives in the same way the internet has. In fact, AI has already enabled robots to perform orthopaedic surgery and personal voice assistants to book appointments via the telephone.

Smith & Williamson has an Artificial Intelligence fund which is designed to take advantage of opportunities created by this trend. The firm points to research produced by McKinsey which suggests that AI applications could be used to unwind $2.6 trillion in potential value across the marketing and sales sector, and $2 trillion in supply-chain management and manufacturing.

While the growth potential of AI is huge, much will come down to a fund manager's skill in spotting the real beneficiaries – and these are likely to come in all shapes and sizes. While Amazon's Alexa may not be able to help you to identify these stocks just yet, we suggest backing an experienced fund manager with the potential to identify the next generation of tech winners.

* FE Analytics, 12 September 2018
** Google Finance, 13/09/13-13/09/18

WOULD YOU RECOMMEND CHELSEA?

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

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

- **£50 worth of John Lewis vouchers when they invest or transfer over £25,000**
- **£25 worth of John Lewis vouchers when they invest or transfer over £5,000**

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

YOUR DETAILS

Title	First name
Surname	
Address	
	Postcode
Telephone	

FRIEND'S DETAILS

Title	First name
Surname	
Address	
	Postcode
Telephone	

FRIEND'S DETAILS

Title	First name
Surname	
Address	
	Postcode
Telephone	

Cynthia Brack from Worcestershire, said:
"I became a client on the recommendation of a neighbour and have no hesitation in recommending Chelsea to friends. I must congratulate you on a very customer focused organisation."

George Vamvakas from London, said:
"I invest monthly and can spread my £200 per month across several different funds. These funds are also available to me at 0% initial charge through Chelsea and I can monitor them online."

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