TRANSFERRING SKILLS
WHEN MANAGERS CAN REPLICATE AN INVESTMENT PROCESS

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

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

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

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

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

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

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

Special offers through Chelsea

TB EVENLODE GLOBAL INCOME

Ben Peters
Fund manager,
TB Evenlode Global
Income

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

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

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

What are we looking for?

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

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

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

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

Current positioning

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

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

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

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

THE CHELSEA VIEW

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

FP CRUX UK SPECIAL SITUATIONS

Richard Penny
Fund manager,
FP CRUX UK
Special Situations

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

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

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

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

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

FP CRUX UK Special Situations

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

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

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

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

We take one of two approaches:

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

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

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

What is interesting us right now?

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

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

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

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

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

THE CHELSEA VIEW

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

* Annual Management Charge
† Ongoing Charging Figure

JUPITER GLOBAL VALUE EQUITY

Ben Whitmore
Fund manager,
Jupiter Fund
Management

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

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

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

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

Careful stock selection is crucial

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

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

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

A wide selection of lowly-valued stocks

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

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

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

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

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

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

THE CHELSEA VIEW

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

* Annual Management Charge
† Ongoing Charging Figure