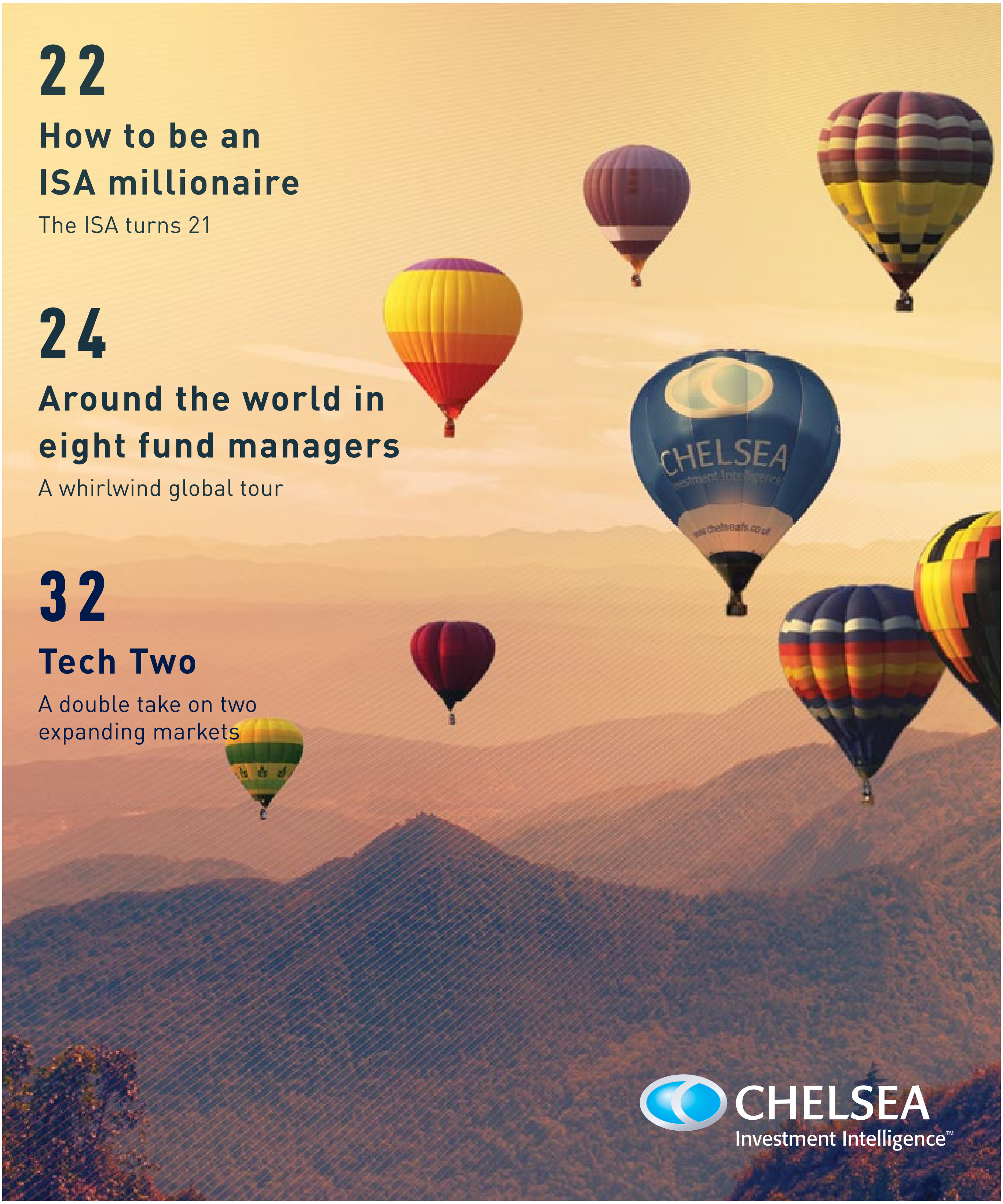
ISSUE 49 MARCH 2020

VIEWPOINT

The magazine for Chelsea Investors



WELCOME TO VIEWPOINT

DR JOHN HOLDER
Chairman, **Chelsea**

Welcome to the Spring edition of Viewpoint. This year, so far, it feels a bit like two steps forward and one step back for the stock market. We entered 2020 with greater political stability and, finally, more clarity on Brexit. The UK stock market momentarily breathed a sigh of relief, only to be setback by the coronavirus. As we go to press, it remains unclear how much economic impact the virus will have. It will certainly hit China's growth this year, but it's too early to discuss the wider implications. We just hope for its speedy curtailment.

For a whirlwind tour of all economic regions, do look at our feature - Around the world in eight fund managers on page 24. The ISA comes of age this year, so if you fancy becoming an ISA millionaire, we've also got some investing tips for you on page 22.

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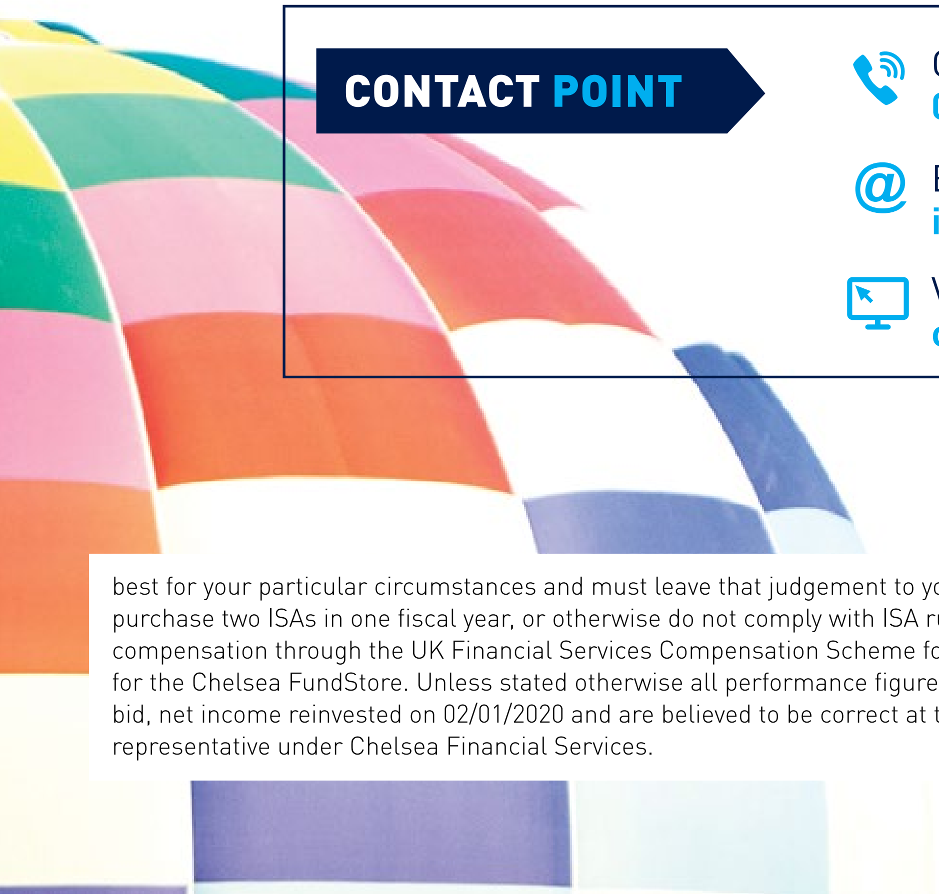

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best for your particular circumstances and must leave that judgement to you. Nor can we accept liability to clients who purchase two ISAs in one fiscal year, or otherwise do not comply with ISA rules. Investors are not normally entitled to compensation through the UK Financial Services Compensation Scheme for offshore funds. Aegon is the ISA Plan Manager for the Chelsea FundStore. Unless stated otherwise all performance figures have been sourced from FE Analytics, bid to bid, net income reinvested on 02/01/2020 and are believed to be correct at the time of print. FundCalibre is an appointed representative under Chelsea Financial Services.

MARKET VIEW

Who knew at the start of 2019 we would see such strong returns across all equity markets?

DARIUS MCDERMOTT

Managing Director, **Chelsea**

The US once again led the way in 2019, with the S&P 500 rising nearly 26%*, while every other region comfortably delivered 13%* or more. It shows the resilience of markets that these returns came in a year dominated by negative headlines over geopolitical uncertainty and the threat of an economic slowdown.

We also saw a very strong year for fixed income, which wasn't predicted, but was more than a pleasant surprise. Interest rates are not going up anytime soon, but I simply cannot ignore the fact that around 20%** of the bonds issued by governments worldwide are trading at negative yields. For that reason, we continue to favour strategic bond funds over government bonds in 2020.

Focusing on equities, January was a continuation of what happened last year until the outbreak of coronavirus, with both the US and UK markets continuing to operate at high levels.

The one thing we always try to do when discussing global markets is to keep a close eye on valuations – which I must say are looking fairly expensive. We only really see good value in Japan and parts of Europe. That said, we're not completely turned off from the UK following the Brexit bounce, as stable politics should aid the economy.

As US stock markets continue to rise, so has leverage, which means companies are borrowing money at low interest rates, sometimes to do share buybacks, which boost their own share price. Japan is also seeing an increasing level of share buybacks. However, in contrast to the US, these are coming from cash-flow, as Japanese corporates are de-leveraging. This allows for more buybacks and income dividend payments in the future. We believe Japan is an opportunity this year and that is reflected in our managed portfolios.

GEOPOLITICAL CONCERNS SETTLE, WHILE TECH STOCKS CONTINUE TO PUSH FORWARD

Brexit was not the only geopolitical event to get some positive news in the final quarter of 2019. Relations between the US and China also appear to be improving with a trade deal in the offing. However, I don't think the first phase deal has a lot of substance and may well be a holding document. It does not explain the ins and out of the trade deal and phase two may take a lot longer.

Technology was not only the best-performing sector in 2019 but also the past decade, even beating North American equities. The past 10 years have been a story of super tech companies in China and the US, with the FAANGs (Facebook, Amazon, Apple, Netflix and Alphabet (parent of Google) all growing exponentially.

CORONAVIRUS A WORRY, BUT EMERGING MARKET TRENDS REMAIN STRONG

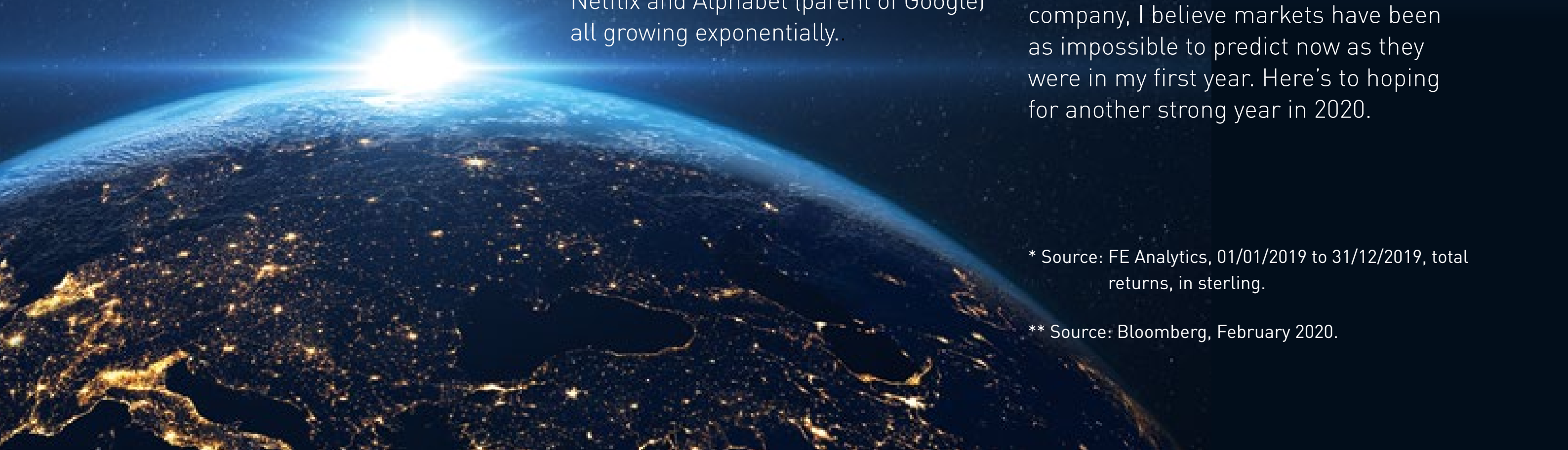
At the time of writing, the coronavirus is a concern. Markets were weak for six or seven days, but have rallied since. It is difficult to assess the impact of the outbreak.

Longer term you can't help but like the growth prospects of China and India. The former is ahead in terms of its life cycle, as it has completed a big chunk of urbanisation. The Chinese workers are generally earning more money and are in what we see as the second stage of the consumer cycle. For example, a person with a $5,000 car in China may be looking to upgrade to one worth $10,000.

We favour India as it is still in the first stage, and we want to be onboard for that early stage growth. GDP is supportive in India, urbanisation is just starting to take hold and the population is younger and better educated.

China's population, due to the one child policy, is actually peaking, and there have been plenty of discussions about a demographic crisis. We have been strong supporters of emerging markets for some time, but we do retain that tilt to India over China in the longer term.

The one thing we've learnt is that you've got to be in the market to get returns. As I start my 25th year at the company, I believe markets have been as impossible to predict now as they were in my first year. Here's to hoping for another strong year in 2020.



* Source: FE Analytics, 01/01/2019 to 31/12/2019, total returns, in sterling.

** Source: Bloomberg, February 2020.

ISA UPDATE

With a bumper £20,000 annual tax-free allowance every year, ISAs can be a great way to build up funds for your future. They're tax free too, which means more money for you. You can also start small and invest from as little as £10.

SAM HOLDER

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

EIGHT REASONS TO CONSIDER AN INVESTMENT ISA

- Interest rates on cash savings remain low and are unlikely to rise meaningfully soon
- 0% capital gains tax
- 0% tax on interest
- 0% tax on dividends
- Access your money whenever you want
- No need to declare on your tax return
- Inheritable ISA allowance – leave your ISA pot to your spouse/civil partner
- You can chose either an investment ISA or cash ISA, or split your allowance across both

The 2019/20 ISA allowances are:

Investment ISA: **£20,000**

Junior ISA: **£4,368**

2020/2021 - The ISA allowance will remain at £20,000. The Junior ISA allowance is yet to be announced, but will be published on our website

END OF TAX YEAR DEADLINES:

Please note that the 5 April is a Sunday, so try not to leave your application to the last minute.

Telephone (with debit card) – **5 April – 10pm**

Online (with debit card) – **5 April – 10pm**

Paper-based applications – **3 April - midday**

Investment fund to ISA – **27 March**

Junior ISA - **3 April – midday**

FED UP WITH YOUR CASH ISA?

With little improvement in interest rates on savings accounts, you may be wondering what to do with any money you have languishing in a Cash ISA. The potential returns from an Investment ISA are far greater than those you would earn on cash, though they do come with a higher degree of risk. If you would like to transfer your Cash ISA, simply complete and return the ISA transfer form. We will do the rest.

You should remember that the value of Investment ISAs, and income from them, will fall as well as rise, so you could make a loss. For this reason, those transferring should be comfortable investing for the longer term and happy to forego the security of cash.

THREE EASY WAYS TO BUY YOUR ISA

Simply call **020 7384 7300**

Visit our website **chelseafs.co.uk**

Complete the ISA application form in your **application pack.**

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**, Senior Research Analyst

So we've created four fully-managed funds. 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)**

OUR SPECIALIST EDGE DRIVES RETURNS

One of the things we've prided ourselves on since the launch of our managed funds in 2017 is our ability to find new ideas which keep us ahead of our peers. It's enabled us to deliver reliable and consistent returns to clients at a time when global markets look expensive and despite the threat of geopolitical uncertainty and slowing growth.

This drive for new sources of return has seen us find numerous opportunities within specialist investment trusts, where we've been able to harness our professional skills to give investors access to different ideas and sectors which have not traditionally been available to them.

Crucially, these specialist vehicles have allowed us to diversify the portfolios and reduce the risks from the wider global economy. In a world of low interest rates, they have also delivered reliable yields at a time when investors have been crying out for them.

RENEWABLE REVENUES

An example of the success of these specialist vehicles has been our exposure to investment trusts investing in renewable energies, such as wind farms or solar panels, which have been taking advantage of government subsidies and the drive towards a carbon-neutral economy. These investments have performed well for us, providing the funds with both a large capital increase and a strong level of income.

The renewable trusts then moved to strong premiums of around 20% - a level we felt was too expensive – particularly as the prices of these vehicles were going up when underlying power prices were falling. We have since taken profits and moved into other sectors, like social housing and care homes, both of which fit the same profile of offering a strong income and returns which are uncorrelated to the wider global economy.

Care homes and social housing are driven by age and health, both are structural trends which are here for the long term. Social housing trusts were also trading at a discount. Care homes are still delivering a good, reliable quarterly dividend.

WHAT WE LOOK FOR AND HOW WE ADD VALUE

When looking at these specialist vehicles, we not only do our usual due diligence on the manager and how and what they invest in, but also look at how expensive the investment trust is to buy (premium/discount) and the liquidity of the trust ie how easy it is to trade.

Liquidity, in terms of the underlying assets, is a hot topic at the moment, but it is an area which is of less concern in the investment trust market as there is no risk of you being gated and sentiment is often reflected in the premium/discount.

For these vehicles to grow they have to issue more shares. They offer these shares through a placing and this often gives us the opportunity to top up our holdings at a cheaper price.

In summary, we believe the role of specialist vehicles will continue to grow across our managed funds in the future.

INVESTMENT TRUSTS EXPLAINED

Investment trusts have been around since the 1860s. As is the case with open-ended funds, like OEICs and unit trusts, they pool your money with that of other investors to get exposure to a range of assets. However, there are important differences between investment trusts and their open-ended peers. An investment trust is a listed company, which trades according to supply and demand (how many buyers and sellers there are), whereas an OEIC trades at the value of its underlying assets.

As an investment trust is a company, market sentiment dictates its share price (for instance is the asset popular/unloved). So the share price may move above or below the value of the assets, known as the Net Asset Value (NAV). When it is above those assets it trades at a premium, while below means it is a trading at a discount. However, sentiment is not always correct, so if a trust is trading at a discount it could actually be an interesting buying opportunity, while one at a premium could indicate that it's a good time to take profits.

RISK

Investment trusts can also borrow money to invest more. This is known as gearing and is often used when a manager anticipates a rise in a certain stock or sector. If that stock or sector rises in value it can boost returns for the trust but, should they fall, it can easily make the losses greater – it means the trust carries extra risk.

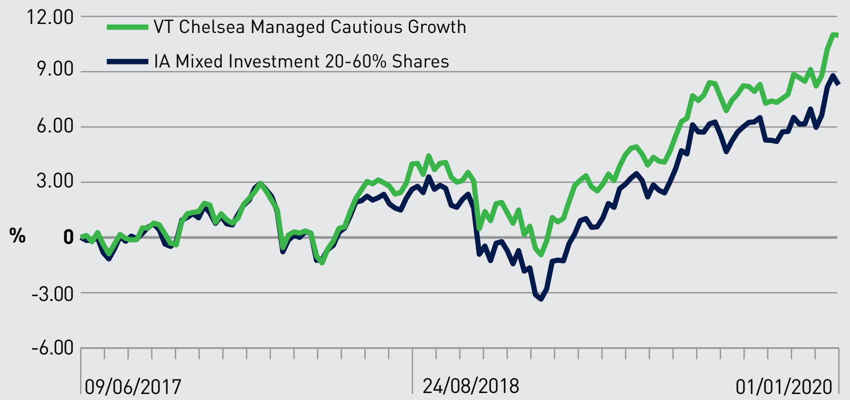
One final point is that the manager is appointed by the company, so they can be easily sacked and replaced by an independent board if necessary.

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, the risk taken should be lower.

PERFORMANCE SINCE LAUNCH



Source: FE Analytics 09/06/2017 – 01/01/2020, total returns in sterling

KEY FACTS

Ongoing charges figure:
1.31%

Payment dates:
30 June,
31 December

Indicated yield:
1.88%

Performance since launch:
10.97%

Sector average:
8.28%

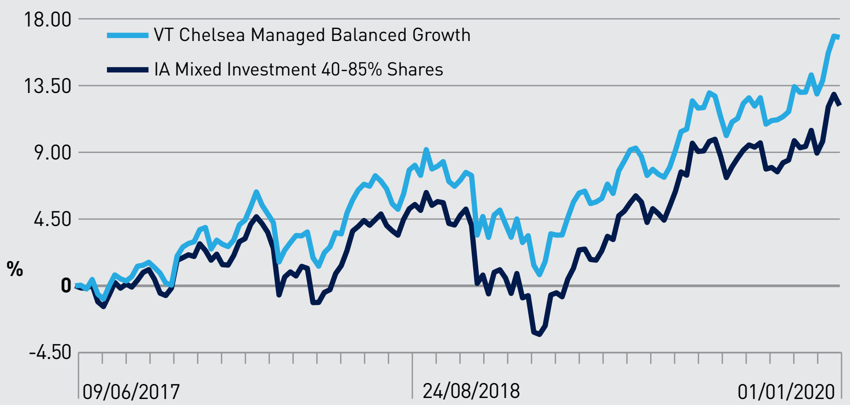
Chelsea Risk Rating:
4

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 09/06/2017 – 01/01/2020, total returns in sterling

KEY FACTS

Ongoing charges figure:
1.13%

Indicated yield:
N/A

Performance since launch:
16.78%

Sector average:
12.17%

Chelsea Risk Rating:
5.5

WHAT ARE THE RISKS?

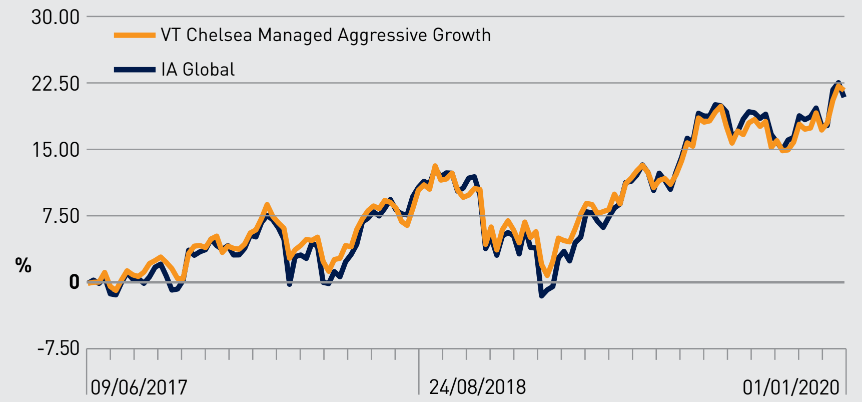
It is important to understand that investments can go down as well as up in value. You may not get back the amount originally invested and income payments are not guaranteed.

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 09/06/2017 – 01/01/2020, total returns in sterling

KEY FACTS

Ongoing charges figure:
1.11%

Indicated yield:
N/A

Performance since launch:
21.73%

Sector average:
20.95%

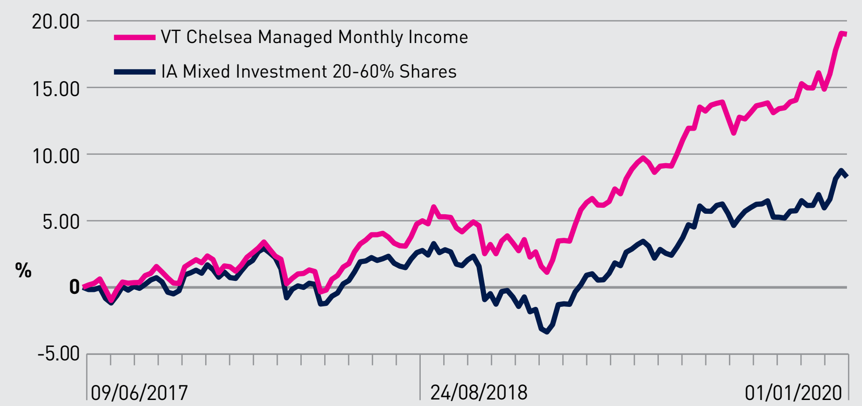
Chelsea Risk Rating:
7

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 09/06/2017 – 01/01/2020, total returns in sterling

KEY FACTS

Ongoing charges figure:
1.03%

Payment dates:
Monthly

Indicated yield:
4.70%

Performance since launch:
19.00%

Sector average:
8.28%

Chelsea Risk Rating:
4.5

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

Commentary correct as at 02/01/2020. Indicated yields and OCFs correct as at 02/01/2020. †Long term is 5+ years. The aim is to have lower volatility than global equities over a rolling 5-year period. *Income will be smoothed to pay a roughly level amount over 11 months, with a final adjustment payment in the 12th month, which may be more or less than the regular payment.

CHELSEA CORE SELECTION

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

UK EQUITIES

JOHCM UK Dynamic

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

Chelsea Risk Rating	6
Annual Management Charge	0.63%#*
Ongoing Charges Figure (OCF)	0.67%†*
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.92%
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
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.98%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.78%
Unit Type	ACC or INC

LF Lindsell Train UK Equity

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 from its benchmark. For this reason, investors should expect performance to be different from the index.

Chelsea Risk Rating	6.5
Annual Management Charge	0.60%#
Ongoing Charges Figure (OCF)	0.65%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	1.81%
Unit Type	ACC or INC

Liontrust Special Situations

This UK multi-cap fund is a 'best ideas' portfolio, which encompasses any stock regardless of size or sector. However, there will usually be around 50% in small and mid-cap stocks. The managers, Anthony Cross and Julian Fosh, 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)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.83%
Unit Type	INC

Marlborough UK Micro Cap Growth

Run by Giles Hargreave and Guy Feld, who are supported by one of the best small-cap teams in the country, the fund invests at the bottom end of the market capitalisation spectrum primarily into companies valued at below £250m. The managers have a growth bias and look for companies that will benefit from changing consumer trends, 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)	0.78%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.59%
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.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.60%
Unit Type	INC

Schroder Recovery

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	3.41%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 29 for more information.
For performance statistics please refer to pages 18-19.
Data sourced from FE Analytics 02/01/2020. Yields per annum as at 02/01/2020. Charges and MorningStar ratings as at 02/01/2020.

* A performance fee may be applied, see the KIID for further details.

*** Please call our dealing line on 020 7384 7300, the cheaper Montanaro seed share class is currently only available via telephone dealing. Normal T&Cs apply.

† 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

BlackRock Continental European Income NEW ENTRY

Andreas Zoellinger manages this core European income fund which invests predominately in large-cap stocks. The fund is supported by the highly regarded BlackRock European team which is made up of 18 investment professionals. All members of the team, including fund managers, undertake fundamental research. Bottom-up research is key to the fund's performance. The fund has a preference for quality sustainable dividends with the potential for growth and inflation protection. The final portfolio has around 50 stocks. Income is paid in February, May, August and November.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.93%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	4.19%
Unit Type	ACC or INC

Fidelity Global Dividend

This is a solid core global income fund, which aims to pay a regular and growing dividend, whilst preserving capital. Manager Dan Roberts invests in predictable resilient businesses, which can continue to generate strong cash flows, even when times get tough. Dan mostly invests in larger companies although his overall portfolio looks very different from the benchmark, and he may avoid some countries or sectors altogether. The fund typically outperforms a falling market but can struggle when markets rise strongly. Income is paid in February, May, August and November.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	2.75%
Unit Type	ACC or INC

M&G Global Dividend

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

Chelsea Risk Rating	7
Annual Management Charge	0.86%#
Ongoing Charges Figure (OCF)	0.86%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.22%
Unit Type	ACC or INC

Man GLG UK Income

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

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	5.27%
Unit Type	ACC or INC

Montanaro UK Income***

Montanaro is a specialist in small and medium-sized companies and this fund is no exception. It is run by industry veteran Charles Montanaro and invests in quality growth businesses, backed by strong management teams. The fund seeks to grow its dividend over time. One of its differentiating features is the fund's refusal to buy stocks listed on AIM (Alternative Investment Market) as the team believes these are too risky. The final portfolio is 40-50 stocks. Early supporters of this fund, including Chelsea clients, have access to the significantly cheaper seed share class. Income is paid in March, May, August and November.

Chelsea Risk Rating	7.5
Annual Management Charge	0.25%#^
Ongoing Charges Figure (OCF)	0.36%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	4.00%
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 June and December.

Chelsea Risk Rating	5
Annual Management Charge	0.75%#^
Ongoing Charges Figure (OCF)	0.78%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	4.21%
Unit Type	ACC or INC

TB Evenlode Income

Long-term thinking is key for this fund. 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. Income is paid in February, May, August and November.

Chelsea Risk Rating	5
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	2.98%
Unit Type	ACC or INC

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

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 29 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	BRONZE
Yield	0.75%
Unit Type	ACC or INC

Marlborough European Multi-Cap

Manager David Walton invests across the market-cap spectrum but by far his main emphasis is on small and micro-cap companies, which he believes is the most inefficient part of the market. He wants to invest in companies with first class management, strong growth prospects and a share price which doesn't yet reflect a company's potential. The fund has around 100 holdings and is well diversified across different sectors and countries.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.82%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	1.97%
Unit Type	INC

LF Miton European Opportunities

This fund has been managed by Carlos Moreno and Thomas Brown since its inception in 2015. It is a growth fund which invests across the market-cap spectrum but has a bias to mid-caps. The managers like companies with high profit margins, a strong competitive advantage and accelerating revenue growth. They are not put off by high short-term valuations if the company is good enough. They will also invest in more economically sensitive businesses, as long as the company is a world leader in its niche. The final portfolio is 40-55 holdings with no position exceeding 4%, ensuring the fund is well diversified.

Chelsea Risk Rating	7.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.84%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.52%
Unit Type	ACC

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	1.29%
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 where 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	N/A
Unit Type	ACC or INC

Fidelity Index US

This is a low-cost tracker fund which aims to match the performance of the S&P 500 over time. The US market is dominated by some of the largest companies in the world and has historically been a very efficient market, where only the very best active managers have outperformed. A tracker fund such as this is a cost-efficient way to access this market. Fidelity has a strong track record in this space and this fund is particularly cheap.

Chelsea Risk Rating	7
Annual Management Charge	0.06%#
Ongoing Charges Figure (OCF)	0.06%†
FundCalibre rating	-
Morningstar rating	GOLD
Yield	1.62%
Unit Type	ACC or INC

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)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.33%
Unit Type	ACC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 29 for more information.
For performance statistics please refer to pages 18-19.
Data sourced from FE Analytics 02/01/2020. Yields per annum as at 02/01/2020. Charges and MorningStar ratings as at 02/01/2020.

* 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

Fidelity Asia Pacific Opportunities NEW ENTRY

Singapore-based Anthony Srom manages this high conviction fund of around 30 stocks. Higher conviction should not mean higher risk and the portfolio is carefully constructed to ensure good diversification. Stock selection is based on three factors: fundamentals, sentiment and valuation. Anthony has a contrarian instinct and understanding other investors sentiment is a key factor in his decision making. Alongside the company specifics, Anthony believes it is important to consider the prospects for the industry in which a company operates. The fund invests across the market-cap spectrum but around two thirds of the holdings are in large caps.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.14%
Unit Type	ACC

Invesco China Equity (previously known as 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. He favours investing in mid-cap stocks with around 45% of the value of the fund in its top 10 holdings. He is joined on the fund by Lorraine Kuo as co-manager, as well as being supported by a series of regional offices across China.

Chelsea Risk Rating	10
Annual Management Charge	0.89%#
Ongoing Charges Figure (OCF)	0.89%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	1.10%
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)	0.81%†
FundCalibre rating	-
Morningstar rating	BRONZE
Yield	0.42%
Unit Type	ACC or INC

Man GLG Japan CoreAlpha

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	2.22%
Unit Type	ACC or INC

RWC Global Emerging Markets

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

Chelsea Risk Rating	10
Annual Management Charge	0.90%#
Ongoing Charges Figure (OCF)	1.30%†
FundCalibre rating	-
Morningstar rating	-
Yield	N/A
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	1.26%
Unit Type	ACC or INC

Stewart Investors Asia Pacific Leaders

The fund is managed by David Gait and Sashi Reddy. 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	1.05%
Unit Type	ACC or INC

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

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 29 for further details.

GLOBAL

Fidelity Global Special Situations

Manager Jeremy Podger 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 the 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	N/A
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. These companies typically 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	0.67%
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 and with barriers to entry for competitors. There is also a defensive bucket of stocks less dependent on the economic environment to manage risk and protect the fund in falling markets.

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.78%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.07%
Unit Type	ACC

T. Rowe Price Global Focused Growth Equity SPOTLIGHT

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 60-80 growth stocks. He targets businesses with accelerating returns on capital over the next 12 to 24 months. The fund currently has 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	N/A
Unit Type	ACC

FIXED INTEREST

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 ^^	3.5
Annual Management Charge	0.50%#
Ongoing Charges Figure (OCF)	0.52%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	3.30%
Unit Type	ACC or INC

BlackRock Corporate Bond SPOTLIGHT

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	2.82%
Unit Type	ACC or INC

Invesco Monthly Income Plus

This strategic bond fund gives co-managers Paul Causer and Paul Read 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	5.19%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 29 for more information.
For performance statistics please refer to pages 18-19.
Data sourced from FE Analytics 02/01/2020. Yields per annum as at 02/01/2020. Charges and MorningStar ratings as at 02/01/2020.

* 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)

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)	0.68%†
FundCalibre rating	-
Morningstar rating	SILVER
Yield	2.90%
Unit Type	ACC or INC

Jupiter Strategic Bond

The manager, Ariel Bezalel, seeks out the best opportunities within the fixed interest universe globally. This is a genuine strategic bond fund. Ariel will substantially alter the positioning of the portfolio depending on his macroeconomic views. He combines this with 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)	0.74%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.60%
Unit Type	ACC or INC

M&G Emerging Markets Bond NEW ENTRY

Another star of the highly-regarded M&G fixed income desk, is manager Claudia Calich, who is extremely knowledgeable about her asset class. With this fund, Claudia has the flexibility to invest across the whole emerging market bond spectrum. She can invest in both government and corporate bonds, denominated in local currencies or in US dollars ('hard' currency). Claudia pays considerable attention to the macroeconomic environment to determine the framework for the fund, before looking at the individual companies and governments to pick what she believes to be the best mix of bonds for this portfolio.

Chelsea Risk Rating	4
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.75%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	5.31%
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 10 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	4.04%
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. Nigel Ridge is the lead manager. The fund is high conviction but maintains a conservative net exposure to the wider stock market. Nigel aims to add value through fundamental stock analysis. He will buy individual shares that are cheap but will also short-sell stocks he views as overvalued. He then combines these positions with a more conservative pair trading strategy, whereby he will buy one stock in a sector and simultaneously short-sell another in the same sector to hedge out market risk.

Chelsea Risk Rating	4.5
Annual Management Charge	0.75%#*
Ongoing Charges Figure (OCF)	0.92%†*
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	0.23%
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)	0.77%†
FundCalibre rating	ELITE
Morningstar rating	-
Yield	0.83%
Unit Type	ACC or INC

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

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 29 for further details.

CORE SELECTION SPOTLIGHT

DAVID EISWERT

Fund Manager,
T. Rowe Price Global Focused Growth Equity

T. ROWE PRICE GLOBAL FOCUSED GROWTH EQUITY

Elite Rated by FundCalibre

THE CHELSEA VIEW

David focuses on growing companies that are the leaders of tomorrow. He has a 'go anywhere' approach but typically has at least half the portfolio in US equities. He is likely to have a large weight in tech companies too, simply because this is where he finds growth.

I did a masters in economics at the University of Maryland. I subsequently joined Fidelity and then moved to T. Rowe Price in 2003 as an analyst. After five years I transitioned into a role as portfolio manager and I have been managing the Global Focused Growth Equity strategy since 2012.

INVESTING ON THE RIGHT SIDE OF CHANGE

We look for companies that we believe have the potential for improving economic returns in the future and that we can buy at an attractive price.

In an era of technological innovation, we focus on understanding the forces enhancing or erasing durable competitive advantage. Our portfolio typically consists of 60-80 stocks representing our most compelling bottom-up growth ideas, often derived from technological innovation and secular disruption.

CAPITALISING ON DISRUPTION

We live in a world where the pace of change is rapid. The dynamics of disruption come at the expense of many incumbent competitors. But how exactly can disruptors cause so much change to established brands?

The first answer can be found in advertising. To sell toothpaste 20 years ago, companies would buy up all the TV, radio and newspaper advertising space. Businesses that didn't have the scale to compete for advertising space with these established brands lost out. Today people are buying toothpaste on social media. Consumers are finding out about new brands and businesses on Instagram. Furthermore, consumers increasingly listen to music on Spotify instead of the radio, and watch Netflix instead of traditional broadcasting channels and these spaces do not have advertising.

Secondly, the place where people shop has changed. Consumers are increasingly reluctant to go to a physical store. E-commerce has unlimited shelf space, allowing new brands to compete cost-effectively with their established rivals. Two decades ago, established companies would acquire the shelf space in shops where their toothpaste is sold, making it virtually impossible for new brands to break into the market.

One such business that is shaking up the footwear industry is Allbirds – an environmentally and sustainability-orientated shoe retailer that makes shoes from wool, trees and sugar cane. It has a valuation of approximately $2 billion, while it has very limited retail presence, no TV ads (but with 55% of its advertising done on Instagram) and ships most of its products via e-commerce.

China has benefited dramatically from innovation developments. Alibaba has become an amalgamation of many key web-based innovations. It is effectively PayPal, Amazon, Amazon Web Services, Facebook, YouTube, Instagram and Google – all in one company. This reach has given it extraordinary insights into its customer base and enabled it to capture revenues.

Developments like these are making it more important than ever to be on the right side of change, particularly given the dispersion of outcomes between winners and losers.

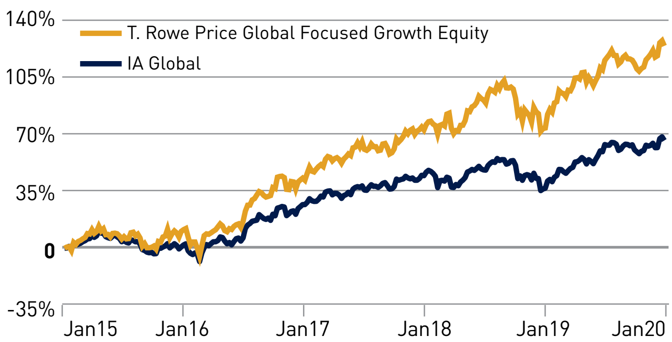
PORTFOLIO HIGHLIGHTS

We have high conviction in the IT sector, where rapid market share shifts mean growth companies are plentiful. Nevertheless, increasing regulatory scrutiny and concerns about privacy have cast a cloud over the big internet companies in recent months, and we are managing our position sizes in light of these risks.

We also have a sizable exposure to semiconductor stocks that are trading at attractive valuations and should benefit from content growth in the automotive and industrial end markets, as well as investment in data centres and artificial intelligence.

We believe the global economy is heading towards a crossroads. As such, we have been attempting to position the portfolio in such a way that we can participate in a rally driven by any positive resolutions (such as a trade deal) while dampening the negative effects of any deteriorating factors.

FUND PERFORMANCE OVER 5 YEARS



Source: FE Analytics, 01 January 2015 to 01 January 2020, total returns, net of fees, in sterling.

CORE SELECTION SPOTLIGHT

BLACKROCK CORPORATE BOND

Elite Rated by FundCalibre

BEN EDWARDS

Fund Manager, **BlackRock Corporate Bond**

THE CHELSEA VIEW

This fund has a flexible mandate which, combined with Ben's strong fundamental analysis of corporate bonds, makes it a core holding. He has achieved strong performance, despite taking a lower-risk approach.

I stepped off the plane 18 years ago, like many Australians, contemplating a two-year working holiday before returning to begin my "real" career. At the time, I had only the vaguest understanding of what a corporate bond was, let alone that I would soon be analysing and ultimately managing portfolios full of them.

After quick stints at Deutsche Bank and M&G, I went on to administering and subsequently managing corporate bond portfolios at Legal & General. Now, as manager of the BlackRock Corporate Bond fund, I am verging on two decades of my family and friends not really understanding what I do for a living. Once they realise that no sure-fire stock tip will be forthcoming, most stop asking you "How's work going?" at BBQs.

INVEST FOR THE LONG TERM, DON'T TRY TO PREDICT INTEREST RATES

As an analyst of bond fund returns, one thing quickly became clear; getting the market direction right can make money, but it's not "alpha". Attempting to predict the future generates market risk. It's hard to get right consistently over time and eventually it can hurt returns.

Now, as a manager of bond funds, we look to build a portfolio that doesn't just rely on credit spreads tightening to outperform, but rather we have always looked to build a track record of outperformance that is uncorrelated with the direction of credit markets – "real alpha". Central to our philosophy is a flexible, active, high-conviction strategy where we invest for the long term but are prepared to trade tactically, to extract inefficiencies in bond markets.

When I took over the fund in 2011, bond yields were "low". The UK government would pay you what now seems like a princely sum of 2.5% for 10 years. During the next seven years, even with a structurally lower sensitivity to interest rates than the market, we have consistently argued that low bond yields and expensive bond yields are not synonymous. Structural factors and positive technicals (central bank buying) could support government bond returns, even from very low starting yields. This year, that changed for me.

With 10 year UK yields hitting a record low of 0.45% in 2019, the question for bond managers must be; can we reasonably expect this asset to perform from here? Granted, a global recession would drive government bond yields lower, but there are reasons to be sceptical of this outcome, at least in the short term.

We are at a global policy inflection point. With inflation still low, the narrative is swinging towards a fiscal response (government spending) being required to shift inflation back to target, to push global growth higher and to combat the rise in populism, exacerbated by current policies.

POSITIONING FOR 2020

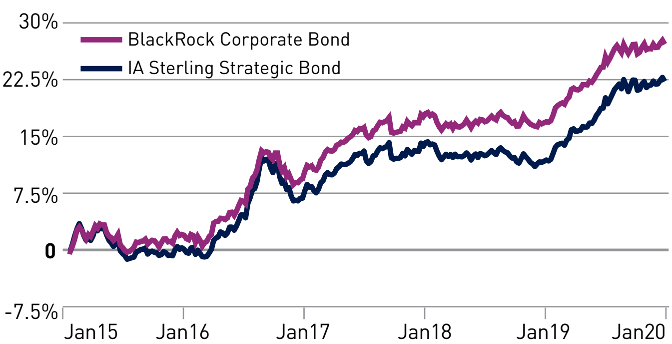
Outside a full-blown recession, it is unlikely that government bonds can perform and, therefore, we have reduced our exposure.

We are focusing on the additional returns that corporate bonds can provide. We see valuations of sterling corporate bonds as broadly fair in a historical context and cheap compared with euro and US markets.

While European markets remain broadly expensive, there are pockets of incredible value. The burgeoning euro long-dated segment is an area in which we are participating. While continental investors grapple with the novelty of 30-year bonds and how they fit into their shorter-dated portfolios, I smell a bargain! To entice investors to this maturity for the first time, high-quality borrowers are paying steep premiums to investors.

In 2019, everything went up! This year will be more difficult and we will continue to focus on the low levels of overall risk and uncorrelated alpha generation that have been hallmarks of the fund since 2011.

FUND PERFORMANCE OVER 5 YEARS



Source: FE Analytics, 01 January 2015 to 01 January 2020, total returns, net of fees, in sterling.

THE CHELSEA SELECTION

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	Fund Size (m)	Yield %
UK ALL COMPANIES												
Artemis UK Select		7	32.64	24	29.20	66	47.50	77	180.74	44	740.50	2.37
AXA Framlington UK Select Opportunities		6	21.73	129	20.61	151	36.68	162	150.38	71	1599.70	1.68
Franklin UK Managers' Focus		7	28.02	57	29.36	64	56.76	54	221.93	23	339.10	2.32
Investec UK Alpha		6	21.23	136	23.93	103	43.50	99	186.18	39	2398.60	2.28
JOHCM UK Dynamic		6	21.02	138	26.21	81	53.07	63	177.63	44	1810.00	3.88
Jupiter UK Special Situations		5.5	16.33	229	17.73	180	44.40	89	167.15	51	2220.00	3.70
LF Lindsell Train UK Equity		6.5	22.81	110	46.57	15	81.88	10	321.31	4	6650.50	1.86
Liontrust Special Situations^		6	21.77	126	38.55	29	82.67	8	313.16	5	5581.40	1.69
Marlborough UK Multi-Cap Growth		7	29.22	48	37.36	32	74.63	20	252.64	12	275.70	0.57
MI Chelverton UK Equity Growth		7.5	40.58	2	70.76	1	157.70	1	-	-	479.80	1.12
Schroder Recovery		7.5	9.76	248	14.33	215	30.80	197	161.12	56	1168.90	3.25
Slater Growth		7	37.87	8	53.18	8	77.42	16	440.34	1	584.10	-
Threadneedle UK Extended Alpha		7	24.44	85	23.78	105	50.65	68	155.00	66	160.20	2.60
SECTOR AVERAGE			**22.32**	**254**	**23.84**	**242**	**43.91**	**226**	**129.78**	**199**		
UK EQUITY INCOME												
Artemis Income		5	23.03	23	24.95	17	45.25	16	145.72	19	5270.00	4.19
ASI UK Income Unconstrained Equity		6	10.51	83	12.30	72	21.17	73	148.79	17	1200.00	4.74
JOHCM UK Equity Income		6	20.16	45	23.41	23	45.70	15	163.41	7	3070.00	5.39
LF Gresham House UK Multi-Cap Income		7.5	30.61	3	-	-	-	-	-	-	42.80	3.36
Man GLG UK Income		6	21.72	30	43.86	1	70.96	1	162.85	9	1302.40	4.98
Marlborough Multi Cap Income		7	26.76	10	30.16	8	43.80	24	-	-	1550.30	4.33
Montanaro UK Income***		7.5	36.90	11 / 254	47.32	13 / 242	78.60	14 / 226	251.18	13 / 199	524.00	3.60
Rathbone Income		5	18.45	60	17.26	48	39.01	36	152.22	15	1134.30	3.99
Royal London UK Equity Income		5.5	23.87	19	26.20	13	47.70	10	196.52	3	2091.30	4.38
TB Evenlode Income***		5	24.26	87 / 254	43.67	19 / 242	82.37	9 / 226	246.94	14 / 199	3560.00	2.90
Threadneedle UK Equity Alpha Income		5.5	19.16	55	16.26	55	36.27	47	163.16	8	367.50	4.30
SECTOR AVERAGE			**20.14**	**86**	**19.65**	**79**	**38.30**	**74**	**126.57**	**62**		
UK SMALLER COMPANIES												
AXA Framlington UK Smaller Companies		8	26.69	28	44.18	24	87.39	17	366.67	8	240.60	0.73
ES R&M UK Equity Smaller Companies		8	24.66	34	33.58	35	70.23	33	365.36	9	420.40	1.45
LF Gresham House UK Micro Cap		8	20.38	43	55.52	10	93.32	13	395.03	4	191.80	0.68
Liontrust UK Micro Cap		8	29.07	24	62.47	4	-	-	-	-	69.20	0.21
Marlborough Special Situations		7.5	19.71	45	34.52	34	78.59	25	336.12	15	1375.20	0.98
Marlborough UK Micro-Cap Growth		8	21.19	40	45.18	23	90.28	14	385.86	5	1182.10	0.55
TB Amati UK Smaller Companies^		8	30.35	20	66.36	3	137.00	3	426.80	2	350.20	1.00
SECTOR AVERAGE			**25.31**	**51**	**40.72**	**48**	**74.65**	**47**	**245.71**	**44**		
STERLING CORPORATE BOND												
Artemis Corporate Bond NEW ENTRY		2.5	-	-	-	-	-	-	-	-	-	-
BlackRock Corporate Bond SPOTLIGHT		2.5	8.91	67	14.34	23	27.23	18	92.86	11	1203.60	2.38
Royal London Corporate Bond		2.5	10.85	25	16.25	10	27.56	16	98.24	9	1470.70	2.99
TwentyFour Corporate Bond*		2.5	9.33	58	14.12	26	-	-	-	-	931.90	3.95
SECTOR AVERAGE			**9.49**	**96**	**12.47**	**92**	**22.35**	**82**	**71.57**	**58**		
STERLING HIGH YIELD BOND												
Baillie Gifford High Yield Bond^		4	11.93	18	17.92	6	30.11	6	102.35	2	771.10	4.19
Royal London Short Duration Global High Yield Bond^*		2.5	4.85	40	7.77	33	17.58	30	-	-	1779.80	4.38
SECTOR AVERAGE			**11.09**	**41**	**14.01**	**34**	**24.68**	**32**	**74.13**	**20**		
STERLING STRATEGIC BOND												
Artemis Strategic Bond		3	8.60	56	13.25	32	25.04	15	79.16	15	1709.00	2.53
Baillie Gifford Strategic Bond^		3.5	11.50	16	18.54	9	29.50	9	115.88	2	1352.50	3.46
GAM Star Credit Opportunities*		4	13.72	6	21.62	4	40.86	2	-	-	849.20	4.20
Invesco Monthly Income Plus		3.5	10.77	24	15.19	21	23.42	20	84.56	10	2572.20	4.97
Janus Henderson Strategic Bond^		3	9.58	34	14.61	25	22.43	23	68.32	24	2732.10	2.60
Jupiter Strategic Bond		2.5	8.29	64	11.89	42	21.69	29	84.10	11	4156.60	3.00
Man GLG Strategic Bond NEW ENTRY		3.5	12.34	9	11.67	44	10.02	71	-	-	89.70	3.36
Nomura Global Dynamic Bond (Hedged)* NEW ENTRY		3.5	15.18	3	20.36	7	-	-	-	-	824.00	-
TwentyFour Dynamic Bond		3.5	9.46	37	16.30	13	24.62	18	-	-	2116.60	3.47
SECTOR AVERAGE			**9.27**	**93**	**12.22**	**85**	**20.21**	**75**	**64.96**	**46**		
TARGETED ABSOLUTE RETURN												
BlackRock UK Absolute Alpha		4.5	9.39	-	5.52	-	16.55	-	26.55	-	251.50	0.23
Janus Henderson UK Absolute Return		4	4.51	-	5.03	-	14.89	-	55.22	-	1605.80	-
Smith & Williamson Enterprise*		5	7.16	-	6.07	-	12.20	-	49.21	-	115.90	-
SVS Church House Tenax Absolute Return Strategies		4	3.86	-	5.47	-	15.82	-	48.95	-	436.00	0.83
SECTOR AVERAGE			**4.45**	**-**	**4.96**	**-**	**8.62**	**-**	**26.45**	**-**		
EUROPE EXCLUDING UK												
Barings Europe Select Trust***		8	20.76	17 / 26	33.43	7 / 25	91.81	6 / 21	233.55	7 / 18	1530.00	1.40
BlackRock Continental European Income		7	20.36	58	27.42	32	63.35	28	-	-	1752.60	3.74
BlackRock European Dynamic^		7	30.07	8	41.86	8	87.93	6	222.96	3	3697.00	0.62
Legg Mason IF Martin Currie European Unconstrained		7.5	33.84	2	35.74	19	64.44	25	122.96	31	28.50	0.50
LF Miton European Opportunities		7.5	33.86	1	64.55	1	-	-	-	-	849.40	0.51
Marlborough European Multi-Cap		8	22.69	36	32.46	22	127.10	1	167.61	9	295.40	1.82
Threadneedle European Select		7	27.42	15	36.27	17	70.30	17	203.00	5	1654.50	1.10
TM CRUX European Special Situations		7	21.00	43	24.06	55	70.51	16	189.21	6	1652.00	1.60
SECTOR AVERAGE			**20.49**	**118**	**24.14**	**109**	**57.91**	**97**	**115.29**	**78**		

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

	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	Fund Size (m)	Yield %
NORTH AMERICA												
Artemis US Extended Alpha	Elite Radar	7	24.12	84	44.65	35	119.60	14	-	-	449.60	0.03
(C) AXA Framlington American Growth	Elite Rated	7	32.17	10	63.25	9	109.97	19	332.29	15	596.50	-
Brown Advisory US Flexible Equity^*	Elite Radar	7	31.46	17 / 211	50.97	35 / 189	99.98	34 / 161	-	-	333.70	1.03
(C) Fidelity Index US		7	26.34	56	40.02	48	98.91	32	-	-	1887.00	1.21
Hermes US SMID Equity*	Elite Rated	8	26.07	8 / 17	20.10	12 / 15	83.65	8 / 14	-	-	810.60	-
(C) LF Miton US Opportunities	Elite Rated	7	22.92	98	32.17	83	97.13	39	-	-	667.70	0.34
SECTOR AVERAGE			24.63	149	35.87	137	83.03	125	248.61	87		
JAPAN												
Baillie Gifford Japanese^	Elite Rated	10	18.50	28	31.13	15	96.53	10	241.53	3	3133.20	1.12
(C) JPM Japan		10	25.09	4	43.10	7	116.82	4	222.95	4	1229.80	0.36
Jupiter Japan Income NEW ENTRY		9.5	24.69	6	34.94	9	102.18	8	171.80	9	553.20	2.30
Legg Mason IF Japan Equity		10	24.88	5	51.98	3	195.50	1	701.17	1	982.50	-
(C) Man GLG Japan CoreAlpha	Elite Rated	10	7.46	71	7.77	68	68.71	40	140.14	21	2026.00	2.08
SECTOR AVERAGE			17.30	71	22.54	70	74.81	63	141.40	51		
ASIA PACIFIC EXCLUDING JAPAN												
(C) Fidelity Asia Pacific Opportunities	Elite Rated	8	25.61	4	52.30	6	115.94	1	-	-	490.00	-
Fidelity Asian Dividend NEW ENTRY	Elite Radar	7.5	18.37	27	40.08	26	82.28	12	-	-	90.00	3.52
Guinness Asian Equity Income*	Elite Rated	8	16.05	43	29.81	53	68.39	32	-	-	180.10	3.40
Invesco Asian^	Elite Rated	8	13.06	77	35.73	48	82.82	11	164.16	6	2113.90	1.44
Matthews Asia Pacific Tiger*	Elite Rated	8	7.87	103	29.32	56	60.00	47	-	-	673.00	-
(C) Schroder Asian Alpha Plus	Elite Rated	8	15.25	54	43.66	14	79.00	17	189.30	2	1089.70	1.22
Schroder Asian Income	Elite Rated	7.5	12.01	89	26.00	75	59.69	49	166.19	5	1437.10	3.56
(C) Stewart Investors Asia Pacific Leaders	Elite Rated	7.5	3.76	-	24.06	-	51.30	-	158.07	-	6661.60	1.10
SECTOR AVERAGE			15.87	105	30.98	102	59.08	94	110.66	62		
GLOBAL EMERGING MARKETS**												
Alquity Indian Subcontinent^*		10	-10.84	-	18.38	-	42.87	-	-	-	37.40	-
ASI Latin American Equity	Elite Rated	10	16.97	-	31.68	-	60.30	-	-	-	125.40	1.60
First State Greater China Growth	Elite Rated	10	26.31	13 / 38	50.94	11 / 36	93.23	6 / 34	209.40	1 / 22	524.30	0.93
GS India Equity Portfolio*	Elite Rated	10	4.01	-	27.69	-	61.92	-	164.03	-	1460.30	-
(C) Invesco China Equity^	Elite Rated	10	18.91	27 / 38	46.93	13 / 36	81.94	17 / 34	160.49	3 / 22	348.90	1.07
(C) RWC Global Emerging Markets*		10	21.24	20	23.13	72	-	-	-	-	1157.30	-
Schroder Small Cap Discovery		10	9.40	-	8.85	-	27.12	-	-	-	201.00	0.86
SECTOR AVERAGE			16.36	108	27.74	100	50.10	-	68.23	-		
GLOBAL												
Baillie Gifford Global Discovery^	Elite Rated	8.5	23.93	121	71.21	2	113.18	8	382.58	2	794.10	-
(C) Fidelity Global Special Situations	Elite Rated	7	22.27	159	33.65	114	89.39	41	202.59	48	2689.90	-
(C) Fundsmith Equity	Elite Rated	6	25.76	75	57.06	11	133.36	3	-	-	18834.00	0.66
Investec Global Special Situations	Elite Radar	7	21.01	196	21.97	237	70.76	120	165.42	85	221.20	1.73
Pictet Global Environmental Opportunities^*	Elite Rated	7.5	34.54	4	43.97	48	87.51	49	-	-	1585.10	-
(C) Rathbone Global Opportunities	Elite Rated	6.5	26.12	72	50.64	23	103.37	14	276.68	11	1858.20	0.07
(C) T. Rowe Price Global Focused Growth Equity* SPOTLIGHT	Elite Rated	7.5	30.02	24	58.14	10	124.20	5	260.27	13	1408.00	-
SECTOR AVERAGE			22.10	324	31.26	286	66.36	248	149.15	172		
GLOBAL EQUITY INCOME												
Artemis Global Income	Elite Rated	7	16.16	40	13.44	41	48.05	30	-	-	2543.50	3.09
BNY Global Income	Elite Rated	6	21.89	15	30.45	12	85.89	1	199.86	1	5598.20	2.97
(C) Fidelity Global Dividend	Elite Rated	6	20.46	21	31.22	9	75.21	6	-	-	1304.00	2.28
Fidelity Global Enhanced Income		5.5	16.90	35	26.16	20	67.78	12	-	-	317.20	3.19
Guinness Global Equity Income*	Elite Rated	6.5	22.28	14	35.00	6	75.07	7	-	-	1016.60	-
(C) M&G Global Dividend***	Elite Rated	7	19.42	242 / 324	25.55	195 / 286	64.64	156 / 248	180.42	70 / 172	2367.00	2.14
TB Evenlode Global Income	Elite Radar	6	24.69	7	-	-	-	-	-	-	578.00	2.30
SECTOR AVERAGE			18.77	54	23.44	48	54.42	41	143.71	13		
MISCELLANEOUS**												
Artemis Monthly Distribution	Elite Rated	4.5	12.69	66 / 158	13.26	91 / 148	43.89	6 / 134	-	-	945.40	3.87
AXA Framlington Global Technology	Elite Rated	10	33.77	10 / 16	85.91	3 / 14	170.36	3 / 11	408.74	3 / 9	779.00	-
BMO European Real Estate Securities*	Elite Rated	7.5	25.89	-	42.55	-	81.08	-	-	-	206.00	-
Guinness Global Energy*		9	6.20	320 / 324	-18.36	285 / 286	-4.59	246 / 248	0.36	170 / 172	144.20	-
Jupiter Financial Opportunities		8	27.93	-	43.55	-	75.61	-	102.73	-	551.10	0.30
(C) M&G Emerging Markets Bond	Elite Rated	4	12.07	10 / 66	16.74	4 / 62	59.90	5 / 57	114.35	6 / 24	697.20	5.40
Merian Gold And Silver*	Elite Radar	10	38.09	-	18.89	-	-	-	-	-	432.90	-
Polar Capital Biotechnology*		10	26.81	-	54.65	-	103.86	-	-	-	422.70	-
Polar Capital Healthcare Opportunities*	Elite Rated	8	14.90	-	50.71	-	78.73	-	414.98	-	1156.30	-
Premier Pan European Property Share	Elite Rated	7.5	27.08	-	35.28	-	53.13	-	190.55	-	290.70	3.26
VT Gravis UK Infrastructure Income	Elite Radar	4	19.35	-	26.67	-	-	-	-	-	526.00	3.13

(C) Funds featured in The Chelsea Core Selection (see pages 10-15).

Elite Rating logo Funds that are Elite Rated by FundCalibre.

Elite Radar logo Funds that are on FundCalibre's Elite Radar (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, 02/01/2020, but subject to change.

Source: FE Analytics, total return, IA universe, 02/01/2020.

Yields per annum as at 02/01/2020. Yields taken from Income unit versions of fund.

THE REDZONE

It's 2020: the start of a new decade. I don't know about you, but I've made a slightly longer than usual list of resolutions.

SAM SLATOR

Head of Communications, **Chelsea**

However, as I sit down to write this article, I notice it's Friday 17th January – also known as 'Broken Resolution Day' - or the day you can apparently ditch your promises without feeling any guilt.

One resolution I won't be letting slide is to pay more attention to my investment portfolio. Certainly not now I've seen the results of our new RedZone analysis.

Hindsight is a wonderful thing, but so too is the ability to look clearly at your investment choices - without bias or prejudice - and decide whether or not they still have a place in your portfolio. And what better year than this to develop 2020 vision?

49% MORE DISAPPOINTMENT

The number of funds in the RedZone has increased quite significantly this year – indeed, there is not enough room on the facing page to reveal them all! So if you'd like to see a full list, please visit www.chelseafs.co.uk/research/redzone. Having remained steady at 187 in 2018, then 188 in 2019, we have 230 underperforming funds today, with a combined value of £98.7bn – a whopping 49% increase on last year's £66.3bn.

Much of this bad news comes from the Global sector, which has 48 funds in the RedZone (up from 22 last year) and almost four times as many assets: £17.58bn compared with £4.6bn in 2019. The second worst-performing sector was North America, as funds struggled to keep up with a rapidly rising stock market. This sector has 26 funds in the RedZone equating to £11.7bn, while UK All Companies is third with 20 funds (eight fewer than last year) and £15.74bn (25% less than 2019).

ABERDEEN STANDARD CONTINUES TURNAROUND

There is a little bit of good news in that Aberdeen Standard Investments continues to turn around much of its underperformance. The group is still 'top' with 15 funds and £7.6bn assets in the RedZone but these numbers are reductions of 25% and 30% respectively year on year.

The second worst company is Invesco (the company was second last year), with 14 funds and £11.4bn, while Schroders is in third place with 8 funds and £4.5bn.

20 FUNDS TO DITCH IN 2020?

The DropZone has eight out of ten new names and is dominated by global energy funds. This reflects the fact that the global oil & gas sector has significantly underperformed over three years, losing 3.32% of its value compared with a 32.31% gain for the wider global stock market*. Is this also a reflection that the sector is 'dying', as clean energy is becoming more prevalent?

Finally, as the number of underperforming assets has increased so dramatically this year, I have added an extra table: one that highlights the 10 largest funds – presumably also with the largest number of investors - that have disappointed over the past three years.

* Source: FE Analytics, total returns in sterling, 1 January 2017 to 1 January 2020 FTSE World vs FTSE World Oil & Gas sectors.

DROPZONE

% UNDERPERFORMANCE FROM SECTOR AVERAGE

1	Schroder ISF Global Energy	66.00
2	MI Downing UK Micro-Cap Growth	54.83
3	Guinness Global Energy	49.62
4	MFS Meridian Global Energy	48.25
5	ASI UK Recovery Equity	37.70
6	Comgest Growth Gem Promising Companies	34.54
7	JOHCM Asia ex Japan Small and Mid Cap	29.03
8	VT De Lisle America	28.82
9	Invesco European Smaller Companies (UK)	26.64
10	TM Stonehage Fleming European All Cap Equity	26.59

LARGEST UNDERPERFORMING FUNDS

ASSETS (£BN)

1	Invesco High Income (UK)	5,721.40
2	Dimensional Global Short Dated Bond	5,050.00
3	Scottish Widows Corporate Bond	3,555.70
4	Dodge & Cox Global Stock	3,300.10
5	HL Multi Manager Income & Growth	2,693.40
6	Invesco Income (UK)	2,574.50
7	Pictet Digital	2,523.40
8	JPM US Select Equity Plus	2,345.80
9	Robeco BP US Large Cap Equities	2,129.20
10	M&G Recovery	2,057.10

Fund	3 YEAR % Growth	Quartile position
ASIA PACIFIC EXCLUDING JAPAN		
Alquity Asia	14.50	4
JOHCM Asia ex Japan	13.57	4
(D) JOHCM Asia ex Japan Small and Mid Cap	1.95	4
LF Prudential Pacific Markets Trust	22.50	4
Marlborough Far East Growth	23.32	4
Matthews Asia Small Companies	22.72	4
SECTOR AVERAGE	**30.98**	
EUROPE EXCLUDING UK		
ASI Europe ex UK Growth Equity	21.58	3
ASI Europe ex UK Income Equity	18.45	4
AXA Rosenberg European	15.39	4
Fidelity European Opportunities	15.79	4
Franklin European Opportunities	10.20	4
Invesco European Equity Income (UK)	10.81	4
Invesco European ex UK Enhanced Index (UK)	23.01	3
Invesco European Opportunities (UK)	-1.83	4
JPM Europe Dynamic Ex UK	19.95	3
Jupiter European Special Situations	18.56	4
Oyster Continental European Selection	-0.93	4
Schroder European Alpha Income	12.39	4
Schroder European Recovery	17.01	4
TM CRUX European	18.33	4
(D) TM Stonehage Fleming European All Cap Equity	-2.45	4
SECTOR AVERAGE	**24.14**	
EUROPEAN SMALLER COMPANIES		
(D) Invesco European Smaller Companies (UK)	0.15	4
M&G Pan European Select Smaller Companies	10.95	4
SECTOR AVERAGE	**26.79**	
FLEXIBLE INVESTMENT		
7IM Adventurous	14.90	4
AB Emerging Markets Multi Asset Portfolio	16.12	3
ACPI Horizon UCITS	2.81	4
Allianz Global Fundamental Strategy	-1.53	4
Artemis Strategic Assets	3.60	4
BMO Managed Growth	15.55	3
EF Brompton Global Opportunities	15.06	4
First State Diversified Growth	10.68	4
HL Multi-Manager High Income	15.76	3
Investec Global Multi-Asset Total Return	15.94	3
Schroder Dynamic Multi Asset	12.19	4
VT Garraway Multi Asset Dynamic	1.09	4
VT Thistledown Income	13.01	4
WAY Flexible Global Growth Portfolio	15.58	3
SECTOR AVERAGE	**19.94**	
GLOBAL		
Aberdeen Standard SICAV I World Equity	25.10	3
Allianz Best Styles Global AC Equity	23.67	4
ASI Global Equity	26.12	3
BlackRock Global Equity	21.96	4
BlackRock NURS II Global Equity	27.86	3
Candriam Quant Equities Multi-Factor Global	17.41	4
Denker Global Equity	24.23	3
Dimensional International Core Equity	27.56	3
Dimensional International Value	16.54	4
Dodge & Cox Global Stock	22.50	4
EF Brompton Global Equity	23.22	4
Fidelity Global Industrials	11.28	4
FP SCDavies Global Equity	24.33	3
GAM Star Worldwide Equity	12.98	4
(D) Guinness Global Energy	-18.36	4
HC Charteris Global Macro	8.27	4
Hermes Global Equity	27.77	3
Hermes Global Equity ESG	25.74	3
Hermes Global Small Cap Equity	24.75	3
Invesco Global Ex UK Core Equity Index (UK)	16.33	4
Invesco Global Ex UK Enhanced Index (UK)	25.68	3
Janus Henderson Multi-Manager Global Select	23.62	4
JPM Global Equity	16.46	4
JPM Global Focus	19.25	4
Lazard Managed Equity	27.34	3
LF Adam Worldwide	24.85	3
LF Canlife Global Equity	22.46	4
Marlborough Global	22.01	4
(D) MFS Meridian Global Energy	-16.99	4
MI Charles Stanley UK & International Growth	19.20	4
Pimco RAE Global Developed	18.56	4
Principal GIF Global Equity	18.81	4
Quilter Investors Global Unconstrained Equity	24.19	3
Robeco BP Global Premium Equities	17.08	4
Royal London GMAP Dynamic	25.50	3
RWC Global Horizon	25.97	3
Schroder Global Recovery	20.10	4
(D) Schroder ISF Global Energy	-34.74	4
Schroder QEP Global Active Value	14.35	4
Scottish Widows Global Growth	24.65	3
Scottish Widows Global Select Growth	23.92	4
Scottish Widows Opportunities Portfolio	19.95	4
Templeton Growth	13.92	4
TM Stonehage Fleming Global Equities I	21.87	4

Fund	3 YEAR % Growth	Quartile position
GLOBAL (CONTINUED)		
TM Stonehage Fleming Global Equities II	19.21	4
TM UBS (UK) Global Equity	25.14	3
Vanguard Global Small-Cap Index	23.55	4
VT Price Value Portfolio	15.61	4
SECTOR AVERAGE	**31.26**	
GLOBAL BONDS		
ASI Short Duration Global Inflation-Linked Bond	3.85	4
Dimensional Global Short Dated Bond	3.41	4
FP SCDavies Global Fixed Income	1.34	4
Invesco Global Bond (UK)	4.23	4
Royal London Short Duration Global Index Linked	4.68	3
T. Rowe Price Dynamic Global Bond	-5.27	4
TM UBS (UK) Global Fixed Income	2.67	4
SECTOR AVERAGE	**7.52**	
GLOBAL EMERGING MARKETS		
Aberdeen Standard SICAV I Emerging Markets Smaller Companies	7.73	4
Comgest Growth Emerging Markets Flex	14.92	4
(D) Comgest Growth Gem Promising Companies	-6.80	4
Jupiter Global Emerging Markets	9.95	4
Lazard Emerging Markets	14.99	4
Lazard Global Active Emerging Market Equity	16.70	4
MI Somerset Emerging Markets Small Cap	18.60	4
Russell Investments Emerging Markets Equity	24.12	3
Sarasin IE Systematic Emerging Markets Dividend	21.64	3
SECTOR AVERAGE	**27.74**	
JAPAN		
AB Japan Strategic Value Portfolio	6.57	4
Aviva Inv Japan Equity MoM 1	15.33	4
AXA Rosenberg Japan	18.39	3
Invesco Japan (UK)	7.68	4
JOHCM Japan	10.61	4
JOHCM Japan Dividend Growth	8.08	4
LF Morant Wright Japan	13.66	4
SECTOR AVERAGE	**22.54**	
MIXED INVESTMENT 20-60% SHARES		
7IM AAP Balanced	10.06	4
7IM Balanced	8.36	4
TB Doherty Cautious Managed	6.31	4
TB Doherty Distribution	9.87	4
FP Russell Investments Multi Asset Growth II	11.87	3
Investec Cautious Managed	4.21	4
Jupiter Enhanced Distribution	9.44	4
Optimal Multi Asset Balanced	4.47	4
Royal Bank of Scot Managed Defensive	11.49	4
Tavistock Wealth Limited ACUMEN Income Portfolio	10.03	4
Virgin Bond Gilt UK Share	6.53	4
VT Garraway Multi Asset Balanced	6.89	4
WAY MA Cautious Portfolio	9.96	4
SECTOR AVERAGE	**13.77**	
MIXED INVESTMENT 40-85% SHARES		
7IM AAP Moderately Adventurous	14.77	4
7IM Moderately Adventurous	12.21	4
TB Doherty Active Managed	8.74	4
TB Doherty Balanced Managed	7.76	4
Fidelity Moneybuilder Balanced	12.13	4
Janus Henderson Multi-Manager Managed	18.15	3
Jupiter Distribution and Growth	5.86	4
LF Canlife Balanced	15.89	4
MGTS Clarion Meridian Portfolio	16.90	4
MI Charles Stanley Multi Asset Growth	17.70	3
Optimal Multi Asset Opportunities	11.56	4
Orbis Global Balanced	3.88	4
Thesis Libero Strategic	14.95	4
TM UBS (UK) UK Income Focus	14.54	4
Virgin Bond Gilt UK and Overseas Share	11.00	4
VT Garraway Multi Asset Growth	4.87	4
VT Morningstar Informed Smartfund Growth Strategy	12.79	4
SECTOR AVERAGE	**19.58**	

Fund	3 YEAR % Growth	Quartile position
NORTH AMERICA		
Aviva Inv US Equity Income	16.74	4
Aviva Inv US Equity Income II	16.02	4
BlackRock GF US Basic Value	11.76	4
BlackRock US Opportunities	24.20	4
Candriam Quant Equities USA	26.91	3
Candriam Sustainable North America	19.08	4
Capital Group Investment Company of America (LUX)	26.58	4
Dodge & Cox US Stock	26.52	4
Eaton Vance Int (Ire) US Value	16.33	4
Franklin Mutual Shares	11.23	4
GAM North American Growth	15.14	4
Invesco US Equity (UK)	16.08	4
Janus Henderson US Strategic Value	14.55	4
JPM US Select Equity Plus	29.13	3
Legg Mason ClearBridge US Aggressive Growth	20.94	4
Legg Mason IF ClearBridge US Equity	13.42	4
LF Canlife North American	23.58	4
M&G North American Value	17.46	4
Merian US Equity Income	15.84	4
Pimco RAE US	22.85	4
Robeco BP US Large Cap Equities	23.50	4
Sanlam US Dividend	19.38	4
Scottish Widows American Growth	29.53	3
T. Rowe Price US Large Cap Value Equity	20.36	4
Vanguard US Fundamental Value	13.08	4
(D) VT De Lisle America	7.05	4
SECTOR AVERAGE	**35.87**	
STERLING CORPORATE BOND		
Barclays Sterling Corporate Bond	10.51	4
JPM Sterling Corporate Bond	11.62	3
Sarasin Responsible Corporate Bond	12.04	3
Scottish Widows Corporate Bond	9.91	4
SECTOR AVERAGE	**12.47**	
STERLING STRATEGIC BOND		
Aviva Inv Strategic Bond	7.70	4
Threadneedle Strategic Bond	10.98	3
SECTOR AVERAGE	**12.22**	
TECHNOLOGY & TELECOMMUNICATIONS		
Pictet Digital	52.24	4
SECTOR AVERAGE	**66.35**	
UK ALL COMPANIES		
(D) ASI UK Recovery Equity	-13.86	4
HC Charteris Premium Income	9.93	4
HSBC UK Focus	12.53	4
HSBC UK Growth & Income	15.13	4
Invesco High Income (UK)	-0.52	4
Invesco Income (UK)	0.52	4
Invesco UK Focus (UK)	13.26	4
Invesco UK Growth (UK)	13.14	4
Invesco UK Strategic Income (UK)	-1.45	4
Jupiter Growth & Income	5.20	4
Jupiter UK Alpha	4.28	4
Jupiter UK Growth	6.21	4
Legg Mason IF QS UK Equity	11.76	4
LF Canlife UK Equity	16.37	4
M&G Recovery	2.22	4
Marks & Spencer UK Select Portfolio	13.37	4
Sarasin UK Equity	20.86	3
Schroder UK Alpha Plus	15.76	4
Threadneedle UK Select	15.51	4
UBS UK Opportunities	13.36	4
SECTOR AVERAGE	**23.84**	
UK EQUITY INCOME		
HC Kleinwort Hambros Equity Income	13.50	4
HL Multi Manager Income & Growth	11.74	4
HSBC Income	14.16	4
Janus Henderson UK Equity Income & Growth	6.36	4
Vanguard FTSE UK Equity Income Index	16.45	3
SECTOR AVERAGE	**19.65**	
UK SMALLER COMPANIES		
L&G UK Smaller Companies Trust	26.47	4
(D) MI Downing UK Micro-Cap Growth	-14.11	4
Scottish Widows UK Smaller Companies	33.19	3
SECTOR AVERAGE	**40.72**	

Please read the important notice on page 2. This is a purely statistical table, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 02/01/2020. 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.

(D) Funds in the DropZone

ISA COMING OF AGE - HOW TO BECOME AN ISA MILLIONAIRE

JAMES YARDLEY

Senior Research Analyst, **Chelsea**

This year the investment ISA is turning 21 and coming of age. What an incredible product it's been. Easy to understand - it simply keeps the taxman's hands off your hard-earned savings.

Since their creation, ISAs have been used to shelter trillions of pounds from the taxman. For a reminder of the ISA benefits see page 5. We thought we'd look back over the past 21 years and see what lessons we can learn for the future. We also speak to two of our clients who are now ISA millionaires.

HAS INVESTING IN AN INVESTMENT ISA BEEN WORTH IT?

It hasn't exactly been an easy period for investors since the ISA launched in 1999, especially when compared with the boom in the 80s and 90s. We've had to contend with the bursting of the tech bubble, the Iraq War, the biggest financial crisis since the great depression and the eurozone debt crisis, not to mention Brexit. So has it been worth it? The answer is an emphatic YES! Stocks and bonds have massively outperformed cash over this period and, although there have been many difficult periods, overall most major global stock markets have done well.

INVESTING THE FULL ISA ALLOWANCE

The chart on the next page shows your total savings had you invested the full ISA allowance every year, and achieving the return of the average IA Global fund each year, over 21 years. Your final savings pot would now be £449,434 having invested just £226,560.*

THE TOP-PERFORMING FUNDS SINCE THE ISA LAUNCHED

	TOTAL RETURN %
Marlborough Special Situations	2,801
Artemis UK Smaller Companies	1,760
Threadneedle European Smaller Companies	1,433
BlackRock UK Smaller Companies	1,419
Stewart Investors Asia Pacific	1,381
ASI UK Smaller Companies	1,307
Baillie Gifford Emerging Markets Growth	1,234
TB Amati UK Smaller Companies	1,213
Janus Henderson China Opportunities	1,182
Liontrust UK Smaller Companies	1,157

Source: FE Analytics. 05/04/1999 to 01/01/2020, total returns, net of fees, in sterling

COMPOUNDING – 'THE EIGHTH WONDER OF THE WORLD' ACCORDING TO EINSTEIN

Compound interest explains how we can build wealth over the long term. Put simply, compound interest is the idea of returns upon returns (or interest upon interest). The easiest way to think about compounding is the compounding of your savings from interest in the bank. But companies can also compound by repeatedly reinvesting their profits in their business.

Every bit of return you earn, when reinvested, helps generate you more returns in the future, which in turn helps generate more returns, which helps generate more returns etc. Whilst the effect is fairly small in the short term, over a long time period the effect can be extraordinary. It's why investing early and for a long time are so important.

LESSONS FOR BECOMING AN ISA MILLIONAIRE

- Invest as much as you can as early as you can. If you start investing today, assuming an 8% annual return on your investments, and you invest the full ISA allowance (£20,000) you would be an ISA millionaire in just 22 years.
- Even a small amount can help. Just £2 per day (£60 per month) in an ISA - at an annual return of 8% - will make you an ISA millionaire after 70 years, having invested just £50,400
- Stay invested over a long time period to compound returns
- Don't be put off by market falls. They will happen and this is often the best time to invest
- Be patient

Richard and Sheila Parry, two of our long-standing clients, who have been with us since before the ISA was launched, agreed to speak to us about how they became ISA millionaires.

When did you start investing into ISAs?

Richard: *When they first started as a follow on to PEPs. I had looked briefly at my Microsoft Money Programme and, in 1993, I bought Invesco Perpetual Global Smaller Companies which I switched after 160% gain. I was earning enough for the maximum allowance.*

Sheila: *When they first arrived on the scene after PEPs.*

Did anyone teach you to invest?

Sheila: *My husband and latterly my youngest son, David.*

Richard: *I'm really self-taught. Probably my best lesson was being conned into the purchase of 100 shares in a dodgy gold mining company. I've still got them but I tracked down the boiler house in Amsterdam and, after using my persuasive powers, they refunded me the current advertised "price" ..... a little more than I had invested ..... but that's another story! The lesson I learned was: do your own research and never invest off the back of a cold call.*

Are there any investors you've followed?

Richard: *After Anthony Bolton retired from managing a very successful Fidelity UK fund he got bored and Fidelity re-hired him to spearhead a new investment fund investing in China and based in Hong Kong. I followed him with that year's ISA but the Chinese proved more wily than Bolton and he backed the wrong horses!*

What was your best investment?

Sheila: *Fundsmith Equity has performed very well and, during the Brexit years, Jupiter European has outperformed UK markets by a country mile.*

Richard: *Individual long-term best investments include Jupiter Financial Opportunities, Marlborough UK Micro-Cap, Stewart Investors Indian Subcontinent Sustainability.*

What was your worst investment?

Richard: *On the investment side probably the Woodford funds of latter years, although overall, with his previous funds, I am probably in profit. Another poor fund has been the Jupiter India fund.*

Sheila: *Obviously my Woodford funds have suffered badly and before that, a foray into a new fund administered by Anthony Bolton was almost as bad.*

Is there anything you would have done differently with your investing strategy?

Richard: *I am not a great believer in churning funds. Certainly, my global diversification has been a good rule of thumb.*

What's the worst mistake you think other investors make?

Sheila: *Relying on pension fund managers and the government pension scheme to provide adequate income after retirement. This is due in part to a lack of understanding of financial matters through ignorance or lack of education.*

What is the secret to becoming an ISA millionaire?

Sheila: *Start investing early in sensible, well-managed funds.*

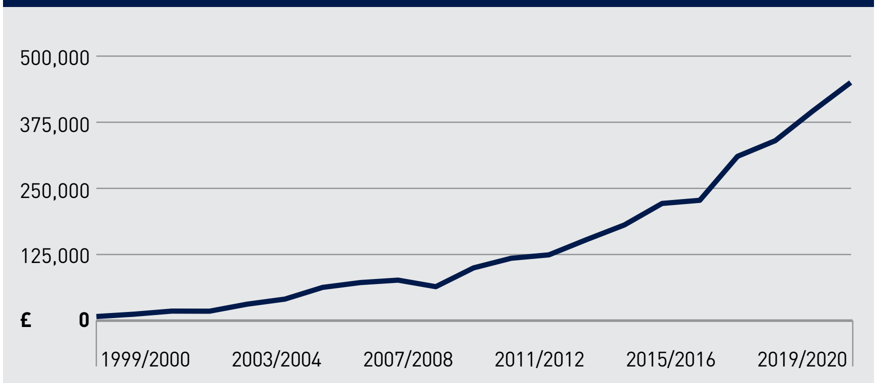
Richard: *Invest regularly and wisely.*

What are you plans for your ISA?

Richard: *Now that I am over 70, and have already used my tax allowances on pension income, it will make sense to convert the ISA funds into income-paying funds rather than the accumulation option, and spend the tax-free profits.*

Sheila: *As I am well passed retirement age and enjoying life, my ISA funds are already allocated primarily to income-orientated funds to provide me with a tax-free income.*

VALUE OF SAVINGS IF FULL ISA ALLOWANCE WAS INVESTED IN THE AVERAGE GLOBAL FUND EACH YEAR*



*includes Chelsea platform and service charge of 0.55%. Assumes ISA was invested at the start of the tax year, source: FE Analytics: IA Global Sector average for each tax year, 05/04/1999 to 01/01/2020.

Saving £2 a day (£60 a month) after 70 years	2% rate of return	5% rate of return	8% rate of return
Final amount after platform, service and fund charge (1.25%)	£66,234	£237,742	£1,058,552
Number of Years saving full £20k ISA allowance to becoming a millionaire	**2% rate of return**	**5% rate of return**	**8% rate of return**
Years to £1m after platform, service and fund charge (1.25%)	123	33	22

AROUND THE WORLD IN EIGHT FUND MANAGERS

The world has become a smaller place since Phileas Fogg's day. But, despite globalisation, there are still considerable differences between regions.

People, governments and philosophies change, as does the landscape, as you sweep across the globe. Keeping up with the shifting investment landscape is challenging too. In the past few years, elections, regulation and technology are just some of the things that have kept investors scrambling to stay on top of the best investment themes.

One theme that has dominated the news is politics. Referendums, impeachment, trade wars - the backdrop has become increasingly complex, with fact often becoming stranger than fiction. So, with that in mind, in the feature of this first edition of the new decade, we are taking a whistle-stop tour of eight key global regions, in the style of Jules Verne: around the world in eight fund managers.

UK

JAMES BAKER

Fund Manager, **MI Chelverton UK Equity Growth**

Elite Rated by FundCalibre

The UK election result was greeted with a mixture of relief and enthusiasm by the market, particularly at the small and mid-cap end, where Chelverton specialises. It should, for the first time since the Brexit referendum, enable UK companies to plan for the future as there is no doubt that the endless uncertainty has held back their investment plans. For corporate UK, the real frustration for the past three years has been an inability to plan ahead. Although negotiations for a deal with the EU are unlikely to be plain sailing, importantly the direction of travel is now clear. A stronger pound will help mitigate inflationary pressure and, combined with the recent trend of real wage growth, this should start to be reflected in improving consumer confidence. With the attraction of the UK to global investors improving with a business-friendly government in power for the foreseeable future, attention will now shift towards the US and global trade issues.

We have seen the inevitable post-election bounce in UK equities as investors have chased domestic earners, which is a relative benefit to mid and small caps with their domestic earnings bias. Time will tell how sustainable this is, but the attraction of UK equities has certainly increased, and this will be reinforced by bids for UK companies from overseas competitors and private equity. Whilst valuations of UK stocks have rallied sharply from quite oversold levels, they still do not look expensive in our view from a historical context.

Looking forward to 2020, we would expect the IPO market to pick up. We may continue to see some earnings downgrades in the short term as the inertia from the tail end of the Brexit process works its way through, but the hope is that a resumption of private and public sector investment can translate into a sustained period of UK GDP growth and corporate profit upgrades.

MI CHELVERTON UK EQUITY GROWTH

- Multi-cap fund with small and mid-cap bias
- Looking for growth companies
- Unconstrained stock selection approach
- Very experienced and specialised manager

EUROPE

ZEHRID OSMANI

Fund Manager, **Legg Mason IF Martin Currie European Unconstrained**

On FundCalibre's Elite Radar

For 2020, we anticipate another volatile but supportive year for European equity markets. Against tepid economic growth and low inflation, supportive areas are: valuations versus other asset classes; M&A activity; potential fiscal stimuli and accommodative monetary policies. Volatility will be fuelled by geopolitical, macroeconomic and corporate earnings risks.

Geopolitical risks: US-China tensions will be an important ongoing focus, Middle East risks will need watching and the US presidential election outcome could be unpredictable. In Europe, the details related to trade agreements post-Brexit could also fuel uncertainty.

There will be an ongoing debate around recession risks as the expansionary economic cycle is getting longer. We believe the economic outlook and monetary policies should remain supportive. Tepid growth in 2020 should lead to monetary policies remaining accommodative globally, rates staying low and potentially some limited fiscal support in Europe. The UK could end up with strong economic momentum if the Conservatives rapidly enact their stated infrastructure and healthcare plans, although details of Brexit plans will remain an important overhang.

Corporate profits outlook will be an important driver – we still think there is ongoing downside risk to market estimates for 2020.

Equity valuations are not overly stretched versus history and remain very attractive. M&A activity remaining buoyant could continue to support equity markets. European equities could be the strongest winner amongst developed markets from easing US-China trade tensions and a pickup in China's economic momentum.

In an uncertain environment, we continue to focus on sustainable businesses with good compounding characteristics, backed by low disruption risk, strong pricing power, good ESG credentials and high management quality. Broadly, our research focuses on attractive themes within our three long-term mega-trends of Demographic Change, Future of Technology and Resource Scarcity.

LEGG MASON IF MARTIN CURRIE EUROPEAN UNCONSTRAINED

- Looking for quality growth companies across Europe
- Entirely unconstrained
- Long-term investment horizon
- Experienced manager with long track record
- Concentrated portfolio of 20-40 stocks

INDIA

MIKE SELL

Fund Manager, **Alquity Indian Subcontinent**

We believe that the outlook for India is one of the most attractive globally for 2020 and beyond. India has always had a vast potential by virtue of its young and growing population. 1 million people enter the workforce each month and the population of 1.3 billion includes 600 million people under the age of 25. As a comparison, the entire US and EU populations are only 327 million and 512 million respectively. In addition, the urbanisation rate is just 34%, much lower than the 58% for China or 92% for Japan. This enormous potential is now being unlocked by Modi's reformist government, who were convincingly re-elected in 2019. Already, they have delivered a comprehensive tax reform that includes an effective 10% cut in corporate tax rates.

Although macroeconomic data was relatively weak during the latter part of 2019, we expect to see an acceleration in growth driven by the Reserve Bank of India's 1.35% interest rate cuts and a significant improvement in the agricultural sector following the most bountiful monsoons for many years. As well as providing an overall boost to sentiment, this is critical as 700 million people are economically linked to the rural economy. Additionally, Modi's tax harmonisation reforms, with the introduction of the Goods and Services Tax, will accelerate the shift from the informal economy to the formal economy. For example, only 7% of the retail sector is currently formalised, which is less than one third of the level in China or one tenth of the US.

We focus on beneficiaries of these long-term structural trends – such as consumer durables, building materials, rural based financial services and construction equipment. Thus, we are uniquely positioned to benefit from the growth opportunity of this exciting market.

ALQUITY INDIAN SUBCONTINENT

- Focused on India's growing domestic growth
- Highly experienced manager, investing in India for 25 years
- Concentrated portfolio, overweight mid and small caps
- Donates a minimum of 10% of management fees to development projects

ASIA (EX JAPAN, CHINA & INDIA)

MATTHEW DOBBS

Fund Manager, **Schroder Asian Alpha Plus**

Elite Rated by FundCalibre

Apart from similarities of climate and geographic proximity, the ASEAN region is as striking in the differences as much as similarities between the 10 member nations*. Economic and developmental indicators diverge enormously: average GDP per capita is just over $4,000, but Singapore is near $60,000, a stark contrast to Cambodia and Myanmar at less than $1,500. A similar picture emerges looking at life expectancy or proportion of population embarking on secondary education. Over the long term, however, the picture is one of continuous improvement in every country. 14% of ASEAN population may live on less than $1.25 equivalent per day, but that is a great improvement on 38% in 2000.

The region has continued to grow, and at rates the West would generally envy. Since 2000, annual average growth in real terms has been over 5%. In nominal terms the total value of regional GDP has grown from $615bn to $2.8tn in 2017. However, there is no disguising the observable plateauing in growth since 2012.

One challenge the region faces is the fundamental changes taking place in areas such as industrial automation and a more digital world. As basic manufacturing becomes more automated, the traditional route to middle income status (manufacturing export-led mobilisation of a young but unskilled workforce) is increasingly difficult to achieve. In this respect, Vietnam looks more like the exception than the rule.

As investors in the region, ASEAN with its 650m souls, remains an important focus for us. But the reality is that the region is fighting for shelf space. In 1995, Indonesia and Malaysia were over 30% of the Index (MSCI All Countries Asia excluding Japan Index); now they are less than the market cap of Alibaba, the Chinese e-commerce company. There is a message in there somewhere.

*Indonesia, Thailand, Singapore, Malaysia, the Philippines, Vietnam, Brunei, Cambodia, Myanmar, Laos.

SCHRODER ASIAN ALPHA PLUS

- Manager with over 35 years of Asian equities experience
- Can invest across Asia (excluding Japan)
- A preference for larger companies
- Concentrated portfolio with conviction in the best ideas

CHINA

MIKE SHIAO

Fund Manager, **Invesco China Equity**

Elite Rated by FundCalibre

Trade and government policy actions were the two prominent factors for the Chinese equity story in 2019. They both played a part in a strong recovery at the beginning of the year; thanks to expectations on government (economic) stimulus and a breakthrough with US trade negotiations - all shortly followed by a decline as these hopes faded. This year, we believe those two factors will continue to play a significant role.

In a period of uncertainty, how should investors compose their investment strategy towards China?

We believe helpful government policies will help stabilize the Chinese economy this year. Mostly, we think they will focus on improving overall demand, as well as spending public money on infrastructure projects (e.g. building roads) and stimulating consumption. We also believe there will be favourable conditions created to benefit the growth of credit (e.g. loans available to consumers).

It might still be too early to say when a full resolution will be reached on trade. In the end, trade is just the tip of the iceberg that hides any rivalry between the world's two largest economies (the US and China). We think it remains challenging to relocate the entire supply chain/production line, although some countries, such as Vietnam, may benefit from the relocation of some products.

Despite challenges, we have confidence that overall growth prospects in China remain strong. The consensus is that Chinese companies could deliver earnings growth of 10% or more this year alone. Earnings growth for some sectors, including healthcare and IT, could be particularly strong, achieving more than 20%.

We also believe the reduction of government intervention in financial markets will continue throughout 2020. We think this will provide access to the best opportunities across the market in which we invest. We believe there are unique opportunities in each and, together, they offer a true picture of the Chinese economy for us to explore and make good returns.

NB this article was written before the emergence of the coronavirus.

INVESCO CHINA EQUITY

- Bottom-up, stock selection approach
- 20 strong analyst team based around the country
- Increasing exposure to growing 'A-share' domestic stock market
- Formerly known as Invesco Hong Kong & China

JAPAN

DAN CARTER & MITESH PATEL

Fund Managers, **Jupiter Japan Income**

Get ready for Olympic fever, as 2020 will see Tokyo host the pinnacle of sporting competition for the first time since 1964. Whilst it will not be directly significant from an investment standpoint beneath the sport-centric headlines there are other potentially Olympic-sized themes for investors.

Japanese companies are experiencing an era of unprecedented profitability. Paradoxically, the cause of this involves something that one might assume is a negative for Japan: demographics.

Japanese society is ageing and its working age population is shrinking. This causes some problems of course, but one of the benefits is a tight jobs market with employees hard to recruit. One of the results of this is the substitution of labour by robots or AI, which not only presents an opportunity for companies supplying that technology, but also increases the efficiency and productivity of companies making that transition.

In addition, because labour has become a scarce resource there is an incentive to allocate it better, contributing to Japanese companies' higher pre-tax profit margins. That is a second-order effect that we think is completely missed when demographics is used as a negative against the Japanese stock market.

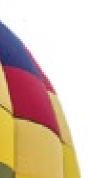
The final thought I want to leave you with is the changing face of Japan's corporate landscape. This is manifested in the form of entirely new businesses, which are queuing up to list on the stock market. Many of these are not just new businesses but new concepts, based upon information rather than hard assets, which could be wildly profitable if successful. These businesses inject much needed vibrancy into the Japanese equity market.

Great investment opportunities are likely to be found in this new crop of potential unicorns, but success is far from guaranteed and there will be plenty of nags too. One thing is clear – things are going to get interesting.

JUPITER JAPAN INCOME

- Captures the growing dividend culture of Japan
- A diversified income stream to other global equities
- Yields 2.3%* which is expected to grow over time
- Dividends paid twice per year

*Source: FE Analytics, as at 02/01/2020



US

NICK FORD & HUGH GRIEVES

Fund managers, **LF Miton US Opportunities**

Elite Rated by FundCalibre

If 2019 was characterised as a year of questions, then hopefully 2020 will be a year of answers. The two biggest questions that acted as an overhang to stocks last year were the direction of the US economy and the outcome of Trump's trade war with China.

After a period of above-trend, tax-cut fuelled economic growth in 2018, 2019 growth faded as the sugar rush wore off, creating a mild economic hangover. Remedial actions taken in 2019 however, should make 2020 feel more agreeable to investors. These included three interest rate cuts and the Federal Reserve effectively resuming quantitative easing under the guise of greasing the cogs of the gummed-up inter-bank lending market. Against this backdrop, American consumer confidence, and hence spending, remains healthy given wages are rising and jobs are plentiful. The unemployment rate is the lowest in fifty years.

American corporations are also in good shape, albeit that business confidence has been shaken by the ongoing trade war with China depressing investment and delaying hiring. At least by reaching a stalemate position, whereby tariffs do not seem to be on a continuous merry-go-round of tit-for-tat increases, conditions do not appear to be deteriorating. Moreover, in an election year, Trump needs to provide evidence of success for his trade policies which gives confidence that, even if no permanent resolution with China is reached, some token achievement is likely and that should be sufficient for business confidence to rebound. This would provide a shot in the arm to the corporate sector and help extend America's longest post-war economic expansion creating a healthy backdrop for US equities.

Of course, one question does remain and that is who will be the winner of the presidential election in November. Although, from a stock market perspective, as long as the winner is not from the far left of the Democratic Party, this should not represent a significant risk.

LF MITON US OPPORTUNITIES

- Multi-cap, concentrated portfolio with a small and mid-cap bias
- Look for cash-generative businesses which can show compound growth
- Two managers with a background from across the market spectrum
- Maximum stock weight of 5% for risk management

LATIN AMERICA

JOHN MALLOY

Fund Manager, **RWC Global Emerging Markets**

There is a substantial difference in the outlook across Latin America going into 2020. On aggregate, growth for the region is robust at 2%, while inflation continues to remain under control at 3%.

President Bolsonaro continues to transform the Brazilian economy. Social security reform should result in significant savings, which will likely reduce the fiscal deficit. Private sector credit is increasing, business confidence is recovering, and accommodative monetary policy should continue to support growth. We remain positive on the outlook for Brazilian equities, particularly infrastructure and healthcare.

The Mexican economy has been sluggish as consumption, services and manufacturing have all weakened significantly. Excessive monetary tightening over recent years caused a sharp deceleration in credit growth. President Obrador's administration has been unpredictable and uncertainty surrounding the US and Canada's ratification of USMCA (US-Mexico-Canada Agreement) remains. As a result, we have been cautious on Mexican equities. However, attractive valuations could begin to offer some stock-picking opportunities.

The Andean region has been marred by political turbulence during 2019, but the outlook should be more encouraging as we enter 2020. The Chilean economy has come under pressure from social unrest. In our view, the economy can make a recovery once the unrest subsides. Political change also impacted Peru, as President Vizcarra surprisingly decided to call for early parliamentary elections. The Central Bank has taken an accommodative monetary stance, which should bode well for the economy and credit growth remains strong. We maintain a positive outlook on the copper price, due to attractive supply side and demand dynamics, and a higher copper price will benefit Chile and Peru. We also believe a recovery in lithium prices will be positive for Chile in 2020.

Colombia has benefited from a steady macroeconomic environment and will enjoy the region's highest GDP growth rate in 2020 of just over 3%. The outlook for Argentina remains uncertain due to the victory of the Peronist party led by Alberto Fernandez in October. Capital controls and a looming debt renegotiation with the IMF will be significant hurdles in 2020.

RWC GLOBAL EMERGING MARKETS

- Looking for growing companies at a reasonable price
- Combines stock analysis and macroeconomic inputs
- Can also invest up to 20% in frontier markets
- Concentrated portfolio of around 50 stocks

SHORTFALL RISK

RYAN LIGHTFOOT-BROWN

Senior Research Analyst, **Chelsea**

The beginning of the year is often a time for reflection and resolutions. One of the most common of these is to save more.

This could be for a specific purchase, such as a house or a wedding, or simply as a pot to sustain yourself for future retirement. But what if - as often happens with resolutions - you don't quite meet these savings goals? This is what we call shortfall risk. It is the risk of not generating enough towards your savings goal.

WHY IS IT A PROBLEM?

Life has a habit or creating obstruction or unforeseen circumstances. As such, plans often go array and that detailed savings plan may slip. More specific goals - such as the aforementioned house or wedding – could be amended by being scaled back or postponed. But saving for retirement is a harder plan to tweak.

In the worst case scenario, there may not be enough to retire on and you have either to carry on working beyond your desired age, or need to be more modest in lifestyle choices post-retirement. After 40+ years of hard work, that is a difficult compromise to accept.

SO HOW DOES THIS HAPPEN?

The answers here are rather obvious ones; by not putting enough into a pension, or by spending too much too early. We have talked at length in this magazine about the powers of compound interest, so even putting a little aside early will really help in the long term.

My colleague James talks about this on page 22.

Equally, the solution to this is quite obvious too: save more. Good budgeting and stronger discipline with savings does help, while simple things like setting up a direct debit to an ISA or pension on the day you are paid can help you avoid spending the money instead.

A less obvious factor, however, is not taking enough risk. Over the long term (10 years plus), higher-risk assets such as UK equities considerably outperform lower-risk ones, such as cash. There will be periods where these higher-risk assets fall but, over the long term, they can bounce back. That being said, you should remain well diversified when investing by picking a mix of asset classes. But avoid over-trading and the temptation to time markets - this can increase shortfall risk. Get the timing wrong and you could miss out on years of growth.

The important thing is to have a long-term attitude to risk. There will be periods when markets fall, but the fear of losing a bit now may erode future potential gains and potentially lead to a shortfall. Time in the market is key. An uncomfortable year or two in the stock market is better than an uncomfortable time in retirement.

HOW TO USE THE CHELSEA RISK RATING

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

CHELSEA RISK THERMOMETER

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

OPEN FOR BUSINESS
– VCTS TO CONSIDER THIS TAX YEAR

PETER HICKS
Research Analyst, **Chelsea**

Resilience has been the buzzword in the VCT market in the past few years, as these products continue to thrive in the face of both regulatory changes and the ongoing geopolitical uncertainty caused by Brexit.

Regulatory change has seen VCTs slowly returning to their origin of targeting growth businesses with the potential for considerable returns, but with risks attached. Gone are the days when VCTs could be used to pay for management buyouts and acquisitions – although some legacy holdings remain in portfolios.

The fact that last tax year £731m of assets were raised - the second highest since these vehicles were launched in 1995 – shows that investors still have a huge appetite for the 30% income tax relief on investments.

This year could well follow suit, with a number of the major players having their annual fundraising fully subscribed in double quick time. For example, Mobeus has already raised £58m while, at the time of publication, Northern will be at, or close to, reaching its £40m target.

With this in mind, we thought we'd highlight two providers with VCTs that are still available to investors this tax year.

UNICORN AIM VCT

Unicorn is an AIM-focused VCT manager, with around £220m of assets. It is part of the wider asset management business, which specialises in investing in UK quoted small to medium-sized companies.

Chris Hutchinson is the senior fund manager on the vehicle. He has almost two decades' worth of experience in running portfolios of smaller company stocks and also runs the Unicorn Outstanding British Companies fund.

The Unicorn AIM VCT looks to target companies with four specific characteristics - companies with: experienced and motivated management teams; products and services supplying growing markets; strong operational and financial controls and the potential for good cash generation.

Chris is particularly keen on management retaining a significant stake in the business. This is because he believes they will have a greater focus on dividends as beneficiaries.

The result is an established portfolio of around 85 VCT qualifying companies.

One of its holdings is APC Technology, a distributor of specialist electronic components. The business has experienced a troubled history in recent years but, under the leadership of its CEO, Richard Hodgson, APC has been completely and successfully transformed, returning to its roots as a trusted supplier of highly reliable, top quality and technologically-advanced electronic components. Annualised revenues have grown from £15.7m in 2017 to a forecast of over £22m for the current financial year. Unicorn believes it is capable of generating a turnover of more than £50m per annum within the next few years.

Another is Wey Education, the UK's leading provider of online educational services. Using state of the art digital technology, Wey operates two established divisions – InterHigh, a fee-paying online secondary school, and Academy21, a business providing other educational providers, schools and local authorities with various advanced, online education services. Unicorn says Wey Education still has a lot to prove from an investment perspective but it is well placed to succeed as the leading expert in its market.

PEMBROKE VCT

Launched in 2013, Pembroke's £100m VCT focuses on funding early-stage premium consumer businesses that have already demonstrated growth with revenues of around £1m.

Its founders have direct experience in consumer-focused sectors. The seven-strong team is led by managing director Andrew Wolfson, who previously ran a number of businesses across a breadth of sectors from hospitality to manufacturing and telecoms.

Pembroke's focus has always been early stage, high growth businesses which means it was unaffected by the 2015 VCT rule changes.

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

Name of VCT	Type of VCT	Minimum Investment	Initial Charge	Chelsea Discount	Closing Date
Pembroke VCT	Generalist	£3,000	3.50%	1%	03/04/2020
Proven VCTs	Generalist	£5,000	5.50%	3% + 0.5% cash back after 2021*	03/04/2020
Unicorn AIM VCT	AIM	£3,000	5.50%	3.25%	02/04/2020

*Cashback will be paid by cheque after April 2021. Terms and Conditions apply, see website for details

Pembroke's strategy is to only invest in sectors it knows and understands. In so doing, it not only provides capital, but is also hands-on when it comes to advice and support in realising investee company strategies.

The team concentrates on five areas: apparel & accessories; education; hospitality; media & technology and wellness. Pembroke says no other VCTs invest specifically in such areas, making it an attractive alternative for investors' money.

There are three key attributes the team looks for when it first meets company founders. First – does he or she understand the business and sector in which they operate and do they believe in its objectives? Second, and perhaps most importantly - does the founder have the drive to see the business through to achieving its potential? Is he or she able to cope with the expected and unexpected challenges in growing the business? Finally, the team assesses the downside risk.

Holdings include Plenish, an award-winning plant-powered drinks brand that is on a mission to fuel a healthier planet. It is now available in Sainsbury's, Waitrose, Ocado and most major supermarkets.

POPSA is a photobook app that uses machine learning algorithms which has reduced the time it takes to produce photobooks from two hours to an average of just six minutes. The business saw its turnover increase fivefold between 2017 and 2018 from £440,000 to over £2m.

IMPORTANT NOTICE: VCTS

Please be aware that VCTs are long-term investments. VCTs usually invest in small, unquoted companies and therefore carry a greater risk than many other forms of investment. They are also very illiquid and you may have to hold them for longer than the minimum five-year investment period. In addition, the level of charges are often greater than unit trusts and OEICs. Past performance is not necessarily a guide to the future. The value of investments, and the income from them, can fall as well as rise, due to market and currency fluctuations and you may not get back the amount originally invested. 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 of £200,000 per tax year and the initial tax relief cannot exceed the amounts which reduced the investor's income tax liability to zero.

TECH TWO

THE NOTION OF SOFTWARE EVERYWHERE

JEREMY GLEESON

Fund Manager,
AXA Framlington Global Technology
Elite Rated by FundCalibre

The technology sector has been experiencing healthy growth for several years driven by a combination of both consumer appetite for new technologies that enhance our lives and business desire to improve productivity and efficiency.

As a result, technology companies have experienced strong growth and good profitability, resulting in strong balance sheets. Whilst valuations can be quite varied across the sector, overall, we believe that valuations continue to be attractive, especially when taken into consideration alongside the potential for future growth.

There are several long-term drivers of growth that are playing out within the technology sector, and this is further supported by innovations that continue to gain traction such as software-as-a-service, cyber-security and digital payments.

THE SPREAD OF TECHNOLOGY

Increasingly, technology continues to have an impact, not just on the traditional industries associated with computers, mobile phones and electronics, but also on other sectors such as finance, commerce and transport, that is resulting in successful technology companies being able to address larger market opportunities than would have historically been the case. This is a boom for the semiconductor industry and will be beneficial for our investments such as Taiwan Semiconductor, NXP Semiconductor and Microchip, all of which all have broad exposure to the proliferation of semiconductors into our homes, workplaces and cars.

Many businesses are currently undergoing digital transformations to ensure that they remain relevant. Among our investments are companies such as Salesforce.com, ServiceNow and Workday, all of which are providing software to enterprises to help them with a variety of tasks such as client relationship management and servicing, internal IT support and operations management and human resources functionality. We firmly believe in the notion of "software everywhere" and that, in the future, many more businesses will need to take a "software first" approach.

We are mindful that IT-related expenditure has a discretionary element to it, so in times of economic uncertainty this spending may be deferred. This is why we want to focus on companies that are providing something of importance, so that whilst a spending decision might be deferred, it ultimately still has to happen at some point.

LOOKING FORWARD

Whilst global equities performed well in 2019, a more positive stance towards a resolution to the US - China trade dispute would provide support to equity markets in 2020. A resolution would reignite investment activity within the global economy, which would be supportive for earnings.

The opportunities within the technology sector remain attractive. Businesses around the world are taking advantage of technological developments to modernise themselves and engage with their customers more effectively. Whilst recent financial reports support our belief that the sector is experiencing healthy demand, we continue to monitor these results in case of evidence to the contrary.

AXA FRAMLINGTON GLOBAL TECHNOLOGY

- Multi-cap approach, with a small and mid-cap bias and a considerable weight to the US
- Invests in tech companies as well as those set to benefit from technological advances
- Avoids 'blue-sky' companies and unproven technologies
- Incorporates thematic market-drivers that will support the growth of companies

Chelsea Risk Rating	10
Annual management charge	0.75%
Ongoing charges figure	0.82%

THE CHELSEA VIEW

Jeremy has been specialising in technology stocks since 1998, giving him experience of both the tech bubble and the financial crisis. This gives him a huge knowledge base to draw upon when picking stocks for this unconstrained multi-cap fund. We like that Jeremy invests in the pure technology companies, but also has the flexibility to pick those benefiting from technological change.

DAVID PINNIGER

Fund Manager, **Polar Capital Biotechnology**

INVESTING IN BIOTECHNOLOGY'S (RESPONSIBLE) GROWTH STORY

It is easy for us to lose sight that an investment into a biotechnology company provides financial capital to companies developing new medicines for people suffering from life-threatening diseases. By comparison, as investors we obsess about somewhat abstract notions of investment return, risk and liquidity profiles.

MEDICAL INNOVATION CHANGES LIVES

Companies we invest in have achieved incredible things by converting that financial capital into innovative new medicines to treat serious diseases. Last year, the US Food and Drug Administration (FDA) approved over 40 new medicines, including highly effective treatments for cystic fibrosis, sickle cell disease, several forms of blood cancer, depression in new mothers and more.

The pharmaceutical and biotech industry has delivered breakthrough medical innovation that is improving the lives of people and, in turn, creating new sources of growth and profitability. True growth and relative outperformance have come from the smaller companies in which medical scientists are using a whole range of exciting new drug discovery tools and technologies to create and develop higher-precision medicines, leveraging their ever-improving understanding of human biology.

Unfortunately, biotech has an image problem, driven primarily by negative perceptions of the price of these new medicines. However, they are not priced to generate astronomical returns, but are priced to reflect the innovative value they bring to specific patients.

THE TRUE COST OF HEALTHCARE

In the UK, where we have the NHS, it is hard to appreciate just how expensive it is to deliver healthcare. By and large, companies justify the high prices of their medicines on pharmaco-economic grounds – the problem instead remains one of affordability.

In the US, access to healthcare is becoming increasingly hard to afford, but the cost of medicines is not the main driver of increasing healthcare costs. Spending on medicines seems to remain remarkably constant year on year, at just 10% of overall healthcare expenditure. The problem lies in the complexity of how medicines are accessed and paid for, which makes it hard for the pharmaceutical and biotech industry to make its case. Furthermore, consolidation among the payers and providers of medicines and healthcare, and the intense competition of companies sometimes bringing very similar new medicines to market almost simultaneously is effectively driving down prices and controlling overall spending.

Companies are also behaving responsibly, increasingly working with payers to improve affordability. Alnylam, for example, recently received FDA approval for a breakthrough medicine to treat porphyria, a rare inherited disease. The gross list price is $575,000 per patient, per year, which is expensive. But when the medicine was launched commercially, the company promised payers that if it had underestimated the number of patients who require treatment, it would offer the drug at a significantly reduced price. Elsewhere, we have seen companies start to offer rebates and discounts if the effectiveness of their medicines falls short of that promised by the experience of clinical trials.

POLAR CAPITAL BIOTECHNOLOGY

- Unconstrained approach allowing for complete manager flexibility
- Excellent stock selection has driven great risk-adjusted returns in a volatile sector
- Manages fund size to remain nimble and concentrated
- Well-resourced and experienced team to support the manager
- Considerable weighting to the US

Chelsea Risk Rating	10
Annual management charge	1.00%
Ongoing charges figure	1.16%*

THE CHELSEA VIEW

David is a very experienced and pragmatic manager and has the flexibility and capability to move across the market-cap spectrum of biotech companies depending on where he sees the best outlook. He can also move between different types of company, such as early stage companies creating new technologies, those in clinical trials or those with mature, diversified earnings streams.

*A performance fee may be applied, see the KIID for further details

FUNDS UPDATE

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

JULIET SCHOOLING LATTER
Research Director, **Chelsea**

INVESCO GLOBAL EQUITY INCOME

Nick Mustoe has stepped down as Chief Investment Officer (CIO) at Invesco and will no longer manage the Invesco Global Equity Income, Invesco Global Smaller Companies or Invesco Global Equity fund. Stephanie Butcher will succeed Nick as CIO but will step down from her European Income fund in the process. Funds will be taken over by the following managers Invesco Global Equity – Andy Hall, Invesco Global Equity Income – Stephen Anness, Invesco Global Smaller Companies – Erik Esselink, Invesco European Equity Income – Oliver Collin.

All these funds have been moved to a generic hold rating until the research team has had a chance to meet the new managers.

DOWNGRADED TO HOLD

FRANKLIN UK MID CAP

Paul Spencer, manager of the Franklin UK Mid Cap fund, has recently announced his retirement after a spectacular career. Paul will step down at the end of June and will be replaced by Richard Bullas. The Franklin UK team is very collaborative and work closely together. Richard has been a member of the team for many years and is very experienced so this is a natural transition. Richard will remain co-lead of the Franklin UK Smaller Companies fund and we are confident he can do well with the mid cap fund. Nevertheless, given the change, we have downgraded the Franklin UK Mid Cap fund to a generic hold ahead of a future meeting with Richard.

DOWNGRADED TO HOLD

ARTEMIS CORPORATE BOND

Stephen Snowden and four of his former colleagues have left Kames* to join Artemis. Stephen was previously co-head of fixed income at Kames and managed the Kames Corporate Bond fund. This is a brand new fund but will be managed in a very similar way to his previous fund. The one major difference is it will be managed with an explict ESG (environmental, social and governance) approach. We hold Stephen and his team in high regard and we think they will find it easier running a smaller more flexible fund. We also note the fund's competitive pricing with an ongoing charge (OCF) of 0.40%.

BUY

*Please also note that all the Kames funds will soon rebrand to the name 'Aegon'.

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

Elizabeth Vamvakas, London, said:
"I would like to say how satisfied I have been with the service offered by Chelsea. In particular when telephoning I have appreciated the fact that I have made immediate contact with a helpful and knowledgeable person who has been patient with me."

Sophia Campanella, Stratford-upon-Avon, says:
"Over the many years of using Chelsea, we have always found your staff to be very helpful and efficient. Chelsea are different and care about people, service and value."

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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