~ ISSUE 54 · NOVEMBER 2022 ~

# VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS

## P20 UK vs US

- AN ECONOMIST'S VIEW OF THESE TWO MARKETS
- FOUR FUND MANAGERS EXPLAIN WHY THEY LIKE THESE REGIONS

## P26 FIGHTING INFLATION

A LOOK AT TWO FUNDS THAT MAY OFFER SOME INFLATION PROTECTION

REGULARS:

# WELCOME TO VIEWPOINT

**DR JOHN HOLDER**
Chairman,
**Chelsea**

Welcome to the autumn edition of Viewpoint. Global and domestic economies seem to be changing on a daily basis, with inflation taking centre stage. We cover this issue in our VT Chelsea Managed funds article and also in our inflation feature on pages 26-27. Our main feature, on pages 20-25, takes a look at the UK and US markets, hearing from four fund managers who highlight the opportunities in these markets. We hope you enjoy this edition of Viewpoint.



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# MARKET VIEW

**DARIUS MCDERMOTT**
Managing director,
**Chelsea**

## AND NOW FOR SOMETHING COMPLETELY DIFFERENT

It's a quote made famous by the genius of the Monty Python Flying Circus show from the late sixties and early seventies. I'm sure many of you would've heard it – but for those that haven't, the line was spoken by the announcer (John Cleese) as a way of transitioning from one weird thing to something even weirder in the comedy show.

That's exactly what we're dealing with in financial markets at the moment. The narrative for the previous 12 years – from the end of the Global Financial Crisis in 2009 to the end of 2021 – was that we lived in a growth environment of free money and low interest rates. It was a post crisis incubator created by Central Banks across the globe – courtesy of quantitative easing – and while there was no inflation in the typical sense of the word, every asset class became inflated in value.

## NO SUCH THING AS A FREE LUNCH

But with central banks across the globe turning the QE taps off – it's safe to say we are now in a new economic environment. The idea of transitory inflation is no longer on the table, inflation is here to stay in some shape or form – some inflation is a good thing, but it still changes the outlook for investors. The strange thing is that inflation figures are normally below interest rates, which is not the case at the moment. Add in the geopolitical instability caused by the horrific events in the Ukraine, and things really have become uncertain for global investors.

The common consensus is the world is now bracing for recession, one which I do believe will be deeper for the UK and Europe. In the past decade just owning growth stocks was all an investor needed to do to make money, and now, all of a sudden, low beta defensive sectors - the likes of miners and oils companies – are looking far more attractive.

But I'd argue now is not the time to run for cover. We've already seen the likes of UK and European mid and small-caps fall significantly in value, to the point where valuations now look incredibly attractive relative to their history.

> "AND NOW FOR SOMETHING COMPLETELY DIFFERENT."

Bonds have also been hurt as rates have risen. Investment grade Sterling Corporate and Strategic Bonds are down 21 and 14 per cent respectively year-to-date, one of the worst years for bonds I can remember*.

The saying "no one rings a bell at the bottom of a market" comes to mind. Financial markets are forward thinking when it comes to recession, so there is a chance markets have priced in this scenario before it becomes a reality.

That is why a balanced approach is the most sensible in these unique times. It is impossible to know whether we will be back in a world of low inflation and low rates any time soon – we have to be prepared for every scenario.

## BACK IN FASHION

Things which have looked unattractive for many years are suddenly turning heads – a good example might be traditional UK equity income funds. Once the bedrock of many an investor's portfolio, these funds have been disliked for the past decade as returns from a value-tilted FTSE 100 have paled in comparison to US tech behemoths like Amazon and Apple. Re-investing dividends looks a more attractive solution in today's world.

One lesson we've all learnt this year is the importance of currencies as an investment tool. Everything has struggled versus the strengthening US dollar, including sterling, which only recently fell to a record low against the world's reserve currency. For UK-based investors, the strengthening of the dollar in recent months has helped mask underlying losses on both US and global equity funds – as well as the multi-national FTSE 100.

My final message would simply be to not let uncertainty give way to pure pessimism. Markets have already fallen significantly, but you only lose money if you sell and crystallise your assets. Long-term investors must see through these trying times and recognise volatility is also an opportunity to make money.

***Source:** FE Analytics, figures in pounds sterling for IA Sterling Corporate and Strategic Bond sectors, figures from 31 December 2021 to 7 October 2022.

# START INVESTING MONTHLY INTO AN ISA TODAY

SAM HOLDER
Operations director, **Chelsea**

*If you're looking to grow your money or take advantage of market volatility, investing every month could help you reach your goals quicker.*

*You can set up a direct debit from only £10 per month and can change the amount at any time.*

### GOOD DISCIPLINE

It takes the emotion out of your decisions, and you won't be tempted to try and time the market.

### IT'S AUTOMATIC

You will invest into your chosen funds every month.

### THE POWER OF LONG-TERM INVESTING

To give you an idea as to how much could be saved, a monthly contribution of £50, assuming 7% growth per annum, could provide a pot of £8,037 over 10 years. A monthly contribution of £300 could grow to almost £48,220.*

**We have assumed tax rates do not change for the period of the investment and that investors pay 1.30% in total annual fees for the ISA. Source: Investment Calculator*

## WHY CHELSEA?

### SIMPLE

We make investing straightforward.

### TRUSTED

We started Chelsea in 1983.

### SUPPORTIVE

If you need help, our experienced and helpful staff are always available.

## HOW TO USE THE CHELSEA RISK THERMOMETER

The Chelsea Risk Rating appears throughout this magazine and is simply a generic guide to the relative risk of funds within the market. It is up to you to determine your optimum asset class mix. The Chelsea Risk Rating is shown in the form of a thermometer and is based on our in-house research. The Chelsea Risk Rating attempts to quantify the relative risk of funds, to give you an idea of how risky one fund is versus another.

A fund rated five, in the middle spectrum, does not mean it is suitable for medium-risk investors. It indicates that according to historic volatility, and our understanding of the manager's investment process, we think that it is riskier than a fund rated four and less risky than a fund rated six. Even funds rated one are subject to risk.

| SECTOR | RISK RATING |
|---|---|
| Emerging Markets | 9-10 |
| Japan | 9-10 |
| Technology | 8-10 |
| Asia Pacific ex Japan | 7.5-10 |
| North American Smaller Companies | 7.5-9 |
| European Smaller Companies | 7.5-9 |
| 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 |
| Mixed Investment 20-60% Shares | 3.5-4.5 |
| High Yield Bonds | 3.5-4 |
| Property | 3-4 |
| Targeted Absolute Return | 2-7 |
| Strategic Bonds | 2-4 |
| Global Bonds | 2-4 |
| Corporate Bonds | 2-3.5 |
| Gilts | 2-3 |
| Cash | 1 |

# THE VT CHELSEA MANAGED FUNDS

We have 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:

Learn more at
**www.chelseafs.co.uk**

VT CHELSEA MANAGED
**CAUTIOUS GROWTH**

VT CHELSEA MANAGED
**AGGRESSIVE GROWTH**

VT CHELSEA MANAGED
**BALANCED 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 regularly see new managers and we will replace funds where we find a better alternative.

# PROTECTING THE VT CHELSEA MANAGED FUNDS FROM INFLATION

## THE CHELSEA RESEARCH TEAM (L TO R):

**JOSS MURPHY**
Junior research analyst

**DARIUS MCDERMOTT**
Managing director

**JULIET SCHOOLING LATTER**
Research director

**JAMES YARDLEY, CFA**
Senior research analyst

*The macroeconomic picture in the UK is rather gloomy as the country battles a cost-of-living crisis, the effects of the ongoing war in Ukraine, declining growth and double-digit inflation. The question we're faced with is how you protect your capital in this climate, particularly against inflation, as cash in the bank is losing its purchasing power. This no doubt is a very challenging time for investors, but every investment decision we've been making is with this issue firmly in mind. Here are a couple of things we have done to try to insulate our funds from this persistent inflation.*

### RENEWABLE ENERGY

Firstly, throughout the year we have increased our exposure to renewable energy trusts, particularly since the beginning of the Russo-Ukrainian war. This conflict has sent inflation spiralling as the Russian leadership responded to Western sanctions by placing a stranglehold on the distribution of energy, which restricts supply, causing prices to rise. These renewable trusts have the advantage of receiving an inflation-linked subsidy for the energy they produce. This is linked to the RPI inflation rate (which runs higher than the more talked about CPI measure) and means that the subsidy increases with changes to this rate, thus providing excellent inflation protection.

In addition to the subsidy, these trusts receive revenue for selling their power at the general electricity price. Largely as a result of the ramifications from the war in Eastern Europe, this price has soared to over 10 times higher than the average price in previous years. Thus, these trusts have been generating huge swathes of cash that have allowed them to pay generous dividends to investors. This growth in the dividend, due to the increase in electricity prices, provides yet more inflation protection.

### INFRASTRUCTURE INSULATES

In our funds, we also have exposure to a number of different infrastructure trusts that hold care homes, supermarkets and even specialist digital infrastructure. These trusts have inflation protection, due to the cashflows that they receive from tenants often being tied to inflation. The level of inflation protection is limited as it is generally capped, but it still provides some great insulation to these trusts in periods of rising prices.

In the middle of last year, we also added a shipping trust. One of the other major reasons for increased prices has been global supply chain bottlenecks, due to labour shortages, structural issues, shifts in demand and China's persistent COVID lockdowns. This has caused the cost of shipping to drastically increase, with the trust we invested in being a massive beneficiary of this price rise. This growth in profitability has meant that we have received large dividend payments, which has helped insulate us from inflation.

### THE GOLDEN AGE OF CONSUMERISM

We have also maintained a small amount of gold exposure within our funds. Historically, gold has been a reliable inflation hedge. This is because, as currency values inflate and people grow less confident in economies, they often turn to gold as a safe store of value in uncertain times, due to its properties as a thousand-year-old proven value of exchange. Finally, we have exposure to large consumer staple companies through some of our fund holdings. These companies have a history of strong performance even during market downturns and inflation. This is because they have strong pricing power and can more easily pass on inflated prices to consumers. These are just some of the ways in which we are looking to safeguard your investments from inflation as we work tirelessly to try to ensure the maximum return on your investments. Don't forget that whilst the inflation picture looks rather dismal in the UK, our funds invest globally, and inflation in the US is expected to peak soon.

# VT CHELSEA MANAGED

## CAUTIOUS GROWTH

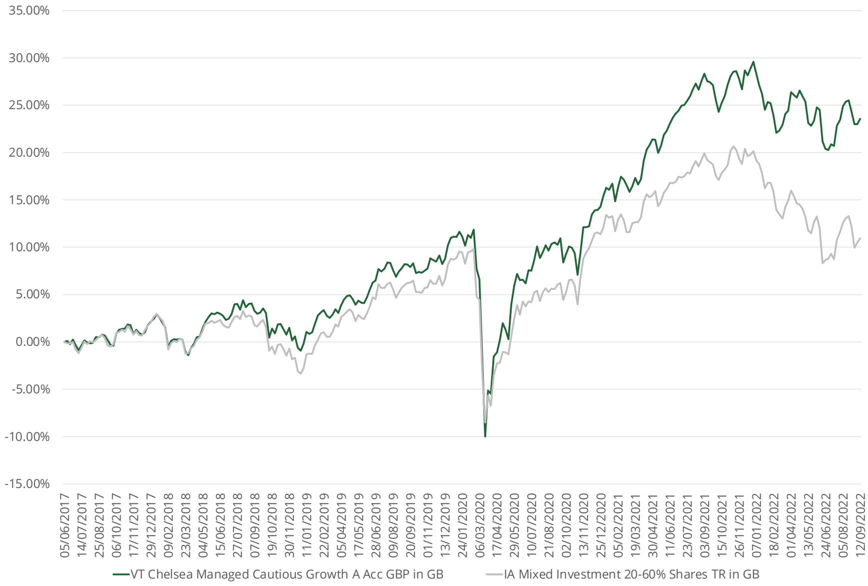
### OUR MOST DEFENSIVE PORTFOLIO

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.

**KEY FACTS:**

| | |
|---|---|
| Ongoing charges figure: | **1.46%** |
| Payment dates: | **30th Jun, 31ST Dec** |
| Indicated yield: | **2.40%** |
| Performance since launch: | **23.54%** |
| Sector average: | **10.93%** |
| Chelsea Risk Rating: | **4** |

**PERFORMANCE SINCE LAUNCH**




**Source:** FE fundinfo 05/06/2017 - 12/09/2022, total returns in sterling

## BALANCED GROWTH

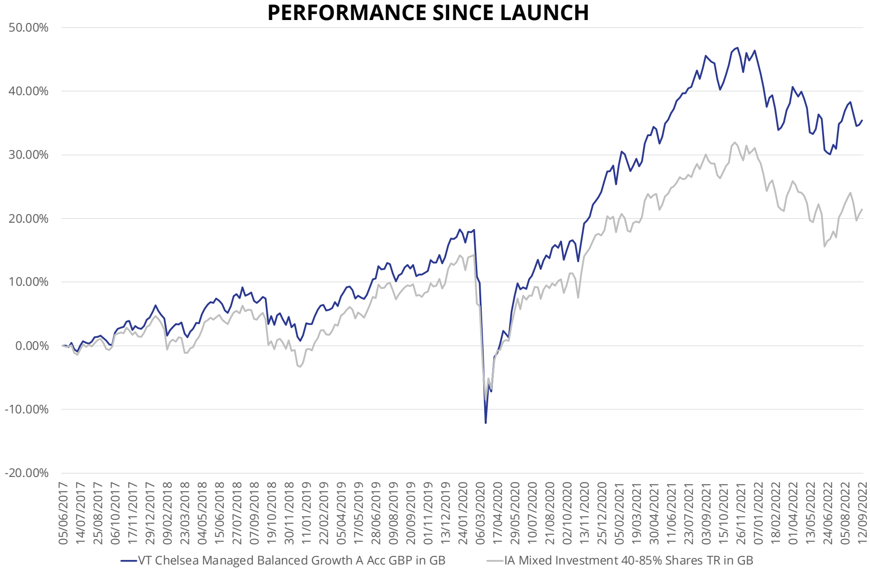
### OUR 'HAPPY MEDIUM' PORTFOLIO

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†.

**KEY FACTS:**

| | |
|---|---|
| Ongoing charges figure: | **1.35%** |
| Payment dates: | **N/A** |
| Indicated yield: | **N/A** |
| Performance since launch: | **35.42%** |
| Sector average: | **21.40%** |
| Chelsea Risk Rating: | **5.5** |

**PERFORMANCE SINCE LAUNCH**




**Source:** FE fundinfo 05/06/2017 - 12/09/2022, total returns in sterling

## WHAT ARE THE RISKS?

Past performance is not a reliable guide to future returns. 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.

## AGGRESSIVE GROWTH

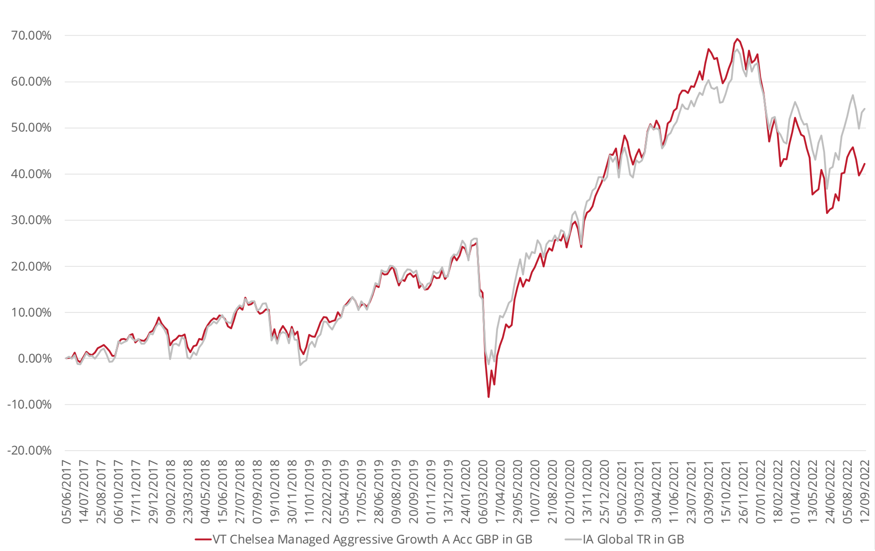
### OUR PUREST GROWTH PLAY

Quite simply, the aggressive fund aims to grow your money over the long term using our purest 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.

**KEY FACTS:**

| | |
|---|---|
| Ongoing charges figure: | **1.18%** |
| Payment dates: | **N/A** |
| Indicated yield: | **N/A** |
| Performance since launch: | **42.21%** |
| Sector average: | **54.17%** |
| Chelsea Risk Rating: | **7** |

**PERFORMANCE SINCE LAUNCH**




**Source:** FE fundinfo 05/06/2017 - 12/09/2022, total returns in sterling

## MONTHLY INCOME

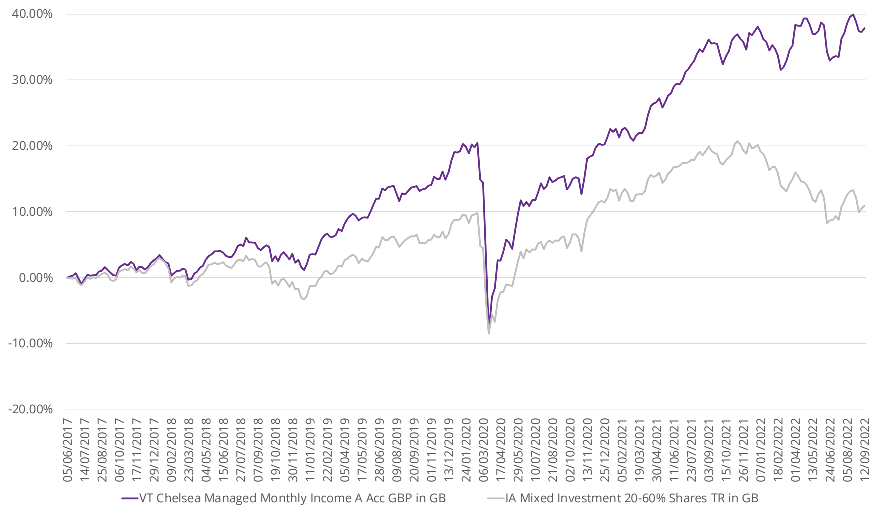
### OUR FUND FOR YIELD

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†.

**KEY FACTS:**

| | |
|---|---|
| Ongoing charges figure: | **1.39%** |
| Payment dates: | **Monthly** |
| Indicated yield: | **4.58%** |
| Performance since launch: | **37.86%** |
| Sector average: | **10.93%** |
| Chelsea Risk Rating: | **4.5** |

**PERFORMANCE SINCE LAUNCH**




**Source:** FE fundinfo 05/06/2017 - 12/09/2022, total returns in sterling

## WHAT ARE THE RISKS?

Past performance is not a reliable guide to future returns. 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.

## MORE INFORMATION

**For a full list of holdings, plus quarterly factsheets, visit:**

**www.chelseafs.co.uk/products/vt-chelsea-managed-funds**

Indicated yields and OCFs correct as at end of September 2022.

† 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

### IFSL MARLBOROUGH 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 | 0.81% |
| UNIT TYPE | INC |

### IFSL MARLBOROUGH UK MICRO CAP GROWTH

This fund has one of the best track records in the industry. Guy Feld & Eustace Santa Barbara are co-managers of this fund, while veteran founder manager Giles Hargreave stepped back from his fund manager role in January 2021. The team are some of the best small-cap investors in the country and invest in a well-diversified portfolio of companies at the bottom of the market, below £250m in size. They have a growth bias, looking for those companies which are leaders in their niche markets or can disrupt existing markets. These companies will be in a variety of different sectors and industries, creating a portfolio of over 200 names. The managers will let their success stories run, potentially even adding to them if there is still upside.

| | |
|---|---|
| CHELSEA RISK RATING | 8 |
| ANNUAL MANAGEMENT CHARGE | 0.75%[#] |
| ONGOING CHARGES FIGURE (OCF) | 0.80%[†] |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 0.11% |
| UNIT TYPE | ACC |

### 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 | 6.5 |
| ANNUAL MANAGEMENT CHARGE | 0.63%[^#*] |
| ONGOING CHARGES FIGURE (OCF) | 0.66%[^†*] |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | SILVER |
| YIELD | 2.27% |
| UNIT TYPE | ACC or INC |

### LF GRESHAM HOUSE UK MICRO CAP

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 | - |
| UNIT TYPE | ACC or INC |

### LF LINDSELL TRAIN UK EQUITY

Nick Train is one of the 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) | 0.64%[†] |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | SILVER |
| YIELD | 2.27% |
| 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) | 0.81%[†] |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | BRONZE |
| YIELD | 1.59% |
| UNIT TYPE | ACC or INC |

### MI CHELVERTON UK EQUITY GROWTH

Fund manager James Baker puts his extensive experience of investing in small and medium-sized businesses into practice with this fund, choosing to invest the majority of the portfolio in highly cash-generative smaller companies able to fund their own growth. James is supported by co-manager Edward Booth. The initial screening process considers all UK stocks below the FTSE 100, with the managers looking for: revenue growth; cash conversion; balance sheet strength; high gross margins and the ability for companies to fund themselves. Stocks must meet four out of the five criteria to pass the screen, leaving about 250 stocks to analyse further.

| | |
|---|---|
| CHELSEA RISK RATING | 7.5 |
| ANNUAL MANAGEMENT CHARGE | 0.75%[#] |
| ONGOING CHARGES FIGURE (OCF) | 0.83%[†] |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | - |
| UNIT TYPE | ACC or INC |

## ALL CORE SELECTION FUNDS ARE AVAILABLE AT 0% INITIAL CHARGE

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

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

**We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 5 for further details.**

# EQUITY INCOME

## BLACKROCK CONTINENTAL EUROPEAN INCOME

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) | 0.92%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | BRONZE |
| YIELD | 2.12% |
| 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) | 0.91%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 2.79% |
| UNIT TYPE | ACC or INC |

## GUINNESS GLOBAL EQUITY INCOME

Co-managed by Dr Ian Mortimer and Matthew Page, this fund has an equally-weighted portfolio of 35 stocks to generate a modest income alongside capital growth for investors. The managers are unconstrained by any benchmark and can therefore invest wherever they see the best opportunities. They have a well-defined process, focusing only on firms which are generating returns above their cost of capital, and which are generating good cashflows. This allows them to pay a sustainable dividend, as well as reinvesting in growing their business. Stocks will also need to show an attractive valuation opportunity, meaning the portfolio will be a balance of styles and be able to weather a variety of market conditions. Income is paid in January and July.

| | |
|---|---|
| CHELSEA RISK RATING | 6.5 |
| ANNUAL MANAGEMENT CHARGE | 0.80%# |
| ONGOING CHARGES FIGURE (OCF) | 0.80%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 2.40% |
| 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 | 0.00%# |
| ONGOING CHARGES FIGURE (OCF) | 0.66%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | BRONZE |
| YIELD | 2.84% |
| UNIT TYPE | ACC or INC |

## MAN GLG 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 | 6.5 |
| ANNUAL MANAGEMENT CHARGE | 0.75%# |
| ONGOING CHARGES FIGURE (OCF) | 0.90%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | BRONZE |
| YIELD | 5.46% |
| UNIT TYPE | INC |

## MONTANARO UK INCOME SEED**

Montanaro are specialists in small and medium-sized companies. This fund is co-managed by industry veteran Charles Montanaro and Guido Dacie-Lombardo 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 | 0.30%#^ |
| ONGOING CHARGES FIGURE (OCF) | 0.38%†^ |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 3.60% |
| UNIT TYPE | 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 | 0.87%# |
| ONGOING CHARGES FIGURE (OCF) | 0.87%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 2.70% |
| UNIT TYPE | ACC or INC |

**N.B.** Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 12/09/2022 as at 13/09/2022. Yields as at 13/09/2022 and taken from Income units where applicable.

***** A performance fee may be applied, see the Key Investor Information Document for further details.

****** Cheaper share class available. Please contact us on 020 7384 7300.

**#** 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).

**†** 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.

**^** Includes Chelsea discount.

# EUROPE

## BLACKROCK EUROPEAN DYNAMIC

SPOTLIGHT

Giles Rothbarth took over sole charge of the fund in January 2020, after Alister Hibbert stepped down as lead manager, and he runs it with the same conviction and flexibility, being prepared to have large over and underweight positions at both the stock and sector level. The fund primarily focuses on large-cap companies, though can hold some more medium-sized stocks, and will move between different styles depending on the stock and economic backdrop. This means turnover can often be higher than its peers and the portfolio is concentrated, with around 50 holdings. Giles has the support of BlackRock's very well-resourced European equity team, which we consider to be one of the best around.

| | |
|---|---|
| CHELSEA RISK RATING | 7 |
| ANNUAL MANAGEMENT CHARGE | 0.75%# |
| ONGOING CHARGES FIGURE (OCF) | 0.93%† |
| FUNDCALIBRE RATING | RADAR |
| MORNINGSTAR RATING | NEUTRAL |
| YIELD | - |
| UNIT TYPE | ACC or INC |

## CT EUROPEAN SELECT

Manager Ben Moore 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. He 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) | 0.80%† |
| FUNDCALIBRE RATING | RADAR |
| MORNINGSTAR RATING | - |
| YIELD | 0.30% |
| UNIT TYPE | ACC or INC |

## FTF MARTIN CURRIE EUROPEAN UNCONSTRAINED

As the name suggests, this is an unconstrained, high-conviction portfolio which the experienced manager, Zehrid Osmani, runs with a long-term, 5-10 year time horizon. He looks for medium and large, quality growth companies, with strong balance sheets and good capital allocation, which are experiencing secular growth, have a strong corporate ethos and are reasonably valued. Meeting with management is a key step in the process for Zehrid. The portfolio is concentrated, with around 20-40 stocks, and turnover is low.

| | |
|---|---|
| CHELSEA RISK RATING | 7.5 |
| ANNUAL MANAGEMENT CHARGE | 0.75%# |
| ONGOING CHARGES FIGURE (OCF) | 1.02%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 0.54% |
| UNIT TYPE | ACC or INC |

## IFSL MARLBOROUGH EUROPEAN SPECIAL SITUATIONS

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) | 0.79%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 1.75% |
| UNIT TYPE | INC |

## PREMIER 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) | 0.82%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 0.03% |
| 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 | - |
| 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 | SILVER |
| YIELD | 1.04% |
| UNIT TYPE | ACC or INC |

## PREMIER 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 and 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) | 0.83%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | - |
| UNIT TYPE | ACC |

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

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

**We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 5 for further details.**

# ASIA PACIFIC, JAPAN AND EMERGING MARKETS

## BAILLIE GIFFORD JAPANESE

Lead manager Matthew Brett is well supported in the running of this sector stalwart by a very strong Japanese equity team. The research process is built around five specific factors; a company's competitive advantage, industry, financial strength, how well it is run and its valuation. The team's best ideas are discussed and Matthew will then have the final say on what is added to the portfolio. Being growth investors, the team have a natural bias towards medium-sized companies and they favour Japanese businesses that deliver consistently strong returns to shareholders. The portfolio will hold between 45 and 65 stocks.

| | |
|---|---|
| CHELSEA RISK RATING | 10 |
| ANNUAL MANAGEMENT CHARGE | 0.60%# |
| ONGOING CHARGES FIGURE (OCF) | 0.62%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 1.46% |
| UNIT TYPE | ACC or INC |

## BAILLIE GIFFORD PACIFIC

This is an unconstrained equity fund, looking to invest for the long term in companies benefiting from the developing trends in the Asia ex-Japan region. Lead manager Roderick Snell takes a pragmatic approach to growth with this fund. He is looking for firms on the right side of disruption, those which will benefit from new technological or societal trends such as online shopping or increasing healthcare demand. However, he may take exposure to this through slightly different angles, such as copper miners for technology rather than manufacturers themselves, depending on where the best valuation opportunities lie at the time. The fund will have between 50 and 100 holdings and is typically very different to its benchmark.

| | |
|---|---|
| CHELSEA RISK RATING | 8.5 |
| ANNUAL MANAGEMENT CHARGE | 0.65%# |
| ONGOING CHARGES FIGURE (OCF) | 0.75%† |
| FUNDCALIBRE RATING | - |
| MORNINGSTAR RATING | - |
| YIELD | 0.39% |
| UNIT TYPE | ACC or INC |

## FIDELITY ASIA PACIFIC OPPORTUNITIES

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 investor 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 | - |
| UNIT TYPE | ACC |

## FSSA GREATER CHINA GROWTH

This specialist fund builds a concentrated portfolio of the best 50-60 ideas from across the Chinese, Hong-Kong and Taiwanese stock markets. Manager Martin Lau is highly experienced and very knowledgeable in this space and looks for well-managed businesses, with a strong focus on good corporate governance. These are found through individual company research. Martin looks for quality companies with barriers to entry, pricing power and sustainable growth. He also has a strict valuation discipline and won't overpay for fashionable stocks if the fundamentals are not there. Over the long term, this fund has consistently been one of the best performers in the sector. Given the single-country nature of the fund, it can be volatile.

| | |
|---|---|
| CHELSEA RISK RATING | 10 |
| ANNUAL MANAGEMENT CHARGE | 1.00%# |
| ONGOING CHARGES FIGURE (OCF) | 1.07%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | GOLD |
| YIELD | 1.18% |
| 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) | 0.00%† |
| FUNDCALIBRE RATING | - |
| MORNINGSTAR RATING | Gold |
| YIELD | 0.03% |
| UNIT TYPE | ACC or INC |

## REDWHEEL 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) | 1.25%† |
| FUNDCALIBRE RATING | - |
| MORNINGSTAR RATING | - |
| YIELD | - |
| UNIT TYPE | ACC or INC |

## STEWART INVESTORS ASIA PACIFIC LEADERS SUSTAINABILITY

The fund is managed by David Gait and Sashi Reddy. They have a 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 | 0.80%# |
| ONGOING CHARGES FIGURE (OCF) | 0.84%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | SILVER |
| YIELD | 0.26% |
| UNIT TYPE | ACC or INC |

**N.B.** Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 12/09/2022 as at 13/09/2022. Yields as at 13/09/2022 and taken from Income units where applicable.

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^ Includes Chelsea discount.

# 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 | GOLD |
| YIELD | - |
| UNIT TYPE | ACC |

## FUNDSMITH EQUITY

Manager Terry Smith is one of the most outspoken and high-profile personalities in the City. Terry has consistently proven himself over a long and glittering career, continuing to do so with the founding of Fundsmith in 2010. The fund invests in high quality, well-established mega-cap companies. 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) | 0.94%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | GOLD |
| YIELD | 0.18% |
| UNIT TYPE | ACC or INC |

## NINETY ONE GLOBAL ENVIRONMENT

This is a highly concentrated global equities fund, finding companies that benefit from the movement to a decarbonised economy. Co-managers Deirdre Cooper and Graeme Baker have a fairly unique process which scores companies based on carbon emissions displaced throughout the supply chain, as well as thorough analysis of the company financials. The fund will only have 20-40 stocks from across both developed and emerging markets meaning it can look and perform very differently from its peers.

| | |
|---|---|
| CHELSEA RISK RATING | 7.5 |
| ANNUAL MANAGEMENT CHARGE | 0.75%# |
| ONGOING CHARGES FIGURE (OCF) | 0.86%† |
| FUNDCALIBRE RATING | RADAR |
| MORNINGSTAR RATING | - |
| YIELD | 0.69% |
| 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) | 0.77%^† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | SILVER |
| YIELD | - |
| UNIT TYPE | ACC |

## T. ROWE PRICE GLOBAL FOCUSED GROWTH EQUITY

Lead manager David Eiswert is supported by T Rowe Price's large global analyst network. David combines his macroeconomic view with his analysts' best ideas to build a portfolio of around 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 | 0.75%^# |
| ONGOING CHARGES FIGURE (OCF) | 0.86%^† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | - |
| UNIT TYPE | ACC |

# FIXED INTEREST

## ARTEMIS CORPORATE BOND

Manager Stephen Snowden, ably supported by his team, invests in investment grade corporate bonds in this fund, with some ability to allocate across the wider fixed income market if special opportunities arise. He takes a long-term strategic and thematic view, but will also take advantage of short-term opportunities when they present themselves. As well as assessing the wider macroeconomic picture, Stephen will do deep analysis of the fundamentals of the company behind the bond issue to ensure the portfolio can benefit from both superior stock selection, and perform in any economic climate.

| | |
|---|---|
| CHELSEA RISK RATING | 2.5 |
| ANNUAL MANAGEMENT CHARGE | 0.25%# |
| ONGOING CHARGES FIGURE (OCF) | 0.37%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 3.72% |
| UNIT TYPE | ACC or INC |

## JANUS HENDERSON STRATEGIC BOND

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

| | |
|---|---|
| CHELSEA RISK RATING | 3 |
| ANNUAL MANAGEMENT CHARGE | 0.60%# |
| ONGOING CHARGES FIGURE (OCF) | 0.70%† |
| FUNDCALIBRE RATING | - |
| MORNINGSTAR RATING | SILVER |
| YIELD | 2.30% |
| UNIT TYPE | ACC or INC |

**The Chelsea Risk Rating** Least risky **1** | | | | | | | | | | **10** Most risky
This is our proprietary rating to aid you in your fund choice. Our research team assesses the overall risk of a fund by analysing a number of factors including: the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues.

**We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest.** **See page 5 for further details.**

# FIXED INTEREST (CONT)

## 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 | 0.00%# |
| ONGOING CHARGES FIGURE (OCF) | 0.73%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | SILVER |
| YIELD | 4.18% |
| UNIT TYPE | ACC or INC |

## M&G EMERGING MARKETS BOND

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 | 4.5 |
| ANNUAL MANAGEMENT CHARGE | 0.00%# |
| ONGOING CHARGES FIGURE (OCF) | 0.70%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 6.19% |
| UNIT TYPE | ACC or INC |

## NOMURA GLOBAL DYNAMIC BOND (HEDGED)

SPOTLIGHT

With an unconstrained approach, Dickie Hodges utilises the full range of bond and derivative securities available to him, including government, corporate, emerging market and inflation-linked bonds. Using a blend of top-down and bottom-up stock selection, he aims to deliver a yield of around 3-6%, depending on market conditions. The team also target capital growth so will not increase the yield of the fund at the expense of capital. Dickie is extremely knowledgeable about bond securities and derivatives and uses this skill set and flexible mandate to exploit opportunities. The fund is a good option for all market conditions in terms of both yield and capital return.

| | |
|---|---|
| CHELSEA RISK RATING | 4 |
| ANNUAL MANAGEMENT CHARGE | 0.60%# |
| ONGOING CHARGES FIGURE (OCF) | 0.72%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 2.67% |
| UNIT TYPE | ACC or INC |

## RATHBONE ETHICAL BOND

This fund has been an early pioneer in the ethical fixed income space, and has the credentials to back it up, with manager Bryn Jones having been at the helm for more than 15 years. The fund has clear ethical exclusions, including mining, arms and gambling, which removes approximately one third of the index. Every position must also have at least one positive ESG quality. Bryn is looking for a relatively high income from this portfolio of approximately 80-200 stocks. He will move his allocations depending on his confidence in the economic and political outlook, as well as tapping into any structural themes he sees developing. Income is paid in February, May, August and November.

| | |
|---|---|
| CHELSEA RISK RATING | 0 |
| ANNUAL MANAGEMENT CHARGE | 0.63%# |
| ONGOING CHARGES FIGURE (OCF) | 0.66%† |
| FUNDCALIBRE RATING | - |
| MORNINGSTAR RATING | - |
| YIELD | 4.30% |
| 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) | 0.78%† |
| FUNDCALIBRE RATING | ELITE |
| MORNINGSTAR RATING | - |
| YIELD | 4.20% |
| UNIT TYPE | ACC or INC |

**N.B.** Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

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† 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.

^ Includes Chelsea discount.

# CORE SELECTION SPOTLIGHT

## RICHARD HODGES

Head of Unconstrained Fixed Income,
**Nomura Global Dynamic Bond**
Elite Rated by FundCalibre

I joined Nomura Asset Management in 2014 to launch the Nomura Global Dynamic Bond fund in early 2015. Since then, the fund has grown to more than £2.5bn and I have increased the team to include three other portfolio managers who focus solely on the fund. I have spent more than 30 years in fixed income fund management.

The fund is managed to achieve an attractive total return from investing in fixed income – a combination of both income and capital appreciation over time. Within the fixed income universe, we are unconstrained by geographic or credit rating considerations and able to scour the globe for those attractive returns.

## GLOBAL OPPORTUNITIES

As an example, this year we have held up to 5% of the fund in South Africa. South Africa's bond market has clear political risks, but this year it has been one of the best-performing bond markets anywhere, holding its value when most global bond markets have experienced double-digit negative returns. This is largely because the South African Reserve Bank moved proactively last year to raise interest rates in response to inflation risks. In contrast, the Federal Reserve, Bank of England and ECB waited until this summer to raise interest rates.

However, we do not simply buy bonds and wait for them to go up in value. The bonds we hold are exposed to the local currency – in South Africa's case the Rand. We have actively hedged this exposure to prevent our investors suffering from any fall in this volatile currency. Even on a currency-hedged basis, the yield available from the bonds remains attractive – above 6% at the time of writing.

The fund is not constrained to hold gilts, and going into the recent crisis that led to gilt yields moving substantially higher, we had no exposure. But market volatility can be opportunity, and we moved swiftly to add a modest inflation-linked gilt exposure that subsequently performed strongly as the Bank of England stepped in to reassure markets.

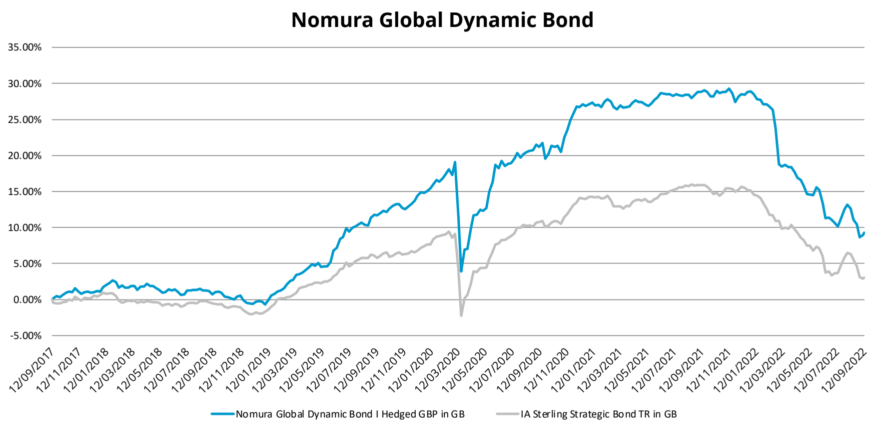
## MANAGING RISK & ENSURING CONTROL

The fund's risk is carefully managed and controlled. We operate within strict risk management limits and actively manage the interest rate, credit and currency risks of our positions using simple techniques more commonly employed by sophisticated pension funds and insurance companies. This risk management capability is frequently cited as a point of differentiation for the fund.

## THE CHELSEA VIEW

Charismatic fund manager Richard 'Dickie' Hodges has shown he has the rare ability to accurately read the economic environment and pick individual investments, in a sector as vast as strategic bonds this skill is highly prised. As an unconstrained strategic bond fund, Dickie has a flexible mandate to utilise his experience by investing in the entire range of bond sectors.

Never has this risk control been more important. I strongly believe that inflation will come down in the coming months but remain well above the Fed's target, meaning further rate hikes. However, it is increasingly clear that there will be a hard landing for the US economy, and the situation is even worse for Europe. In my opinion we will not see a sustainable rally either in risk assets or bond prices until such time as the Federal Reserve tells us that they have finished hiking rates. This will not occur until much later in 2022 or possibly in 2023. When they do, the opportunity to generate attractive returns from fixed income will be immense. For now, we must be cautious. We have limited risk exposures, added protective hedging to the fund.




**Source:** FE fundinfo, 12/09/2017 to 12/09/2022, total returns, net of fees, in sterling

# CORE SELECTION SPOTLIGHT

## GILES ROTHBARTH

Fund manager,
**BlackRock European Dynamic**
Elite Radar by FundCalibre

I have always liked watching and thinking about how the world works. At first, this led me to journalism where I even did a week shadowing a famous London editor and politician. However, I ultimately decided it wasn't the job for me, and found myself joining BlackRock straight out of university and investing in European equities ever since.

On the surface, Europe is a market that has its fair share of challenges. Whether it be headline fears driven by political fragmentation, or the perception of less exciting and fast-growing opportunities than our US peers, it's a market which has often found itself out of favour. But to our mind, we do not have to like an asset class or an economy to be able to find exceptional ideas listed within it.

### TEAM APPROACH

I say "we", as the portfolio I manage, the BlackRock European Dynamic fund, is backed by the research of 20 dedicated European equity investors. As a team, we have whole market coverage. This does not mean we do maintenance research on each stock. What it instead means is we research ideas in depth and meet with company management teams – we do over 2000 of these meetings a year – which tap into many different end markets. We use these meetings to learn about the strategy, culture and execution of the company, but also to understand what is going on at the ground level in each of these end markets. What do order books look like? Supply chains? Customer behaviour patterns? Taking this all together, we build a view stock by stock, and sector by sector of the real-world economy. If you like, we look to understand the macro from the micro.

This is important for a dynamic strategy. As the name suggests, we look to be active in managing the fund's allocations. Companies do not exist in a vacuum. Whilst we can find a number of long-term-winners in Europe with earnings compounding at an attractive rate - think high-end luxury goods, winning pharmaceutical and life science business or near monopoly semiconductor companies - we can also manage the fund for change. And Europe is a market which has seen ample change – Italy alone has had 69 governments since the end of World War II!

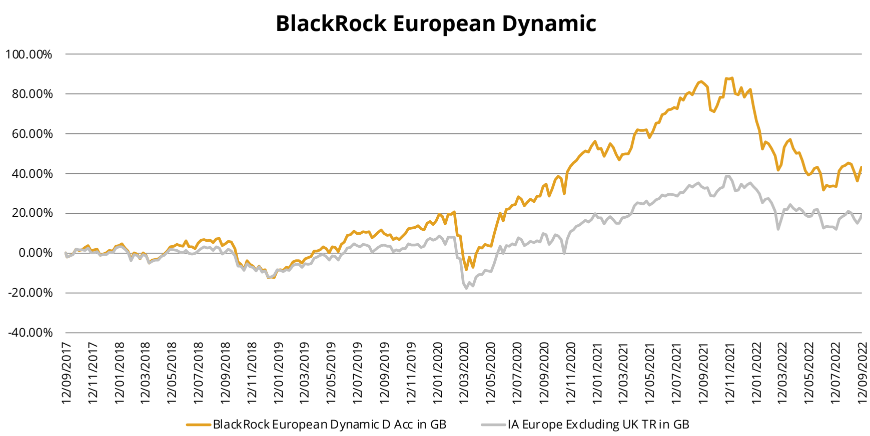
Of course, in Europe there is room for caution in the current circumstances; the cost-of-living crisis escalated by energy scarcity will not simply be shrugged off. Whilst cyclically challenging, the structural remains more robust. Consumer and company balance sheets are healthy, governments are providing a backstop and a new capital expenditure cycle is underway. This, to our mind, creates more investment opportunity than may initially meet the eye.

### LOOKING AGAIN AT BANKS

The clearest change we've seen in the current environment is that of European banks. I spent a decade describing these as "near un-investable" to our clients, with a negative rate backdrop and challenging regulatory and competitive environments all significant headwinds. Recent events have changed that view. This has led to us moving the fund overweight versus the benchmark, through a collection of what we believe are the best-positioned banks to benefit from factors such as the rising rate environment. The opportunity, however, is not just to see earnings upgrades as banks pass on these rising rates in their loan and mortgage books, whilst being perhaps not so generous to their savers, creating a sizeable positive spread for profits. The opportunity is also about capital return – it's taken almost 15 years, but banks' balance sheets have been repaired, with leverage falling dramatically since the Global Financial Crisis. This means we're likely to see elevated dividends and share buybacks. Even in the event of a European recession, and a potential increased level of defaults, there are ample provisions held by banks to cushion this blow. All this comes at a time when the valuation for these companies is meaningfully below the long-term average. With earnings upgrades, capital return and potential for expanding valuation multiples, the "un-investable" tag looks to have been swept away. A timely reminder that change often brings opportunity.

### THE CHELSEA VIEW

The fund is one of the best in a competitive sector, with a flexible approach and a willingness from BlackRock's extensive European research team to constantly refine and enhance the fund's highly intricate and in-depth process. Giles took over sole charge of the fund in January 2020, having worked on the fund with previous lead manager Alister Hibbert since 2015.




**Source:** FE fundinfo, 12/09/2017 to 12/09/2022, total returns, net of fees, in sterling.

# THE CHELSEA SELECTION

| | Elite Rating | Chelsea Risk Rating | 1 YEAR % Growth | 1 YEAR Rank | 3 YEAR % Growth | 3 YEAR Rank | 5 YEAR % Growth | 5 YEAR Rank | 10 YEAR % Growth | 10 YEAR Rank | % Yield | Fund Size(m) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **UK ALL COMPANIES** | | | | | | | | | | | | |
| **Artemis UK Select** | - | 7 | -11.42 | 158 | 27.45 | 13 | 26.33 | 28 | 137.92 | 24 | 2.03 | 1325.60 |
| **BlackRock UK** | - | 6 | -18.63 | 205 | 2.75 | 184 | 17.38 | 101 | 100.82 | 74 | 1.84 | 507.00 |
| **IFSL Marlborough Multi-Cap Growth** | | 7 | -26.16 | 237 | 5.97 | 150 | 8.33 | 178 | 143.48 | 18 | 0.18 | 218.10 |
| **IFSL Marlborough Special Situations** | | 7.5 | -31.96 | 248 | 13.74 | 43 | 13.17 | 140 | 178.48 | 9 | 0.54 | 1111.40 |
| **JOHCM UK Dynamic** | | 6.5 | 0.55 | 85 | 7.83 | 131 | 15.75 | 114 | 122.60 | 35 | 2.27 | 1264.20 |
| **Jupiter UK Special Situations** | | 6 | 8.89 | 17 | 15.82 | 31 | 23.52 | 37 | 119.77 | 41 | 2.50 | 2006.40 |
| **LF Lindsell Train UK Equity** | | 6.5 | -5.09 | 127 | -0.90 | 204 | 28.40 | 25 | 183.10 | 8 | 2.02 | 4895.60 |
| **Liontrust Special Situations** | | 6 | -11.46 | 159 | 11.48 | 80 | 30.85 | 17 | 143.29 | 19 | 1.59 | 4999.40 |
| **MI Chelverton UK Equity Growth** | | 7.5 | -23.47 | 224 | 38.36 | 3 | 64.46 | 2 | - | - | - | 1165.80 |
| **Schroder Recovery** | | 7.5 | 6.37 | 29 | 19.24 | 19 | 23.60 | 36 | 140.52 | 21 | 2.94 | 1023.00 |
| **Slater Growth** | | 7 | -22.67 | 219 | 25.69 | 14 | 44.70 | 7 | 212.87 | 2 | - | 1093.10 |
| **VT Downing Unique Opportunities** | | 7 | -22.36 | 216 | - | - | - | - | - | - | - | 48.60 |
| **Sector Average** | | | **-8.20** | **254** | **7.96** | **242** | **13.71** | **233** | **90.23** | **202** | **-** | **-** |
| **UK EQUITY INCOME** | | | | | | | | | | | | |
| **Artemis Income** | | 5 | 2.31 | 39 | 13.42 | 29 | 23.36 | 13 | 108.57 | 16 | 4.05 | 4467.30 |
| **IFSL Marlborough Multi Cap Income** | | 7 | -15.22 | 79 | -0.04 | 73 | 3.08 | 63 | 105.06 | 22 | 3.72 | 733.80 |
| **Janus Henderson UK Responsible Income** | | 6 | -4.91 | 65 | 10.00 | 51 | 20.26 | 19 | 118.68 | 12 | 4.30 | 459.30 |
| **LF Gresham House UK Multi Cap Income** | | 7.5 | -7.56 | 69 | 30.09 | 1 | 49.32 | 1 | - | - | 4.11 | 318.40 |
| **LF Montanaro UK Income Seed^ †** | | 7.5 | -24.51 | 232 / 254 | 7.73 | 133 / 242 | 13.74 | 131 / 233 | 131.76 | 30 / 202 | 3.60 | 640.60 |
| **Man GLG Income**** | | 6.5 | 5.60 | 19 | 14.78 | 25 | 23.48 | 12 | 136.48 | 2 | 5.46 | 1528.60 |
| **Rathbone Income Fund** | | 5 | 3.77 | 30 | 11.39 | 42 | 16.67 | 36 | 105.71 | 20 | 4.10 | 739.90 |
| **TB Evenlode Income^** | | 5 | 2.69 | 67/254 | 8.08 | 128/242 | 37.10 | 12/233 | 173.05 | 10/202 | 2.70 | 3340.00 |
| **Sector Average** | | | **0.06** | **82** | **11.39** | **79** | **14.59** | **76** | **89.61** | **64** | **-** | **-** |
| **UK SMALLER COMPANIES** | | | | | | | | | | | | |
| **IFSL Marlborough UK Micro-Cap Growth** | | 8 | -36.16 | 45 | 15.31 | 19 | 19.33 | 19 | 210.73 | 7 | 0.11 | 987.60 |
| **LF Gresham House UK Micro Cap** | | 8 | -29.51 | 34 | 10.26 | 28 | 22.00 | 17 | 238.33 | 5 | - | 211.80 |
| **Liontrust UK Micro Cap** | | 8 | -23.71 | 14 | 40.29 | 4 | 66.55 | 2 | - | - | - | 177.50 |
| **TB Amati UK Listed Smaller Companies**** | | 8 | -28.01 | 26 | 12.03 | 23 | 26.82 | 13 | 227.93 | 6 | 1.70 | 698.80 |
| **Sector Average** | | | **-27.20** | **50** | **13.73** | **49** | **16.48** | **46** | **148.88** | **42** | **-** | **-** |
| **STERLING CORPORATE BOND** | | | | | | | | | | | | |
| **Artemis Corporate Bond** | | 2.5 | -16.42 | 40 | - | - | - | - | - | - | 3.72 | 750.10 |
| **BlackRock Corporate Bond** | | 3.5 | -17.00 | 44 | -10.34 | 47 | -3.32 | 37 | 32.08 | 10 | 3.28 | 900.90 |
| **Rathbone Ethical Bond** | | 2.5 | -17.57 | 53 | -7.00 | 27 | 1.06 | 11 | 48.59 | 2 | 4.30 | 2232.90 |
| **Royal London Corporate Bond** | | 2.5 | -15.90 | 37 | -6.67 | 24 | 1.13 | 9 | 41.89 | 3 | 3.56 | 1055.00 |
| **TwentyFour Corporate Bond** | | 2.5 | -18.22 | 66 | -11.33 | 58 | -4.89 | 55 | - | - | 3.42 | 1422.40 |
| **Sector Average** | | | **-16.46** | **101** | **-9.73** | **97** | **-3.64** | **92** | **25.82** | **67** | **-** | **-** |
| **STERLING HIGH YIELD BOND** | | | | | | | | | | | | |
| **Baillie Gifford High Yield Bond** | | 4 | -13.22 | 24 | -5.83 | 27 | 2.00 | 21 | 44.15 | 7 | 5.00 | 679.90 |
| **Man GLG High Yield Opportunities** | | 4 | -10.20 | 14 | 20.53 | 1 | - | 1 | - | - | 6.78 | 171.80 |
| **Sector Average** | | | **-10.26** | **33** | **-0.83** | **29** | **5.45** | **26** | **38.13** | **17** | **-** | **-** |
| **STERLING STRATEGIC BOND** | | | | | | | | | | | | |
| **Aegon Strategic Bond** NEW ENTRY | | 4 | -13.44 | 58 | 4.45 | 11 | 12.94 | 12 | 37.17 | 20 | 4.55 | 457.00 |
| **Baillie Gifford Strategic Bond** | | 3.5 | -17.36 | 83 | -9.94 | 68 | -1.42 | 55 | 38.48 | 16 | 3.90 | 875.70 |
| **GAM Star Credit Opportunities#** | | 4 | -12.72 | 51 | 0.32 | 24 | 5.42 | 22 | 93.78 | 1 | 3.90 | 558.70 |
| **Janus Henderson Strategic Bond**** | - | 3 | -15.89 | 74 | -6.01 | 56 | 2.03 | 38 | 35.13 | 23 | 2.30 | 2994.50 |
| **Jupiter Strategic Bond** | | 2.5 | -13.30 | 56 | -6.02 | 55 | 1.33 | 41 | 32.98 | 27 | 4.18 | 3650.50 |
| **Nomura Global Dynamic Bond (Hedged) #** SPOTLIGHT | | 4 | -15.21 | 73 | -1.99 | 31 | 9.05 | 14 | - | - | 2.67 | 2583.60 |
| **TwentyFour Dynamic Bond** | | 3.5 | -13.14 | 55 | -2.30 | 33 | 3.56 | 29 | 46.47 | 9 | 4.20 | 1616.80 |
| **Sector Average** | | | **-11.10** | **88** | **-2.67** | **79** | **3.02** | **70** | **31.03** | **51** | **-** | **-** |
| **TARGETED ABSOLUTE RETURN*** | | | | | | | | | | | | |
| **Janus Henderson Absolute Return** | | 4 | -2.32 | - | 6.83 | - | 7.54 | - | 53.31 | - | - | 1262.30 |
| **SVS Church House Tenax Absolute Return Strategies**** | | 4 | -6.33 | - | 0.31 | - | 2.20 | - | 31.24 | - | 1.00 | 424.50 |
| **Sector Average** | | | **-0.28** | **-** | **6.57** | **-** | **7.23** | **-** | **26.89** | **-** | **-** | **-** |
| **EUROPE EXCLUDING UK** | | | | | | | | | | | | |
| **BlackRock Continental European Income** | | 7 | -6.13 | 26 | 17.26 | 33 | 24.57 | 34 | 174.57 | 14 | 4.12 | 1447.80 |
| **BlackRock European Dynamic** SPOTLIGHT | | 7 | -23.10 | 139 | 30.22 | 8 | 43.18 | 9 | 227.80 | 4 | - | 3781.20 |
| **CT European Select** | | 7 | -18.64 | 132 | 13.32 | 64 | 27.42 | 29 | 153.99 | 26 | 0.36 | 1324.50 |
| **FTF Martin Currie European Unconstrained** | | 7.5 | -26.08 | 142 | 16.57 | 40 | 34.07 | 15 | 139.47 | 40 | 0.54 | 81.90 |
| **IFSL Marlborough European Special Situations** | | 8 | -15.84 | 119 | 51.35 | 2 | 49.23 | 7 | 281.84 | 1 | 1.75 | 380.00 |
| **Jupiter European Smaller Companies^** | | 8 | -28.96 | 24 / 28 | - | - | - | - | - | - | - | 17.70 |
| **Premier Miton European Opportunities** | | 7.5 | -26.07 | 141 | 26.44 | 13 | 61.16 | 1 | - | - | 0.03 | 1762.70 |
| **Sector Average** | | | **-10.97** | **149** | **14.22** | **137** | **18.82** | **122** | **133.83** | **93** | **-** | **-** |
| **NORTH AMERICA** | | | | | | | | | | | | |
| **AXA Framlington American Growth** | | 7 | -1.45 | 176 | 59.24 | 10 | 129.63 | 7 | 370.79 | 19 | - | 1017.80 |
| **Baillie Gifford American**** | | 7.5 | -45.18 | 231 | 33.16 | 167 | 102.06 | 30 | 392.14 | 11 | - | 3413.40 |
| **Brown Advisory US Flexible Equity**#** | | 7 | 2.17 | 164 | 44.40 | 98 | 99.00 | 54 | - | - | 1.02 | 527.00 |
| **Fidelity Index US** | - | 7 | 8.84 | 100 | 48.82 | 50 | 99.77 | 47 | - | - | 1.04 | 3569.00 |

| Fund | | Elite Rating | Chelsea Risk Rating | 1 YEAR % Growth | 1 YEAR Rank | 3 YEAR % Growth | 3 YEAR Rank | 5 YEAR % Growth | 5 YEAR Rank | 10 YEAR % Growth | 10 YEAR Rank | % Yield | Fund Size(m) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FTF Martin Currie US Unconstrained | | | 7 | -14.83 | 220 | 26.25 | 197 | 81.55 | 115 | 279.65 | 83 | - | 149.20 |
| Premier Miton US Opportunities | | | 7 | 11.40 | 66 | 54.29 | 21 | 102.54 | 28 | - | - | - | 1455.40 |
| **Sector Average** | | | | **5.55** | **231** | **43.15** | **212** | **86.08** | **191** | **297.11** | **111** | **-** | **-** |
| **JAPAN** | | | | | | | | | | | | | |
| Baillie Gifford Japanese** | | | 10 | -18.76 | 73 | 2.17 | 74 | 19.35 | 40 | 204.15 | 3 | 1.46 | 2930.20 |
| FSSA Japan Focus | | | 10 | -32.42 | 87 | 8.22 | 30 | 31.97 | 11 | - | - | - | 280.90 |
| JPM Japan | | - | 10 | -30.11 | 86 | 5.88 | 51 | 32.39 | 9 | 215.50 | 2 | 0.03 | 1130.20 |
| Jupiter Japan Income | | - | 9.5 | -13.69 | 58 | 9.00 | 25 | 32.95 | 8 | 171.85 | 10 | 2.38 | 922.10 |
| M&G Japan | NEW ENTRY | | 10 | -2.27 | 5 | 19.13 | 6 | 22.77 | 24 | 197.70 | 4 | 1.64 | 261.20 |
| **Sector Average** | | | | **-13.82** | **89** | **8.72** | **86** | **20.33** | **76** | **147.62** | **51** | **-** | **-** |
| **ASIA PACIFIC EXCLUDING JAPAN*** | | | | | | | | | | | | | |
| Alquity Indian Subcontinent**#^ | | | 10 | 16.74 | 2 / 21 | 75.10 | 1 / 21 | 45.18 | 10 / 18 | - | - | - | 20.00 |
| Baillie Gifford Pacific | | - | 8.5 | -17.60 | 114 | 54.65 | 2 | 74.45 | 2 | 256.07 | 1 | 0.39 | 2996.40 |
| Fidelity Asia Pacific Opportunities | | | 8 | -7.32 | 59 | 28.39 | 12 | 65.90 | 4 | - | - | - | 1333.00 |
| Fidelity Asian Dividend | | | 7.5 | 3.15 | 24 | 12.07 | 66 | 44.40 | 11 | - | - | 2.85 | 92.00 |
| FSSA Greater China Growth^ | | | 10 | -11.91 | 12 / 58 | 18.82 | 16 / 53 | 47.75 | 4 / 46 | 198.35 | 6 / 32 | 1.18 | 596.50 |
| GS India Equity Portfolio# | | | 10 | 7.99 | - | 71.84 | - | 63.97 | - | - | - | - | 1864.20 |
| Guinness Asian Equity Income# | | | 8 | 1.78 | 29 | 12.69 | 61 | 20.91 | 69 | - | - | 3.35 | 190.20 |
| Invesco Asian** | | | 8 | 5.89 | 5 | 28.12 | 13 | 36.03 | 19 | 194.52 | 4 | 1.50 | 1977.90 |
| Schroder Asian Income | | | 7.5 | 2.71 | 25 | 19.13 | 39 | 33.66 | 30 | 141.21 | 17 | 4.80 | 1254.50 |
| Stewart Investors Asia Pacific Leaders Sustainability | | | 7.5 | -2.62 | - | 31.64 | - | 53.95 | - | 162.95 | - | 0.26 | 7220.10 |
| **Sector Average** | | | | **-6.05** | **121** | **17.09** | **113** | **27.48** | **105** | **122.38** | **74** | **-** | **-** |
| **GLOBAL EMERGING MARKETS** | | | | | | | | | | | | | |
| Aubrey Global Emerging Markets Opportunities**# | | | 10 | -16.83 | 118 | 30.18 | 6 | 37.18 | 4 | - | - | - | 384.50 |
| Redwheel Global Emerging Markets# | | | 10 | -12.45 | 83 | 17.58 | 17 | 13.70 | 53 | - | - | - | 1462.10 |
| **Sector Average** | | | | **-11.71** | **156** | **5.07** | **138** | **8.62** | **118** | **63.85** | **82** | **-** | **-** |
| **GLOBAL** | | | | | | | | | | | | | |
| Baillie Gifford Global Discovery** | | | 8.5 | -38.41 | 486 | 3.69 | 398 | 46.19 | 224 | 288.62 | 15 | - | 1066.80 |
| Fidelity Global Special Situations | | | 7 | -1.24 | 236 | 31.38 | 168 | 58.47 | 146 | 275.32 | 25 | - | 3232.60 |
| Fundsmith Equity | | | 6 | -7.68 | 361 | 28.04 | 220 | 74.30 | 47 | 375.20 | 3 | 0.18 | 23877.70 |
| LF Blue Whale Growth | | | 8 | -21.18 | 458 | 16.68 | 348 | 65.83 | 98 | - | - | - | 833.50 |
| Montanaro Better World | | | 8 | -22.36 | 462 | 29.52 | 194 | - | - | - | - | | 695.50 |
| Ninety One Global Environment | | | 7.5 | -2.79 | 257 | - | - | - | - | - | - | 0.69 | 2003.80 |
| Pictet Global Environmental Opportunities# | | | 7.5 | -5.23 | 308 | 43.56 | 30 | 72.49 | 57 | 262.65 | 32 | - | 7149.00 |
| Rathbone Global Opportunities | | | 6.5 | -13.99 | 419 | 33.34 | 132 | 72.02 | 60 | 281.79 | 18 | - | 3528.00 |
| T. Rowe Price Global Focused Growth Equity | | | 7.5 | -13.26 | 415 | 47.89 | 16 | 101.07 | 6 | - | - | - | 484.00 |
| **Sector Average** | | | | **-2.89** | **488** | **28.71** | **407** | **52.59** | **337** | **181.56** | **219** | **-** | **-** |
| **GLOBAL EQUITY INCOME** | | | | | | | | | | | | | |
| Fidelity Global Dividend | | | 6 | 3.94 | 39 | 19.38 | 39 | 47.10 | 17 | 194.17 | 6 | 2.79 | 3313.00 |
| FTF ClearBridge Global Infrastructure Income^ | | - | 5 | 26.26 | 2 / 25 | 45.98 | 2 / 24 | 69.41 | 1 / 15 | - | - | 4.50 | 1602.70 |
| Guinness Global Equity Income# | | | 6.5 | 12.63 | 6 | - | - | - | - | - | - | 2.40 | 7.10 |
| M&G Global Dividend^ | | | 7 | 10.18 | 12 | 34.18 | 8 | 58.67 | 10 | 187.01 | 8 | 2.84 | 2314.70 |
| TB Evenlode Global Income | | | 6 | 2.93 | 42 | 20.83 | 35 | - | 1 | - | - | 2.00 | 1631.00 |
| **Sector Average** | | | | **5.49** | **56** | **23.23** | **52** | **40.67** | **47** | **145.31** | **27** | **-** | **-** |
| **MISCELLANEOUS*** | | | | | | | | | | | | | |
| AXA Framlington Global Technology | | | 10 | -10.36 | 11 / 30 | 54.96 | 9 / 27 | 136.06 | 8 / 23 | 480.18 | 5 / 13 | - | 1277.50 |
| CT European Real Estate Securities | | | 7 | -21.95 | - | -4.94 | - | 7.96 | - | 138.86 | - | | 31.00 |
| Fidelity Global Technology | NEW ENTRY | | 10 | 1.32 | 3 / 30 | 76.12 | 3 / 27 | 162.80 | 3 / 23 | 661.43 | 1 / 13 | - | 11738.70 |
| Jupiter Gold and Silver# | | | 10 | -9.23 | - | 7.03 | - | 14.83 | - | - | - | - | 682.20 |
| Jupiter Financial Opportunities | | | 8 | -19.25 | 10 / 14 | 1.95 | 10 / 13 | 27.96 | 8 / 11 | 152.92 | 6 / 8 | 1.62 | 465.30 |
| M&G Emerging Markets Bond | | | 4.5 | -3.61 | 9 / 24 | -5.61 | 7 / 23 | 9.68 | 4 / 17 | 73.16 | 1 / 7 | 6.19 | 841.50 |
| Polar Capital Biotechnology# | | | 10 | 3.46 | - | 77.14 | - | 100.55 | - | - | - | - | 1379.90 |
| Polar Capital Healthcare Opportunities# | | | 8 | 6.98 | 8 / 18 | 41.03 | 8 / 14 | 75.03 | 6 / 12 | 403.02 | 1 / 7 | - | 1448.00 |
| VT Gravis UK Infrastructure Income | | | 4.5 | 6.65 | 21 / 25 | 19.12 | 16 / 24 | 36.65 | 10 / 15 | - | - | 3.99 | 855.60 |

Environmental, social and governance (ESG) funds
Funds featured in The Chelsea Core Selection (see pages 10-15).
Funds that are Elite Rated by FundCalibre.
Funds that are on FundCalibre's Elite Radar (see FundCalibre.com for further details). FundCalibre is an appointed representative of Chelsea Financial Services.

**Source:** FE fundinfo, IA (Investment Association) universe, total return from main units (unless the fund has an income mandate, in which case the income share class of the main unit has been used). All figures for period up to 12/09/2022 as at 13/09/2022.

Yields per annum as at 13/09/2022 taken from income unit where applicable.

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

* 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.

** The history of this fund has been extended at FE's discretion to give a sense of a longer track record of the fund as a whole.

† 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. Please visit chelseafs.co.uk for full Terms & Conditions.

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

# UK vs US
## A VIEW FROM ABOVE

**STEVEN BELL**
Chief Economist,
**EMEA, Columbia Threadneedle**

*Across the pond, 4,000 miles from us, the US economy is suffering from the same post-Covid issues. But is it faring any better? Would you be better off investing here or there? We kick off this feature with Steven painting the macroeconomic picture for us, then move on to two managers who invest in the UK and two in the US to give us some insight.*

Financial markets face a long list of challenges: surging inflation, fears of recession, sky-high energy prices and political uncertainty. The Russian invasion of Ukraine is a tragedy for the Ukrainian people and has cast a long shadow over global markets in general and Europe in particular.

Global recession is my central scenario. Coupled with high inflation and rising interest rates, this does not constitute a favourable background for risk assets. US inflation may have come off the boil recently but the strength of wages and rents there mean that the US Federal Reserve will have to engineer a recession to get inflation down towards their 2% target. Gas prices are set to push the eurozone into recession over the winter. The UK government's massive energy support programme has probably averted recession this winter but risks remain further out.

### IT'S NOT ALL BAD

Having said that, there are reasons to be optimistic that we will see the resumption of an equity bull market as 2023 develops. First and foremost, while gas prices in Europe are set to remain high, they are already well below the peak seen in August. Much depends on the weather this winter both here and in North Asia, who also compete for gas supplies. But I'm confident that they will not increase at anything like the pace seen this year. Supply and demand have already started to adjust to the high prices. The full adjustment will take time, many years, but I'm confident that gas prices will be headed down. Sourcing LNG from the US is an easy win. Prices there are a fraction of those in Europe, but trade has been constrained by a fire which put a huge terminal in Texas out of action for much of this year. It will reopen shortly at 85% capacity and should hit full capacity next spring.

Other commodity prices are also falling. Oil prices are well below the peak seen in the spring. The recession in Chinese construction has led to significant declines in industrial metal prices. Agricultural prices have already started to fall in terms of US dollars, though sterling weakness has offset that for the UK. At least they are no longer rising rapidly.

This means that inflation in Europe and the UK should fall swiftly in 2023. There are other sources of inflation, notably wages, but the expected recession will cool these pressures too. Liz Truss' energy support scheme will knock five percentage points off consumer prices over the next two years. After a year in which wages have accelerated but still failed to keep up with inflation, 2023 may see the process operating in reverse. The new government is taking a big gamble. A warm and windy winter would limit energy demand and increase alternative supplies and keep the cost of the energy price cap down. Liz Truss needs a fair wind in more ways than one. The risk for the UK is that we get a full-blown financial crisis. More on this later in the article.

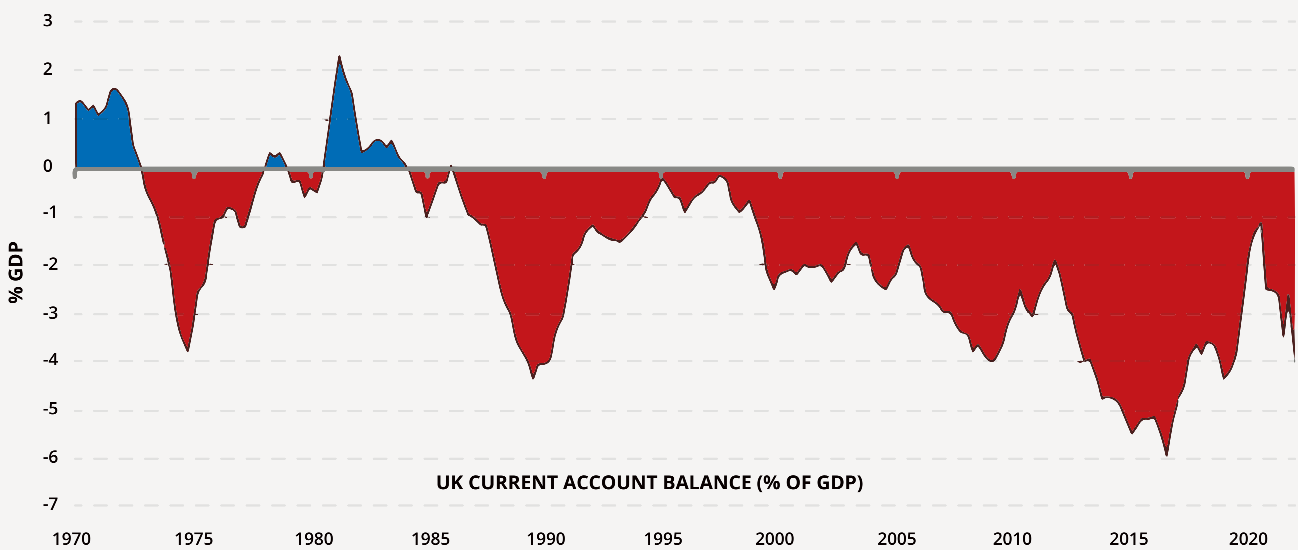
## MEANWHILE IN THE US...

As far as the US is concerned, we expect the economy to buckle over the winter under the pressure of Fed tightening. Corporate earnings are likely to suffer in this process. US equities have fallen in every US recession since the war and I do not expect this time to be different. However, history also suggests that equities start to recover well before the end of the recession and there are good reasons to expect this upcoming recession to be brief. US labour markets are highly flexible and wages will quickly slow once employment starts to decline. In addition, US inflation will be depressed in 2023 by a host of other factors. Global commodity prices are falling – US consumers do not pay anything like the same price as their European cousins for natural gas. Supply constraints are easing. Used car prices, which doubled during covid, are beginning to fall, and this will also see auto rental rates fall. Tackling US inflation does require tough action by the Federal Reserve. They left it too late to apply the brakes. But the great imbalances that typically foreshadow a deep recession are absent from the US economy.

While the UK may avoid recession this winter, all that fiscal stimulus will boost inflation pressures. The Bank of England will have to raise interest rates faster and further as a result. They may struggle to get much help from the currency. Sterling has been weak: this is partly because other central banks have also been raising rates and safe-haven demand has boosted the dollar. The UK's fiscal splurge will also widen the current account deficit. The UK has run a deficit consistently for decades and may hit 10% of GDP in the next year. This is unsustainable territory. Stable sterling requires constant capital inflows - tough to maintain if financial markets are nervous. This increases the risk of recession further out. If we do get a big rise in mortgage rates, house prices, already slowing, could start to decline. It could be a rocky road for the new Prime minister.

2022 was a miserable year for investors, with bonds and equities suffering. As we move into 2023, the dark clouds are likely to continue initially but, before long, I expect a much brighter period for global stock markets. By the end of the year, we should see falling inflation, stable interest rates, economic recovery and rising equities.

## UK BALANCE OF PAYMENTS IS A SEA OF RED




**Source:** Columbia Threadneedle Investments and Bloomberg as at 25 August 2022.

**SID CHAND LALL**
Manager,
**IFSL Marlborough Multi-Cap Income**
Elite Rated by FundCalibre

For investors taking a long-term perspective, we believe that the indiscriminate nature of this year's stock market sell-off has left many high-quality UK businesses, particularly smaller companies, looking significantly undervalued.

The market falls have enabled us to invest in well-managed companies, which have strong growth prospects and are paying attractive dividends, at valuations substantially lower than they were a year ago.

The long-term opportunity in UK equities is further reinforced by the fact that more than six years after the Brexit vote, the UK market still remains at a discount relative to the US and other comparable markets. We do not believe this will last forever.

## SPOILT FOR CHOICE

The UK stock market is a rich hunting ground for opportunities. Our multi-cap approach means we have around 700 dividend-paying companies to choose from and we can select the most attractive opportunities among businesses of all sizes. We favour small-cap and mid-cap companies because of their superior long-term growth potential and because, in our experience, they are more likely to pay the growing dividends we look for.

**Paragon Banking Group** is a good example of a mid-cap UK company we believe looks undervalued relative to its strong prospects and we also expect it to benefit from rising interest rates. The bank specialises in buy-to-let mortgages and lending to small and medium-sized enterprises (SMEs). These are markets Paragon believes are under-served by the larger High Street banks and the company's vision is to become the UK's leading technology-enabled specialist bank. The business has succeeded in delivering strong dividend growth, with its most recent interim dividend up just over 30% on the previous year.

Pet supplies retailer **Pets at Home** was a beneficiary of the surge in ownership of dogs and other animals during the pandemic, but has fallen out of favour with investors more recently. However, we believe this is a well-managed business with strong long-term growth potential that is being underappreciated. The mid-cap retailer's most recent final dividend was up 36% year on year and it is forecast to increase dividends by another 10% this year.

**Safestore** is another FTSE 250 company we believe looks significantly undervalued after the market sell-off. It is the UK's largest provider of self-storage facilities and the second biggest in Europe. This is a strong, resilient business with 'pricing power' that has enabled it to edge up prices to help offset inflation. Safestore increased its most recent interim dividend by 25% year on year and is forecast to grow dividends by another 10% this year.

## PAYS DIVIDENDS

The UK has a stronger dividend culture than the US and we believe these dividends can make an important contribution to investor returns in a wide range of market conditions. When stock markets sell off, the income from dividends means investors get paid to wait for markets to recover. When stock markets are making modest gains, then a dividend yield of more than 4%, which is what we have generally delivered historically (although this is not a forecast or guarantee), can make a meaningful contribution to total returns. Then, in a scenario where stock markets bounce back and returns are strong, dividends can still enhance the total return via the power of compounding growth when the income is reinvested.

We believe this year's sell-off has created an exceptional opportunity to invest in quality, dividend-paying UK companies at a significant discount. We expect stock markets to recover in due course – and dividends mean we are being paid to wait. In the meantime, using a selective approach, we are taking advantage of the attractive long-term opportunities on offer.

## THE CHELSEA VIEW

This is a well-resourced fund offering something radically different from the majority of its peers. The team is renowned for its experience in this area of the market, and they like to take advantage of small-cap opportunities which other managers often ignore. Their acclaimed stock-picking ability has led to significant outperformance since the fund launched in July 2011.

**Chelsea Risk Rating:** .................. 7
**AMC:** ............................... 0.75%
**OCF:** ............................... 0.90%
**Yield:** ............................. 5.19%*

**This is the historic yield as at September 2022. Income from the fund is not guaranteed and can fluctuate.*


**ALEX SAVVIDES**
Fund manager,
**J O Hambro Capital Management UK Dynamic**
Elite Rated by FundCalibre


It is perhaps sad but true that the FTSE 100 is probably one of the best hunting grounds for me. The index is packed full of established companies that generate cash flow, but do not necessarily excite with their growth prospects or innovation.

However, at the start of 2021 I noticed a trend beginning to occur – I was finding more and more opportunities within the most unloved parts of the FTSE 100. In fact, the weightings to these parts of the market were the highest they've been in this fund in years.

## UK BUSINESS GOLDMINE

The FTSE 100, in parts, is ludicrously cheap. There is not just value, but deep value. But cheapness alone is not good enough. Whilst I do not use the word value as a pejorative term (as many seem to), I do think that value needs to be attached to three things in order to get the best out of it: management change, strategic change and hidden growth.

As a business transformation investor focused on the UK, I rarely get the chance to invest in disruptive businesses. My usual market is companies that are more established, going through challenging periods but under new management. These executive boards are armed with new strategies and ultimately want the companies to become better versions of themselves.

Companies are forever changing. Yet often, the accompanying investment narrative is slow to catch up, and the valuation is backward-looking as the pain of recent experience leaves lasting scars. Hence some stocks, regions, indices or even styles can become mistrusted and fall out of favour. The UK and the stocks listed there have rarely been more out of favour.

I look for 'value creating' management teams. Business transformation does not happen in isolation, there must be an agent for change, and that agent has to have full stakeholder support and exhibit real commitment to better capital allocation.

## WHAT NOW?

The fallout from the pandemic has resulted in supply shocks, energy crises and a soaring inflation narrative. So large global asset allocators are trawling around for things to buy and are spurred on by strategist siren calls, evidenced by the scale of recent corporate activity in the UK market.

What are those asset manager eyes seeing in the FTSE 100? Yes, an index full of old-world energy, pharmaceuticals, materials, banks, insurance companies and telecom stocks that might just benefit from this new inflation narrative but a world where value just might not be a dirty word anymore. They see so much more. They see large, established and highly cash-generative companies with real asset bases and real market positions being aggressively managed for change to fight the successive and often existential threats they might face.

They see companies, often with new boards, committed to dealing with their issues, allocating capital accordingly, and making revolutionary strategic decisions that call into question the very basis on which I have thought about and valued these shares for many years. They have rebelled against their own extinction, becoming better, less challenged versions of themselves. Results are most definitely therefore improving.

## WHAT'S NEXT?

Regardless of the fear and mistrust with which the market is meeting the new Government's economic policies, there is no doubt that the policies are hugely supportive of UK corporate profitability, UK investment and UK growth. So coupled with the record low valuations, I have no hesitation in continuing to back UK PLC.

## THE CHELSEA VIEW

Alex has managed the fund since its inception in 2008. He is a manager with strong opinions and is not afraid to be different. His willingness to have conviction in periods of uncertainty for a stock means the fund will look and behave differently to the market. This is a true multi-cap fund.

**Chelsea Risk Rating:** ..................6.5
**AMC:** .............................. 0.63%^*
**OCF:** .............................. 0.66%^*
**Yield:** .............................. 2.27%

*^Includes Chelsea discount * A performance fee may be applied. See the Key Investor Information Document for further details.*

**JAMES THOMSON**
Fund manager,
**Rathbone Global Opportunities**
Elite Radar by FundCalibre

There's no denying that investor sentiment is at multi-decade lows – most investors expect an economic disaster, but with headlines screeching doom and gloom, who can blame them? Bearish sentiment is at its fourth highest level in the past 20 years; bullish sentiment is at 30-year lows. Many equity market segments are down 60-80%. On the flip-side, Google search trends for the word "recession" have reached the highest ever – a great contrarian indicator? Well, if there's no recession – and it may be a big 'if' - then equities look way too cheap.

It's fair to say that over the last 10 years or so, we have gone from an abundance of growth to scarcity of growth. Growth stocks outperform when widespread economic growth is hard to find – well that's the world we are in and probably the world we'll be in 2023.

## WHY AMERICA?

Our key exposure is to the US, with more than 2/3 of the fund now invested in the region. Why? Because that's where I believe the growth to be. US companies are growing profits more than 4x faster than the rest of the developed world and many of those competitive advantages, in my view, are permanent.

One of the main arguments I come up against is that the US is expensive. Yes, it is, but that's different to being 'over-valued'. Investors tend to put a premium on quality, and a discount on companies that are highly sensitive to the vagaries of the economic cycle, or 'cyclicality'. 'Cheapness' is a poor predictor of future returns. By way of a poignant example, if you're looking for a market on a cheap valuation, I would point you to the Russian equity market, which is on a price/earnings ratio or 'P/E' of 4x - that was just before it dropped 50%. A high P/E suggests that investors expect a high level of earnings in the future, and that growth will be strong, and conversely, a low P/E suggests low expectations. In Russia's case, there's a reason for that, not least of all because of the war and because it's filled with highly volatile commodity-sensitive businesses that have little predictability.

## WHY NOW?

Since the start of the year, 50% of Nasdaq is down more than 50%, so a lot of pain has already been worn. Hit hardest have been those big tech names, such as Nvidia, and consumer discretionary companies, including Amazon. The best performers, and the ones I don't and will not own, are oil & gas companies, miners, utilities, and thermal coal and tobacco businesses – all of which have those more volatile profit streams we've been discussing. I run a growth fund, so I'm not going to 'value wash' the fund, suddenly change tack and chase short-term performance. Besides, valuation on its own is a very poor predictor of future stock market performance – in fact the correlation is almost zero. The value 'love-in' that we've seen in recent months is like watching a sunset – a sense of wonderment until it all gets a bit cold. In my view, this pullback is providing a great opportunity to right past wrongs and invest in those companies that I missed the first time around. So, I've been buying out of favour growth companies such as Apple, Coke, Home Depot, LVMH, and Formula One. I just invested all my kids' ISAs into the fund because these are the sorts of businesses that should be owned for many years, if not decades.

Could we be in just another false dawn, another failed bear market rally? Potentially.  But I still think, with a multi-year investment horizon, we will make outstanding returns.

## THE CHELSEA VIEW

With one of the strongest track records in this sector since the fund's inception – lead manager James Thomson heads up this truly active and unconstrained growth fund that looks to buy innovative companies that have flown under the radar of the main market. He operates a refreshingly honest approach where he is not afraid to admit past mistakes and weaknesses.

**Chelsea Risk Rating:** ................. **6.5**
**AMC:** ................................ **0.75%^**
**OCF:** ................................ **0.77%^**
**Yield:** ..................................... **–**

*^Includes Chelsea discount.*

## HUGH GRIEVES

Fund manager,
**Premier Miton US Opportunities**
Elite Rated by FundCalibre

"There is a Providence that protects idiots, drunkards, children and the United States of America" said Otto von Bismarck (Chancellor of Germany 1871-1890). In an uncertain post-pandemic world, buffeted by war, price instability and rising interest rates, America still today appears advantageously well-placed for investors.

After more than 20 years of globalisation and deflation (a general reduction in prices in an economy), the world order has pivoted sharply, and old certainties have been discarded. Until recently, investors have been able to comfortably profit from purchasing less economically-sensitive 'growth' companies and long-dated bonds (i.e. those with long-term maturities), and then watching valuations inexorably increase with ever lower interest rates. The future however, may be the opposite; deglobalisation in the face of mounting international tensions and the pandemic's exposure of fragile, trans-oceanic supply chains. The increased cost of production, energy and raw materials are inflationary, which consequently is causing central banks to raise interest rates as they attempt to alleviate price pressures.

## THE US DOES IT DIFFERENTLY

Some economies however, like the US, appear inherently better placed to withstand these tectonic shifts than others. Firstly, America is a net exporter of energy and so enjoys the security of supply as well as lower prices than Europe. The price for natural gas in America is approximately one quarter of that in the UK (source: Bloomberg). Secondly, rising mortgage rates have a more limited impact in the US given that American mortgages are generally fixed for 30 years, giving most US households little to fear from today's rising interest rates. Thirdly, America enjoys a more flexible labour market, with limited collective wage bargaining, compared with Europe. This makes a destructive spiral of rising prices, resulting in rising wages, much less likely in America and therefore inflation less difficult to control. Finally, according to Moody's Analytics, US consumers built up an enormous cash cushion during the pandemic, aided by generous government stimulus cheques, totalling $2.6 trillion (12% of US GDP) which will help support consumer spending in the coming years.

## SIZE MATTERS

Not all US-listed companies will benefit though. The commonly-followed, large company S&P 500 Index is dominated by technology behemoths like Apple, Amazon, Facebook and Google, which were big pandemic "winners". Now they face not just slowing growth as the pandemic tailwinds fade away, but also, they all have significant exposure to weakening overseas markets. This is compounded by having to sell in local currencies that are falling in value, so lower profits are worth even less when repatriated home.

Instead, investors can consider small and mid-sized businesses that are more concentrated inside America; companies that can benefit from America's fortunate position. In a rapidly changing world, these safe and predictable companies can be attractive. An example in our fund would include Graphic Packaging, a leading manufacturer of printed cardboard of the type used for cereal boxes and food can packs. After years of limited growth and industry consolidation, volumes are growing once again as consumers favour goods with recycled cardboard packaging over plastic. But now the company can also raise prices too as higher energy costs in Europe enable the company to produce at less than 20% of the cost of European competitors (source: Graphic Packaging Q2 2022 Earnings Call). Another example in our fund would be Vulcan Materials, a large aggregates producer. Boosted by the infrastructure investment bill agreed early in the Biden presidency, and healthy commercial demand supported by companies 're-shoring' production and having to invest in new factories and warehouses, demand for stone remains high whilst supply is limited by environmental restrictions on new quarries.

Since the pandemic, the investing landscape has changed profoundly, and earlier successful investment strategies have unravelled. At least within America, there is one economy which is well placed to weather the turbulent winds sweeping the globe better than others, providing a relatively stable opportunity for growing investors' capital.

## THE CHELSEA VIEW

We think the fund has an excellent, well-defined process, whilst its managers also have the flexibility and pragmatism to adjust the portfolio to different market environments. We like its ability to invest down the market cap spectrum. Nick and Hugh are both highly experienced. Performance has been strong since launch in 2013.

**Chelsea Risk Rating:** ................. **7**
**AMC:** ................................ **0.75%**
**OCF:** ................................ **0.83%**
**Yield:** .................................... **–**

# FIGHTING INFLATION

*We know that many of you are concerned about inflation, not just in terms of worrying about ever-rising bills, but also how to protect your savings and investments. So we've highlighted two funds here, which can help mitigate the effects of inflation and the managers talk to us about how they are fighting the effects of inflation.*

**SHANE HURST**
Co-portfolio manager,
**FTF ClearBridge Global Infrastructure Income**

## INFRASTRUCTURE'S INFLATION HEDGE

With equities weaker in 2022 and trading on fast-moving events such as the Fed's aggressive rate hikes and the war in Ukraine, infrastructure's long-term proposition has been looking more attractive to investors. This is because infrastructure returns are driven by investment plans in essential services, which span ten or more years into the future, accelerate over time, and provide considerable predictability compared with more volatile equities.

The relative predictability of infrastructure returns is delivered by regulated and contracted assets, which are our focus as we build infrastructure portfolios. With regulated assets such as water, electricity and gas transmission and distribution, a regulator determines the revenues a company should earn on its assets. Because demand for these assets is steady and the regulator determines revenue, this mechanism leads to a relatively stable cash flow profile over time. Additionally, regulated assets are often monopolies, typically defensive and generate high amounts of income.

We also focus on user-pays assets, which include airports, ports, rail and toll road infrastructure — these are long-term concession contracts leveraged to the growth in the underlying economy, which is to say to the volumes of people and cargo flying, moving through ports or along railways.

For both infrastructure and utilities, dividend yields are attractive and, in our portfolios, have historically grown above inflation, closely tracking the asset growth of the underlying companies.

## REGULAR AND RESILIENT

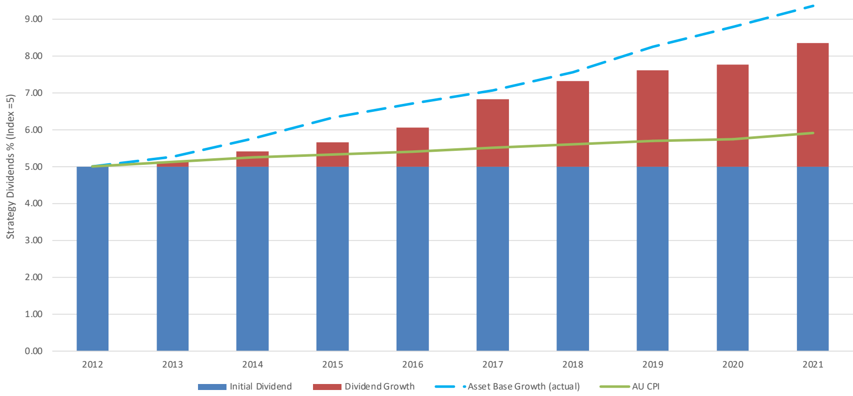
Long-term contracts, either regularly reviewed to ensure appropriate revenue or leveraged to economic growth, make these assets excellent hedges for inflation. In other words, infrastructure is able to adjust to inflationary environments due to the largely pre-programmed way it builds inflation into regulation and contracts.

Regulated utilities, for example, regularly reset their allowed returns with regulators to account for inflationary cost increases. Here we like NextEra Energy, an integrated utility with a regulated utility operating in Florida and the largest wind business in the U.S. Almost 100% of its businesses are either regulated or under long-term contracts, providing cash flow stability and inflation protection.

User-pays assets, such as toll roads or rail, also generate inflation-linked revenues. A good example would be Australian toll road operator Transurban, which owns a suite of intra-urban toll road assets that dominate the Australian toll road network as well as several toll roads in North America, predominantly in the Washington D.C. area. It has strong concession agreements with toll price escalations at or above inflation for Australian assets and resilient traffic growth on intra-urban routes.

## FUTURE PROSPECTS

We believe the opportunity set for infrastructure investors is only set to grow. Infrastructure is at the heart of decarbonising our societies and providing better, more resilient services in the face of a changing climate. These factors should act as powerful drivers for growth and dividends for infrastructure companies and offer the savvy investor access to inflation-linked and defensive qualities, given their essential nature.




## THE CHELSEA VIEW

Shane Hurst manages this fund alongside three others with the fund's primary goal to provide income to investors. The fund has consistently outperformed the sector and that's no surprise considering his history of foresight in predicting future macroeconomic conditions. This has allowed him to appropriately adjust his portfolio to successfully mitigate the effects of rising inflation.

**Chelsea Risk Rating: .................. 5**
**AMC: .............................. 0.75%**
**OCF: .............................. 0.85%**
**Yield: ............................ 4.50%**

**ALEX ARAUJO**
Fund manager,
**M&G Global Themes**

## KEEPING IT REAL – THEMATIC INVESTING IN AN INFLATIONARY WORLD

The return of inflation, exacerbated by a spike in energy prices in the wake of Russia's military intervention in Ukraine, has been the defining feature of financial markets in 2022. Central banks have been slow to acknowledge the new reality, interest rates are rising at a pace not seen in decades, and investors are coming to terms with the prospect of a recession and its potentially damaging consequences for the world at large.

The stockmarket's reaction to these challenges has been stark. Energy has been the standout sector as a beneficiary of higher oil and gas prices, defensive stocks have provided a safe haven in an environment of uncertainty, and growth stocks, many of which commanded exorbitant multiples, have been decimated as higher bond yields triggered a reappraisal of how financial assets are priced. The triumph of the new economy has quickly turned into a painful comeuppance.

## MAINTAINING FOCUS

Medium- to longer-term, we Thematic funds, which are often associated with exuberant growth, have suffered in this new market regime, but this does not mean that thematic investing is a busted flush. It merely highlights the need for discipline. Fundamentals and value are the key determinants of long-term returns, in our view, not just growth in isolation. Recent events serve as a telling reminder that investors ignore valuation at their peril. Investors need to keep it real, both figuratively and in an economic sense.

Valuation is a key consideration in our stock selection process to focus the portfolio on attractive investments, not just novel concepts. Investors have a habit of chasing the latest fashion with scant regard for the price they are paying, a behavioural trait which, as we have seen, can be detrimental to investment performance.

It is also important that thematic portfolios are sufficiently diversified to be able to cope with a variety of market conditions. We apply a flexible and dynamic approach for the M&G Global Themes Fund, with the current portfolio focused on eight granular themes across four overarching trends.

## INFLATION BENEFICIARIES

Our approach to portfolio construction is not driven by traditional sector definitions, but it is also a reality that the fund has a large overweight in utilities, a sector which offers inflation protection by way of index-linked revenue as well as the structural growth in renewables and the energy transition. NextEra Energy, the world's largest producer of wind and solar energy, and Enel, an Italian utility undergoing rapid decarbonisation, are core holdings in our theme of 'the road to zero carbon' under the broader concept of 'environment'.

The fund's largest holding, PrairieSky Royalty, is another beneficiary of the current inflationary environment. The Canadian company, which receives royalties from oil & gas-bearing landholdings, has returned more than 30% this year in local currency. We believe that the cashflows running into perpetuity with minimal operating costs, capital commitment or environmental liabilities present a compelling opportunity, with the added benefit of industry-leading credentials for ESG and sustainability. PrairieSky belongs to the theme of 'providing for life's essentials' under the overarching trend of 'infrastructure'.

We are resolutely focused on the multi-decade trends that underpin our thematic approach and remain as optimistic as ever about the growth opportunities provided by structural change in economies and society. The market downturn has led to increased nervousness, but we strongly believe that the volatility we are seeing is presenting attractive entry points for investors with a long-term investment horizon. We remain true to our investment mantra: themes grounded in reality.

| Theme | Overarching trend | Fund weighting % |
|---|---|---|
| Living longer, healthier and smarter | Demographics | 24.6 |
| The 21st Century urbanite | Demographics | 12.0 |
| The road to zero carbon | Environment | 14.1 |
| The circular economy | Environment | 2.0 |
| The multi-trillion-dollar shortfall | Infrastructure | 6.0 |
| Providing for life's essentials | Infrastructure | 11.0 |
| Cloud and connectivity | INNOVATION | 19.5 |
| The changing face of mobility | INNOVATION | 9.7 |

## THE CHELSEA VIEW

Alex Araujo and Stuart Rhodes took over this fund in January 2019 after a succession of previous managers. They have revised the fund's investment approach to invest in four structural trends - demographics, environment, infrastructure and innovation - and integrated ESG factors into the process. The fund has outperformed since the beginning of their tenure.

**Chelsea Risk Rating:** ............... **7.5**
**AMC:** ................................ **N/A**
**OCF:** ............................... **0.86%**
**Yield:** ............................. **1.19%**

# VENTURE CAPITAL TRUSTS (VCTS)
## AN OVERVIEW

**PETER HICKS**
Research analyst
Chelsea

## WHAT ARE VCTs?
VCTs are high-risk investments because they invest into a portfolio of small, unquoted and illiquid companies. They play an important part in the economy because they support the best of British by backing small businesses with big futures. To encourage investment, the government offers generous tax benefits because these new companies create jobs and support growth.

## YOU MUST ACT QUICKLY
VCTs have been popular for a number of years now but have become even more popular since the pension annual allowance caps. VCTs are selling out in record time this tax year and, if you want to invest, you must act quickly.

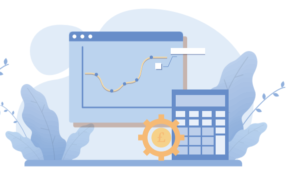
## TAX BENEFITS FROM VCTs

- INITIAL INCOME TAX RELIEF OF 30% (IF HELD FOR 5 YEARS)
- TAX-FREE DIVIDENDS
- FREE OF CAPITAL GAINS
- INVEST BETWEEN £3,000 AND £200,000 EVERY TAX YEAR

## TAX RELIEF EXAMPLE

INITIAL INVESTMENT
**£10,000**

30% INCOME TAX RELIEF
**£3,000**



70% EFFECTIVE INVESTMENT COST
**£7,000**

| NAME OF VCT | TYPE OF VCT | MINIMUM INVESTMENT | INITIAL CHARGE | CHELSEA DISCOUNT | CLOSING DATE ^ |
|---|---|---|---|---|---|
| **Hagreave Hale AIM VCT** | AIM | £5,000 | 3.50% | 2% | 28/10/2022 for 1% early bird saving |
| **Mobeus VCTs** | Generalist | £6,000 | 3.00% | 0.5% + **one-off cashback!*** | 27/03/2023 |
| **Pembroke VCT** | Generalist | £5,000 | 5.00% | 2.0% for new investors, 3% for existing investors + 0.5% Early-Bird saving until 31/12/2022 (capped to the first £5 million received from new investors and first £5 million received from existing investors) + **one-off cashback!*** | 31/12/2022 for 0.5% early bird |

*Cashback will be paid by cheque. Terms and Conditions apply, see webite for details
^ Subject to remaining capacity. VCT raises often sell out well before the offer closing date.

## DON'T MISS OUT – JOIN THE CHELSEA VCT MAILING LIST TODAY
Please contact Peter on either **020 7384 7300** or **peter@chelseafs.co.uk** to receive notifications and personal service.

*Despite the wider economic gloom, Chancellor, Kwasi Kwarteng, has announced VCT schemes will extend beyond their current 2025 deadline, in a bid to boost UK entrepreneurship. Here are a trio of VCT offers investors may want to consider.*

## PEMBROKE VCT

Pembroke VCT was established almost a decade ago to help provide investors with the opportunity to access some of the UK's most exciting and innovative smaller companies. The 40-strong portfolio of growth-stage companies is managed by a subsidiary of private equity firm Oakley Capital – a business founded by entrepreneur Peter Dubens.

The portfolio primarily targets businesses in the design, education, food, beverage & hospitality, wellness, digital services and media sectors. The team have taken advantage of a number of major shifts in consumer behaviour. A good example of this is in the wellness sector, where the team have highlighted a growing move towards personal and at-home wellbeing. One holding in the portfolio is nutraceutical company Lyma, which has successfully gained approval for the world's first at-home, medical-grade beauty laser light. Additionally, Lyma sells skincare products designed to augment the laser's transformative results. The VCT's original investment in the business has already grown eight-fold.

Other examples include burger chain Five Guys and photobook app Popsa. The latter is a disruptor in the photobook space, with its app using proprietary machine learning algorithms, allowing customers to produce photobooks in as little as 5 minutes.

The portfolio has demonstrated a lot of resiliency amid the challenges of the past few years. The dividend target has been increased from 3 to 5p, and over the last two financial years it has successfully returned 7p per annum - having already paid 5p in June this year following the successful exit of womenswear brand ME+EM.

## HARGREAVE HALE AIM VCT

Hargreave Hale AIM VCT is a well-established product in the VCT market, having grown consistently since its launch almost two decades ago. The VCT currently invests in 70 qualifying companies, the majority of these are AIM companies with a handful of unquoted businesses.

The team specifically targets businesses with strong management teams, intellectual property, high cash generation & strong balance sheets. There has been a raft of successful investments throughout the life of the VCT, with five existing holdings now worth more than £1bn. Examples of current AIM-listed companies include Abcam, a supplier of protein research tools to life scientists, and Learning Technology Group, which provides e-learning services to both businesses and the private sector. On the unquoted side, the portfolio includes a position in Gousto, a data-driven business that delivers recipe boxes to the home.
The VCT also holds positions in the Marlborough Special Situations fund, UK main market equities, fixed income securities and cash to help it manage liquidity.

With net assets of £179.9m, the VCT also targets an annual dividend of 5% NAV, although this is not guaranteed.

## MOBEUS VCTS

In October 2021 Mobeus Equity Partners sold its VCT fund management business to Gresham House plc to form one of the largest teams in the industry. Gresham House plc is an alternative asset manager with a long- term commitment to the VCT industry with over £7 billion in assets under management*.

Mobeus has a balanced stock-picking approach, investing primarily in unquoted companies, and a mix of early-, mid-, and late-stage capital expansion deals. Although there is no sector bias, the current portfolio is heavily focused in the fast-growing sectors of e-commerce, software and computer services.

Mobeus has a strong track record of successful exits; between 1 January 2017 and 30 June 2022, 19 full exits were made, with £268m in cash proceeds realised from a cost of £103m. 2021 was an active year of partial realisations (MyTutor and MBP at 2.7x and 7.8x respectively) and the floatation of two businesses onto AIM (Parsley Box at 1.6x and Virgin Wines at 3.5x over cost).

*as at 30 June 2022

# FUNDS UPDATE

UPDATE

## JOSS MURPHY
Junior research analyst
**Chelsea**

### JUPITER UK MID CAP

The fund has delivered excellent performance for a long time but is now struggling as its growth style has gone out of favour. The fund is experiencing heavy redemptions making it difficult to manage. Another issue is the fund's exposure to illiquid private companies. This exposure is almost entirely through Starling Bank which is now profitable and makes up almost 9% of the fund. Articles in the press suggest Jupiter is close to selling this holding but it is likely to be sold at a discount. It's not clear how this is currently being accounted for in the fund's value by the fund accountants. We do like the manager, he has a good long-term track record, but due to redemptions and illiquid holdings we have given the fund a generic switch rating.

### FUNDSMITH EQUITY FUND

Growth strategies have fallen out of favour this year, in part due to sharp rises in global interest rates eating away at the value of these stocks' prospective earnings and thus dampening investor sentiment. Despite these headwinds, Terry Smith's Fundsmith Equity fund has held up better than similar strategies. We recently had an update with Julian Robins, Terry's number two and head of research, who talked through the fund's performance and outlook for the future. It's clear from our meeting that the fund is in capable hands. Fundsmith's exceptional run of outperformance was inevitably going to see a bad year at some point and, despite how good a manager he is, he won't always be able to outperform. This year of mild underperformance was to be expected and it in no way changes our positive view on Fundsmith, which we expect to continue to do well over the long term.

### FIDELITY AMERICAN

Jon Guinness co-manages the fund with Sam Thomas. They aim to combine the strength of Fidelity's research team with their own experience – Jon has worked at Fidelity for over 15 years – to build a concentrated portfolio of growth stocks which have the ability to lead their industries. The managers work closely with the Fidelity analysts' team to conduct fundamental stock research. However, the fund has consistently underperformed its peers over a sustained period, and we feel that there are more appealing alternatives amongst its peers.

### MARTIN CURRIE JAPAN

Long-serving Japanese equity veteran, and previous manager, Hideo Shiozumi has stepped down from active management on this fund leaving two new recruits Paul Danes and Reiko Mito as joint managers of this fund. Shiozumi is one of the most famed Japanese fund managers and will undoubtedly be hard to replace, however having recently seen the new hires at their office they both left reasons for optimism in this fund's future performance. They also have experience running funds of similar styles, with many of the same holdings and made it clear that they would not significantly change how the fund was run but rather respect Shiozumi's philosophy that has brought so much success over the previous decades. Thus, although we believe in the capabilities of the new team, the wholesale change in management has led us to move the fund to a hold rating while we monitor their performance.

### BUY

This indicates a generic, not personal, buy rating for the fund. Chelsea believes the fund could perform above the sector average and that the fund has been, and will continue to be, managed well by the current fund manager. A buy rating is not to be considered as advice on which sector to invest in, nor an indication that funds in that sector are currently performing well.

### HOLD

This indicates a generic, not personal, hold rating for the fund. The fund could have recently had a change of fund manager and is under review. If the fund has not been performing well recently, Chelsea believes the current fund manager will be able to improve the fund's performance over the long term or their style or investment approach could come back into favour.

### SWITCH

This indicates a generic, not personal, switch rating for the fund. Chelsea believes that the fund will not perform well in the future and that other funds in its sector will perform better. This could be because of consistently poor past performance and there are no good reasons to believe performance will turn around or because there has been a recent change of fund manager, in whom the team have no confidence.

**CHELSEA GENERIC FUND RATING**
The Chelsea Generic Fund Rating is an opinion expressed in relation to a particular fund, aimed at the general universe of both existing and potential investors in that fund, based on our proprietary research into the performance of that fund and its future prospects. Please note that we have no knowledge of your personal and financial circumstances and cannot comment on whether the investments you may hold are suitable for you. The generic ratings issued are Chelsea's views and do not constitute personal advice. These views were correct at time of going to print and we cannot be held responsible for subsequent changes.



# 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. Please visit chelseafs.co.uk for terms and conditions. Just complete this form and return it to us. You can recommend as many people as you like – there's no limit.**

## 1 YOUR DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

## 2 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

## 3 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

# WE'RE HERE TO HELP

- We're proud to offer our clients a very personal service.
- Unlike others, we're not 'online only'.
- 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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