ISSUE 47 FEBRUARY 2019

VIEWPOINT

The magazine for Chelsea Investors

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CHELSEA
Investment Intelligence™

WELCOME TO VIEWPOINT

DR JOHN HOLDER

Chairman, **Chelsea**

Welcome to the spring edition of Viewpoint. The magazine is packed full of investment ideas for your consideration: from value investing to income funds for your ISA, our research team has identified a number of options that could help you to decide how to allocate your investments this tax year. But time is fast running out – take a look at the deadlines on page 38 to make sure you don't miss out.

CONTACT POINT

Call us on **020 7384 7300**

Email us on **info@chelseafs.co.uk**

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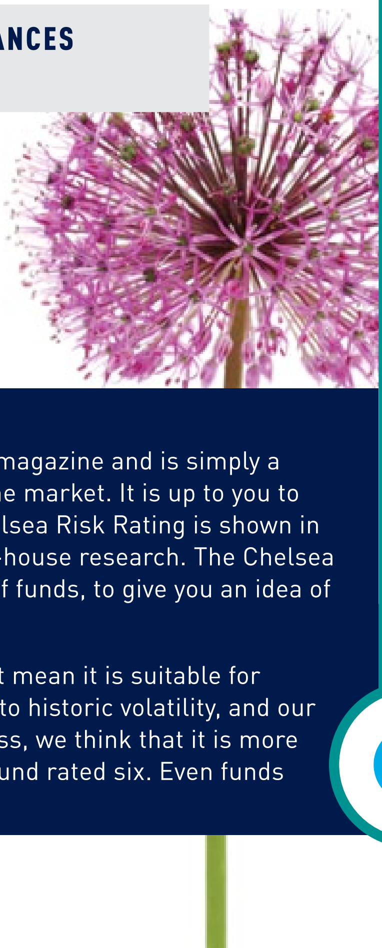

CHELSEA RISK THERMOMETER

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
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HOW TO USE THE CHELSEA RISK RATING

The Chelsea Risk Rating appears throughout this magazine and 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. It indicates 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.

MARKET VIEW

DARIUS MCDERMOTT

Managing director, **Chelsea**

We suspect that further market volatility could lie ahead this year, but this should also bring potential investment opportunities. Here's our outlook for the first half of 2019.

At times of high-stakes politics and market volatility, it is hard to write a market view in mid-January, as I am now, that will still hold true in late February when you receive this magazine. But I will do my best to practice what I preach and ignore the short-term noise and concentrate on the knowns, rather than the unknowns.

Most of my commentary throughout 2018 centred on the importance of a cautious outlook and having a diversified portfolio. And the later in this economic cycle we get, the more these messages ring true.

GLOBAL ECONOMIES SLOWING

Global stock markets are typically described as 'lead indicators' because the direction in which they move gives us an idea about whether the global economy will slow or grow in the coming months. At the time of writing, they seem to be telling us that things are slowing down.

European stock markets have been in a downward trajectory for around 12 months now. The UK stock market appears to have peaked in May 2018, and the Japanese stock market has been trending lower since September. The US stock market finally capitulated in October. As I write this market view, we are just two weeks into the new year, but we have experienced a bit of a bounce: whether this continues or not remains to be seen.

Trade data released from China in January shows that its exports slumped by 4.4% in December, compared with a year ago and imports were even worse - falling by 7.6%. The ongoing trade war with the US is part of the reason for these disappointing figures. Analysts are beginning to fear that this is not the whole story: a sizeable drop in demand for goods and services in China would have a significant impact on the global economy. Closer to home, Germany's economic growth in 2018 slowed to its lowest rate in five years, and we have the ongoing saga of Brexit here in the UK.

Having said all that, stock markets are now cheaper than they were six months ago and it's arguably a better entry point for long term investors.

SO WHAT SHOULD INVESTORS DO, IF ANYTHING?

To quote an industry peer: when driving, you should always start braking before you reach a bend, not when you are in it – and the same principle applies to tactical asset allocation. Diversification is key. And, for most active investors there are opportunities to top up positions when markets fall, as we have been doing in our VT Chelsea Managed Funds (see page 7).

To quote another peer: the macro economic environment impacts the performance of individual asset classes, valuations then impact the size of these moves. But sometimes sentiment can override everything. With the UK stock market so unloved and yielding close to 5%, our contrarian stance is that UK equity income funds are starting to look attractive. While there are still many headwinds facing UK companies, we think 2019 may prove to be a good entry point for long-term investors.

We also believe that value-strategies – so long out of favour – could make a comeback (see page 12), and investors should consider making sure their portfolios contain a balance of growth and value funds.

ARE YOU GETTING ENOUGH INCOME FROM YOUR CASH ISA?

SAM HOLDER

Operations Director, Chartered Financial Planner, **Chelsea**

The Bank of England raised interest rates from 0.5% to 0.75% last year – a move that ultimately spells good news for savers and bad news for borrowers.

However, it's important to put this interest rate rise into context. It is now a decade since interest rates were lowered to 'emergency' levels and, even with the base rate now at 0.75%, it remains low relative to history. Given the uncertainty that has surrounded Brexit, many commentators suspect that interest rates will remain low for some time still to come.

So what does this mean for your savings? In order for your money to grow, the interest rate on your savings account needs to be higher than the rate of inflation. However, in most instances this is not the case. The current inflation rate, as measured by the Consumer Price Index (CPI), stands at 2.1%[1], yet the average easy-access savings account currently pays interest of 0.53%, according to Savings Champion[2].

The interest rate paid by your savings account needs to be at least 2.1%, otherwise you will lose money in real terms as a result of inflation. To illustrate this point, the chart below highlights the diminishing effect that inflation has on £1 over a 10-year period.

CASH VS STOCKS AND SHARES

The highest easy-access cash ISA rate that is currently available is 1.45%[3]. However, many individuals are likely to receive a much lower rate, as they are likely to have forgotten to shop around after their initial deal expired.

Investing in equities carries a much higher risk profile than cash, but the potential returns can be far greater than those generated by a cash ISA. For example, over the past 10 years the average fund in the Investment Association's (IA) UK Equity Income sector has returned 131.7%[4]. Meanwhile, for whose open to investing overseas, the returns have been better: the average fund in the IA Global Equity Income sector has returned 140.8%[5].

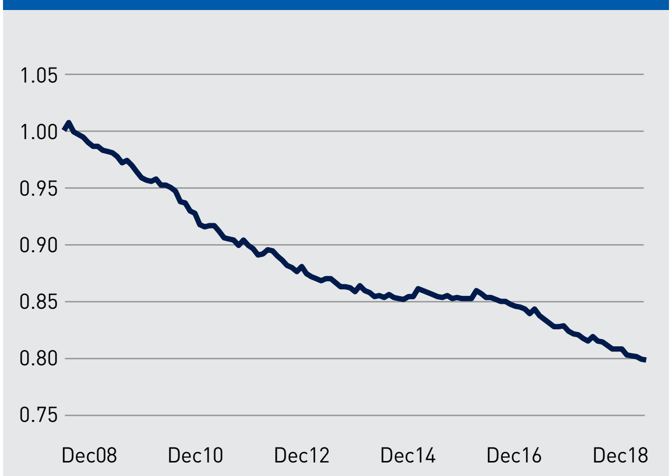
If the next 10 years produces just half of the performance of the past 10, these returns should still beat the paltry cash ISA rates on offer, although there is no guarantee and your capital is at risk.

Source: [1] Office for National Statistics, December 2018; [2] This is Money, 21/01/2018; [3] MoneySavingExpert, 26/01/2018; [4] FE Analytics, total returns in sterling, 01/01/2009 to 01/01/2019; [5] FE Analytics, total returns in sterling, 01/01/2009 to 01/01/2019

HOW DO I TRANSFER MY CASH ISA TO A STOCKS AND SHARES ISA?

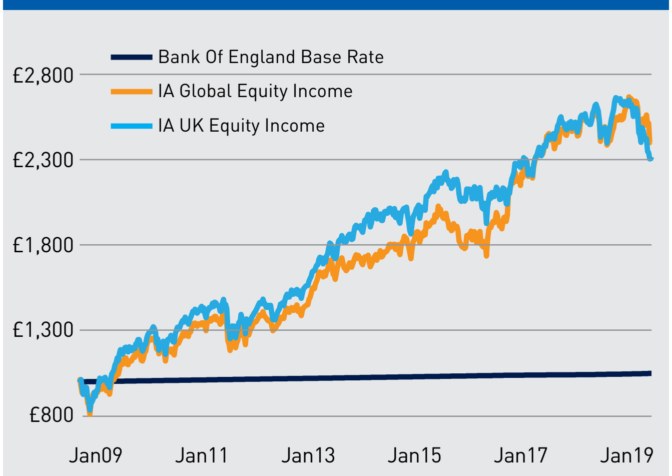
It couldn't be easier. All you need to do is complete an ISA transfer form (in the enclosed booklet) and return it to us. We will do the rest. There is no need to contact your cash ISA provider, as we will take care of that. And there are no transfer charges at our end – but you may wish to check there are no exit penalties for transferring out of your cash ISA. If you are considering transferring your cash ISA to a stocks and shares ISA, remember that the value of your investments and the income you receive from them, can fall as well as rise so you could make a loss. For this reason, those transferring should be comfortable investing for the longer term and happy to forego the security of cash. If in doubt seek investment advice.

VALUE OF £1 TODAY VERSUS DECEMBER 2008



Source: Consumer Price Index data from ONS, December 2008 to December 2018

GROWTH ON £1,000 INVESTED OVER 10 YEARS



Source: FE Analytics, 01/01/2009-01/01/2019 (assuming all dividends or interest reinvested)

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.

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

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**

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

4 MONITOR & MODIFY

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

HOW TO INVEST

Call us on **020 7384 7300**

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

Send us a completed application form **(see booklet)**

HOW DID OUR FUNDS FARE IN 2018?

The VT Chelsea Managed Funds are now 18 months old and have proved popular with our clients. Assets under management have increased three-fold since launch, providing economies of scale which have already been passed on to our investors in the form of reduced annual charges: the ongoing charges figure (OCF) on each fund is now 0.22% - 0.41% lower today*. In this Q&A the fund's investment advisers tell us how things are going...

1) Markets sold off across the globe in October, creating a difficult environment for investors. How did the VT Chelsea Managed Funds fare during the month?

Going into October, we thought our multi-asset portfolios were cautiously positioned but they were put to the test in what proved to be a challenging month for markets. At the end of October, we sat down and asked ourselves a simple question: did we outperform? Fortunately, the answer was 'yes'. All four of our VT Chelsea Managed funds – Aggressive Growth, Balanced Growth, Cautious Growth and Monthly Income – outperformed in a falling market.

2) Why did the funds outperform in October?

This was largely down to our defensive positioning. Our bucket of alternative investment trusts, held in the Cautious Growth and Monthly Income funds, were defensive and provided diversification. Even though these funds are listed on the stock exchange, they did not behave like equities. GCP Infrastructure Investments, for example, was one of our best performing investments.

In addition, a number of the funds in our top 10 holdings outperformed their sector average in October. Income funds, in particular, held up well. Here, we would highlight Fidelity Global Dividend, BlackRock Continental European Income and Schroder Asian Income Maximiser as solid performers.

Having a temporarily higher allocation to cash across all four funds also helped during the sell-off. We are not afraid to raise cash positions when we feel cautious about markets and it then enables us to take advantage of valuation opportunities when they arise.

3) Over the fourth quarter of 2018, did you initiate any new investments or add to existing positions?

Although we are currently underweight US equities in the Aggressive Growth fund, we selectively added to our exposure during the sell-off in tech stocks last year. We also slightly increased our allocation to UK equity income funds. We may look to do this again during the first quarter of 2019, depending on how things pan out: there are long-term investment opportunities in spite of Brexit uncertainty. The UK stock market has been very weak and is starting to look attractive, particularly with the FTSE 100 index yielding a little under 5%.

In October, we bought shares in Smithson Investment Trust's IPO for the Aggressive Growth, Balanced Growth and Cautious Growth funds. Smithson invests in global smaller companies and draws on the same investment philosophy that fund manager Terry Smith applies to his successful open-ended Fundsmith Equity, which focuses on global large-caps.

We think it is a good investment trust to own over the long-term and it has already been profitable. As markets started to tumble last year, the trust's net asset value (NAV), which equates to the value of its assets, fell. However, Smithson's share price didn't – so we trimmed our position at a premium to NAV. This was a profitable trade.

4) What were the best and worst performers during the fourth quarter of 2018?

Stewart Investors Latin America was a stand-out performer in the Aggressive Growth fund. It received a boost from improved investor sentiment towards the region, following the election of Jair Bolsonaro in Brazil.

Lindsell Train Investment Trust also continued to perform well within the Aggressive Growth, Balanced Growth and Monthly Income funds, and represents our most successful investment to date. In light of this, we took profits after the trust's share price had risen.

Although Jupiter European experienced a difficult November, this followed an incredibly strong run of performance for the fund.

5) Are you pleased with the performance of the VT Chelsea Managed Funds so far?

In 2018 all four of our funds outperformed their respective sector averages. We are pleased because one of our main objectives was to keep up or outperform in up-markets, and to outperform in down-markets – and this is what happened.

For details on the team's outlook for the coming months, see Darius's Market View on page 4.

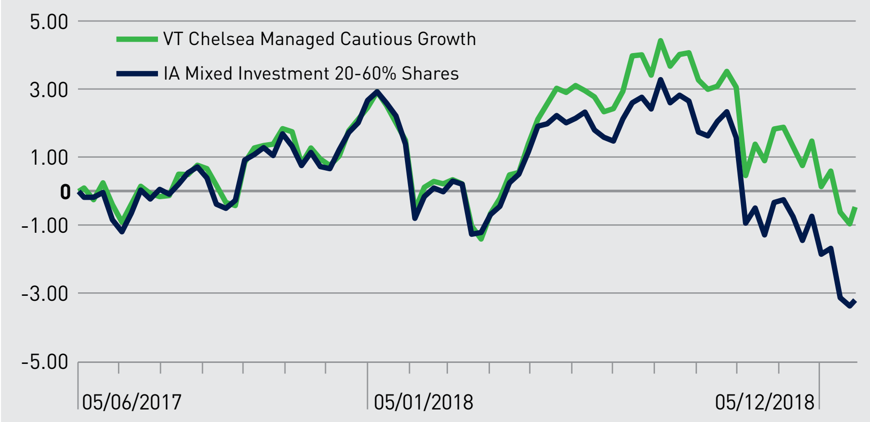
*This is a reduction from the full ongoing charges figure (OCF) at launch and does not include the initial discount offered to early investors

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.

PERFORMANCE SINCE LAUNCH



Source: FE Analytics 05/06/2017 – 01/01/2019, 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:
1.83%

Performance since launch:
-0.45%

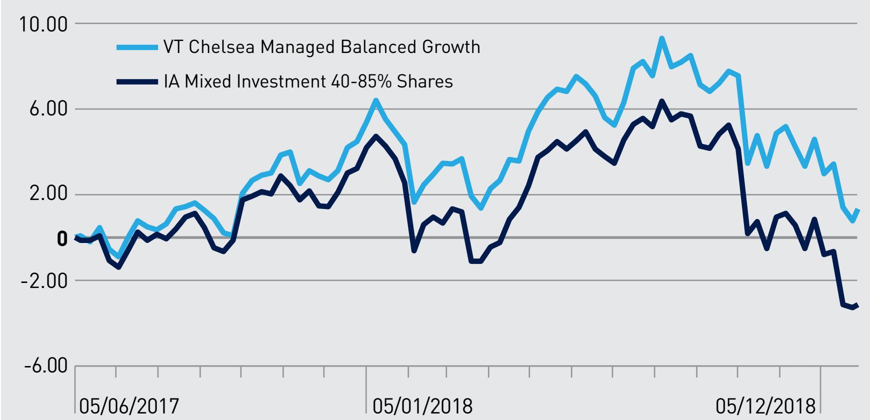
Sector average:
-3.18%

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†.

PERFORMANCE SINCE LAUNCH



Source: FE Analytics 05/06/2017 – 01/01/2019, 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%

Performance since launch:
1.29%

Sector average:
-3.12%

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.

PERFORMANCE SINCE LAUNCH

Source: FE Analytics 05/06/2017 – 01/01/2019, 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%

Performance since launch:
1.69%

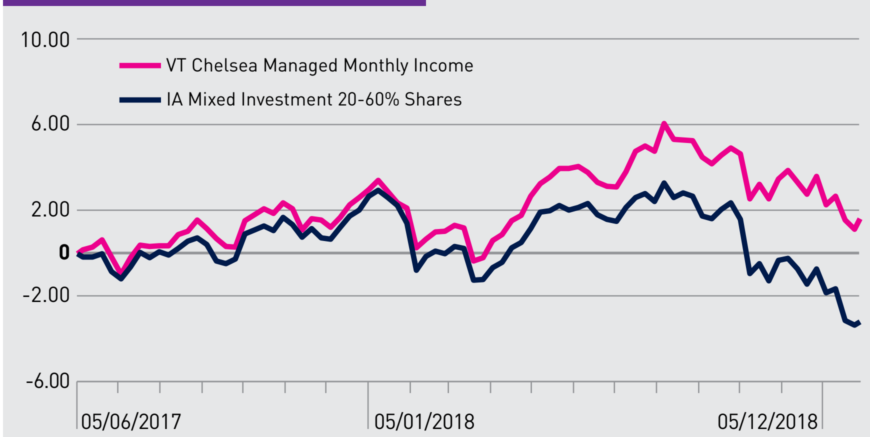
Sector average:
-0.80%

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†.

PERFORMANCE SINCE LAUNCH



Source: FE Analytics 05/06/2017 – 01/01/2019, 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:
4.73%*

Performance since launch:
1.61%

Sector average:
-3.18%

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

Commentary correct as at 15/01/2019. Indicated yields and OCFs correct as at 30/11/2018. †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.

FIVE INCOME OPTIONS FOR YOUR ISA

JAMES YARDLEY

Senior Research Analyst, **Chelsea**

If you are looking to make the most of your ISA allowance during this financial year, here are five income funds to consider...

From UK equities to global bonds and infrastructure, we've outlined five income options for your ISA.

UK EQUITIES

The UK market is a great place to tap into income opportunities. Although the market has fallen out of favour with investors in the run-up to Brexit, UK companies have a strong history of generating high and growing dividends – and we see no reason why this can't continue. Over the past five years, the UK market has paid a yield of 3.5% to 4.8% - which is an attractive starting point.

Our first option offers a high yield with an excellent track record of growing its dividend:

1 RATHBONE INCOME

Elite Rated by FundCalibre

Rathbone Income has an excellent track record of increasing its dividend payments to investors: it has done so in 24 of the past 25 calendar years. Manager Carl Stick uses 10 core stock selection principles to identify companies with high quality and visible earnings. His process is well-defined without being overly constrictive, and his heavy emphasis on risk management is particularly pleasing.

Investing in UK stocks of all sizes, Carl is unconstrained in terms of sector weightings and is able to fully express his market views through the positioning of the portfolio.

Over the past five years, Rathbone Income has returned 25.45%*, which compares to 18.75%* by the average fund in the IA UK Equity Income sector. The fund yields 4.33%**.

GLOBAL EQUITIES

There are also plenty of attractive dividend-paying stocks outside the UK. To access these, investors can invest in regional income funds or via a global equity income strategy. Both have merits and much will depend on whether you wish to tap into specific regions or you prefer a one-stop-shop solution.

Our second option derives its income from around the world:

2 FIDELITY GLOBAL DIVIDEND

Elite Rated by FundCalibre

Manager Dan Roberts focuses on global companies with reliable cash flows across the economic cycle, which have the potential to grow their dividends over time. The fund aims to pay a regular and growing income, and has a strong focus on capital preservation.

Dan invests in companies with easy-to-understand business models which have the potential to generate predictable and resilient returns. He also pays close attention to the price he buys in at. Most of the stocks that make it into the portfolio are already established dividend-payers.

Although the fund's historic yield is lower than some peers at 3.18%**, we view this as a solid, 'sleep soundly at night' investment strategy.

Over the past five years Fidelity Global Dividend has returned 64.10%*, which compares to 38.72%* by the average fund in the IA Global Equity Income sector.

* Source: FE Analytics, total returns in sterling, 01/01/2014 to 01/01/2019
** Yields per annum as at 15/01/2019

DIVERSIFYING AWAY FROM EQUITIES

Outside of stocks and shares, there are selective opportunities for investors to earn a healthy income from the bond market. In our experience, it is worth backing a bond manager who has the flexibility to identify investment opportunities across the market. This is because parts of the bond market exhibit different risk and return characteristics at different stages of the investment cycle.

Our third option is a great example of this:

3 TWENTYFOUR DYNAMIC BOND

Elite Rated by FundCalibre

TwentyFour Dynamic Bond has a great track record of identifying investment opportunities across bond markets. It has a very flexible approach, and is able to take advantage of changes in market conditions. The team's specialist skills mean that they can, and do, invest in areas of the market where others may fear to tread, such as subordinated financial debt and asset-backed securities.

This fund tends to pay an attractive yield and is managed with an emphasis on credit risk (how likely is it that interest and capital payments will be made on time) to ensure protection of investors' capital and income wherever possible.

The fund currently yields 4.53%**. Over the past five years, it has returned 20.38%*, which compares to 16.71%* by the IA Sterling Strategic Bond sector.

ALTERNATIVE SOURCES OF INCOME

Investors may also consider gaining exposure to so-called 'alternatives', which offer a lower correlation to mainstream asset classes. Infrastructure, property and renewable energy sit in this category, and are known for offering investors the prospect of an attractive income stream, which in some cases is inflation-linked.

Our fourth option has been on the Chelsea Selection since just after its launch in 2016:

4 VT GRAVIS UK INFRASTRUCTURE INCOME

This fund holds investment trusts (listed funds), equities, bonds and real estate investment trusts (REITs). These are exposed to different types of UK infrastructure; from renewable energy, to railways, roads and GP surgeries.

One of the biggest attractions of VT Gravis UK Infrastructure Income is that it yields around 5.8% and distributes its income on a quarterly basis. The fund also offers some protection against rising inflation, as some of the income streams are inflation-linked. This income strategy could be a good diversifier in a portfolio and it isn't too dependent on the economic cycle.

Since launch in January 2016, the fund has returned 18.37%^.

ONE STOP SHOP FOR INCOME

Of course, over the long-term, it is beneficial to hold a spread of income funds within your ISA portfolio. Getting the right mix at different stages of the economic and market cycle can be easier said than done.

So our last option is one that does this job for you:

5 VT CHELSEA MANAGED MONTHLY INCOME

Investing in income funds, where the underlying assets include UK and overseas equities, bonds, gold and targeted absolute return strategies, as well as alternatives such as property, renewable energy and infrastructure – this fund does the asset allocation job for you.

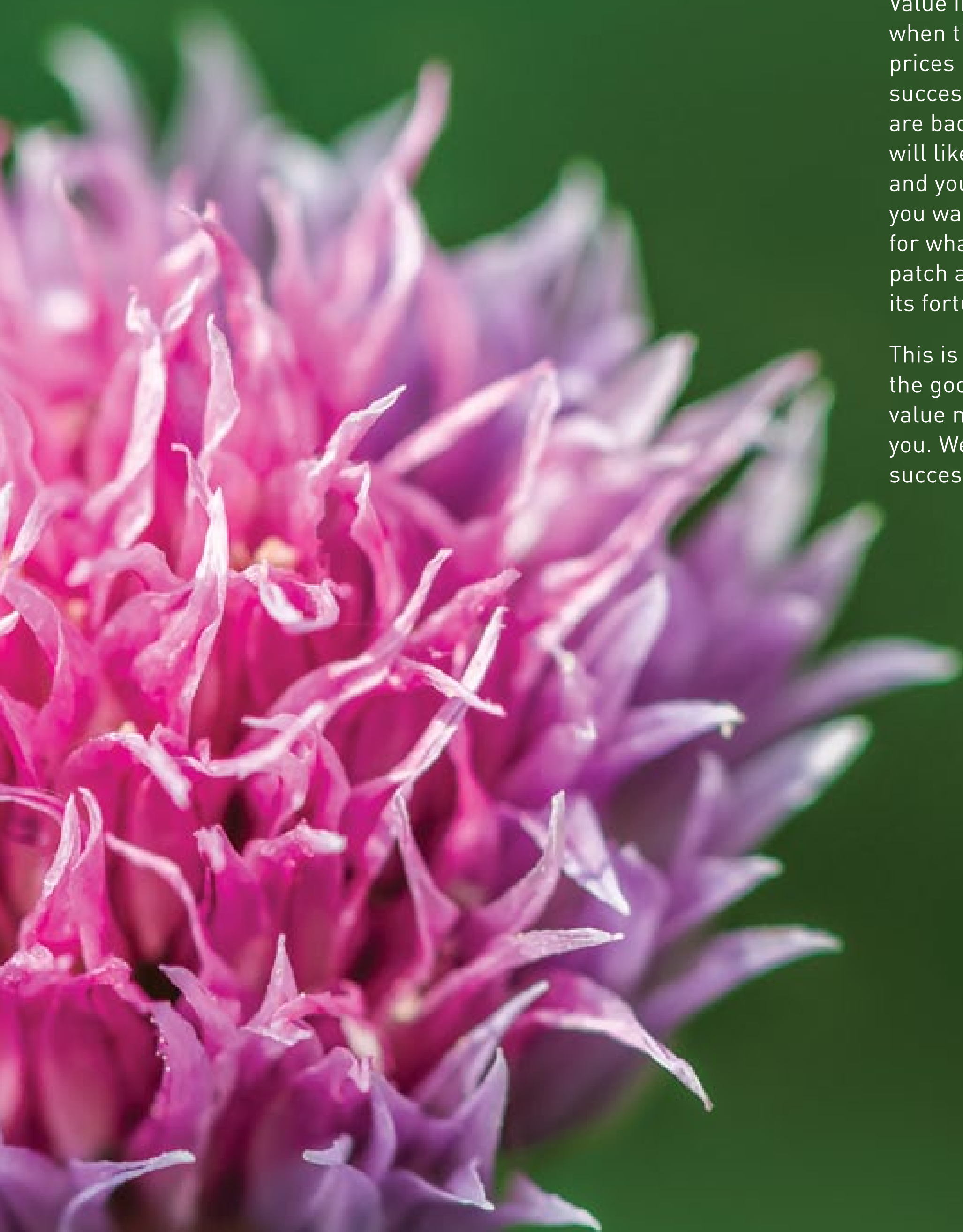
Chelsea's fund research team, who are investment advisers to the fund, aim to provide a good dividend, which will grow over time. They adjust the mix of funds in the portfolio to suit different market conditions. The current yield of 4.73%† is paid monthly, which will appeal to investors wanting a smoother income payment.

Since launch in June 2017, the fund has returned 1.61%# this compares to -3.18%# by the IA Mixed Investments 20-60% shares sector average.

^ Source: FE Analytics, total returns in sterling, 25/01/2016 to 01/01/2019
† As at 30/11/2018
# Source: FE Analytics, total returns in sterling, 05/06/2017 to 01/01/2019

IS IT VALUE'S TIME TO SHINE ONCE AGAIN?

Everyone loves a bargain, and investing should be no different. But the reverse is often true: it is one of the few areas of life where the more expensive something gets, the more people seem to want to buy it.



One of the most important things we have learned from researching funds for close to 20 years is that if you invest when something is cheap, you've got a better chance of making money over the long-term.

Value investors buy 'unloved' companies when they are out of favour and their share prices look cheap. The key to achieving success is to avoid cheap companies that are badly run or in terminal decline, as they will likely see their share price fall further and you could end up losing money. Instead, you want to invest in a good company that, for whatever reason, is going through a bad patch and has the potential to turn around its fortunes.

This is obviously easier said than done, but the good news is there are some talented value managers out there who can do this for you. We asked three to explain what makes a successful value investor.

WHAT DOES VALUE INVESTING MEAN TO YOU?

INVESTEC UK SPECIAL SITUATIONS

Elite Rated by FundCalibre

ALASTAIR MUNDY

Fund Manager,
Investec UK Special Situations

When someone asks what being a value investor means I try to avoid using both technical jargon and complex formulae. Instead, I think it is best explained with an image of my team and I looking in other investors' dustbins for our investment ideas.

Admittedly, we are likely to find a lot of rubbish in there, but experience suggests we will also find stuff that has been thrown away because it is damaged, unloved or out of fashion. And sometimes things will have been discarded accidentally.

These abandoned items will not necessarily immediately increase in value once we have salvaged them; often we must be patient, sometimes very patient.

I may have tortured this analogy too much, but hopefully the message is clear; we purchase the shares of companies which are out of favour in the belief that eventually these companies and their share prices will recover.

Chelsea Risk Rating	6
Standard Annual management charge	0.75%
Ongoing charges figure	0.91%

THE CHELSEA VIEW

Alastair is an industry stalwart and an esteemed contrarian investor. This leads to his portfolio not being in the 'hot' stocks that others are known to chase. Alastair has exceptional experience, and this gives us confidence that he can pick the best turnaround stories and outperform across a market cycle.

OUR APPROACH

Our process involves understanding why each share is out of favour, whether this is justified and what positive aspects are potentially being ignored. If we believe that other investors are ignoring the company's long-term prospects and significantly undervaluing the shares, we will purchase them.

In recent years our style of investing has struggled despite its success over many decades. We do not believe this makes value investing redundant – in fact we would argue that it creates an exciting opportunity. Value investing itself is out of favour and due a recovery.

In general, the portfolio is constructed based on our analysis of individual stocks. However, sometimes industry themes are apparent. For example, we currently hold a number of banks, such as Royal Bank of Scotland, Lloyds Banking Group and Barclays. We also hold builder's merchants, such as Travis Perkins and Grafton, and retailers Next, Marks & Spencer and Tesco. Much of the portfolio is exposed to companies which I believe will generate most of their profits from the UK economy.

Not all of these companies will recover in line with our hopes and expectations. We must therefore remain focused on their growth strategies, balance sheets and the environments in which they operate. We must also remember that we will not receive awards for stubbornness. If we believe we have purchased something in error we must be willing to return it to the dustbin!

RIVER AND MERCANTILE UK RECOVERY

Elite Rated by FundCalibre

Value investing has more than one definition but, at its simplest, it means buying an investment when it is attractively priced in absolute terms and relative to its history.

Investments are typically valued according to their earnings, ability to generate cash and invested capital base. I like to see a wide gap between what we think a business is worth (its 'intrinsic value') and the price I am able to buy the shares at today. This is the 'margin of safety' we require for the fact that we don't know what the future will hold.

The market is currently focused on paying high prices for defensive quality stocks and expensive growth stocks that are already fully delivering, whereas we are paying lower prices for everything else that has been left behind in the stampede of hot capital into defensive quality and growth.

My value stocks are either growing shareholder value robustly or have significant hidden growth potential. However, these stocks just get cheaper because the majority of investors are focused purely on the risks (which exist in any stock). This means that the gap between price and intrinsic value is getting wider.

We believe the US equity market has seen the best of its cycle, with profits more than fully recovered and shares looking expensively valued. But the rest of the world is very different: the cycle is less advanced and many stocks have the potential to generate attractive profits. What's more, they currently trade on modest valuations.

UK OFFERS VALUE

The UK stock market is one of the most extreme examples of this, shunned by international investors to such an extent that the 'yield gap' between corporate earnings yields and government gilt yields now stands at its widest since the 1930s.

One of the UK companies I have increased my stake in is Chemring, which provides technology and services within the aerospace and defence sectors. It can be described as a recovery stock with the potential to improve profitability over the medium term.

Under a new management team, it has evolved from a financially vulnerable business to one that is exposed to higher quality long-term sensors contracts, supported by a strong balance sheet. This, combined with an increased focus on operational efficiency, makes us believe there is good reason to expect a higher return on capital over the medium term.

I have also bought into a number of companies with exposure to emerging markets, such as Asia-focused financials Standard Chartered and Prudential.

HUGH SERGEANT

Fund Manager,
River and Mercantile UK Recovery

SELL DISCIPLINE

At River and Mercantile, we employ a philosophy called PVT – potential, valuation and timing – when selecting stocks. As well as identifying opportunities that aren't currently in portfolios, we monitor what's already in the portfolios so we know when the time is right to exit or sell a position.

The key reasons I will sell a stock are twofold: either it goes beyond our assessment of fair value (i.e. it's no longer good value) or we determine that our original investment case is broken and the fundamentals are declining.

Chelsea Risk Rating	7
Annual management charge	1.00%
Ongoing charges figure	1.10%

THE CHELSEA VIEW

This fund stands out on account of its simple but repeatable and powerful process. Hugh is a highly experienced manager and uses his skill, along with the research tools available to him to create a diversified, value-orientated fund.

SCHRODER GLOBAL RECOVERY

Value investing as a style has been around since the 1930s. It was made famous by Benjamin Graham, and later by his protégé Warren Buffett.

At its core, value investing is about buying businesses for less than their intrinsic worth – the famous "margin of safety" that Benjamin Graham so passionately encouraged. Since then, the style has proliferated. Today, value investing can mean different things to different people.

For the Schroder Value Team, it is simple: value investing is about focusing on cheap prices. We believe that everything else is a distraction. The reason we focus on cheap prices is because all of the empirical data shows that the price you pay for a company is the biggest determinant of the future return you get.

VALUE OUT OF FAVOUR

Of course, after a number of years where growth investing has bucked a long-term trend and frustrated value managers, many people are now questioning if value investing has lost its allure. This reminds us of renowned investor John Templeton's four most dangerous words in investment…"this time it's different". While market environments change, interest rates go up and down, political regimes come and go, there is only one constant in markets: humans.

Understanding human behaviour is crucial to understanding value investing. At its core, value investing is about exploiting the emotional nature of the market. This marriage of psychology, highly detailed accounting work and fundamental analysis is what makes value investing so powerful.

After almost a decade of share price rises in the US, where valuations are at near peak levels on a variety of long-term metrics, we see signs of the type of exuberance and risk-taking that are reminiscent of the build-up to the dot-com boom in 2000 and the financial crisis in 2008.

OUR APPROACH

We construct our portfolios by forensically looking at an individual stock's fundamentals and then ignore the wider market issues. On a relative basis, the Schroder Global Recovery fund is 45% underweight to the US, which means we don't think US stocks offer good value right now.

We currently see opportunities that are more attractive closer to home. Take UK banks for example. Generally they have only been cheaper in early 2009 and late 2011 – at the height of systemic risk – and profitable new business is helping them to build significant excess capital. For the time being, these robust profit margins remain masked by losses on legacy assets and exceptional charges. Over the longer term, however, we believe the ongoing improvement in their core businesses will warrant significant share price increases.

How do we know when to sell a value stock? Unsurprisingly, our decisions are made by focusing on the same sole principle that determines when we buy them – valuation. Our investment process ensures we only own companies where the significant potential upside on offer compensates us for the risks. We reappraise this constantly and sell stocks as they approach fair value.

SIMON ADLER

Fund Manager, **Schroder Global Recovery**

Chelsea Risk Rating	6.5
Annual management charge	0.75%
Ongoing charges figure	0.95%

THE CHELSEA VIEW

The managers have an excellent long-term track record on their UK funds using the same investment process. They are not swayed by the story behind a company, but will simply focus on the numbers in financial statements. As a result, the fund is heavily focused on valuations and is one of the best deep value funds available.

VCTs: TAX-EFFICIENT INVESTING FOR THE FUTURE

PETER HICKS

Research Analyst, **Chelsea**

Do you like paying tax? If you answered 'no' to the question above then Venture Capital Trusts (VCTs) may be of interest to you if you are comfortable with higher risk investments. Not only does an investor receive 30p in tax relief for every £1 invested in a VCT share offer, they will also pay no income tax on dividends or capital gains tax on profits.

BACKING BRITISH BUSINESS

VCTs are funds that are listed on the London Stock Exchange. They invest or provide finance to small and early stage UK companies, which tend to be unquoted. This means the underlying investments carry higher risks in comparison to holding larger, listed companies.

As small and medium-sized enterprises (SMEs) account for more than half of the UK's private sector, VCTs can provide adventurous investors with exciting investment opportunities across a range of sectors.

One of the attractions of investing in a smaller company is the potential to generate significant returns over the long-term - taking into account the potential risks involved. Historically, smaller companies have displayed the potential to grow at a much faster rate than larger businesses, particularly if they have a product or service that is different and difficult to replicate.

PREREQUISITES

In order to qualify for the tax relief on offer, you must remain invested in a VCT for at least five years. If you sell out of your holding before the five-year mark, you will lose out on the tax benefits.

GROWTH FOCUS

Following changes to VCT rules over the past few years, these tax-efficient funds must now direct capital to early-stage companies which require money for growth, rather than more established businesses which may be looking for funding for a management buyout or acquisition. This means that VCTs focus on younger growth companies, which have operated commercially for seven years or less, or for 10 years if they are 'knowledge intensive'.

While some VCTs have adapted their strategy to account for these changes, the rule changes have had little effect on ProVen VCT's tried and tested strategy.

The VCT manager has completed a number of highly lucrative exits in recent times. For example, the ProVen VCT and ProVen Growth & Income VCT collectively sold their stakes in Watchfinder for £28.25m in 2018, after initially investing £3.18m.

Meanwhile, both VCTs made £11m from the sale of their stakes in Chargemaster in 2018. Collectively, both VCTs initially invested £3.5m in the electric vehicle charging business.

The proceeds of these exits were passed on to investors, with ProVen VCT paying its highest ever one-off special dividend of 25.25p. Meanwhile, Proven Growth and Income VCT paid a special dividend of 4.5p from the same proceeds.*

THE RISKS

VCTs invest in higher risk, smaller companies which may fail. They are also very illiquid, which means investors may end up investing for longer than the minimum five-year period. There is a risk that you will get back less than your original investment.

*Source: ProVen Securities note

Name of VCT	Type of VCT	Minimum Investment	Initial Charge	Chelsea Discount	Closing Date	Target dividend yield
British Smaller Companies VCTs	Generalist	£3,000	4.5%	2%	05/04/2019 (tax year 2018/19)	Progressive
Pembroke VCT	Generalist	£3,000	3.5%	1%	05/04/2019 (tax year 2018/19)	3p/share
ProVen VCTs	Generalist	£5,000 or £2,500 between two VCTs	5.5%	3%	05/04/2019 (tax year 2018/19)	5%
Unicorn AIM VCT	AIM	£2,000	5.5%	3.5%/3.25%^	05/04/2019 (tax year 2018/19)	Variable

^ 3.5% for existing investors, 3.25% for new investors – offer open until 01/03/2019. 3% discount thereafter.

TAX BENEFITS FROM VCTs

- **Initial income tax relief of 30% (only if held for five years)**
- **Tax-free dividends**
- **Free of capital gains**
- **Invest between £3,000 and £200,000 every tax year**

TAX RELIEF EXAMPLE

£10,000
Initial investment

£3,000
30% Income tax relief

£7,000
Effective investment cost

Important notice Please be aware that VCTs are long-term investments. VCTs usually invest in small, unquoted companies and therefore carry a greater risk than many other forms of investment. In addition, the level of charges is often greater than unit trusts and OEICs. Past performance is not necessarily a guide to the future. The value of investments, and the income from them, can fall as well as rise and you may not get back the amount invested. Chelsea Financial Services offers an execution-only service. If you require investment advice you should contact an expert adviser. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances. Tax relief is restricted to total VCT investments for each investor to £200,000 per tax year and the initial tax relief cannot exceed the amount which reduces the investor's income tax liability to zero.

THE CHELSEA SELECTION

	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	Yield %	Fund Size (m)
UK ALL COMPANIES												
Artemis UK Select		7	-19.70	257	-0.85	227	11.76	186	166.64	64	4.06	591.8
AXA Framlington UK Select Opportunities		6	-10.18	119	3.02	204	13.21	174	175.44	52	1.90	1837.9
Franklin UK Managers' Focus		7	-12.50	176	8.83	167	29.19	41	218.04	33	-	331.5
Franklin UK Mid Cap	✓	6.5	-13.46	190	9.16	160	27.19	50	302.86	13	2.34	897.2
Investec UK Alpha	✓	6	-9.33	91	11.25	140	26.30	56	210.19	38	2.35	1999.1
JOHCM UK Dynamic	✓	6	-10.21	122	26.37	19	30.06	37	217.58	33	3.41	1100.0
Jupiter UK Special Situations	✓	5.5	-7.33	35	23.91	22	28.74	43	183.12	49	2.70	1833.6
Lindsell Train UK Equity		6.5	-1.09	7	32.84	9	58.84	5	362.62	7	2.00	5492.0
Liontrust Special Situations SPOTLIGHT	✓	6	-2.56	9	31.72	11	52.82	8	379.07	3	1.95	3942.6
Marlborough UK Multi-Cap Growth	✓	7	-17.39	241	16.90	82	38.63	15	233.84	28	0.89	282.9
MI Chelverton UK Equity Growth	✓	7.5	-8.91	71	44.71	2	-	-	-	-	1.06	263.0
Schroder Recovery	✓	7.5	-3.67	12	36.57	5	21.76	85	255.78	22	2.51	1133.4
Slater Growth		7	-13.50	191	8.49	171	52.36	9	452.67	1	-	498.4
Threadneedle UK Extended Alpha	✓	7	-10.69	136	12.28	127	28.18	47	155.01	81	-	121.9
SECTOR AVERAGE			**-11.19**	**263**	**12.20**	**250**	**18.41**	**239**	**144.96**	**204**		
UK EQUITY INCOME												
Artemis Income	✓	5	-9.79	38	12.21	27	23.16	22	142.75	23	4.60	5236.7
JOHCM UK Equity Income	✓	6	-13.13	71	19.98	8	22.67	24	207.71	5	4.36	3400.0
LF Gresham House UK Multi Cap Income		7.5	-2.37	3	-	-	-	-	-	-	4.87	33.1
Man GLG UK Income	✓	6	-7.34	13	24.79	4	45.66	1	185.32	8	4.46	697.23
Marlborough Multi Cap Income	✓	7	-13.60	73	-0.61	75	19.46	37	-	-	4.77	1411.0
Montanaro UK Income	✓	7.5	-13.63	193/263	8.66	169/250	34.14	24/239	282.11	17/204	3.60	312.0
Rathbone Income	✓	5	-8.54	23	7.32	44	25.43	19	162.77	11	4.33	3400.0
Royal London UK Equity Income	✓	5.5	-9.67	37	13.12	22	27.59	14	200.67	7	4.53	1750.2
Standard Life Investments UK Equity Income Unconstrained	✓	6	-13.86	75	-2.55	80	17.86	44	220.86	3	4.42	1367.8
TB Evenlode Income	✓	5	0.39	2/263	35.35	7/250	58.85	4/239	-	-	3.40	2519.0
Threadneedle UK Equity Alpha Income		5	-5.33	6	11.28	31	21.66	29	149.58	17	4.70	352.6
SECTOR AVERAGE			**-10.55**	**88**	**8.41**	**82**	**18.75**	**77**	**131.73**	**56**		
UK SMALLER COMPANIES												
AXA Framlington UK Smaller Companies		8	-13.51	28	20.50	22	58.82	10	452.70	8	0.65	238.4
Franklin UK Smaller Companies		8	-15.67	36	7.81	40	34.94	29	257.10	36	1.28	310.8
LF Gresham House UK Micro Cap	✓	8.5	1.47	2	35.16	9	75.82	4	-	-	0.70	163.2
Liontrust UK Micro Cap		8	3.05	1	-	-	-	-	-	-	-	35.3
Marlborough Special Situations	✓	7.5	-11.54	18	24.21	19	57.83	11	453.09	7	-	1386.8
Marlborough UK Micro Cap Growth	✓	8	-10.13	13	37.82	7	62.44	9	540.23	3	-	1100.7
R&M UK Equity Smaller Companies		8	-17.20	44	14.73	30	43.62	22	441.78	11	-	465.0
TB Amati UK Smaller Companies^		8	-6.31	8	47.56	5	89.76	1	574.87	2	-	206.0
SECTOR AVERAGE			**-11.70**	**49**	**21.35**	**46**	**37.07**	**46**	**314.32**	**42**		
STERLING CORPORATE BOND												
BlackRock Corporate Bond	✓	2.5	-1.09	14	15.10	13	28.35	17	111.93	10	2.99	833.4
Royal London Corporate Bond	✓	2.5	-2.05	38	14.88	15	29.33	12	102.50	15	3.47	1215.3
TwentyFour Corporate Bond	✓	2.5	-2.45	53	13.01	34	-	-	-	-	-	678.0
SECTOR AVERAGE			**-2.22**	**93**	**12.05**	**86**	**22.74**	**80**	**79.12**	**57**		
STERLING HIGH YIELD BOND												
Baillie Gifford High Yield Bond	✓	4	-2.50	11	16.06	8	19.06	3	187.05	3	4.20	466.7
Royal London Short Duration Global High Yield Bond		2.5	0.44	1	7.16	31	14.97	18	-	-	4.88	1326.1
SECTOR AVERAGE			**-3.23**	**36**	**12.99**	**32**	**13.64**	**28**	**129.85**	**18**		
STERLING STRATEGIC BOND												
Artemis Strategic Bond		3	-3.04	57	13.00	17	20.13	24	117.64	11	3.82	1403.7
Baillie Gifford Strategic Bond	✓	3	-1.67	27	17.11	7	27.99	6	144.95	2	3.50	798.6
GAM Star Credit Opportunities*	✓	4	-6.49	84	18.04	5	39.08	3	-	-	4.43	1005.1
Invesco Monthly Income Plus	✓	3.5	-4.04	70	10.18	38	16.78	36	136.37	5	5.23	2937.4
Janus Henderson Strategic Bond^		3	-1.35	15	9.23	45	19.29	27	103.73	18	3.10	2097.0
Jupiter Strategic Bond	✓	2.5	-0.99	9	11.01	30	17.25	33	142.30	4	3.60	3638.2
TwentyFour Dynamic Bond	✓	3.5	-2.42	47	10.99	31	20.38	19	-	-	4.53	1811.5
SECTOR AVERAGE			**-2.49**	**86**	**10.22**	**76**	**16.71**	**69**	**82.29**	**41**		
TARGETED ABSOLUTE RETURN												
BlackRock UK Absolute Alpha	✓	4	-4.90	-	-1.19	-	13.55	-	25.64	-	-	299.2
Janus Henderson UK Absolute Return	✓	4	-2.71	-	2.08	-	15.58	-	-	-	-	2241.6
Jupiter Absolute Return	✓	4.5	-0.07	-	7.32	-	13.44	-	-	-	-	1549.3
Merian Global Equity Absolute Return Hedged		5	-2.72	-	6.19	-	21.03	-	-	-	-	9918.6
Smith & Williamson Enterprise	✓	5	-5.59	-	0.74	-	14.22	-	37.59	-	-	130.7
SVS Church House Tenax Absolute Return Strategies	✓	4	-1.31	-	9.58	-	18.34	-	63.81	-	0.67	270.0
SECTOR AVERAGE			**-2.81**		**1.54**		**6.95**		**31.48**	**-**		
EUROPE EXCLUDING UK												
Barings Europe Select Trust***		8	-10.26	3 / 26	33.44	6 / 26	61.28	3 / 20	279.46	8 / 19	1.40	1887.3
BlackRock Continental European Income	✓	7	-9.77	27	19.44	65	41.66	15	-	-	4.59	1682.9
BlackRock European Dynamic^	✓	7	-13.04	-	24.66	-	43.93	-	241.66	-	1.30	2632.3
FP CRUX European Special Situations	✓	7	-15.16	99	24.45	39	43.24	11	-	-	2.94	1800.4
Jupiter European	✓	6.5	-0.34	1	33.89	7	74.31	2	293.16	1	0.50	5076.1
Marlborough European Multi-Cap	✓	8	-11.53	56	45.12	2	81.72	1	153.41	13	1.61	339.0
Schroder European Alpha Income	✓	7.5	-16.24	105	20.82	56	37.29	25	-	-	3.85	1083.2
Threadneedle European Select	✓	7	-10.56	38	20.29	61	39.65	18	185.64	7	1.20	1446.4
SECTOR AVERAGE			**-12.16**	**118**	**19.95**	**107**	**29.83**	**97**	**113.39**	**76**		

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

Fund	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	Yield %	Fund Size (m)
NORTH AMERICA												
Artemis US Extended Alpha	✓	7	3.53	25	53.56	15	-	-	-	-	-	1418.4
(C) AXA Framlington American Growth	✓	7	4.28	22	44.77	59	86.71	31	298.19	16	-	476.6
Brown Advisory US Flexible Equity^	✓	7	1.21	-	47.58	-	-	-	-	-	-	243.6
Dodge & Cox US Stock		7	-2.18	97	53.17	16	81.73	46	-	-	-	1348.5
(C) Fidelity American Special Situations		7	0.27	50	34.33	106	86.27	34	273.94	25	-	952.6
Hermes US SMID Equity*	✓	8	-6.06	10 / 15	36.59	11 / 13	63.98	6 / 12	-	-	-	784.1
(C) LF Miton US Opportunities	✓	7	-2.94	106	48.33	30	85.23	36	-	-	-	537.1
SECTOR AVERAGE			**-1.37**	**150**	**40.98**	**134**	**72.99**	**112**	**232.80**	**87**		
JAPAN												
Baillie Gifford Japanese^	✓	10	-12.57	52	48.16	3	65.92	9	175.01	2	0.89	2631.4
(C) JPM Japan		10	-8.33	15	35.14	9	75.59	4	142.50	6	0.33	819.1
Legg Mason IF Japan Equity		10	-10.56	39	57.23	2	135.16	1	466.82	1	-	906.4
(C) Man GLG Japan Core Alpha	✓	10	-9.49	31	32.82	15	58.74	17	146.27	4	2.54	2124.4
SECTOR AVERAGE			**-11.41**	**77**	**28.83**	**74**	**49.96**	**62**	**98.32**	**53**		
ASIA PACIFIC EXCLUDING JAPAN												
Fidelity Asia Pacific Opportunities	✓	8	-5.80	24	60.38	5	-	-	-	-	-	119.0
Guinness Asian Equity Income	✓	8	-10.25	62	43.45	56	70.63	16	-	-	4.14	95.6
Invesco Asian^	✓	8	-12.02	70	65.66	2	80.15	5	262.41	3	1.63	2340.7
JOHCM Asia ex Japan Small and Mid Cap		9	-16.09	94	1.31	96	42.05	70	-	-	-	14.1
(C) Matthews Asia Pacific Tiger	✓	8	-5.71	21	43.81	53	75.02	13	-	-	-	711.1
(C) Schroder Asian Alpha Plus	✓	8	-9.01	49	56.80	9	73.41	15	344.34	1	1.38	930.1
Schroder Asian Income	✓	7.5	-4.72	7	46.22	40	60.66	29	253.99	7	4.16	1309.9
(C) Stewart Investors Asia Pacific Leaders	✓	7.5	5.40	-	43.05	-	74.76	-	237.20	-	1.01	7745.2
SECTOR AVERAGE			**-9.81**	**104**	**42.04**	**96**	**50.31**	**88**	**177.40**	**61**		
GLOBAL EMERGING MARKETS												
Aberdeen Latin American Equity	✓	10	-4.69	-	84.76	-	22.18	-	-	-	-	142.8
First State Greater China Growth***	✓	10	-7.78	6 / 37	47.29	9 / 35	64.44	12 / 33	282.18	1 / 19	-	437.6
GS India Equity Portfolio	✓	10	-11.12	-	42.64	-	142.43	-	370.31	-	-	1516.8
(C) Invesco Hong Kong & China^	✓	10	-9.22	-	45.66	-	62.48	-	234.07	-	-	347.5
Janus Henderson Emerging Markets Opportunities		10	-11.64	56	39.12	69	36.71	46	112.12	35	2.30	515.8
Lazard Emerging Markets	✓	10	-13.33	70	47.61	44	26.16	72	139.70	21	2.10	978.6
(C) RWC Global Emerging Markets		10	-22.56	100	-	-	-	-	-	-	-	843.8
Schroder Small Cap Discovery		10	-15.08	-	18.76	-	36.98	-	-	-	0.91	215.2
SECTOR AVERAGE			**-11.78**	**102**	**43.54**	**93**	**33.11**	**84**	**127.30**	**42**		
GLOBAL												
Baillie Gifford Global Discovery^	✓	8.5	4.72	10	52.84	8	85.69	9	478.51	1	-	618.9
(C) Fidelity Global Special Situations	✓	7	-6.51	176	39.74	57	77.68	23	221.44	24	-	2367.4
(C) Fundsmith Equity	✓	6	2.30	20	60.23	3	129.10	2	-	-	0.63	16253.9
Investec Global Special Situations		7	-14.57	287	37.89	90	57.51	88	168.46	83	1.25	173.7
(C) Rathbone Global Opportunities	✓	6.5	-0.52	43	39.49	62	76.66	25	312.06	3	-	1351.5
(C) T. Rowe Price Global Focused Growth Equity	✓	7.5	-0.10	40	53.76	7	95.86	5	260.75	14	-	972.0
SECTOR AVERAGE			**-5.72**	**300**	**32.60**	**268**	**45.91**	**236**	**150.90**	**164**		
GLOBAL EQUITY INCOME												
(C) Artemis Global Income	✓	7	-12.50	51	19.62	36	43.84	20	-	-	3.38	3530.0
Fidelity Global Dividend	✓	6	2.20	2	33.51	13	64.10	3	-	-	3.08	937.0
Fidelity Global Enhanced Income		5.5	1.76	4	33.04	16	59.52	7	-	-	4.99	233.8
Guinness Global Equity Income	✓	6.5	0.73	5	40.10	3	57.64	9	-	-	2.80	520.9
(C) M&G Global Dividend*** SPOTLIGHT	✓	7	-7.10	191 / 300	47.98	14 / 268	42.15	166 / 236	202.74	41 / 164	3.13	3129.8
Newton Global Income	✓	6	-0.80	8	38.64	5	66.41	1	186.11	1	3.23	5172.4
TB Evenlode Global Income		6	2.13	3	-	-	-	-	-	-	2.30	161.0
SECTOR AVERAGE			**-5.72**	**55**	**32.60**	**46**	**45.91**	**39**	**150.90**	**12**		
MISCELLANEOUS**												
Artemis Monthly Distribution	✓	4.5	-7.77	-	18.46	-	39.23	-	-	-	4.46	928.4
Artemis Strategic Assets		6	-9.04	121 / 153	7.81	125 / 138	4.57	124 / 125	-	-	-	618.6
AXA Framlington Global Technology	✓	10	7.04	5 / 15	78.58	4 / 13	145.71	3 / 11	521.93	2 / 10	-	550.9
BMO European Real Estate Securities	✓	7.5	-6.53	-	23.25	-	76.21	-	-	-	-	188.7
Guinness Global Energy		9	-14.72	288 / 300	17.25	250 / 268	-22.75	234 / 236	35.25	162 / 164	-	192.9
Jupiter Financial Opportunities		8	-5.17	-	26.72	-	42.35	-	77.30	-	0.60	545.0
M&G Emerging Markets Bond	✓	4	0.62	9 / 58	37.72	7 / 53	58.21	4 / 46	96.99	9 / 21	6.80	384.4
Merian Gold & Silver		10	-15.19	-	-	-	-	-	-	-	-	228.2
Polar Capital Biotechnology		10	2.08	-	34.54	-	153.73	-	-	-	-	328.6
Polar Capital Healthcare Opportunities	✓	8	15.51	-	37.18	-	109.70	-	354.80	-	-	1248.8
Premier Pan European Property Share	✓	7.5	-7.59	-	5.85	-	49.69	-	200.31	-	4.03	281.4
VT Gravis UK Infrastructure Income		4	1.84	-	-	-	-	-	-	-	5.80	288.2

(C) **Funds featured in The Chelsea Core Selection (see pages 22-27).**

✓ **Funds that are Elite Rated by FundCalibre (see FundCalibre.com for further details).** FundCalibre is an appointed representative of 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, 01/01/2019, but subject to change.

Source: FE Analytics, total return, IA universe, 01/01/2019.

Yields per annum as at 15/01/2019. Yields taken from Income unit versions of fund.

CORE SELECTION SPOTLIGHT

ANTHONY CROSS

Fund Manager,
Liontrust Special Situations

LIONTRUST SPECIAL SITUATIONS

Elite Rated by FundCalibre

THE CHELSEA VIEW

The fund has a well-defined process that the experienced managers have built and honed through different market environments. They are also able to invest in small and mid-cap stocks, which has been an excellent driver of returns since the fund launched.

During my time working on the smaller companies desk at Schroders, prior to joining Liontrust in 1997, I noticed that many of the successful companies I was researching and investing in had underappreciated characteristics.

By focusing on identifying these characteristics, it occurred to me that I might be able to invest profitably in a repeatable manner.

So when Liontrust offered me the opportunity to develop this idea into an investment process, I jumped at the chance. It is currently applied across four funds, including Liontrust Special Situations. At its heart is the belief that hard-to-replicate assets provide companies with a competitive advantage, which allows them to sustain a higher than average level of profitability for longer than expected.

In our experience, there are three core intangible assets that act as the best barriers to competition: intellectual property, strong distribution channels and significant recurring business.

By looking for these characteristics in a clinical rather than emotional manner, it is possible to identify great long-term compounders. These companies not only generate good profits, but successfully reinvest them to secure future profit growth. The compounding of profit growth year after year can be incredibly powerful.

A LONG-TERM COMPOUNDER

Spirax-Sarco is a good example of a long-term earnings compounder. It is an international engineer, which is rich in intellectual property and possesses a strong distribution network across 47 countries. It has a dominant market position in products for regulating steam and electrical thermal energy.

The industrialisation of emerging markets has driven growth within the business, which has converted into excellent shareholder returns: Spirax-Sarco has grown its dividend every year for over 40 years.

In 2018, takeover offers were made for a handful of the fund's holdings – trading software provider Fidessa and drugmaker Shire. When a holding succumbs to a takeover it can be bittersweet. It represents an experience we are familiar with: around a third of the stocks that have left the fund since 2005 have been taken over.

OUR PIPELINE OF INVESTMENTS

From a practical perspective, we have a pipeline of potential investments we continue to monitor, which meet our criteria but we don't always have room for them in our portfolios. If a stock exits the fund, thanks to a takeover, it presents an opportunity to promote from our pipeline.

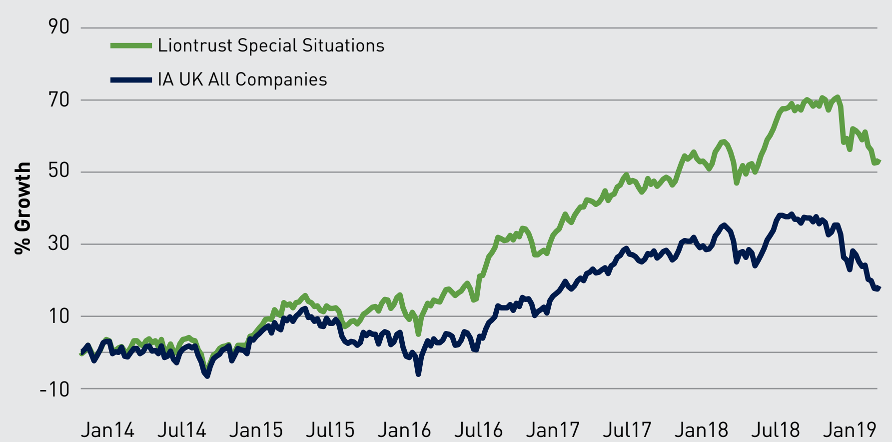
Last year, we were able to add a number of new names across the market cap spectrum, from large-caps like Sage (accounting software provider), through to mid-caps such as Coats (the world's leading manufacturer of industrial threads) to small-caps like ECO Animal Health (a producer of pharmaceutical products for the animal health market).

2019 looks set to be another turbulent year in politics. Thankfully, predicting geopolitical or macro-economic events is not something we attempt to do. While the UK economic outlook remains uncertain, with the impact of Brexit yet to be determined, for us it is a case of 'business as usual'. We will simply focus on the underlying attractions of companies.

We are committed to investing in companies for the long term and will 'ride out' any headwinds – an approach which has served the fund well. We view periods of indiscriminate market weakness as an opportunity to identify stocks with undervalued long-term fundamentals.

In the long run, buying quality companies when others are selling can be fruitful. This is exactly what we did during October's market sell off, adding to around half of our stocks.

LIONTRUST SPECIAL SITUATIONS – FIVE YEAR PERFORMANCE



Source: FE Analytics, total returns in sterling, 01/01/2014 to 01/01/2019

CORE SELECTION SPOTLIGHT

M&G GLOBAL DIVIDEND

Elite Rated by FundCalibre

STUART RHODES

Fund Manager,
M&G Global Dividend

THE CHELSEA VIEW

Stuart targets a growing dividend stream for the fund. The three 'buckets' he invests in means there are multiple drivers for performance. This is a well-rounded and differentiated portfolio, which offers income as well as growth potential.

I have had the privilege of managing the M&G Global Dividend fund since launch in July 2008.

My decision to launch the fund was driven by my strong belief that companies which pay a growing dividend can deliver excellent long-term total returns (comprising of a combination of income and capital growth), alongside a rising income stream for investors.

Dividends and share prices go hand in hand, in my view. If a company can raise its dividends over time, this is a signal that it is being managed well and the management team has confidence in its prospects.

Dividends, or rather the income that a company distributes to shareholders from its profits, can be seen as the ultimate sign of capital discipline. A commitment to paying a rising dividend can help to reduce the risk of shareholders' money being squandered in the pursuit of growth – or glory – at the expense of returns. Dividends can therefore ensure that a company grows sustainably, rewarding long-term investors.

The M&G Global Dividend fund aims to deliver an income stream that rises every year by investing in company shares around the world. It also aims to deliver a dividend yield – the dividend as a percentage of the share price – and combined income and capital growth that is higher than the MSCI All Country World index over any five-year period.

THE PURSUIT OF DIVIDEND GROWTH

I look to invest in companies with different drivers of dividend growth across a range of countries, sectors and sizes. This means the fund has the potential to cope with different market conditions. Stocks are picked from three types of companies with distinct dividend growth profiles.

Firstly, 'quality' stocks. These are disciplined companies which have demonstrated reliable growth across economic cycles. For example, US healthcare giant Johnson & Johnson has increased its dividend every single year over half a century.

The second group, 'assets', are companies that operate in more cyclical industries but still have strong balance sheets and dividend records. Kone, the Finnish manufacturer of lifts and elevators, is a good example.

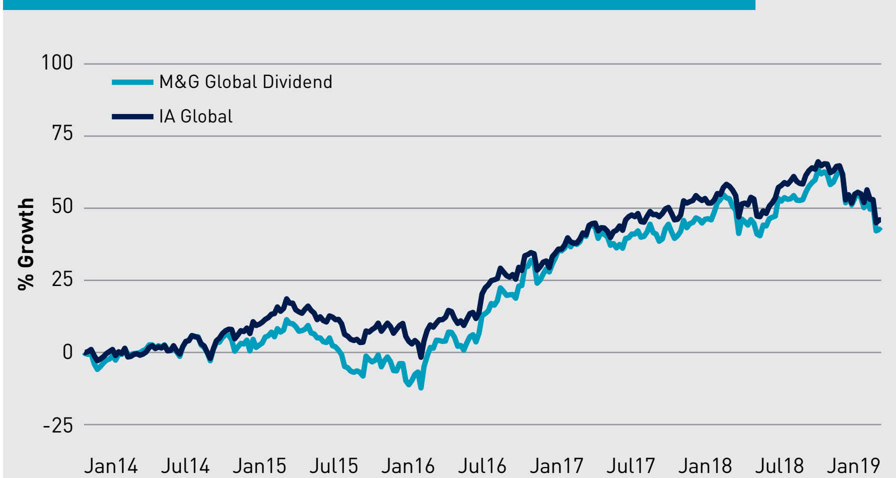
Our final group, 'rapid growth' stocks, are beneficiaries of structural growth driven by their geography, industry or products/services. US payments company Visa, for instance, is growing rapidly as it facilitates society's shift towards cashless transactions.

MANAGER'S OUTLOOK

With interest rates so low over the past decade and investors willing to pay a premium for safety in the aftermath of the financial crisis, high valuations have been attached to 'quality' stocks, which typically pay out high levels of income and are viewed as more reliable. Until recently, I had struggled to justify many share prices in this part of the market and had been tapering my exposure.

Following recent stock market falls, many of these companies' share prices have returned to what I see as more reasonable levels, particularly in the consumer staples sector. I was able to purchase some new names in this sphere in 2018, and going forward we may be presented with further opportunities to increase our exposure.

M&G GLOBAL DIVIDEND – FIVE YEAR PERFORMANCE



Source: FE Analytics, total returns in sterling, 01/01/2014 to 01/01/2019

CHELSEA CORE SELECTION

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

UK EQUITIES

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	0.625%*#
Ongoing Charges Figure (OCF)	0.69%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.41%
Unit Type	ACC or INC

Liontrust Special Situations SPOTLIGHT

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	1.95%
Unit Type	ACC or INC

LF Gresham House UK Micro Cap

Previously known as LF Livingbridge UK Micro Cap, this fund had a change of name when Gresham House bought Livingbridge in December 2018. Manager Ken Wotton levers the extensive resource of the private equity background of his team – who also run the Baronsmead VCT range - to focus on four areas: technology, consumer goods, healthcare and business services for differentiated companies with unique businesses. The team often know these companies from their nascent stages and will actively engage with management to help the business deliver on its plans. 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	0.70%
Unit Type	ACC or INC

Lindsell Train UK Equity NEW ENTRY

Nick Train is one of UK's best-known fund managers. He is famous for his 'buy and hold' philosophy and long term approach. The fund is uncompromising and only invests in the highest quality companies. Nick's portfolio is typically very concentrated with over 70% of the fund's value in its top 10 holdings and it is therefore very different to its benchmark. For this reason, investors should expect performance to be different to the index.

Chelsea Risk Rating	6.5
Annual Management Charge	0.65%#
Ongoing Charges Figure (OCF)	0.70%†
FundCalibre rating	-
Morningstar rating	GOLD
Yield	2.00%
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 are leaders in niche markets or possess disruptive technology. The fund is extremely diversified at the stock level (around 220 stocks) and also across investment themes and sectors. The managers will aggressively run winners and add to them if appropriate. Typically the fund has around 15-20% overlap with Marlborough Special Situations, which invests further up the capitalisation scale.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.79%†
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. This means 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	0.89%
Unit Type	ACC or INC

Schroder Recovery NEW ENTRY

Nick Kirrage and Kevin Murphy buy unloved stocks that trade on low valuations. They use a company's average earnings over the previous 10 years, which smoothes out the effects of the business cycle. Suitable stocks are analysed to assess whether the loss of earnings is temporary or permanent, and whether the balance sheet is strong enough to survive the transitional period. They don't meet with companies, as they want to assess their financial capability rather than the stories of a management team.

Chelsea Risk Rating	7.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.51%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 3 for more information.
For performance statistics please refer to pages 18-19.
All data sourced from FE Analytics, 01/01/2019. Yields per annum as at 15/01/2019. Charges and Morningstar ratings as at 24/01/2019.

* A performance fee may be applied, 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	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.38%
Unit Type	ACC or INC

M&G Global Dividend SPOTLIGHT

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.13%
Unit Type	ACC or INC

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	4.46%
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	4.33%
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	4.42%
Unit Type	ACC or INC

TB Evenlode Income

Long-term thinking is key for this fund. Managers Hugh Yarrow and Ben Peters believe the market gets obsessed with short-term factors and overlooks key fundamentals. 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	3.40%
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	4.70%
Unit Type	ACC or INC

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

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

This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held;the risk controls imposed by the manager; the use of derivatives and currency issues.

We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 3 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	1.30%
Unit Type	ACC or INC

Jupiter European

The fund manager, Alexander Darwall, runs a concentrated, conviction portfolio of 30-40 stocks. 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	1.20%
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

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. 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 3 for more information.
For performance statistics please refer to pages 18-19.
All data sourced from FE Analytics, 01/01/2019. Yields per annum as at 15/01/2019. Charges and Morningstar ratings as at 24/01/2019.
* A performance fee may be applied, see the KIID for further details.
† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). **^Includes Chelsea discount.**

ASIA PACIFIC, JAPAN AND EMERGING MARKETS

Invesco 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 45% 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	0.33%
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	2.54%
Unit Type	ACC or INC

Matthews Asia Pacific Tiger

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

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.83%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	-
Unit Type	ACC

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	1.38%
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)	0.88%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.01%
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 3 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. Unique businesses – companies 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	0.63%
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

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)	0.69%†^
FundCalibre rating	ELITE
Morningstar rating	-
Yield	-
Unit Type	ACC

FIXED INTEREST

BlackRock Corporate Bond

Manager Ben Edwards has flexibility in the way he is able to run the portfolio, which predominantly holds investment grade bonds. He has the full array of resources at BlackRock, including support from sector specialist analysts, quantitative risk tools and access to a 24 hour trading platform. He uses these tools to find special situations in the bond market. This comes from two sources; top-down analysis where they look at global or sector-specific issues, which flushes out ideas; and bottom-up stock selection, which looks at individual securities that have been unfairly treated and are mispriced. The fund can also invest in a limited amount of high yield and unrated bonds where the risk-reward is exceptionally good, leading to a portfolio of around 150 holdings.

Chelsea Risk Rating	2.5
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.57%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.99%
Unit Type	ACC or INC

Invesco Monthly Income Plus

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

Chelsea Risk Rating	3.5
Annual Management Charge	0.67%#
Ongoing Charges Figure (OCF)	0.67%†
FundCalibre rating	ELITE
Morningstar rating	Silver
Yield	5.23%
Unit Type	ACC or INC

Janus Henderson Strategic Bond

Managed by long-standing managers, Jenna Barnard and John Pattullo, this fund 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	3.10%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 3 for more information.
For performance statistics please refer to pages 18-19.
All data sourced from FE Analytics, 01/01/2019. Yields per annum as at 15/01/2019. Charges and Morningstar ratings as at 24/01/2019.

* A performance fee may be applied, 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.**

FIXED INTEREST (cont)

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	3.60%
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 and Lesley Dunn, is a collection of their best ideas. They have the ability to invest globally, gathering a portfolio of investment grade and sub-investment grade corporate bonds. Their foreign currency holdings will all be hedged to sterling to remove currency risk. They use bottom-up analysis in their stock-selection driven process, which is about assessing each bond on its own merits. Torcail and Lesley 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	3.50%
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 restructured 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)	0.84%†
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)	0.84%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.67%
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 3 for further details.

THE REDZONE

SAM SLATOR

Head of Communications, **Chelsea**

The RedZone names and shames the worst-performing funds over three years. Meanwhile, the DropZone highlights funds which have underperformed their sector averages by the largest amount.

This morning I learned about 'The life-changing magic of tidying'. It's a book about, well, tidying. It was recommended by a colleague who, in the spirit of 'new year and new beginnings', has spent the first week of 2019 decluttering her home. The book (which is now a programme on Netflix - Tidying up with Marie Kondo) forces you to ask yourself: does an object in your house spark joy? Do you really want to keep it? If not, out it goes!

While I'm not pinning my hopes on a film deal, I like to think this RedZone can help investors to get rid of any unwanted funds which have not brought joy for some time.

DO YOU WANT THE GOOD NEWS OR THE BAD NEWS?

While the number of funds in the RedZone this year has remained almost exactly the same (188 compared with 187 in 2018), the good news is that the value of underperforming assets has dropped significantly from some £94.4bn to £66.3bn.

The bad news - for those who stayed close to home with their investments - is that the UK All Companies sector has 28 funds in the RedZone. This is 20 more funds in comparison to this time last year, with assets in excess of £22.2bn. That's a lot of disappointed investors.

The second worst performing sector was Global, with 22 funds and £4.6bn of assets – although this was three funds and £5bn less than last year. Meanwhile, Mixed Investments 40-85% Shares climbed to third position with 13 funds and £3.9bn of assets.

COMPANY RANKINGS

When it comes to fund management companies, Aberdeen Standard Investments still has a long way to go to sort out the poor performance of some of its funds. The group has 20 funds in the RedZone (two more than last year), but at £10.7bn the value of underperforming assets has fallen by a third over the past 12 months.

The second worst company is still HSBC, with eight funds and £2bn of assets. While Invesco has fewer funds making an appearance in the RedZone, on an assets basis it should really be placed second with £12bn of assets that qualify.

Meanwhile, Jupiter claims third spot. It has seven funds in the RedZone, accounting for £2.2bn of assets.

DROPZONE: OUT WITH THE OLD AND IN WITH THE NEW

The biggest changes to the table this year took place in the DropZone, where there has been significant change. Perennial offender SF Webb Capital Smaller Companies Growth has had a name and mandate change and finally had a good year, pulling it out of the RedZone entirely.

The company behind HC FCM Salamanca Global Property 1 – another fund which consistently appeared in the DropZone in the past - has asked the Financial Conduct Authority, the regulator, for permission to wind up the fund. In addition, two other persistent underperformers have changed their focus or manager, while three have turned around performance.

The worst performing fund this year is Close FTSE techMARK, a tracker fund which replicates the FTSE techMARK Focus index. This fund has lagged because it invests only in UK rather than global technology. Candriam SRI Equity Emerging Markets claims second place, followed by MFS Meridian Global Energy.

Making their first appearance in the DropZone are, unfortunately, three funds that many investors may well hold: FP Argonaut European Alpha, Jupiter UK Growth and LF Woodford Equity Income.

The latter is a point of contention in the Chelsea offices. Some – like myself – have lost patience and are no longer invested in the fund. In my view, there are a number of excellent alternatives on the Chelsea Selection. However, others here have more faith that fund manager Neil Woodford can turn performance around. He does, after all, have a very good long-term track record.

DROPZONE

% UNDERPERFORMANCE FROM SECTOR AVERAGE

1	Close FTSE techMARK	47.87
2	Candriam SRI Equity Emerging Markets	42.49
3	MFS Meridian Global Energy	39.99
4	Quilter Investors UK Equity Income II	39.40
5	Comgest Growth Gem Promising Companies *	31.96
6	Guinness Alternative Energy	31.71
7	GAM Star China Equity	29.37
8	FP Argonaut European Alpha	26.51
9	Jupiter UK Growth	26.47
10	LF Woodford Equity Income	25.33

* 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.

ASIA PACIFIC EXCLUDING JAPAN	3 YEAR % Growth	Quartile position
GAM Star Asian Equity	19.58	4
JOHCM Asia ex Japan	21.23	4
Matthews Asia Small Companies	27.94	4
Waverton Asia Pacific	26.94	4
GAM Star Asia Pacific Equity	32.69	4
SECTOR AVERAGE	**42.04**	

CHINA/GREATER CHINA	3 YEAR % Growth	Quartile position
Barings China Select	23.93	4
Ⓓ GAM Star China Equity	8.78	4
SECTOR AVERAGE	**38.15**	

EUROPE EXCLUDING UK	3 YEAR % Growth	Quartile position
Barclays Europe (ex-UK) Alpha	-0.83	4
Fidelity European Opportunities	15.32	4
Ⓓ FP Argonaut European Alpha	-6.56	4
HSBC European Growth	10.83	4
Invesco European Opportunities (UK)	7.25	4
Jupiter European Special Situations	11.52	4
Liontrust European Enhanced Income	-4.53	4
Merian European Equity (ex UK)	7.16	4
SLI European Equity Growth	18.84	3
SLI European Equity Income	15.96	4
Standard Life TM European	15.96	4
SECTOR AVERAGE	**19.95**	

EUROPE INCLUDING UK	3 YEAR % Growth	Quartile position
Amundi SICAV II Top European Players	9.8	4
JPM Europe Equity Plus	15.62	3
Merian European Equity	1.96	4
SLI European Equity Unconstrained	-0.79	4
Threadneedle (Lux) Pan European Equity Dividend	10.56	4
SECTOR AVERAGE	**16.71**	

EUROPEAN SMALLER COMPANIES	3 YEAR % Growth	Quartile position
Amundi SICAV II European Potential	8.91	4
Invesco European Smaller Companies (UK)	13.91	4
SECTOR AVERAGE	**20.34**	

FLEXIBLE INVESTMENT	3 YEAR % Growth	Quartile position
Allianz Global Fundamental Strategy	-2.41	4
Carmignac Portfolio Emerging Patrimoine	5.03	4
Carvetian Capital	4.25	4
Carvetian Generation	4.09	4
City Financial Multi Asset Dynamic	6.64	4
First State Diversified Growth	9.25	4
Nomura Diversified Growth	-6.42	4
Sarasin Fund of Funds Global Growth	13.46	3
Schroder Dynamic Multi Asset	6.23	4
Stan Life Wealth Acer	10.65	4
Stan Life Wealth Bridge	11.13	4
SECTOR AVERAGE	**18.07**	

GLOBAL	3 YEAR % Growth	Quartile position
BlackRock NURS II Global Equity	29.76	3
Fidelity Wealthbuilder	26.59	4
GAM Star Composite Global Equity	26.48	4
GAM Star Worldwide Equity	15.75	4
Ⓓ Guinness Alternative Energy	0.89	4
Janus Henderson Multi-Manager Global Select	28.39	3
JPM Global Dynamic	25.75	4
LF Adam Worldwide	27.11	4
Marlborough Global	24.22	4
Ⓓ MFS Meridian Global Energy	-7.39	4
MI Charles Stanley UK & International Growth	21.22	4
Oldfield Overstone UCITS Global Smaller Companies	17.21	4
Principal GIF Global Equity *	22.08	4
Schroder Global Alpha Plus	28.29	3
Scottish Widows Opportunities Portfolio	20.43	4
Stan Life Wealth Falcon	8.19	4
SLI Global Equities	10.2	4
Standard Life TM International	29.98	3
SVM World Equity	19.94	4
TM Global Equities I	18.3	4
TM Global Equities II	18.69	4
TM UBS (UK) Global Equity	25.43	4
SECTOR AVERAGE	**32.60**	

GLOBAL BONDS	3 YEAR % Growth	Quartile position
Barclays Global Access Global Govt Bond	1.86	4
Carmignac Portfolio Unconstrained Global Bond	9.41	3
Fidelity Global Inflation Linked Bond	3.94	4
FP SCDavies Global Fixed Income	-1.23	4
GS Global Fixed Inc Plus Portfolio (Hedged)	3.41	4
GS Global Fixed Income Portfolio (Hedged)	5.11	4
Invesco Global Bond (UK)	11.72	3
Smith & Williamson Global Inflation Linked Bond	8.48	4
SLI Short Duration Global Index Linked Bond	4.47	4
TM UBS (UK) Global Fixed Income	1.18	4
SECTOR AVERAGE	**19.39**	

GLOBAL EMERGING MARKETS	3 YEAR % Growth	Quartile position
Aberdeen Global Emerging Markets Smaller Companies	24.1	4
Ⓓ Candriam SRI Equity Emerging Markets	1.05	4
Carmignac Portfolio Emergents	21.42	4
Ⓓ Comgest Growth Gem Promising Companies *	11.58	4
EP Emerging Opportunities *	32.3	4
Janus Henderson Emerging Markets Opportunities	39.12	3
Lazard Emerging World *	39.83	3
Man GLG Unconstrained Emerging Market Equity	30.58	4
MI Somerset Emerging Markets Dividend Growth	30.57	4
Newton Emerging Income	30.52	4
SECTOR AVERAGE	**43.54**	

JAPAN	3 YEAR % Growth	Quartile position
Aviva Investors Japan Equity MoM 1	21.86	4
AXA Rosenberg Japan	25.87	3
BlackRock GF Japan Flexible Equity	26.1	3
BNY Mellon Japan All Cap Equity	23.89	4
JOHCM Japan	18.69	4
Principal GIF Japanese Equity	13.8	4
SECTOR AVERAGE	**28.83**	

MIXED INVESTMENT 0-35% SHARES	3 YEAR % Growth	Quartile position
7IM AAP Moderately Cautious	5.46	4
7IM Moderately Cautious	3.24	4
City Financial Multi Asset Diversified	1.67	4
EF New Horizon Cautious	4.36	4
FP Russell INV Multi Asset Growth I	6.16	4
Optimal Multi Asset Defensive	3.41	4
SECTOR AVERAGE	**9.92**	

MIXED INVESTMENT 20-60% SHARES	3 YEAR % Growth	Quartile position
7IM Balanced	7.7	4
City Financial Multi Asset Balanced	1.62	4
FP Russell INV Multi Asset Growth II	8	4
FP Russell INV Multi Asset Income	5.84	4
Jupiter Enhanced Distribution	6.36	4
L&G Distribution Trust	6.14	4
Margetts Providence Strategy	8.64	4
Margetts Sentinel Income Portfolio	10.36	3
MGTS Frontier Cautious	4.9	4
Quilter Investors Diversified Portfolio	4.37	4
Royal Bank of Scot Cautious Growth	7.95	4
Virgin Bond Gilt UK Share	7.91	4
SECTOR AVERAGE	**12.20**	

MIXED INVESTMENT 40-85% SHARES	3 YEAR % Growth	Quartile position
7IM AAP Moderately Adventurous	15.16	3
7IM Moderately Adventurous	11.51	4
City Financial Multi Asset Growth	0.13	4
TB Doherty Active Managed	8.75	4
Family Balanced International	11.52	4
Fidelity Moneybuilder Balanced	4.28	4
HSBC Balanced	14.29	3
Jupiter Distribution and Growth	-0.23	4
Optimal Multi Asset Opportunities	11.72	4
Sarasin Fund of Funds Global Diversified Growth	13.59	4
Stan Life Wealth Balanced Bridge	14.93	3
Thesis Libero Strategic *	11.31	4
TM UBS (UK) UK Income Focus	13.58	4
SECTOR AVERAGE	**16.54**	

NORTH AMERICA	3 YEAR % Growth	Quartile position
Allianz US Equity	38.36	3
BlackRock US Opportunities	28.32	4
Legg Mason ClearBridge US Aggressive Growth	25.66	4
Natixis Loomis Sayles US Research	34.97	4
Principal GIF U.S. Equity	32.85	4
Royal London US Growth Trust	29.27	4
SLI American Equity Unconstrained	25.15	4
Standard Life TM North American	33.53	4
Winton US Equity *	36.08	3
SECTOR AVERAGE	**40.98**	

NORTH AMERICAN SMALLER COMPANIES	3 YEAR % Growth	Quartile position
Threadneedle American Smaller Companies (US)	32.26	4
SECTOR AVERAGE	**43.49**	

STERLING CORPORATE BOND	3 YEAR % Growth	Quartile position
Aviva Investors Monthly Income Plus	11.66	3
Barclays Sterling Corporate Bond	10.74	4
Halifax Corporate Bond	11.1	3
Kames Sterling Corporate Bond *	10.95	3
Royal Bank of Scot Extra Income	8	4
SECTOR AVERAGE	**12.05**	

* 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.

STERLING HIGH YIELD BOND	3 YEAR % Growth	Quartile position
Aviva Investors High Yield Bond	6.75	4
Scottish Widows High Income Bond	8.43	4
SECTOR AVERAGE	**12.99**	

STERLING STRATEGIC BOND	3 YEAR % Growth	Quartile position
Aviva Investors Strategic Bond	5.59	4
L&G Dynamic Bond	-2.76	4
Quilter Investors Sterling Diversified Bond	6.07	4
Quilter Investors Strategic Bond	6.59	4
SECTOR AVERAGE	**10.22**	

TECHNOLOGY & TELECOMMUNICATIONS	3 YEAR % Growth	Quartile position
Aberdeen Global Technology Equity	49.39	3
Ⓓ Close FTSE techMARK	11.75	4
SECTOR AVERAGE	**59.60**	

UK ALL COMPANIES	3 YEAR % Growth	Quartile position
Artemis UK Special Situations	-1.24	4
Fidelity Moneybuilder Growth	-0.56	4
Franklin UK Opportunities	10.07	3
GVQ Opportunities	-0.69	4
HSBC Common Fund for Growth	2.06	4
HSBC UK Focus	1.8	4
HSBC UK Freestyle	1.77	4
HSBC UK Growth & Income	3.73	4
Invesco High Income (UK)	-2.6	4
Invesco Income (UK)	-3.23	4
Invesco UK Strategic Income (UK)	-7.86	4
Janus Henderson UK Responsible Inc	4.47	4
Jupiter Growth & Income	-1.31	4
Jupiter Responsible Income	2.97	4
Jupiter UK Alpha	-2.84	4
Ⓓ Jupiter UK Growth	-14.27	4
Kames UK Equity *	3.01	4
Kames UK Opportunities	-3.15	4
L&G Ethical Trust *	1.26	4
Legg Mason IF QS UK Equity	-3.92	4
LF Canlife UK Equity	-3.04	4
Ⓓ LF Woodford Equity Income	-13.13	4
Marks & Spencer UK Select Portfolio	5.22	4
Merian UK Equity	2.78	4
Ⓓ Quilter Investors UK Equity Income II	-27.2	4
Quilter Investors UK Equity Opportunities	-2.49	4
Santander N&P UK Growth Unit Trust	1.91	4
TC Delmore Growth & Income	-2.96	4
SECTOR AVERAGE	**12.20**	

UK EQUITY & BOND INCOME	3 YEAR % Growth	Quartile position
HSBC Monthly Income	7.5	3
SECTOR AVERAGE	**11.15**	

UK EQUITY INCOME	3 YEAR % Growth	Quartile position
Ardevora UK Income	-1.04	4
Castlefield B.E.S.T Sustainable Income	-5.24	4
HC Kleinwort Hambros Equity Income	1.89	4
HL Multi Manager Income & Growth	6.11	3
HSBC Income	3.73	3
Liontrust Macro Equity Income	3.48	3
M&G Dividend	1.87	4
Royal Bank of Scot Equity Income	6.84	3
Santander Dividend Income Portfolio	2.79	3
Santander Equity Income Unit Trust	4.99	3
SECTOR AVERAGE	**8.41**	

UK GILTS	3 YEAR % Growth	Quartile position
Aviva Investors UK Gilts MoM 1	9.22	4
LF Canlife UK Government Bond	9.18	4
Quilter Investors Gilt Index	10.24	4
Schroder Gilt & Fixed Interest	10.49	3
Scottish Widows Gilt *	9.28	4
SECTOR AVERAGE	**13.24**	

UK INDEX LINKED GILTS	3 YEAR % Growth	Quartile position
M&G Index-Linked Bond	25.47	4
SECTOR AVERAGE	**27.32**	

UK SMALLER COMPANIES	3 YEAR % Growth	Quartile position
Aberforth UK Small Companies	8.7	4
Dimensional UK Small Companies	5	4
L&G UK Smaller Companies Trust	-2.4	4
Royal London UK Smaller Companies	11.73	4
Scottish Widows UK Smaller Companies	12.52	3
SECTOR AVERAGE	**21.35**	

Please read the important notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 01/01/2019. Source FE Analytics. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies therein.

Ⓓ Funds in the DropZone

FUNDS UPDATE

Here's an update on our views on four widely-held funds, where a change has taken place that we believe is noteworthy.

SCHRODER HIGH YIELD OPPORTUNITIES

Formerly known as Schroder Monthly High Income, this fund has seen two fund managers leave in short succession. It was formerly managed by Michael Scott, who left to set up a similar strategy at Man GLG. After his departure, Schroders handed the fund to two co-managers – Daniel Pearson and Konstantin Leidman. However, the latter departed shortly after. Daniel has now taken on sole management duties. He used to work with Michael and contributed many ideas to the fund. We have met him and have been encouraged by his understanding of the fund, as well as his attention to detail. However, after the considerable amount of change we have downgraded the fund to a 'hold' for now.

DOWNGRADE TO HOLD

KAMES INVESTMENT GRADE BOND

Kames has seen considerable management turnover in its fixed income team. Late last year, highly rated co-head of fixed income Steven Snowden, head of high yield David Ennett, and fund managers Stephen Baines and Juan Valenzuela left the company. This comes only a year after the very experienced pair of Phil Milburn and David Roberts moved to Liontrust to expand the firm's fixed income proposition. The vacancies have been filled with internal promotions - a testament to Kames' training programmes - and a number of experienced managers remain at the business including co-manager Euan McNeil. However, after this period of significant change, we have downgraded the Kames Investment Grade Bond fund to a 'hold'.

DOWNGRADE TO HOLD

WOODFORD EQUITY INCOME AND WOODFORD INCOME FOCUS

Well-known fund manager Neil Woodford successfully launched his eponymous firm and equity income fund in 2014, which was first quartile in its sector on its first and third anniversary. Unfortunately performance has taken a turn for the worse, with the fund making its first appearance in our RedZone (see pages 28-29). Our office is currently split on the prospective outlook, many argue that Woodford has had bad periods before and recovered, while others have lost patience and sought alternatives. Neil is currently positioned for a recovery in domestic UK stocks, which is a contrarian position and could lead to a return to outperformance should this prove correct. While we await the signs of this potential recovery, we have moved both funds to a 'hold' rating.

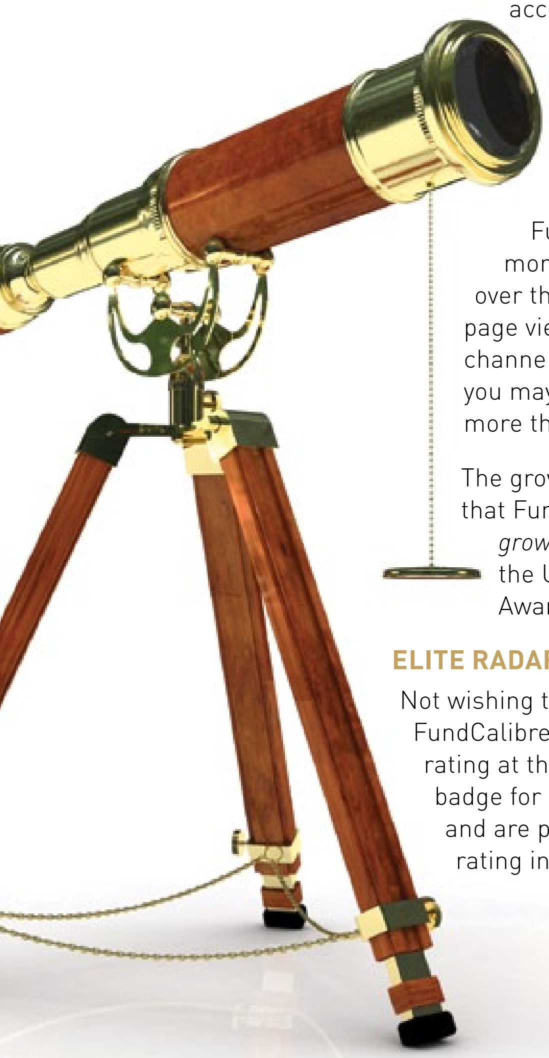
DOWNGRADE TO HOLD

INTRODUCING FUNDCALIBRE'S NEW ELITE RADAR

RYAN LIGHTFOOT-BROWN

Research Analyst, **Chelsea**

In August 2014, we introduced you to **FundCalibre**: a new fund ratings service which Chelsea helped to launch.



It is unique because it was designed especially for self-directed investors like yourselves. A truly independent ratings service, FundCalibre draws on a predictive quantitative model - where the outcome is a probability of a fund manager being able to add value in the future – as well as Chelsea's qualitative fund research. Both are taken into account to award an 'Elite' rating to just a handful of funds that we deem to be the best in their class.

RAPID GROWTH

From a standing start, FundCalibre.com has attracted more than 376,000 unique visitors over the past four years and 1.6 million page views. And last year, the YouTube channel – which features many funds you may yourself be invested in – had more than 115,000 views.

The growth has been so phenomenal that FundCalibre was named *fastest growing investment fund research* in the UK in the International Finance Awards 2018.

ELITE RADAR

Not wishing to rest on our laurels, FundCalibre launched a new 'Elite Radar' rating at the end of 2018. It is a special badge for funds that are on our watch list and are potential candidates for a full rating in the future.

Here are three examples:

1) Baillie Gifford Japanese Income Growth

Launched in July 2016, this fund aims to benefit from improving corporate governance in Japan, as more and more businesses move towards a progressive dividend policy. The managers apply the same well-tested growth investment philosophy and process which is adopted by their other funds, combined with a focus on companies with the best dividend growth potential.

2) RWC Continental European Equity

Manager Graham Clapp is extremely experienced. He spent more than 20 years at Fidelity, before launching his own company in 2006. Clapp's asset management business was acquired by RWC Partners in 2017 and Graham stayed with the new owners. This fund is pragmatic and does not have a particular style bias, other than a skew towards mid-caps. As Graham told us recently: "After 30 years and more than 15,000 discussions with companies about their prospects, I find the opportunities are better than ever."

3) Smith & Williamson Artificial Intelligence

This fund 'eats its own cooking' by using an artificial intelligence (AI) system to identify companies with business models which have the potential to benefit from this growing theme. The fund is unconstrained: it can invest in businesses of different sizes, in a range of sectors. For example, around 40% of the portfolio is invested in healthcare and consumer-related sectors.

ELITE RADAR™
on our watchlist: FundCalibre.com

TIME TO OPEN A JUNIOR ISA?

THIS CLIENT DOES NOT REGRET THE DECISION

SARAH CULVER

Senior Operations Consultant, **Chelsea**

Our client Alison decided to transfer her daughter's Child Trust Fund into a Junior ISA and move the account to Chelsea. Since then, she has not looked back. Here's why...

More than seven years since the launch of the Junior ISA, this tax-efficient savings wrapper has enriched the lives of children across the UK.

The Junior ISA replaced the Child Trust Fund (CTF), which was set up in January 2005 to teach children about saving and to encourage them to do so into adulthood. Any child born on or after 1 September 2002 was previously eligible and they each received an initial subscription in the form of a voucher for at least £250.

However, six years later, the coalition government stopped making contributions and investments into CTFs slowly diminished. High charges and limited investment options deterred investors, and transfers to the more flexible Junior ISA took off.

HARRIET'S STORY

In September 2015 Alison Osmani from Watford, Hertfordshire, decided to transfer her daughter Harriet's CTF into a Junior ISA. Harriet turned 15 last December, so she will be able to access her savings in a few years. When she turns 16 she will be given the opportunity to manage her Junior ISA, but will have to wait until she is 18 before she can access the money.

Chelsea Financial Services' senior operations consultant Sarah Culver asked Alison and Harriet about how the Junior ISA is invested, the power of compounding, and their respective plans for the savings pot.

Sarah: What made you decide to move the CTF to a Junior ISA with Chelsea?

Alison: *If I'm honest, I had completely forgotten Harriet even had a Child Trust Fund. I started a direct debit after we received the voucher, and just left it there to grow each month.*

Earlier in the year [2015], I had transferred my pension to Chelsea. I was very happy with the customer service I received and wanted everything in one place. I also moved the direct debit over, so I could continue saving.

As Harriet turns 18 soon, I really wanted to keep an eye on the savings, so transferring to Chelsea was the logical thing to do. Chelsea explained how easy it would be to transfer to them and a healthy £5,256 was transferred from a CTF to a Junior ISA in 2015. It's now worth just short of £10,000.

Sarah: How did you choose the investments?

Alison: *I don't know a great deal about investing in the stock market, so I used the Chelsea Selection and Core Selection lists to pick the funds. I chose Liontrust Special Situations, M&G Global Dividend and Schroder Asian Income and haven't made any changes since. I was happy to take a bit of risk, as the funds were to remain invested for a while.*

Sarah: Is Harriet aware of the savings? What had you envisaged she would spend the money on?

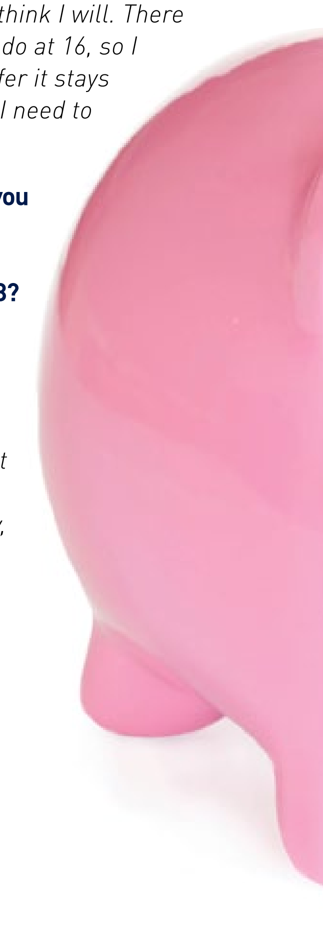
Alison: *Yes, she is aware that we are saving for her future. I always thought that Harriet would use the money towards driving lessons and then a car, maybe college and university. We would always help her where we could, but this was that little bit extra.*

Sarah: Are you planning to manage the investments when you get to 16?

Harriet: *I don't think I will. There isn't much I can do at 16, so I would much prefer it stays with mum, until I need to access to it.*

Sarah: What do you think you will do with the money when you turn 18?

Harriet: *Probably for driving lessons, a car, and the general bills that come with a car. Maybe university, but that's quite expensive.*



THE BEAUTY OF COMPOUND INTEREST

"Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't, pays it" - Albert Einstein.

Compound interest is 'interest on interest'. Using Harriet's portfolio we've had a look at how compound interest could work wonders on her savings.

Since the CTF transferred to a Junior ISA in October 2015, the portfolio has grown in size from £5,256 to £9,876*. This includes £50 monthly contributions from Alison and coincides with a strong period for markets.

The table outlines the compounding effect if the portfolio were to grow at a rate of 5% per annum and the £50 monthly contributions continue**:

Age that investment is sold	Projected figure (based on 5% growth rate)
18	£13,375
21	£17,426
30	£33,827
55	£143,955
70	£312,568

Source: Chelsea Financial Services

Sarah: Are you surprised at how much the investments could be worth if you remain invested?

Alison: *Gosh! The biggest surprise for me was the jump between 21 and 30. That's almost doubled in ten years. If she doesn't need the money at 18, then there is almost no point her taking the money out. She might as well leave it invested and use it to buy a house, or if she gets married.*

Sarah: And Harriet, has this changed your mind about how you will use the money when you turn 18?

Harriet: *I am surprised! While I had always thought I would take the money out for a car, my mind wasn't set on that. I would definitely consider leaving it in there to make more.*

Sarah: One of the main aims for the CTF was to encourage children to save after the age of 18. Do you think that Harriet will continue to save?

Alison: *Harriet has already been asking me about going to work, so I would encourage her to save a little of her wages. That way it becomes a habit. My dad really encouraged me to save and taught me about managing money. I have always been grateful for that so naturally I hope that Harriet does continue saving.*

Sarah: What do you think, Harriet?

Harriet: *It would depend on how much I needed the money. Saving has always been drilled into me by my parents and school. I would like to think that I will save, especially after seeing what you have shown me.*

Junior ISA rules

Anyone can save into a Junior ISA on behalf of a child and, from **6 April this year**, the allowance will increase from **£4,260** to **£4,368** – not an inconsiderable amount.

If you would like to set up a Junior ISA or top up an existing Junior ISA, please complete and return the Junior ISA application form in the application booklet. Please remember to include the direct debit mandate if starting a monthly contribution. Cheques should be made payable to Aegon.

If you would like to increase the monthly contribution to your child's Junior ISA, please do not hesitate to contact us on **020 7384 7300** or **info@chelseafs.co.uk**.

In most cases, money cannot be withdrawn from a Junior ISA before the child turns 18. From this age onwards, the money belongs to them to spend or save as they wish.

Please refer to the Key Investor Information Documents (KIID), terms and conditions and pre-sale illustration before you invest.

Further information about investing for children can be found on our website at **www.chelseafs.co.uk/products/children**.

If you think that your child has a CTF but you don't know which company it is with, you can check with HMRC. Please note that children cannot have a CTF as well as a Junior ISA. Contact us on **020 7384 7300** or **info@chelseafs.co.uk** to request a CTF to Junior ISA transfer form. You can also complete one in the enclosed booklet.

If you would be interested in taking part in a case study, for either our Viewpoint magazines, or newspaper publications, please email us at **info@chelseafs.co.uk**.

* Source: Chelsea, 16/10/2015 to 13/12/2018.

** Source: www.thecalculatorsite.com. Using the starting figure of £9,876 (the value of the portfolio on 13/12/18), and assuming that the £50 per month contribution continues. The 5% growth rate is also assumed to be the annual return after all fees.

THREE INVALUABLE LESSONS FROM STAR FUND MANAGERS

Any fund manager worth their salt is likely to have invested through numerous market peaks, as well as the troughs. Here, three leading lights share a number of key lessons they have picked up over the course of their careers.

GILES HARGREAVE

Fund Manager,
Marlborough Special Situations and Marlborough UK Micro-Cap Growth
Elite Rated by FundCalibre

"One of the key lessons I've learned in more than 20 years running small cap funds is the importance of spreading risk. Small companies can grow quickly, seizing opportunities by moving into new markets or developing innovative products, and historically they've increased their earnings faster than their larger counterparts.

However, these minnow stocks can also be significantly more volatile. Over the years, I've seen some very promising-looking small companies run into trouble and when that happens the share price can fall sharply.

It's sensible to make sure that if one of your stocks does hit problems, the impact on your overall portfolio is limited. Our approach is to hold a wide spread of companies, with each one only a relatively small percentage of the fund. In Marlborough Special Situations, for example, we hold around 180 different stocks. With more than 2,000 UK smaller companies to choose from, there's no shortage of opportunities.

Initially we'll start with a position that's less than 1% of the fund. Then, if the management of the company deliver on their strategy, we may buy more, but even our largest holdings are very rarely more than 2.5% of the portfolio."

TERRY SMITH

Fund Manager,
Fundsmith Equity
Elite Rated by FundCalibre

"First and foremost equities have a unique advantage as an asset class – a portion (usually about half) of companies' earnings are retained and reinvested in the business.

This is what enables equities to compound in value without any further action on the part of the investor. No other asset – bonds, commodities or real estate – can do that. Of course, not all equities compound in value: you need to choose those which are able to invest at a satisfactory return on capital.

Secondly, do not attempt to time markets or predict downturns or bear markets. Markets are a second order system. To make this work you need to be able to not only predict the event and its timing but also to know what the market is already discounting. It is no good predicting rising rates and selling your investments only to discover that the market had already priced the rate rise in."

JAMES THOMSON

Fund Manager,
Rathbone Global Opportunities
Elite Rated by FundCalibre

"Those bleak days of 2008 provided me with one of the most instructive periods of my career. It was a real masterclass in behavioural psychology and the workings of fear, greed and ego: how fear creates an urgency that is much stronger than the pleasure of any investment success, and how far (or not) we are willing to say we have made mistakes.

Many investors relinquished equities, the one thing you should never do if you have a long-term investment horizon. What it taught me was that my whole investment strategy was, quite simply, wrong – that a portfolio should have a good balance of risks, some defensive, some pro-cyclical, but all sustainable long-term winners in their sectors.

What that also means is that we don't have to market-time. Entering the crisis, there were too many economically-sensitive companies in the portfolio which traded as a group when the market tanked; crucially, these were companies I had become emotionally attached to. To let them go would mean I was wrong.

The fund received a pasting, as did my ego, but it left a necessary and indelible impression. Now I have a significant percentage of the portfolio that is decidedly less economically sensitive and 'boring', including food producers and ingredients, beverages, and pest control. This doesn't mean we're immune to downturns - if only! But maybe these stocks will make the journey less of a ride."

THE DISRUPTORS:
HOW TO SPOT THE WINNERS

RYAN LIGHTFOOT-BROWN

Research Analyst,
Chelsea

Are you looking to gain access to the next Amazon? We highlight the funds that offer exposure to the 'disruptors', as well as the risks and opportunities.

Everywhere you look today, disruption is happening. If you book a holiday, you are likely to check out your options on Airbnb, the vacation rentals website, which has diverted demand away from hotels. Meanwhile, Netflix has changed the TV viewing habits of millions of people across the world.

Amazon is another prime (excuse the pun) example of a disruptive business model. The technology company is not only taking market share from high street retailers, but its presence can also be felt across other parts of the market. For example, it has taken a bite out of the speaker market – where Alexa, its cloud-based voice service, is starting to make an appearance in households across the UK.

While technology has driven the success of a number of disruptive businesses, it isn't the sole driver. For example, discounters Lidl and Aldi have shaken up the supermarket sector with their focus on lower cost products.

So how can investors back the disruptors and avoid the disrupted?

First off, I would suggest investing with an active fund manager to get exposure to the businesses that are shaking up numerous sectors. Active investors have the opportunity to back the 'disruptors', while market-cap weighted passive funds are more likely to hold the 'disrupted' because they buy yesterday's story.

FINDING THE RIGHT FUND

The next step is to think about the funds that offer exposure to disruptive businesses.

Here, I would highlight Baillie Gifford Global Discovery. Manager Douglas Brodie has a sound track record of backing successful disruptive companies. He seeks out businesses that are doing something different and is happy to buy in at an early stage.

This process has led him to a number of fast-growing and innovative companies, like US food delivery service GrubHub and online supermarket Ocado.

Investors looking for exposure to established disruptors in the tech sector could also consider AXA Framlington Global Technology, which holds Alphabet (Google), Apple, Amazon and Facebook.

Meanwhile, Alexander Darwall, manager of the Jupiter European fund, targets companies that are able to benefit from disruption – either from changing consumer habits, technological change or regulation.

It's important to bear in mind that backing a disruptive company doesn't mean that you are automatically on to a winner. A disruptor can, ironically, find itself disrupted by a newcomer later down the line, causing its products and services to fall out of favour.

A business which has technology at its heart can also end up spending significant sums simply to protect its first mover advantage. This is certainly true for digital food delivery companies Just Eat and Deliveroo.

With this in mind, Alexander looks for companies with pricing power and the flexibility to adapt to changing market conditions. What's more, he focuses on businesses that operate in industries with high barriers to entry for newcomers.

This is why he likes the healthcare sector, particularly companies that provide equipment for clinical diagnostics.

"Healthcare is another sector where we believe winners will emerge, in this case due to industry disruption and regulation," he added.

STICKING WITH THE STALWARTS

However, a number of fund managers take a different view. They prefer to stick with established, quality companies that are less likely to be disrupted. For example, the Evenlode Income fund focuses on companies with high barriers to entry, which means they can't be disrupted easily.

It is a similar story for the Liontrust Special Situations fund, managed by Anthony Cross and Julian Fosh. The fund targets businesses with intellectual property, strong distribution channels and significant recurring business. The fund managers believe that these characteristics create barriers for the competition and help to protect margins.

There is a place for steady stalwarts and exciting disruptors within a diversified portfolio. When it comes to backing disruptive companies, make sure you choose a talented stock picker with a track record of spotting the winners early.

THE CHELSEA EASYISA

The Chelsea EasyISA offers a choice of five simple portfolios, each spreading your investments across six funds. All you have to do is choose one of the five options, based on your own requirements and attitude to risk.

JULIET SCHOOLING LATTER

Research Director, **Chelsea**

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 by Chelsea.**

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 the portfolio changes are all done for you. **For more details, see pages 6-9.**

HOW MUCH CAN YOU INVEST?

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

HOW TO INVEST

Call us on **020 7384 7300**

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

Send us a completed application form **(see booklet)**

PORTFOLIO CHANGES

BALANCED GROWTH EASYISA:

Following the retirement in January of manager Nigel Thomas, AXA Framlington UK Select Opportunities has been replaced by Schroder Recovery.

INCOME EASYISA:

Schroder High Yield Opportunities, whose manager has changed, has been replaced by Jupiter Strategic Bond fund. This change may result in a small drop in the overall yield of the portfolio.

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	0.69%*#
Average Ongoing Charges Figure (OCF)	0.78%†
Benchmark	1/3 Strategic Bond 2/3 Mixed Investment 20-60% (sector average)

Performance	Cautious Growth Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year	9.96%	10.67%	12.2%
5 Year	24.96%	17.06%	19.07%
10 Year	100.99%	73.84%	73.34%

FE Analytics data as at 01/01/2019 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. # 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 20/01/2019. ^Yields per annum as at 15/01/2019.

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.

- Fidelity American Special Situations
- Janus Henderson Strategic Bond
- Janus Henderson UK Absolute Return*
- Liontrust Special Situations
- Schroder Recovery
- Threadneedle European Select

Average Annual Management Charge	**0.77%*#**
Average Ongoing Charges Figure (OCF)	**0.88%†**
Benchmark	**1/3 UK All Companies (sector average) 1/3 Global (sector average) 1/3 Mixed Investment 20-60% shares (sector average)**

Performance	Balanced Growth Portfolio	Benchmark	Mixed Investments 40-85% Shares**
3 Year	13.91%	17.66%	16.54%
5 Year	30.71%	25.87%	25.48%
10 Year	135.63%	119.10%	101.31%

FE Analytics data as at 01/01/2019 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 is 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 greater 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	**0.77%*#**
Average Ongoing Charges Figure (OCF)	**0.87%†**
Benchmark	**MSCI World Index**

Performance	Aggressive Growth Portfolio	Benchmark	Global**
3 Year	34.46%	39.02%	32.60%
5 Year	48.97%	62.51%	45.91%
10 Year	184.35%	184.04%	150.90%

FE Analytics data as at 01/01/2019 compiled by Chelsea. *A performance fee may be applied, see the KIID for further details. **Sector average

INCOME EASYISA

Income is for investors looking to generate income, with some prospect for capital growth. The portfolio is invested in fixed interest across the credit quality spectrum and defensive, dividend-paying companies, based largely in developed markets. 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 Monthly Income Plus** Yield: 5.23%^ Paid: Monthly
- **Jupiter Strategic Bond** Yield: 3.60%^ Paid: Jan, Apr, Jul, Oct
- **M&G Global Dividend** Yield: 3.13%^ Paid: Mar, Jun, Sep, Dec
- **SLI UK Equity Income Unconstrained** Yield: 4.42%^ Paid: Mar, Jul
- **Threadneedle UK Equity Alpha Income** Yield: 4.70%^ Paid: Jan, Jul
- **TwentyFour Dynamic Bond** Yd: 4.53%^ Paid: Mar, Jun, Sep, Dec

Average Annual Management Charge	**0.74%#**
Average Ongoing Charges Figure (OCF)	**0.85%†**
Benchmark	**1/2 Strategic Bond (sector average) 1/2 UK Equity Income (sector average)**

Performance	Income Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year	10.75%	8.46%	12.20%
5 Year	19.11%	16.03%	19.07%
10 Year	123.00%	106.58%	73.34%
Average Portfolio Yield	4.27%^		

FE Analytics data as at 01/01/2019 compiled by Chelsea. *A performance fee may be applied, see the KIID for further details. **Sector average ^Yields as at 15/01/2019

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 greater capital loss.

- **Artemis Global Income** Yield: 3.38%^ Paid: May, Oct
- **BlackRock Continental European Income** Yield: 4.59%^ Paid: Feb, May, Aug, Nov
- **Fidelity Global Enhanced Income** Yield: 4.99%^ Paid: Feb, May, Aug, Nov
- **Guinness Global Equity Income** Yield: 2.80%^ Paid: Aug, Feb
- **Man GLG UK Income** Yield: 4.46%^ Paid: Monthly
- **Schroder Asian Income** Yield: 4.16%^ Paid: Mar, Sep

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

Performance	Global Income Portfolio	Benchmark	Global Equity Income**
3 Year	27.27%	28.32%	28.08%
5 Year	43.06%	40.62%	38.72%
10 Year	N/A	144.97%	140.83%
Average Portfolio Yield	4.06%^		

FE Analytics data as at 01/01/2019 compiled by Chelsea. *A performance fee may be applied, see the KIID for further details. **Sector average ^Yields as at 15/01/2019

†OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal 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 20/01/2019. ^Yields per annum as at 15/01/2019.

USE THEM OR LOSE THEM!

YOUR TAX YEAR ALLOWANCES AND DEADLINES

Although we all have the opportunity to make the most of our ISA, Junior ISA, pension and VCT allowances from the 6 April each year, a surprisingly large number of people leave it until the last few weeks of the tax year to take action.

More haste can mean less speed. In the case of ISAs, Junior ISAs and VCTs, it can mean missing out altogether: unlike pensions, you cannot carry forward these allowances into the next tax year. You must either use them, or lose them.

Here's a quick reminder of your allowances in this tax year:

Junior ISA

2018/2019 allowance: **£4,260**

Chelsea's deadline:

APRIL 5 2019 — **by midday**

VCTs

2018/2019 allowance: **£200,000**

Deadlines:

please visit our website for individual VCT deadlines - **www/chelseafs.co.uk/VCTs**

ISA

2018/2019 allowance: **£20,000**

Chelsea's deadlines:

APRIL 5 2019

Telephone (with debit card): **by 10pm**

Paper-based applications

Online (with debt card): **by 10pm**

MARCH 26 2019 — Investment fund to ISA

PENSIONS

2018/2019 allowance:
depends on individual circumstances – please call us on 020 7384 7300 for details

Chelsea's deadline:

MARCH 25 2019 — New and existing clients

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."

WE'RE HERE TO HELP

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

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

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

We have a team in our office in Chelsea.

And we'd be pleased to help.

So if you need a little extra help or guidance, you can call us on **020 7384 7300** or email us at **info@chelseafs.co.uk**

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