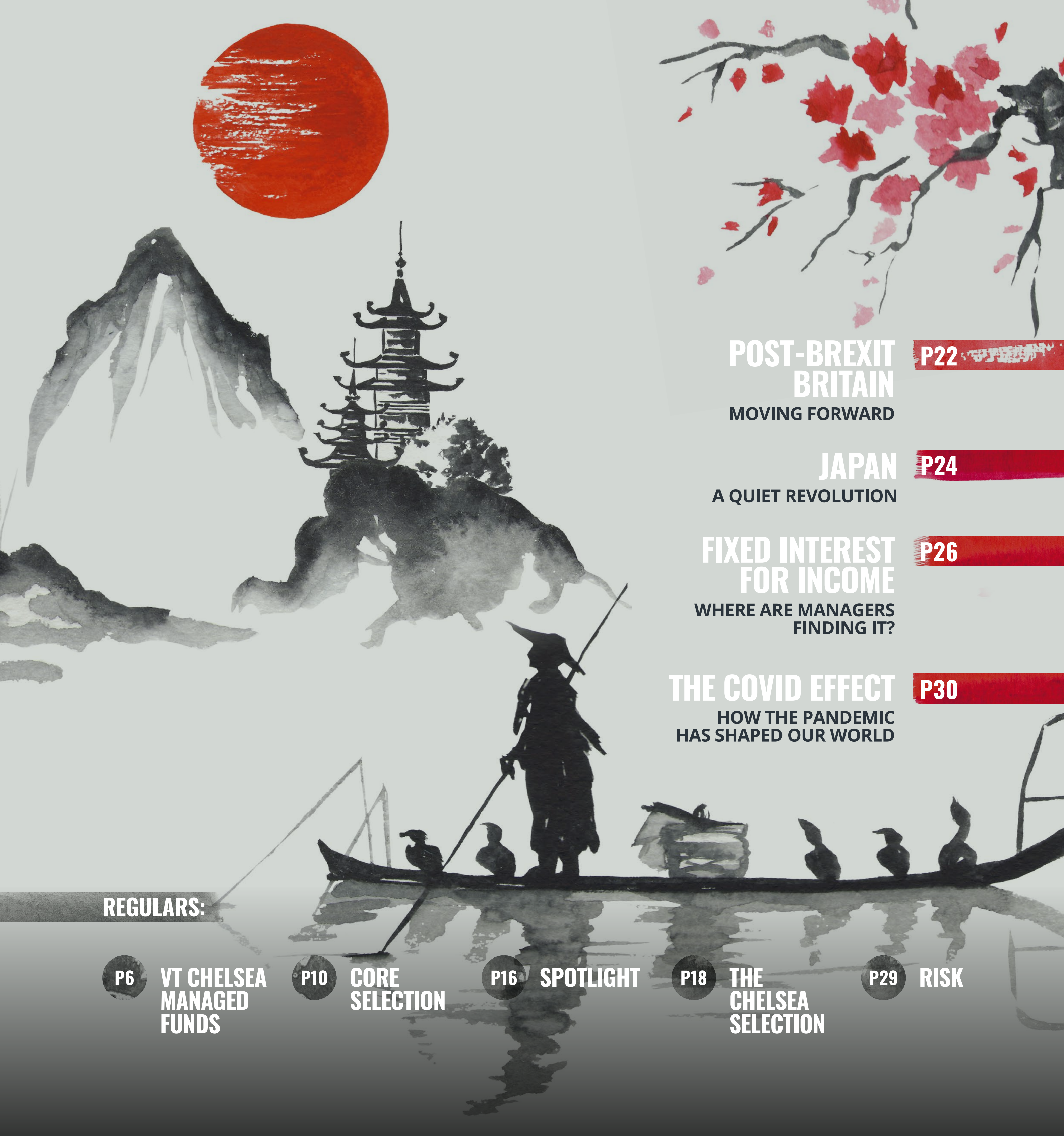
~ ISSUE 51 · MARCH 2021 ~

VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS



REGULARS:

WELCOME TO VIEWPOINT

DR JOHN HOLDER
Chairman,
Chelsea

Welcome to the Spring edition of Viewpoint. Since our last edition in October, "normal" life has rather stood still but markets have continued trading as usual. Our feature on pages 30-31 looks at how businesses have coped with the pandemic and how they are positioned now that the vaccine is being rolled out.

Although Brexit was slightly overshadowed by the pandemic in 2020, it has very much been at the top of the agenda in recent weeks, now that a deal has finally been struck. Our feature on pages 22-23 discusses the effect Brexit has had, and will continue to have, on our economy.

With all the uncertainty of recent months, income, together with lower-risk returns, may be at the forefront of your mind, so our Fixed Interest feature on pages 26-28 looks at where fund managers in this asset class are still finding opportunities.

Despite the challenges of the past year, we continue to provide our excellent customer service to all our clients and look forward to hearing from you as the tax year draws to a close. So, don't forget to utilise your ISA allowance before it's too late.

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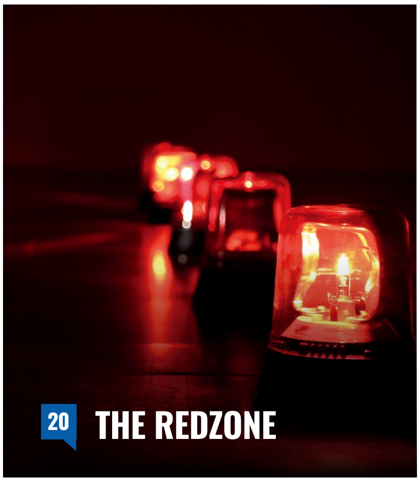
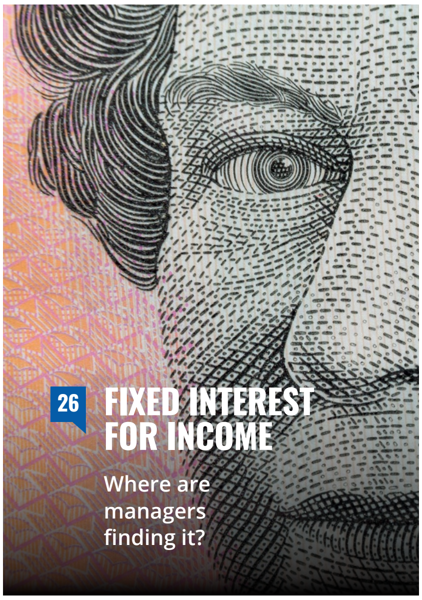
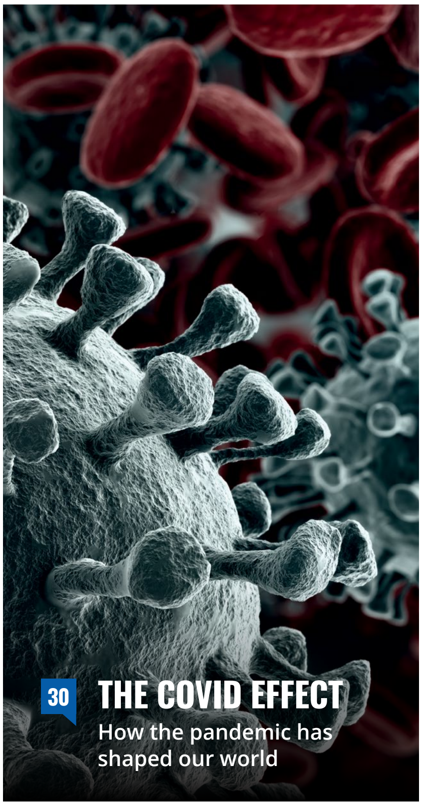






MARKET VIEW

DARIUS MCDERMOTT
Managing director,
Chelsea

Market View has always been designed to give you, the investor, an insight into what we think the next 6-12 months hold for financial markets. However, in the 20 years we've been doing this outlook piece, I'd argue this has been the hardest one I've ever written.

Covid has taught us that a lot of things can change in a short period of time. When we wrote our last update in mid-December 2020, we were reasonably confident that 2021 could see the global economy return to some semblance of normality, particularly as central banks across the globe were unwavering in their commitment to underpin financial markets should there be any further wobbles.

As at the time of writing, at the end of January, the world now looks a very different place. The UK is back in national lockdown and new, more virulent, strains of the virus keep appearing – the big worry being that one, or a number of them, may be resistant to any vaccine.

REASONS TO BE CHEERFUL...

We've always tried to be balanced in our outlook and there are definitely reasons to be bullish. We have seen a vaccine bounce in markets towards the end of 2020 and the start of this year (with value stocks outperforming for the first time in a number of years), while geopolitics also got a shot in the arm following the Brexit deal between the UK and the EU, albeit with a few issues still to be ironed out. A change in the White House should also help, with new US President Joe Biden set to make a number of changes following the tenure of his irascible predecessor. Improved international relations and a greater focus on the environment are two prominent issues on his agenda.

We've lived in a world of low interest rates for more than a decade now, with them shifting even lower last year due to the pandemic. With government debt at such a high level and the economy crippled by several lockdowns, interest rates are unlikely to change any time soon, regardless of whether we see any inflation or not.

> IT WILL BE A CASE OF INVESTORS TAKING THE ROUGH WITH THE SMOOTH, BUT THOSE WITH A LONG-TERM STRATEGY ARE BEST PLACED TO REAP THE REWARDS.

I recently read that UK consumers are currently sitting on a cash pile of £100bn, unsure about what to do with it in these uncertain times. I'm as confident as ever that investing for the long term is the best way to reach your financial goals for the future. A slogan popularised by British Prime Minister Margaret Thatcher in the 1980s – TINA "There is no alternative" - is doing the rounds again, only this time the acronym is being used to reference the argument that there is no alternative to equities for investors at the moment. So, investor demand for equities looks set to continue, driving stock markets in an upward trajectory, albeit with some bumps along the way.

...ONE, TWO, THREE

From a regional perspective there are three areas which particularly catch my eye. The first is Asia, where the response to the virus has been exceptional, allowing a number of countries, like China and Korea, to return to some semblance of normality, giving them a greater chance of delivering strong growth figures in 2021.

The others are the UK and Europe, two areas that have been unloved by investors for some time. The overhang of Brexit has been lifted from the UK economy for the first time in almost five years, while a broadening of any economic recovery beyond technology should finally see the outlook for European equities improve this year.

It will be a case of investors taking the rough with the smooth, but those with a long-term strategy are best placed to reap the rewards from the opportunities in markets.

ISA UPDATE

SAM HOLDER
Operations director,
Chelsea

THE 2020/21 ISA ALLOWANCES ARE AS FOLLOWS:

Stocks & shares ISA:
£20,000

Junior ISA:
£9,000

JUST WHEN YOU THOUGHT CASH ISA RETURNS COULDN'T GET ANY LOWER...

With the current Bank of England base rate at its lowest recorded level of 0.1%, returns on cash ISAs have hit all-time lows. You may therefore be wondering what to do with any money you have languishing in a cash ISA. The potential returns from a stocks & shares ISA are far greater than those you would earn on cash, though they do come with a higher degree of risk.

If you would like to transfer your cash ISA, simply complete and return an ISA transfer form. We will do the rest.

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

EIGHT REASONS TO CONSIDER A STOCKS & SHARES ISA

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

END OF TAX YEAR DEADLINES

Telephone (with debit card) -
April 5th – 10pm

Online (with debit card) -
April 5th – 10pm

Paper-based applications -
April 1st – 12pm

Investment fund to ISA - **March 26th**

Junior ISA - 3 April - **April 1st – 12pm**

THREE EASY WAYS TO BUY YOUR ISA

Simply call **020 7384 7300**

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

Send us a completed **application form**

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.

THE OPPORTUNITY AMID UNCERTAINTY

THE CHELSEA RESEARCH TEAM (L TO R):

JULIET SCHOOLING LATTER
Research director

RYAN LIGHTFOOT-BROWN
Senior research analyst

JAMES YARDLEY, CFA
Senior research analyst

DARIUS MCDERMOTT
Managing director

It's often said that time in the market is more important than timing the market. In fact, history has shown that investing for a prolonged period of time is the best way to achieve your financial objectives. Compounding, as Einstein said, really is the eighth wonder of the world.

Investing for the long term is actually the first rule of investing - the reason being that the longer your time horizon, the more likely you are to iron out the volatility that comes with investing. It's generally better to buy and hold over many years than attempt to trade in and out, which can result in buying at highs and selling at lows - the very opposite of the investment adage 'buy low, sell high'.

Of course, it is not always that easy in practice. The pandemic-induced sell-off seen in February and March 2020 is a classic example of this. The FTSE 100 suffered its second biggest one-day fall in the history of the index on March 12, 2020. It's hard not to let emotion get involved when the market falls 11% in one day. The sell-off was indiscriminate, potentially pressuring investors into making some snap decisions they could come to regret. So when it comes to the VT Chelsea Managed funds, we look for fund managers whom we think are likely to outperform over the long term and we buy and hold those managers over a full market cycle. However, we also have to acknowledge that there are times when this isn't the case and we have to be flexible to succeed.

IF YOU CAN KEEP YOUR HEAD...

A good example of this would be the falls seen by some of the defensive investment trusts we held during last year's sell-off. The performance of these specialist trusts should have been relatively unaffected by the pandemic, yet the indiscriminate market sell-off saw vehicles invested in the likes of wind turbines and solar panels fall significantly. It really was a case of holding our nerve, but we backed the fundamentals of these trusts and actually added to them in these uncertain periods when some were trading at large discounts. It's a view that paid off, as we made some significant gains when logic returned to financial markets.

While we were able to take advantage of these inflection points in markets, it is something we would not recommend investors try to replicate. The reason for this is because we, as a quartet, are looking at funds and trusts all day, everyday – which allowed us to spot the opportunity in these oversold vehicles. It also helps to have regular contact with our fund/trust managers, holding multiple meetings each day on Zoom to make sure we fully understood what was happening in markets, which crucially allowed us to cut through the noise. We were even able buy certain vehicles and sell them once they had bounced back in a matter of days.

IF YOU CAN WAIT...

We would stress events like these do not happen too often and that turnover in our funds is typically very low. We try to back our views, be it in a manager's process and conviction in their fund; or in a certain asset class we believe will perform strongly in the future. Our holding in gold and silver is a strong example of this, as we held it through a considerable period of underperformance until last year, when we reaped the rewards.

It's been important to be flexible in these uncertain times – and we do believe Covid-19 will have a major long-term impact on the investment outlook. Our long-term approach has served us extremely well over the life of our managed funds, but the ability to adapt to changing market conditions will remain a key element in us continuing to deliver for our investors.

VT CHELSEA MANAGED

CAUTIOUS GROWTH

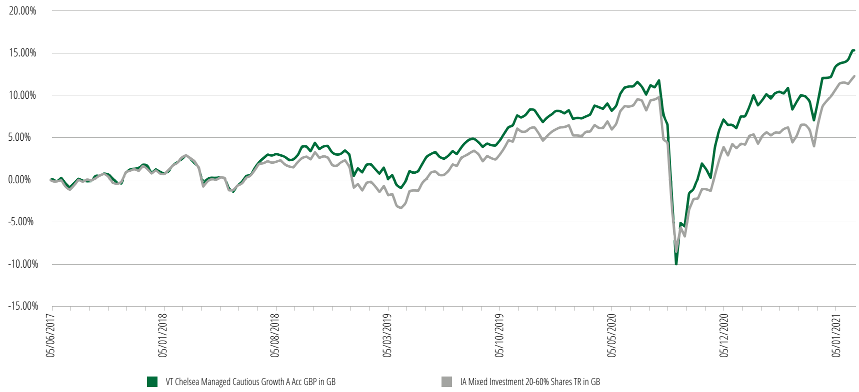
OUR MOST DEFENSIVE PORTFOLIO

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

KEY FACTS:

Ongoing charges figure:	**1.23%**
Payment dates:	**30th Jun, 31th Dec**
Indicated yield:	**2.09%**
Performance since launch:	**15.41%**
Sector average:	**12.33%**
Chelsea Risk Rating:	**4**

PERFORMANCE SINCE LAUNCH (%)*



***Source:** FE fundinfo 05/06/2017 - 04/01/2021, total returns in sterling

BALANCED GROWTH

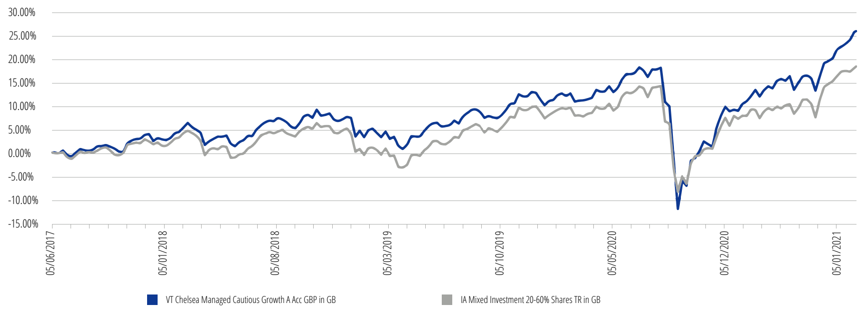
OUR 'HAPPY MEDIUM' PORTFOLIO

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:	**1.01%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**26.09%**
Sector average:	**18.50%**
Chelsea Risk Rating:	**5.5**

PERFORMANCE SINCE LAUNCH (%)*



***Source:** FE fundinfo 05/06/2017 - 04/01/2021, total returns in sterling

WHAT ARE THE RISKS?

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

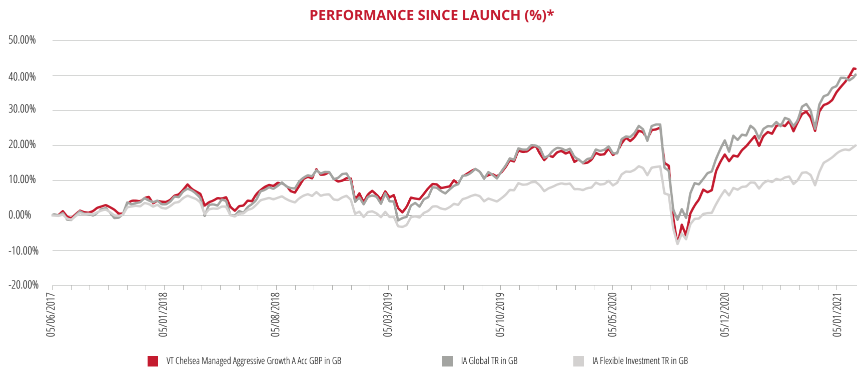
OUR PUREST GROWTH PLAY

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 that the other VT Chelsea Managed funds.

KEY FACTS:

Ongoing charges figure:	**1.03%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**41.91%**
Sector average:	**40.26%**
Chelsea Risk Rating:	**7**

AGGRESSIVE GROWTH



***Source:** FE fundinfo 05/06/2017 - 04/01/2021, total returns in sterling

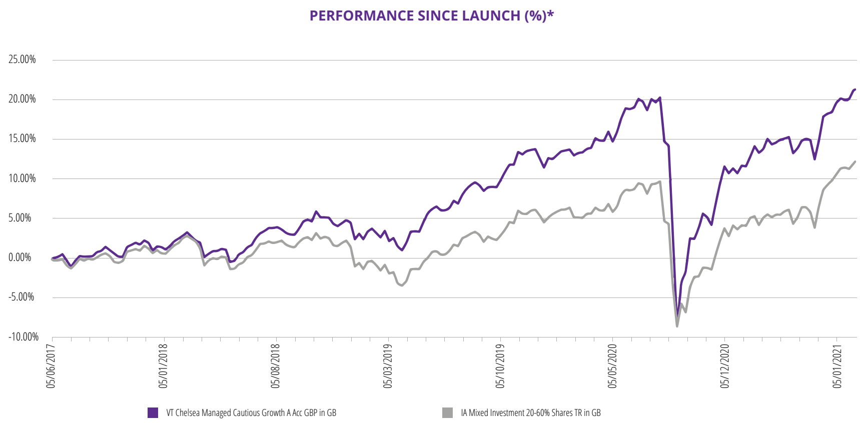
OUR FUND FOR YIELD

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:	**0.87%**
Payment dates:	**Monthly**
Indicated yield:	**4.94%**
Performance since launch:	**21.45%**
Sector average:	**12.33%**
Chelsea Risk Rating:	**4.5**

MONTHLY INCOME



***Source:** FE fundinfo 05/06/2017 - 04/01/2021, total returns in sterling

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 30/11/2020.

† Long term is 5+ years. The aim is to have lower volatility than global equities over a rolling 5-year period.

* Income will be smoothed to pay a roughly level amount over 11 months, with a final adjustment payment in the 12th month, which may be more or less than the regular payment.

CHELSEA CORE SELECTION

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

UK EQUITIES

JOHCM UK DYNAMIC

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.63%^#
ONGOING CHARGES FIGURE (OCF)	0.67%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.89%
UNIT TYPE	ACC or INC

LF GRESHAM HOUSE UK MICRO CAP

SPOTLIGHT

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	0.85%^#
ONGOING CHARGES FIGURE (OCF)	0.93%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.24%
UNIT TYPE	ACC or INC

LF LINDSELL TRAIN UK EQUITY

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.65%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	1.70%
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)	0.82%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	1.36%
UNIT TYPE	INC

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	0.25%
UNIT TYPE	INC

MARLBOROUGH UK MICRO CAP GROWTH

This fund has one of the best track records in the industry. Veteran founder manager Giles Hargreaves is standing down, but handing over to long-term collaborators Guy Feld & Eustace Santa Barbara. 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 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 often 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)	0.78%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.22%
UNIT TYPE	ACC

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)	0.87%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.95%
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 29 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	2.57%
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)	0.93%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.35%
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	0.70%#
ONGOING CHARGES FIGURE (OCF)	0.70%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.99%
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	5.53%
UNIT TYPE	ACC or INC

MONTANARO UK INCOME SEED**

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.25%#
ONGOING CHARGES FIGURE (OCF)	0.34%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	3.60%
UNIT TYPE	ACC or INC

RATHBONE INCOME

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

CHELSEA RISK RATING	5
ANNUAL MANAGEMENT CHARGE	0.65%^#
ONGOING CHARGES FIGURE (OCF)	0.68%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	3.69%
UNIT TYPE	ACC or INC

TB EVENLODE INCOME

Long-term thinking is key for this fund. Managers Hugh Yarrow and Ben Peters believe the market gets obsessed with short-term factors and overlooks key fundamentals. Their stocks will typically have difficult-to-replicate business models, strong positioning in their markets and low borrowings. They will never invest in highly capital-intensive areas such as mining or oil and gas. As such, the fund often performs well in down markets. While not the highest-yielding fund, its compounding approach has allowed a consistent and growing payout level from a very concentrated portfolio. Income is paid in February, May, August and November.

CHELSEA RISK RATING	5
ANNUAL MANAGEMENT CHARGE	0.90%#
ONGOING CHARGES FIGURE (OCF)	0.87%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.90%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 29 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE fundinfo for period up to 04/01/2021 as at 08/01/2021. Yields as at 08/01/2021 and taken from Income units where applicable.

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

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

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

The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF).

^ Includes Chelsea discount.

EUROPE

BLACKROCK EUROPEAN DYNAMIC

Giles Rodbarth has recently taken management of this fund, but 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)	0.92%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	NEUTRAL
YIELD	0.49%
UNIT TYPE	ACC or INC

LEGG MASON IF 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, which 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
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	1.05%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	-
YIELD	0.16%
UNIT TYPE	ACC or INC

MARLBOROUGH EUROPEAN MULTI-CAP

SPOTLIGHT

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)	0.83%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.27%
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	0.08%
UNIT TYPE	ACC

THREADNEEDLE EUROPEAN SELECT

Managers Ben Moore and David Dudding focus on buying companies with a competitive advantage, high quality defensible earnings and consistent growth rates. Their approach is growth orientated, but other factors, such as brand loyalty or pricing power, are also key. Consequently, they favour certain sectors and may choose not to invest in some sectors altogether. They like 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	0.74%
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	1.35%
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 & 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)	0.84%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.22%
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 29 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	1.05%
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 other investors sentiment is a key factor in his decision making. Alongside the company specifics, Anthony believes it is important to consider the prospects for the industry in which a company operates. The fund invests across the market-cap spectrum but around two thirds of the holdings are in large caps.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.90%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	-
UNIT TYPE	ACC

INVESCO CHINA EQUITY

This fund aims to invest in quality defensive companies with sustainable earnings and strong management teams. Mike Shiao is based in Hong Kong and has been managing the fund since 2012. He has over 20 years' experience of investing in the region. He favours investing in mid-cap stocks with around 45% of the value of the fund in its top 10 holdings. He is joined on the fund by Lorraine Kuo as co-manager, as well as being supported by a series of regional offices across China.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.89%#
ONGOING CHARGES FIGURE (OCF)	0.89%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.55%
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)	0.82%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	BRONZE
YIELD	0.18%
UNIT TYPE	ACC or INC

RWC GLOBAL EMERGING MARKETS

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

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.90%#
ONGOING CHARGES FIGURE (OCF)	1.25%†
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	0.67%
UNIT TYPE	ACC or INC

T. ROWE PRICE ASIAN OPPORTUNITIES EQUITY

Manager Eric Moffett has run this fund since launch in May 2014. He invests across Asia ex-Japan in a concentrated portfolio of high-quality, established companies with leading market positions and good management teams. Portfolio turnover is low, with between 40-70 stocks, which are held for the long term. The focus on quality means that the fund has tended to perform well when times are tough, which is key in a more volatile market such as Asia.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.92%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	-
UNIT TYPE	ACC

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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	SILVER
YIELD	-
UNIT TYPE	ACC

FUNDSMITH EQUITY

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

CHELSEA RISK RATING	6
ANNUAL MANAGEMENT CHARGE	0.90%#
ONGOING CHARGES FIGURE (OCF)	0.95%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.44%
UNIT TYPE	ACC or INC

NINETY ONE GLOBAL ENVIRONMENT

NEW ENTRY

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 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)	0.90%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	SILVER
YIELD	
UNIT TYPE	ACC

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	0.65%^#
ONGOING CHARGES FIGURE (OCF)	0.68%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
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	0.50%^#
ONGOING CHARGES FIGURE (OCF)	0.63%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	-
UNIT TYPE	ACC

FIXED INTEREST

BAILLIE GIFFORD STRATEGIC BOND

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

CHELSEA RISK RATING	3.5
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.52%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	3.30%
UNIT TYPE	ACC or INC

BLACKROCK CORPORATE BOND

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

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.57%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	1.96%
UNIT TYPE	ACC or INC

INVESCO MONTHLY INCOME PLUS

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

CHELSEA RISK RATING	4
ANNUAL MANAGEMENT CHARGE	0.67%#
ONGOING CHARGES FIGURE (OCF)	0.67%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	4.93%
UNIT TYPE	ACC or INC

FIXED INTEREST (CONT)

JANUS HENDERSON STRATEGIC BOND

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

CHELSEA RISK RATING	3
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.69%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	-
YIELD	3.90%
UNIT TYPE	ACC or INC

JUPITER STRATEGIC BOND

The manager, Ariel Bezalel, seeks out the best opportunities within the fixed interest universe globally. This is a genuine strategic bond fund. Ariel will substantially alter the positioning of the portfolio depending on his macroeconomic views. He combines this with bottom-up fundamental analysis. Companies with robust business models and recurring revenue streams are preferred. Derivatives can be used to manage risk and also to profit from falling bond prices. Income is paid in January, April, July and October.

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.73%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.80%
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	0.70%#
ONGOING CHARGES FIGURE (OCF)	0.70%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	5.84%
UNIT TYPE	ACC or INC

NOMURA GLOBAL DYNAMIC BOND (HEDGED)

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)	0.71%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.08%
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	4.18%
UNIT TYPE	ACC or INC

TARGETED ABSOLUTE RETURN

SVS CHURCH HOUSE TENAX ABSOLUTE RETURN STRATEGIES

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

CHELSEA RISK RATING	4
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.99%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.81%
UNIT TYPE	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 29 for more information. For performance statistics please refer to pages 18-19.

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^ Includes Chelsea discount.

CORE SELECTION SPOTLIGHT

DAVID WALTON

Fund manager,
Marlborough European Multi-Cap
Elite Rated by FundCalibre

After graduating from Cambridge with a first in economics, I joined M&G in 1993. I ran European equity funds for M&G and Baillie Gifford, before being appointed manager of Marlborough European Multi-Cap in October 2013.

My deputy manager, Will Searle, and I have the freedom to invest in companies of all sizes across Europe, excluding the UK, however, compared with our peer group, we have a bias towards smaller companies. Many investors overlook their growth potential simply because of their size. That often means these businesses are undervalued compared with their larger and better-known counterparts.

With the support of a large and experienced investment team, we focus on a list of around 250 companies, whittled down from a large universe by means of around 300-400 company meetings each year. From this list we construct a portfolio of around 80 stocks. We await buying opportunities in suitable companies and hold stocks for an average of five to seven years, adding to them if the price is right and selling only if the investment case no longer holds, principally if we believe the company is no longer able to grow above the average over the longer term, rather than purely on valuation grounds.

QUALITY MANAGEMENT

We believe high-quality management is a key factor in the success of large and small companies alike, so we look for well-managed companies, usually with a stable and experienced management team, able to grow above the average over a longer period of time (3-5 years onwards), which are already profitable and at a reasonable valuation.

We then aim to meet with each company in the fund at least once a year, and with those on the focus list at least once every 18 months. This has been continued using video calls during the pandemic.

One company we hold is Delta Plus Group, a manufacturer of personal protective equipment for industry, including helmets, masks and safety harnesses. This French-listed company is benefiting from a growing market for its products because of increasing health and safety standards in both the developed and developing economies. It has a quality management team with a strong long-term strategy, which is due in part to the family nature of the company. The CEO is the son of the founder.

The personal protective equipment market is still highly fragmented, enabling Delta Plus to acquire smaller competitors to expand into new geographies and increase its product range.

PRODUCT INNOVATION

At the other end of the size spectrum, we hold Demant, one of Denmark's biggest companies by stock market value.

Demant, which we have held for over six years, is one of the world's largest manufacturers of hearing aids. This is a growth market, driven by increased demand as populations age and hearing aids become more efficient.

THE CHELSEA VIEW

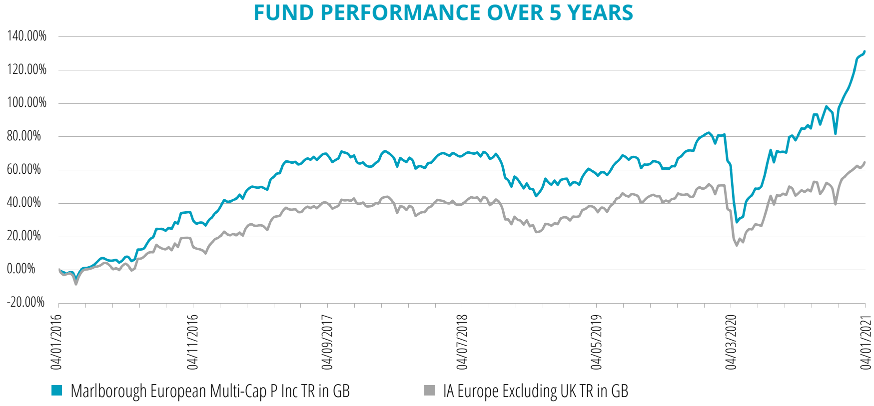
Marlborough European Multi-Cap offers access to much smaller companies than many of its peers. We consider the team experts in small-cap investing, having built a stellar track record in this space, and the managers of this fund have been very successful at mitigating the risks that are typically associated with smaller companies.

Demant's majority shareholder is a trust established by the founder's family to support the growth of the company and help those with impaired hearing. This has ensured Demant maintains a strong focus on product innovation, which has underpinned the success of the company and is one of the reasons we see attractive growth potential.

WELL-MANAGED BUSINESSES

Delta Plus and Demant are good examples of the type of company we like. While we closely monitor the economic backdrop in Europe and globally, economic forecasts are not the basis for our investment decisions. Instead, we focus on individual companies, identifying well-managed businesses with long-term growth potential overlooked by most investors. With careful research we are continuing to find companies like this across Europe, particularly at the smaller end of the region's stock markets.

FUND PERFORMANCE OVER 5 YEARS



Source: FE fundinfo, 04/01/2016 - 04/01/2021, total returns, net of fees, in sterling.

CORE SELECTION SPOTLIGHT

KEN WOTTON

Co-manager,
LF Gresham House UK Micro Cap
Elite Rated by FundCalibre

The LF Gresham House UK Micro Cap fund launched in May 2009 aims to deliver attractive, long-term, risk-adjusted returns. Searching the smaller companies in the UK equity market, we look for quality, niche businesses to invest in.

I graduated from Oxford in 1995 and began my career as a chartered accountant at KPMG. I then spent five years working as an analyst for Commerzbank before moving to a business called Evolution Securities, covering small-cap telecoms and technology businesses. I then joined Livingbridge in 2007 where I launched this fund. The business was bought by Gresham House in 2018 and we continue to manage the fund.

Brendan Gulston, my co-manager, and I work with the support of the broader Strategic Equity Division which includes a total of 15 experienced investment professionals.

OUR APPROACH TO INVESTING FOR GROWTH

We classify micro-cap stocks as those companies listed on the main market and AIM with a market cap below £250m, an area of the market that is often under-researched.

We apply a rigorous investment process to our equity funds, i.e. both qualitative and quantitative.

Our process is comprised of the following key stages:

Idea generation - our approach involves consulting with our broker adviser channel and the Gresham House network who have developed a strong relationship with many people in different sectors of the UK economy.

Investment universe screening - with a large universe of over 1,200 stocks within the NSCI (Numis Smaller Companies Index) and AIM markets, we adopt three main criteria and high-level filters to help identify suitable companies in which to invest: **size** - we focus on smaller companies below £250m market cap at the point of investment; **sector** - we focus on financials, TMT (technology, media & telecoms), healthcare & education, consumer, business services and avoid sectors such as mining, oil & gas, real estate and banks; **financial strength** - we focus on high quality, profitable, cash-generative businesses that are more insulated from external and cyclical factors. We avoid loss-making companies and early-stage business model risk, e.g. development stage biotech and early-stage technology sectors.

Our bi-monthly screens create a list of 40 to 50 opportunities. Stocks that do not meet the quality standards are then removed.

In addition, we meet with the management of companies and conduct approximately 400-500 company meetings every year.

Research and investment appraisal - we draw on the broader team and their investment expertise, providing thematic knowledge, experience and insights from a wide range of sector and sub-sector analysis.

THE CHELSEA VIEW

LF Gresham House UK Micro Cap is a genuine micro-cap fund, utilising its resources well to find some truly unexplored ideas, making for a unique portfolio. Being so focused, both in terms of portfolio size and sectors, it is a higher-risk option. However, there is the potential for strong rewards.

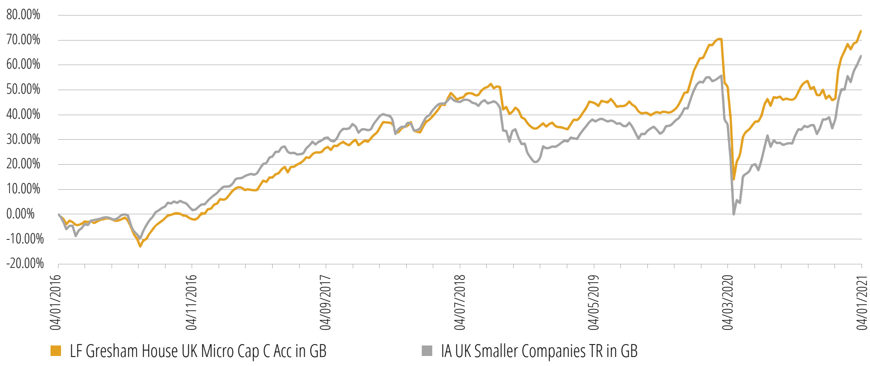
Portfolio monitoring - we conduct ongoing reviews to ensure consistency with the investment strategy, protect value and strive to achieve return objectives.

PORTFOLIO HIGHLIGHTS AND POSITIONING

The fund is a relatively concentrated portfolio of high-conviction stocks. We typically hold 40-50 stocks in the portfolio. We tend to find good investment opportunities in technology and healthcare which have been key drivers of the recovery in equity markets since the coronavirus sell-off in March. We identified an opportunity in Kooth, a provider of digital mental health services that combines both of these two trends. More recently we made two new investments into Accrol Group, an independent tissue converter, and Ricardo, an engineering and environmental consultancy.

We continue to believe that over the long term we have the potential to outperform. The fund will maintain its focus on building a high-conviction portfolio of high-quality, niche growth businesses which we believe can deliver strong returns regardless of the performance of the wider economy.

FUND PERFORMANCE OVER 5 YEARS



Source: FE fundinfo, 04/01/2016 - 04/01/2021, 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	7.72	18	13.76	38	44.61	43	136.50	29	0.93	957.7
AXA Framlington UK Select Opportunities			6	-1.63	65	7.10	73	26.20	156	92.80	79	1.27	1108.0
BlackRock UK			6	7.32	19	19.67	24	53.80	30	108.53	54	0.91	555.1
JOHCM UK Dynamic			6.5	-16.39	234	-10.16	211	29.89	128	99.25	69	3.89	1260.0
Jupiter UK Special Situations			6	-12.82	213	-6.55	199	28.46	137	100.93	64	2.30	1787.4
LF Lindsell Train UK Equity			6.5	0.24	51	21.90	19	65.91	16	221.24	5	1.70	6463.7
Liontrust Special Situations			6	-0.13	54	19.11	25	63.49	18	204.78	8	1.36	5577.7
Marlborough Multi-Cap Growth			7	9.76	13	15.83	32	69.25	14	178.32	11	0.25	279.4
MI Chelverton UK Equity Growth			7.5	16.22	3	48.82	1	138.23	1	-	-	0.95	1001.4
Schroder Recovery			7.5	-10.82	195	-6.39	197	36.80	80	98.22	71	2.52	823.9
Slater Growth			7	10.60	12	28.84	15	66.47	15	235.43	3	0.00	827.0
VT Downing Unique Opportunities			7	-	-	-	-	-	-	-	-	-	22.2
Sector average			7	-4.97	240	2.78	230	32.99	217	83.75	188	-	-
UK EQUITY INCOME													
Artemis Income			5	-5.13	14	4.97	13	33.97	10	106.09	9	3.45	4445.5
JOHCM UK Equity Income			6.5	-15.01	74	-11.92	70	25.43	28	91.39	20	5.59	1810.0
LF Gresham House UK Multi Cap Income			7.5	-5.12	13	20.42	1	-	-	-	-	3.52	75.7
Man GLG Income			6.5	-13.01	62	-2.59	37	34.99	8	93.59	15	5.53	1741.8
Marlborough Multi Cap Income			7	-11.59	51	-3.55	43	13.20	55	-	-	4.21	1118.0
Montanaro UK Income Seed ^†#			7.5	-6.82	124 / 240	9.83	53 / 230	39.24	68 / 217	137.31	28 / 188	3.60	704.6
Rathbone Income Fund			5	-9.24	38	-1.56	34	18.05	45	93.31	18	3.69	845.0
Royal London UK Equity Income			5.5	-13.67	66	-3.74	46	23.76	30	117.82	5	3.36	1796.2
TB Evenlode Income ^			5	-5.71	105 / 240	17.95	28 / 230	61.57	22 / 217	173.41	14 / 188	2.90	3748.0
Threadneedle UK Equity Alpha Income			5.5	-6.05	17	5.72	12	27.24	26	111.40	7	3.44	301.8
Sector average				-9.67	86	-3.21	84	20.09	77	77.04	63	-	-
UK SMALLER COMPANIES													
ES R&M UK Equity Smaller Companies			8	20.99	6	23.87	18	74.87	15	335.34	3	0.83	368.6
LF Gresham House UK Micro Cap	SPOTLIGHT		8	6.82	24	29.60	13	74.01	17	334.21	4	0.24	259.4
Liontrust UK Micro Cap			8	11.56	13	48.07	3	-	-	-	-	0.12	104.2
Marlborough Special Situations			7.5	18.86	7	24.45	17	78.37	13	259.82	9	0.22	1446.6
Marlborough UK Micro Cap Growth			8	23.19	5	32.92	11	105.07	7	320.47	5	0.22	1175.7
TB Amati UK Smaller Companies **			8	10.50	16	34.70	9	114.18	5	286.04	6	0.90	525.8
Sector average				6.77	51	17.66	49	63.85	46	179.16	44	-	-
STERLING CORPORATE BOND													
Artemis Corporate Bond			2.5	13.04	5	-	-	-	-	-	-	2.41	496.2
BlackRock Corporate Bond			2.5	7.17	52	16.20	46	34.73	34	87.76	17	1.96	1275.6
Rathbone Ethical Bond			2.5	8.65	21	18.73	20	40.51	12	99.41	9	3.20	2093.2
Royal London Corporate Bond			2.5	7.50	39	17.75	25	37.65	20	94.29	10	2.85	1421.6
Schroder Sterling Corporate Bond **	NEW ENTRY		3.5	13.79	1	29.47	4	55.13	6	102.14	8	3.64	1252.4
TwentyFour Corporate Bond #			2.5	7.21	49	15.50	54	34.05	40	-	-	3.78	1802.4
Sector average				7.18	98	15.69	93	32.27	85	72.66	64	-	-
STERLING HIGH YIELD BOND													
Baillie Gifford High Yield Bond			4	2.87	27	12.03	12	33.47	12	79.64	4	4.10	882.9
Man GLG High Yield Opportunities			4	15.45	1	-	-	-	-	-	-	6.27	94.8
Sector average				3.86	42	11.32	34	30.53	31	60.90	20	-	-
STERLING STRATEGIC BOND													
Artemis Strategic Bond			3	5.64	47	11.24	59	30.00	32	69.99	23	2.31	1825.9
Baillie Gifford Strategic Bond			3.5	5.91	45	16.39	20	38.03	10	99.16	3	3.30	1341.6
GAM Star Credit Opportunities #			4	4.35	66	10.87	62	40.38	5	-	-	3.70	703.4
Invesco Monthly Income Plus **			4	7.71	24	14.28	31	31.75	23	77.73	12	4.93	2327.6
Janus Henderson Strategic Bond **			3	10.15	14	19.32	8	32.08	22	76.02	13	3.90	3388.4
Jupiter Strategic Bond			2.5	6.01	41	14.06	32	27.59	42	75.90	14	3.80	4350.1
Nomura Global Dynamic Bond#			4	10.76	9	25.80	2	42.18	3	-	-	2.08	2216.5
TwentyFour Dynamic Bond			3.5	6.56	35	13.53	35	29.74	33	81.12	9	4.18	1871.8
Sector average				6.30	94	13.52	84	28.43	76	62.95	48	-	-
TARGETED ABSOLUTE RETURN*													
Janus Henderson UK Absolute Return			4	3.08	-	4.56	-	10.47	-	52.77	-	-	1400.2
Merian UK Specialist Equity #	NEW ENTRY		5	13.95	-	12.80	-		-		-	-	458.2
SVS Church House Tenax Absolute Return Strategies			4	3.76	-	5.57	-	16.35	-	37.55	-	0.43	521.0
Sector average				2.62	-	3.86	-	9.16	-	24.32	-	-	-
EUROPE EXCLUDING UK													
BlackRock Continental European Income			7	13.65	32	22.64	34	68.08	45	-	-	2.57	1741.4
BlackRock European Dynamic			7	35.82	5	51.70	4	125.49	4	239.67	3	0.49	5333.5
Jupiter European Smaller Companies ^	NEW ENTRY		8	-	-	-	-	-	-	-	-	1.00	21.8
Legg Mason IF Martin Currie European Unconstrained			7.5	25.97	12	47.88	6	99.41	13	154.38	15	0.16	88.3
Marlborough European Multi-Cap	SPOTLIGHT		8	28.24	9	37.11	15	130.99	3	227.61	4	0.27	259.6
Premier Miton European Opportunities			7.5	38.55	3	76.08	1	186.96	1	-	-	0.08	2239.6
Threadneedle European Select			7	17.56	23	33.16	17	85.36	20	194.13	8	0.74	1848.6
Sector average				10.88	115	16.17	108	64.28	98	118.94	76	-	-

	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)
NORTH AMERICA												
Artemis US Extended Alpha	⚐	7	15.08	55	48.24	38	126.67	28	-	-	0.00	441.8
○ **AXA Framlington American Growth**	⚑	7	31.22	16	81.25	12	160.94	12	369.70	11	0.00	818.6
Baillie Gifford American **	⚑	7.5	117.24	1	212.86	1	411.27	1	805.85	1	0.00	6641.0
Brown Advisory US Flexible Equity #^	⚐	7	13.22	98 / 220	48.58	49 / 190	123.72	-	-	-	1.02	381.8
○ **Fidelity Index US**		7	13.81	68	44.60	54	120.38	41	-	-	1.35	2377.0
Legg Mason IF MC US Unconstrained NEW ENTRY	⚐	7	24.83	25	72.05	21	146.79	19	293.14	31	0.00	197.2
○ **Premier Miton US Opportunities**	⚑	7	21.88	33	47.75	41	127.45	27	-	-	0.22	984.7
Sector average			14.46	148	41.47	139	106.10	124	242.90	90	-	-
JAPAN												
○ **Baillie Gifford Japanese ****	⚑	10	17.62	25	19.26	26	107.69	9	233.22	3	1.05	3344.0
FSSA Japan Focus	⚑	10	33.86	5	58.74	3	167.84	2	-	-	0.00	185.6
○ **JPM Japan**		10	39.24	3	56.21	5	137.77	5	297.70	2	0.18	1986.5
Jupiter Japan Income		9.5	11.65	34	24.72	19	82.54	24	146.38	17	2.50	841.1
Legg Mason IF Japan Equity		10	41.02	2	57.06	4	177.74	1	852.53	1	0.00	1484.1
Sector average			12.80	71	15.37	69	72.78	68	129.45	52	-	-
ASIA PACIFIC EXCLUDING JAPAN*												
Alquity Indian Subcontinent **^#		10	11.91	-	-16.17	-	64.02	-	-	-	-	16.3
○ **Fidelity Asia Pacific Opportunities**	⚑	8	25.31	27	48.21	7	161.78	5	-	-	0.00	1008.0
Fidelity Asian Dividend	⚐	7.5	1.13	103	20.39	62	90.71	63	-	-	3.90	65.0
FSSA Greater China Growth ^	⚑	10	25.67	23 / 40	45.64	14 / 38	146.04	11 / 35	210.98	6 / 25	1.15	652.2
GS India Equity Portfolio #	⚑	10	17.27	-	8.83	-	76.59	-	166.56	-	-	1182.4
Guinness Asian Equity Income #	⚑	8	4.72	97	7.40	93	77.83	76	-	-	3.45	138.4
Invesco Asian	⚑	8	19.03	52	18.81	67	130.74	22	150.07	14	1.28	1655.8
○ **Invesco China Equity ^**	⚑	10	22.32	29 / 40	32.78	19 / 38	120.71	23 / 35	178.99	7 / 25	0.55	464.4
Matthews Pacific Tiger #	⚑	8	27.34	22	28.51	36	102.96	49	144.52	16	-	350.8
Schroder Asian Income	⚑	7.5	13.66	75	21.26	58	91.58	61	137.77	20	3.32	1327.7
○ **Stewart Investors Asia Pacific Leaders Sustainability ^**	⚑	7.5	24.56	-	36.76	-	90.49	-	153.81	-	0.67	7152.0
○ **T. Rowe Price Asian Opportunities Equity**	⚑	8	23.29	37	39.58	14	138.50	15	-	-	-	263.1
Sector average			19.91	105	25.01	101	104.45	91	106.62	64	-	-
GLOBAL EMERGING MARKETS												
Aubrey Global Emerging Markets Opportunities #	⚑	10	45.50	6	54.92	3	154.71	-	-	-	-	161.4
○ **RWC Global Emerging Markets #**		10	30.03	10	21.27	40	-	-	-	-	-	1115.5
Sector average			13.24	121	15.64	110	94.97	-	55.17	-	-	-
GLOBAL												
Baillie Gifford Global Discovery **	⚑	8.5	76.57	4	126.24	3	240.89	3	561.37	1	0.00	2161.5
○ **Fidelity Global Special Situations**	⚑	7	18.06	110	34.23	124	108.24	66	202.78	48	0.00	2977.1
○ **Fundsmith Equity**	⚑	6	17.81	112	52.53	44	142.56	19	421.59	3	0.35	23153.0
○ **Ninety One Global Environment** 🌿 NEW ENTRY	⚐	7.5	49.85	12	-	-	-	-	-	-	0.77	492.9
Ninety One Global Special Situations	⚐	7	-9.51	338	-6.91	296	53.79	248	106.30	158	1.08	243.8
Pictet Global Environmental Opportunities # 🌿	⚑	7.5	32.54	32	55.37	37	140.35	20	210.67	41	-	5899.6
○ **Rathbone Global Opportunities Fund**	⚑	6.5	30.58	39	63.52	26	135.86	26	290.40	11	0.00	3265.5
○ **T. Rowe Price Global Focused Growth Equity**	⚑	7.5	44.74	17	88.14	11	202.12	5	359.10	5	-	2806.5
Sector average			14.60	347	32.04	300	89.81	266	147.89	180	-	-
GLOBAL EQUITY INCOME												
○ **Fidelity Global Dividend**	⚑	6	6.99	13	31.46	10	76.90	9	-	-	3.35	1990.0
Fidelity Global Enhanced Income		5.5	5.52	18	25.43	14	67.88	14	-	-	4.73	455.3
Guinness Global Equity Income #	⚑	6.5	6.90	15	31.66	9	87.29	3	180.77	2	2.61	1341.9
Legg Mason IF ClearBridge Global Infrastructure Income		5	9.66	8	38.02	2	-	-	-	-	5.04	775.2
○ **M&G Global Dividend ^**	⚑	7	10.19	214 / 347	22.11	210 / 300	99.15	87 / 266	155.99	103 / 180	2.99	2573.9
TB Evenlode Global Income	⚐	6	3.90	23	32.50	7	-	-	-	-	2.10	697.0
Sector average			3.11	54	15.66	50	60.56	42	120.60	17	-	-
MISCELLANEOUS*												
AXA Framlington Global Technology	⚑	10	46.51	5 / 14	109.03	2 / 13	267.34	2 / 12	476.37	4 / 10	0.00	1430.9
BMO European Real Estate Securities #	⚑	7.5	-1.61	-	16.51	-	56.70	-	187.40	-	-	46.6
Jupiter Financial Opportunities	⚑	8	14.79	-	39.30	-	93.04	-	138.52	-	0.00	593.4
○ **M&G Emerging Markets Bond**	⚑	4.5	1.26	14 / 19	15.18	4 / 16	57.97	2 / 11	93.09	1 / 4	5.84	823.5
Merian Gold And Silver #	⚐	10	38.57	-	61.99	-	-	-	-	-	-	736.9
Polar Capital Biotechnology #	⚑	10	38.28		72.02	-	138.65	-	-	-	-	828.0
Polar Capital Healthcare Opportunities #	⚑	8	14.51	-	50.29	-	84.35	-	444.14	-	-	1395.0
VT Gravis UK Infrastructure Income	⚐	4	-3.07	-	17.80	-	-	-	-	-	4.74	658.5

🌿 **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 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 04/01/2021 as at 08/01/2021

Yields per annum as at 08/01/2021 taken from income unit where applicable.

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

^ 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.

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

THE REDZONE

SAM SLATOR
Head of communications,
Chelsea Financial Services

What a year 2020 turned out to be! Having started January with most equity markets reaching new highs, March saw the fastest bear market crash in history. Most stock markets then recovered almost as quickly.

With such dramatic movements, it certainly sorted out the wheat from the chaff in the investment world.

300 DAYS, 300 FUNDS

At the time of writing, it is exactly 300 days since we first went into lockdown. And there are 300 funds in this year's RedZone – some 70 more than this time last year. To make this list more manageable, we've therefore tweaked our analysis.

In addition to the usual filters of a minimum 18 months with the same manager, and three consecutive years of underperformance, we've taken out funds with fewer than £20m of assets under management and those that, over the cumulative three-year period, have underperformed the sector average by less than 10%.

GLOBAL VALUE STRUGGLES

As was the case last year, most of the culprits (50 in fact, representing £16.47bn of assets) can be found in the Global sector. The second worst sector was North America, with 26 funds and £9.37bn assets. After such a stellar year for US equities – led in no small amount by the technology sector - positioning in the COVID winners proved a crucial factor for both US and global portfolios.

A number of value strategies in particular struggled. Europe ex UK and UK All Companies were joint third with 11 funds apiece.

ABERDEEN STANDARD CONTINUES TURNAROUND

Aberdeen Standard Investments has, thankfully, continued its turnaround. The group is joint 'top' with Schroders, with six funds each, but assets under management in the RedZone are now down to less than £2bn. JP Morgan, Invesco and UBS were all in joint third with five funds each. The worst offender in terms of assets was in fact Templeton, with two huge funds accounting for £10.11bn of assets.

With value for money statements now mandatory for all fund management companies, the further good news is that consistently underperforming funds are now likely to be addressed in a timelier manner. We've already started to see some companies consolidate their ranges and look to provide a better investor outcome.

DROP OR HOLD?

The DropZone is once again dominated by global energy funds. A price war between Russia and Saudi Arabia, which coincided with a global shutdown, caused the oil price to collapse and turn negative at one point last year – pouring unwanted oil onto already troubled performance. With many economies looking to 'build back better' with cleaner energy, it's unlikely the sector will rebound strongly.

Sitting in the DropZone is one Chelsea Selection fund: Ninety One Global Special Situations. It follows one of those deep value strategies I mentioned earlier. We still have faith in the value style of investing. And while we only hold a small amount in the VT Chelsea Managed range, the danger of giving up on this type of fund was highlighted in the last few months of 2020. The vaccine bounce saw value stocks jump some 10% in a matter of days and, over the past three months, this fund is actually the third best performing in its sector*.

DROPZONE

% UNDERPERFORMANCE FROM SECTOR AVERAGE

1	Schroder ISF Global Energy	81.57
2	Guinness Global Energy	77.39
3	Denker Global Financial	43.41
4	Ninety One Global Special Situations	38.95
5	Pictet Digital	36.76
6	NFU Mutual Global Growth	34.99
7	M&G North American Value	34.48
8	MFS Meridian US Value	33.87
9	BNY Mellon US Equity Income Fund	33.28
10	Robeco BP US Large Cap Equities	33.21

***Source:** *FE fundinfo, 16 October 2020 to 18 January 2021.*

Fund	3 Year % Growth	Quartile position
ASIA PACIFIC EXCLUDING JAPAN		
Alquity Asia*	7.08	4
Federated Hermes Asia ex Japan Equity	6.67	4
LF Prudential Pacific Markets Trust*	7.75	4
Marlborough Far East Growth	7.03	4
Scottish Widows Pacific Growth	11.8	4
Sector average	25.01	
ASIA PACIFIC INCLUDING JAPAN		
Invesco Pacific (UK)	16.85	4
Sector average	34.67	
CHINA/GREATER CHINA		
Comgest Growth China	20.87	4
Invesco PRC Equity	18.79	4
Sector average	37.11	
EUROPE EXCLUDING UK		
Argonaut FP Argonaut European Alpha	0.75	4
Artemis European Growth	-11.48	4
EdenTree Responsible and Sustainable European Equity	5.69	4
HSBC European Growth	1	4
HSBC GIF Euroland Equity*	-6.15	4
Jupiter European Income	1.32	4
L&G European Equity Income	5.93	4
Liontrust European Opportunities	-14.98	4
Merian European Equity (x UK)	1.52	4
Quilter Investors Europe (x UK) Equity Income	-9.54	4
Schroder European Recovery	-7.09	4
Sector average	16.17	
EUROPE INCLUDING UK		
AB European Equity Portfolio*	1.9	4
Capital Group European Growth and Income Fund (LUX)	4.16	4
JOHCM European Concentrated Value*	-5.17	4
JPM Europe Equity Plus*	1.17	4
JPM Europe Strategic Value*	-13.29	4
Merian European Equity	2.23	4
Pictet European Equity Selection*	-4.91	4
Sector average	16.08	
EUROPEAN SMALLER COMPANIES		
Lazard Pan European Small Cap*	9.29	4
M&G Pan European Select Smaller Companies	5.48	4
Quilter Investors Europe (ex UK) Small/ Mid-Cap Equity	1.69	4
Sector average	19.58	
FLEXIBLE INVESTMENT		
First Sentier Diversified Growth	4.15	4
HL Multi-Manager High Income	1.83	4
Sector average	14.9	
GLOBAL		
Aberdeen Standard SICAV I World Equity	21.73	3
Allianz Best Styles Global AC Equity	16.92	4
Artemis Global Growth	8.66	4
AXA Rosenberg Global	19.25	4
BlackRock Global Equity	15.07	4
BlackRock NURS II Global Equity	16.1	4
BMO MM Navigator Boutiques	20.02	3
Candriam Quant Equities Multi-Factor Global*	9.9	4
Denker Global Financial	-11.37	4
Dimensional International Value	-0.19	4
Dodge & Cox Global Stock	9.27	4
EdenTree Responsible and Sustainable Global Equity	19.58	4
ES R&M Global High Alpha	6.86	4
ES R&M Global Recovery	2.11	4
Federated Hermes Global Small Cap Equity	19.71	3
Fidelity Global Financial Services	9.67	4
Fidelity Global Industrials	15.47	4
FP Octopus Global Growth	20.81	3
GAM Global Diversified	5.19	4
GAM Star Worldwide Equity	7.51	4
GS Global Small Cap Core Equity Portfolio	15.48	4
Guinness Global Energy	-45.35	4
HL Multi Manager Special Situations	11.97	4
Invesco Global Ex UK Core Equity Index (UK)	12.21	4
Janus Henderson Multi-Manager Global Select	19.04	4
JPM Global Equity*	14.38	4
Kempen (Lux) Global Small-cap	18.56	4
Lazard Managed Equity	17.17	4
Marlborough Global	19.78	3
MI Charles Stanley UK & International Growth	8.61	4
MI Metropolis Value	20.11	3
Natixis Harris Associates Global Equity*	8.81	4
NFU Mutual Global Growth	-2.95	4
Ninety One Global Special Situations	-6.91	4
Orbis Global Equity	15.58	4
Quilter Investors Global Unconstrained Equity	0.42	4
Robeco BP Global Premium Equities*	5.38	4
Royal London GMAP Dynamic	13.25	4
RWC Global Horizon	16.06	4
Schroder Global Recovery	0.08	4
Schroder ISF Global Energy	-49.53	4
Schroder QEP Global Active Value	6.12	4
Scottish Widows Global Growth*	17.81	4
Tavistock Wealth Limited ACUMEN Portfolio 7	19.11	4
TM Stonehage Fleming Global Equities I	16.53	4
TM Stonehage Fleming Global Equities II	7.12	4
TM UBS (UK) Global Equity	13.91	4
UBS FTSE RAFI Developed 1000 Index*	9.97	4
Virgin Global Share	5.39	4
VT Price Value Portfolio	12.75	4
Sector average	32.04	
GLOBAL BONDS		
Templeton Global Bond	-5.16	4
Templeton Global Total Return Bond	-15.2	4
Sector average	12.17	
GLOBAL EM BONDS - BLENDED		
Templeton Emerging Markets Bond	-14.64	4
Sector average	9.6	
GLOBAL EMERGING MARKETS		
Alquity Future World*	-2.17	4
Comgest Growth Gem Promising Companies	-26.36	4
Fiera Capital Europe Emerging Markets Fund	1.62	4
Jupiter Global Emerging Markets	-0.94	4
Lazard Emerging Markets	-3.78	4
MFS Meridian Emerging Markets Equity+A133	5.21	4
NB Emerging Markets Equity*	0.36	4
Sector average	15.64	
GLOBAL EQUITY INCOME		
Artemis Global Income	1.25	4
ASI World Income Equity	-0.68	4
Kempen (Lux) Global High Dividend*	0.75	4
Schroder Global Equity Income	-2.08	4
T. Bailey Fund Srvs Ltd (ACD) Aptus Global Financials	-13.4	4
TB Saracen Global Income & Growth	-1.72	4
UBS Global Enhanced Equity Income	-3.11	4
Vanguard Global Equity Income	5.42	4
Sector average	15.66	
JAPAN		
AB Japan Strategic Value Portfolio*	-11.17	4
Allianz Japan Equity	-2.2	4
AXA Rosenberg Japan	1.65	4
JOHCM Japan	-8.66	4
LF Morant Wright Japan*	-11.74	4
LF Morant Wright Nippon Yield	-10.1	4
Sector average	15.37	
MIXED INVESTMENT 20-60% SHARES		
HL Multi Manager Equity & Bond	-2.36	4
Virgin Bond Gilt UK Share	-0.99	4
Sector average	9.8	
MIXED INVESTMENT 40-85% SHARES		
Invesco Global Balanced Index (UK)	-3.16	4
Man Balanced Managed	2.88	4
TM UBS (UK) UK Income Focus	2.16	4
Virgin Bond Gilt UK and Overseas Share	0.58	4
VT Garraway Multi Asset Growth	0.85	4
Sector average	14.33	
NORTH AMERICA		
Aviva Inv US Equity Income	13.65	4
Aviva Inv US Equity Income II	12.69	4
AXA Rosenberg American	30.37	3
BlackRock GF US Basic Value	12.21	4
BlackRock US Opportunities	23.08	4
BNY Mellon US Equity Income Fund	8.19	4
Candriam Quant Equities USA*	29.17	4
Capital Group Investment Company of America (LUX)	26.42	4
Dodge & Cox US Stock	16.32	4
GAM Multistock Health Innovation Equity	15.79	4
GAM Star US All Cap Equity*	30.76	3
Janus Henderson US Strategic Value	13.99	4
Jupiter North American Income	16.01	4
Legg Mason ClearBridge US Aggressive Growth	28.09	4
Legg Mason IF ClearBridge US Equity	19.45	4
M&G North American Value	6.99	4
Merian US Equity Income	26.2	4
MFS Meridian US Value	7.6	4
Natixis Harris Associates US Equity*	29.55	3
Polar Capital North American	25.69	4
Robeco BP US Large Cap Equities*	8.26	4
Russell II US Quant	25.87	4
Sanlam US Dividend	14.55	4
Schroder US Mid Cap	21.53	4
T. Rowe Price US Large Cap Value Equity	11.48	4
VT De Lisle America	16.98	4
Sector average	41.47	
NORTH AMERICAN SMALLER COMPANIES		
Brown Advisory US Small Cap Blend	27	3
Legg Mason IF Royce US Smaller Companies	23.19	3
Sector average	47.57	
TECHNOLOGY & TELECOMMUNICATIONS		
Pictet Digital	54.64	4
Sector average	91.4	
UK ALL COMPANIES		
ASI UK Unconstrained Equity	-13.69	4
Aviva Inv UK Listed Equity High Alpha	-8.31	4
Dimensional UK Value	-13.27	4
HSBC UK Growth & Income	-10.46	4
Invesco UK Companies (UK)	-11.63	4
JPM UK Dynamic	-10.08	4
JPM UK Equity Value	-11.78	4
L&G UK Special Situations Trust	-19.13	4
Man GLG Undervalued Assets	-11.28	4
Marks & Spencer UK Select Portfolio	-12.43	4
Standard Life TM UK Equity General	-9.47	4
Sector average	2.78	
UK DIRECT PROPERTY		
Aviva Inv UK Property	-16.85	4
Sector average	0.47	
UK EQUITY INCOME		
ASI UK High Income Equity	-14.95	4
ASI UK Income Unconstrained Equity	-18.55	4
BNY Mellon Equity Income Booster	-14.31	4
Janus Henderson UK Equity Income & Growth	-14.23	4
UBS UK Equity Income	-22.04	4
VT Downing Monthly Income	-15.29	4
	-3.21	
UK GILTS		
ASI Sterling Short Term Government Bond	3.82	4
Royal London Short Duration Gilts	2.6	4
Sector average	17.72	
UK SMALLER COMPANIES		
Aberforth UK Small Companies	-10.9	4
Sector average	17.66	

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

Please read the important notice on page 2. This is a purely statistical table, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 04/01/2021. Source FE fundinfo. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies therein.

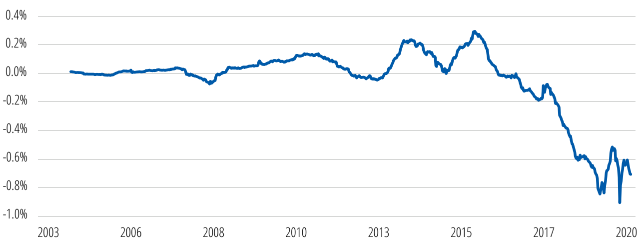
Funds in the DropZone

POST-BREXIT BRITAIN

HENRY DIXON
Fund manager,
Man GLG Income
Elite Rated by FundCalibre

"Post-Brexit Britain" is a term that for much of the past four and a half years we thought we might never mention. While we have not read every word of the trade deal, we have spoken to several people who have. The opinions that have been expressed to us vary from begrudging acceptance on the one hand, to enthusiasm on the other. It is a relief, though, that the emotional and polarised views that we had to put up with for so long now seem to have subsided to this more moderate state. It, therefore, does feel entirely reasonable to us that the healing process for the wounds inflicted upon the UK might now begin. As to what that means is best answered by looking at what was most affected in the wake of the referendum result.

CUMULATIVE FLOWS INTO UK EQUITY FUNDS AS % OF MARKET CAPITALISATION



Source: Credit Suisse. Data as at 07 September 2020.

EBB AND FLOW

The first most notable event was that in pretty short order the UK became something of a pariah for international investors with the outflows from the asset class being some of the largest seen anywhere in the world.

This almost unremitting exodus drove the UK equity market to a notable discount relative to the MSCI World Index that has only been seen in 1975 and 1989.

What ensued from these moments in time was significant. The market in 1975, for example, rose by 130%, although we must highlight that the somewhat staggering starting valuation of only 5x is far removed from what we have at present. However, in 1989 the UK market rose by 30% from a starting point of 13x earnings, which is more comparable to today.

Perhaps spurred on by this historical precedent, the final two weeks of 2020 saw over $US1bn making its way into the UK, which contrasts with outflows from the major European markets such as France and Germany.

This change in fund flows encourages us to look carefully at the relative value that exists in some of our international-facing companies. So many of these, within sectors such as mining, tobacco, aerospace and food producers, currently trade at unusually wide discounts when judged against 20-year averages versus their overseas peers. We can understand how Brexit uncertainty might have encouraged people to overlook this value opportunity, but we feel that there is a strong possibility that the investment decision can now be dominated by fundamentals rather than emotion.

Business investment as a percentage of GDP has declined since 2016, which we consider a key contributing factor to the lag in economic growth in the UK compared with other developed economies.

However, this cumulative shortfall creates the possibility of pent up

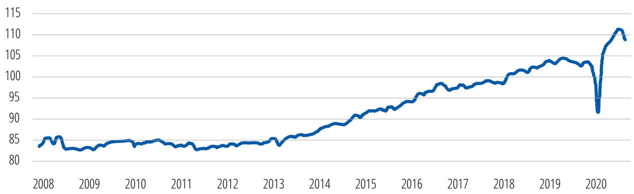
potential which, with very reasonable probability, could drive an outsized improvement when compared with other developed markets.

CONSUMER SAVINGS

We believe that another area of significant growth potential in the year ahead is the consumer. The chart that probably best captures this is the significant divergence that we have seen in the build-up of deposits (M4 deposits) versus GDP.

This is as a result of the unusually high savings ratio, largely due to lockdown measures. But some do express doubt that this will be spent. In making this claim they cite the possibility of scarring to consumer confidence from the pandemic. Our feeling, however, is that after a far from settled decade of rumbling crises - be it the Global Financial Crisis, Arab Spring, Europe, Brexit, Trump and Trade Wars - we have, to some extent, grown accustomed to these exogenous shocks. Certainly, by looking at the simple but entirely measurable figure of retail sales, we can see they have quickly eclipsed their pre-pandemic peak.

UK RETAIL SALES, £BN



Source: Lazarus Partnership, as at 31 December 2020.

This contrasts with the five years it took for retail sales to exceed the pre-financial crisis peak.

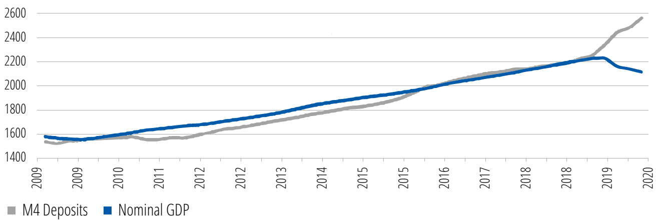
POTENTIAL FOR GROWTH

Further to a corporate sector that has been held back and a consumer that has rarely been more primed, we would also cite that the government has abandoned the narrative of austerity in favour of both levelling up and fiscal investment in areas such as the green revolution. It feels eminently possible to us that all three key players in the economy are likely to contribute to domestic economic growth, which is something we have not seen for well over a decade. Of course, the current second wave is a significant frustration, but looking at G7 economies, we are materially ahead on the rollout of the vaccine which provides us with a tangible way out of the lockdown.

Should this happen, then the domestic sectors such as housebuilding, construction and certain portions of our leisure sector, such as pubs, are likely to have a favourable backdrop. Pleasingly, at present, it is possible to buy into names in these areas at a discount to their net tangible asset value. If profitability recovers then, in our view, there is upside potential, and it is reassuring to see corporate activity corroborating this view.

We are acutely aware that the potential of a reversal in fund outflows, complemented by corporate activity, in a stock market that is sinking to new lows of record relative value, at a time when the government, businesses and consumers could all contribute to economic growth in the year ahead is bordering on the optimistically absurd. In many ways it feels as though we should apologise for our exuberance, but this is the conclusion we draw from the data.

UK DEPOSITS AND NOMINAL GDP, £M



Source: Bloomberg, as at 30 November 2020.

THE CHELSEA VIEW

The fund has a unique and disciplined process. The long-term performance has been strong although the fund suffered with many other UK income funds in 2020 as value investing went heavily out of favour. Henry remains one of our favourite managers in the sector.

MAN GLG INCOME

- **Around 60 holdings**
- **Disciplined process**
- **Can invest in some select corporate bonds**
- **Value bias**
- **Income share class pays monthly**

Chelsea Risk Rating: **6.5**
AMC: **0.75%**
OCF: **0.90%**
Yield: **5.53%**

FEATURE

JAPAN: A QUIET REVOLUTION

DAN CARTER
Fund manager,
Jupiter Japan Income

Since the beginning of the "lost decade" in the early 1990's, economic growth in Japan has stagnated and taken a back seat on the global financial stage, but with changes occurring in both politics and businesses, is it now time for us to take another look at what Japan has to offer?

When, on 25th September 2013, Prime Minister Shinzo Abe stood on the floor of the New York Stock Exchange and urged investors to "buy my Abenomics" he was pushing on an already opening door[1]. From the announcement of his election victory the previous December to that day in New York, Japanese stocks had rocketed; the Topix index[2] was up fully 51%. Since then the Japanese stock market has risen a further 48%[3] and there are, we believe, good reasons to expect more from the market in the years to come.

Given the liveliness of the stock market through his time in office, it is easy to see why Abe became synonymous with Japan's economic and market renaissance. But why, now that he has been replaced by his lieutenant Yoshide Suga as Prime Minister and the market has performed as strongly as it has, do we believe that the market continues to deserve much more of investors' attention than it receives? To appreciate where Japan is now, and where it might be headed, we must first turn our attention to whence it has come.

LOOKING BACK

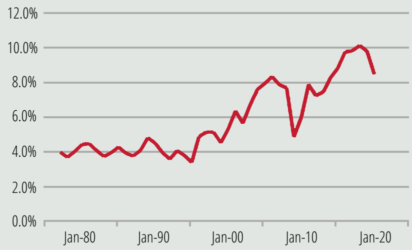
In the two decades preceding the Abe era, which began with his inauguration in early 2013, Japan had become a byword for stagnation and decline. The economy had grown well below 1% annually[4], corporate profit growth had averaged less than 2% per year[5] and the stock market had declined by more than a third.[6] The post-war economic miracle had peaked spectacularly with the bubble economy of the late 1980s and had spent much of the subsequent period deflating. Government debt had sky-rocketed and banks had to digest bubble-era loans which had gone bad. Japan's population was ageing and set to decline, and consumer prices were seemingly stuck in negative territory. Politics was a mess, with a succession of unpopular and ineffectual Prime Ministers. This witches' brew of bad news was spiked further by the huge earthquake and nuclear emergency which hit north-eastern Japan in the spring of 2011.

BUSINESSES ARE KEY

To some global investors, Japan's story ends there. The persistence of demographic decline and high government debt are mistakenly taken to mean that nothing about Japan has changed. This is an error; economic growth, though still muted by international standards, accelerated from its pre-Abe torpor, consumer prices showed that they can go up as well as down and domestic politics are more stable and business friendly than ever. Most important of all, though, is the quiet revolution in Japanese businesses. As equity investors this is what we care about more than anything else.

Despite the surging stock market, the last several years should not be seen as one of irrational exuberance but rather of highly rational appreciation of better corporate profits. As the chart below shows, the Japanese corporate sector, once the slowcoach of global markets, has shifted up a gear when it comes to profitability.[7] This is not to say that the Japanese

TOPIX PROFIT MARGINS

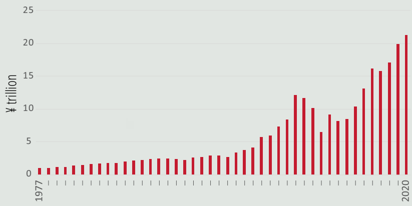


market is suddenly immune to cyclicals of course – the most recent down-tick proves this not to be the case – but rather that something has happened within Japanese business to structurally improve profitability. A major factor behind this appears to be, paradoxically, Japan's demographic decline. Labour, once plentiful in supply, is becoming increasingly scarce, forcing Japanese managers to allocate only to the most profitable projects. That this is based upon the rock-solid trend of the ageing of the local population gives us confidence that it can continue.

PRIORITISING SHAREHOLDERS

Not only are Japanese businesses more profitable than they were in the past, but they are also more generous to shareholders than ever. Eager to spur economic growth, the government has urged companies to use their financial resources more efficiently, resulting in record dividends and share buybacks.[8] The establishment of codes for both corporate governance and investor stewardship, and their frequent revision, demanding ever higher standards, should help persuade investors that this more shareholder-friendly corporate behaviour is here to stay.

TOTAL DIVIDENDS & SHARE BUYBACKS



Meanwhile, the sustainability of these pay-outs to shareholders is incredibly high. The pile of cash held by Japanese-listed companies has never been larger, despite higher shareholder pay-outs, and the interest burden, at only 4% of profits, is really no burden at all.[9] This financial strength gives Japanese companies the ability to maintain dividends through tough periods, in stark contrast to other developed markets as recent experience has shown.

A NEW CORPORATE GENERATION

A final but less easily quantifiable positive for investors to ponder is the extent to which the executive gene pool is changing. Nowhere is this seen more clearly than in Japan's lively new listing market where more new companies are opening themselves to outside investment than ever. With few exceptions these companies are modern, technology-enabled and run by highly motivated young entrepreneurs. This infusion of new business talent will be key to Japan shaking off its staid image amongst many global investors.

It is clear to us, then, that Japan has changed a great deal from those dark days of the late 1990s and early 2000s, yet the ghosts from that era still haunt many global investors. Share prices may have moved but much of this appears to be catch-up rather than a swelling of expectations – the Japanese stock market is still far from expensive, especially versus the roaring US market. There are, of course, risks. Japan's is an internationally integrated market with a strong industrial heritage connecting it to the global economic cycle which will provide both good times and bad. But the underlying trend seems to be clear – is has a corporate sector which is becoming better run and more generous to shareholders, with an infusion of exciting new businesses alongside a solid financial base. For those investors who have passed Japan by, we would urge them to look again.

THE CHELSEA VIEW

Dividend culture is growing in Japan, creating a diversified and stable income stream for global investors. Dan and his team have very respectful engagement with their holdings' management teams to encourage a pragmatic dividend policy, something only a well-resourced and understanding company like Jupiter can offer.

JUPITER JAPAN INCOME

- **Around 40 holdings**
- **Multi-cap**
- **Emphasis on quality and dividend growth**
- **Income share class pays in March and September**

Risk Rating: **9.5**
AMC: **0.75%**
OCF: **0.98%**
Yield: **2.50%**

1 https://www.youtube.comwatch?v=4XySzrJjVMc
2 Representing companies listed on the first section of the Tokyo Stock Exchange
3 Bloomberg, December 2020
4 Topix Operating Profit Margin, Mizuho Securities, December 2020
5 ibid
6 Bloomberg, December 2020
7 Mizuho Securities, December 2020
8 Total Shareholder return as a proportion of book value reached 4.4% in March 2020, higher than the previous high of 4.1% in March 2007, Mizuho, December 2020
9 Mizuho December 2020

FEATURE

FIXED INTEREST FOR INCOME

As the world comes to terms with the events of the past year, three fixed interest fund managers share their views of how the asset class has coped with the changes brought on by the pandemic and how and where they are still finding opportunities for income.

BRYN JONES
Fund manager,
Rathbone Ethical Bond
Elite Rated by FundCalibre

As we enter this new year, we believe that whilst risks remain heightened during this time, there are still opportunities for capital gains. Optimism is brewing among investors because they think vaccines considerably improve the outlook for 2021. Longer-term, there is now the prospect of less erratic US governance, and the belief that Western governments and central banks stand ready to spend yet more cash to prop up both economies and markets should anything go further awry. Given this, we believe we should be able to deliver a yield roughly in line with that of 2020, which was an income yield of 3.5%.

UNPRECEDENTED LEVELS

Right now, gilt yields are lower than they have ever been, which means gilts are more expensive than they have ever been. And credit spreads – the extra return corporate bonds offer for the risk of default – are also extremely low, despite the world battling a deep recession because of the pandemic. If gilt yields and/or credit spreads start to rise, that will put paid to any chance of capital gains from corporate bond markets unless we have bought them at heavily discounted prices and then hold them to maturity or a recovery in their price.

However, there are reasons why government bond yields and credit spreads are so low. GDP growth is expected to be lacklustre (except for a short-term rebound from lockdowns) and that means inflation should remain anchored too. As for credit spreads, governments and central banks around the world have been bending over backwards to tide businesses over with cash on very generous terms. That should assuage much of the concern around company defaults. If gilt yields and credit spreads remain stable, which we believe is the most likely scenario, we should be able to make some capital gains from savvy purchases.

WITH OPPORTUNITY COMES RISK

Many investors have been understandably skittish during the pandemic, sending prices careering whenever something unexpected pops up. But that allows us to pick up bonds at a greater range of prices, increasing the chance that we can buy bonds at discounts to their face value. As a made-up example, say the price of a £100 bond issued by a chain of shops slumps to £90. By purchasing that bond, you could lock in £10 of capital gain if you held it to maturity. Or until the price of it recovers and another investor offers to buy it for something closer to its £100 face value. But the chain of shops must make it to maturity or to a point that investors want to buy its debt again; it might go bankrupt before then! There lies the risk, but also the opportunity if things work out well.

There are many other areas that we feel offer decent opportunity of capital gains. One of them is a type of debt that was issued by finance companies after the great financial crisis as a way of preventing them from going bankrupt when they got into financial difficulty – old style, negative tier 1 bank debt. Essentially, that worked by these bonds taking the brunt of those losses and shoring up the company's balance sheet. However, the regulatory rules for banks and insurers have changed a lot since then and now these bonds need to be replaced. To do that, the issuers must buy them back first, typically for more than they are worth. We have owned a substantial amount of these bonds over the past few years and still do.

Given everything that happened in 2020, this year could be a bumpier road than many are hoping, but we are confident in the direction of travel.

THE CHELSEA VIEW

Under Bryn's careful management over the past 14 years, this fund has outperformed regardless of its ethical constraints, illustrating that income and ethics can be combined without sacrifice. It is a solid, core investment grade bond fund.

RATHBONE ETHICAL BOND

- **Ethical exclusions include arms, tobacco and others**
- **Companies need at least one positive ethical factor to be included**
- **Income share class pays in February, May, August and November**
- **Diversified portfolio for risk purposes**

Chelsea Risk Rating: **2.5**
AMC: **0.63%**
OCF: **0.66%**
Yield: **3.20%**

DICKIE HODGES

Fund manager,
Nomura Global Dynamic Bond
Elite Rated by FundCalibre

For as long as we can remember, a chorus of experts have explained at the start of each year how fixed income markets can no longer offer attractive returns – and typically they are wrong. 2020 was no exception, despite some twists and turns along the way.

As 2021 begins, the same chorus has returned. However, we are confident there are plenty of reasons for fixed income investors to be cautiously optimistic.

FISCAL SUPPORT

We have argued for some time that politicians on both sides of the Atlantic need to do more to support their economies. A further package of stimulus measures was agreed in the US in December, in line with our expectations. We see a similar situation in Europe, where secondary lockdowns have been more severe and exacerbated an already weak economic situation. European politicians will also need to do more, and we believe they will.

Fiscal measures, along with accommodative policies from central banks that will keep interest rates on hold, will support capital markets in the medium to long term.

However, we are mindful that the immense fiscal and monetary stimulus we have seen could create inflationary pressures. Should it take off and push bond yields higher and steeper, we believe central banks will intervene to ward off any sovereign debt affordability issues.

This optimism must also be balanced with caution and a realisation that much of the good news we are still expecting has already been priced in.

Risk markets have had a strong run since the lows of March 2020, with vaccine approvals boosting them yet further towards the end of last year. Because of this, we believe subsequent similar announcements will be greeted by ever-more muted responses. Moreover, with Covid cases rising and a more stringent lockdown in place in many European countries, we believe current market optimism borders on complacency.

Our main prediction – or warning – for 2021 is that volatility will stay with us. Mixed and highly variable economic data releases are likely to persist and they will have a significant influence on investor sentiment.

This volatility will be a challenge, but given the flexibility and broad toolkit at our team's disposal, we believe it also represents opportunity. We spent much of 2020 responding to and anticipating the considerable swings in physical bond prices. We also benefited from our ability to quickly hedge when we thought it necessary to protect against short-term sell-offs.

WHERE WE SEE OPPORTUNITY

We retain highly selective positions across a range of credit markets where spreads still offer value and investor demand for yield provides support. We believe these holdings will drive attractive returns for our investors in the year ahead.
These positions include some of the more cyclical sectors within high-yield credit and convertibles, European banks and emerging markets. We are also keen on insurance credit, a sector where we think M&A seems set to continue.
We have maintained a substantial allocation to highly liquid, short-term instruments that we can sell off quickly if attractive entry points to our target holdings become available amid the volatility. We also have hedges in place on the portfolio – protective positions that will benefit the portfolio substantially if we see volatility in the short term from riskier asset classes.

In yield terms alone, our portfolio currently offers close to 3%, and we expect to generate capital returns in addition to that yield over the year ahead. We believe 2021 will offer fixed income investors both challenge and opportunity – and we are ready for both.

THE CHELSEA VIEW

Dickie Hodges is an incredibly experienced bond manager who is able to read the economic environment as well as pick individual investments, to produce both yield and capital return.
He uses his knowledge of bond securities and derivatives, together with a flexible mandate, to exploit opportunities in this asset class.

NOMURA GLOBAL DYNAMIC BOND

- **Genuine strategic bond fund**
- **Unconstrained approach**
- **Uses derivatives to quickly reposition and protect the fund**
- **Combination of big picture economic analysis and fundamental research**

Chelsea Risk Rating: **4**
AMC: **0.60%**
OCF: **0.71%**
Yield: **2.08%**

CLAUDIA CALICH

Fund manager,

M&G Emerging Markets Bond

Elite Rated by FundCalibre

If you were to look only at the investment performance of emerging market bonds for the calendar year 2020, you'd never guess that anything unusual took place this year. Despite the steep coronavirus-induced market sell-off earlier in the year, emerging market bonds are on course to register fairly unremarkable positive returns for 2020.

Like other risky asset classes, emerging market fixed income – consisting of both government and corporate bonds – participated in the global relief rally from April onwards. Despite the scourge of further national lockdowns and restrictions, investor sentiment remained buoyant thanks to the decisive policy responses of governments and central banks from around the world.

2020 ANALYSED

However, investors in many parts of the emerging market bond universe did not experience the rally to the same extent as those holding developed market bonds, which were underpinned by the policy responses of their large and influential central banks. Indeed, throughout 2020, higher-yielding parts of the market, such as the bonds issued by many 'frontier market' nations, lagged the returns from safer, investment grade issuers. It wasn't until news of successful COVID-19 vaccine trials emerged, together with some clarity over the US election result, that this performance discrepancy started to narrow significantly as confidence came rushing back to the market.

It is my view that many of these higher-yielding parts of the market could still deliver further capital upside for the asset class in 2021, as more investors become attracted to the potential yields on offer. With emerging market bonds having shown higher yields than the government bonds of many developed economies, the asset class has become increasingly attractive to income-hungry investors. Assuming a global economic recovery takes hold in the new year, then the potential investment returns on offer should remain appealing. But investors will need to tread carefully; country and credit selection is going to be crucial as nations will face increased debt loads as they exit the pandemic.

Emerging markets were not left out of the splurge in government borrowing during 2020, with many nations able to cut interest rates and borrow more cheaply. Many emerging nations enlarged their central banks' remits and embarked on quantitative easing-type policies to both safeguard market liquidity and provide financing for pandemic-related spending. The International Monetary Fund (IMF), and other international financial institutions, were on hand to provide emergency funding to countries without such flexibility.

After becoming the initial epicentre of the virus at the start of 2020, China managed to largely remove the shackles of lockdown restrictions early on. As a result, its economy and those of its neighbours contracted less relative to European countries and the US, providing a boost to the emerging market economies in the region. Recently announced economic growth projections from the IMF indicate a likely continuation of this trend in 2021.

LOOKING AHEAD

Clearly the threat of further waves of the virus and national lockdowns still hangs over many parts of the world, including many emerging markets. Until there is widespread vaccine availability then this grim reality could ultimately remain a threat to near-term investment returns.

While there is some argument that the emerging market investment grade bond segment is now starting to look less attractive on valuation grounds, we believe the extra yield over risk-free government bonds on offer in the higher-yielding segment remains at attractive levels, and that some emerging market currencies remain undervalued. Given that three quarters of developed market bonds are trading at negative yields once adjusted for inflation, we believe there is added impetus for holding emerging market bonds.

In our view, the flexible nature of the M&G Emerging Markets Bond fund*, with its 'go anywhere' approach to the asset class, stands it in good stead. The fund is not constrained by its benchmark and can invest anywhere in emerging market debt, including in bonds issued by governments or companies, denominated in hard (such as the US dollar) or local currencies. The emerging markets fixed income team at M&G use a combination of top-down analysis of macroeconomic factors with bottom-up security selection based on country and company fundamentals. This investment approach leads to a portfolio of 'best-ideas' that we believe should help the fund to navigate different market conditions.

**Investment return of the M&G Emerging Market Bond fund's benchmark to 18/12/20, in pound sterling terms. The benchmark is a composite comprising of 1/3 JPM EMBI Global Diversified Index, 1/3 JPM CEMBI Broad Diversified Index and 1/3 JPM GBI-EM Global Diversified Index.*

THE CHELSEA VIEW

Claudia is extremely knowledgeable about this very complex asset class and her track record speaks for itself. The strategy is very flexible, meaning she can find the best opportunities available on both an income and capital growth basis. Claudia is supported by an extensive emerging markets fixed income team.

M&G EMERGING MARKETS BOND

- **Flexible high-yielding fund**
- **Invests in government and corporate bonds**
- **Invests in both 'local' currency and 'hard' currency bonds**
- **Income share class pays in February and August**

Chelsea Risk Rating: **4.5**
AMC: **0.75%**
OCF: **0.75%**
Yield: **5.84%**

ASSESSING RISK

In this article, we often discuss specific sources of risk and how investors can help mitigate them. One thing we haven't discussed though is how investors can assess how much overall risk they can take.

RYAN LIGHTFOOT-BROWN
Senior research analyst,
Chelsea

TWO QUESTIONS TO ASK YOURSELF

There are two main inputs into assessing risk – the ability to take risk and the willingness to take risk.

The ability to take risk is primarily based on what the money is for and when it is needed. It may be for something specific, such as a house deposit or university fees. Or could be a longer-term goal such as a pension, or just a rainy day fund. Generally, the shorter the timescale, the less risk an investor is able to take on, as there is less opportunity for any potential recovery should there be a fall. Also, if there is a specific amount required, then there is the risk of a shortfall, something we covered in a previous Viewpoint edition. If it is an investment for 10 years plus, then an investor can afford to take on higher-risk products, which should offer higher returns, but if the timescale is shorter, then they should be prepared to accept a lower risk level.

Once an investor has assessed their ability to take risk, they can then look at their willingness to take risk. There are some investors that look at their investment on a regular basis, and the thought of seeing a large negative number may make them very uncomfortable. Whereas some will pick their investment and only look at it from time to time. The more comfortable an investor is with values moving around, accepting it is part and parcel of investing, the more risk they should be prepared to take. However, those who struggle to sleep at night when things are volatile are those that will be unwilling to take on risk.

Ultimately, risk is a spectrum, and where on that spectrum an investor wishes to go is determined by these factors. It is also an exchange. The more risk an investor is able and willing to take on, the more reward there potentially is, so investments with longer-term outlooks - such as Junior ISAs and pensions - should have a tilt to riskier asset classes to access a higher potential return.

While these assessments may seem obvious, it can often get overlooked when investors are considering where to allocate. But a sensible, level-headed assessment early on in the investment process should help narrow down which assets classes and sectors are appropriate.

HOW TO USE THE CHELSEA RISK RATING

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

CHELSEA RISK THERMOMETER

SECTOR	RISK RATING
Emerging Markets	9-10
Japan	9-10
Technology	8-10
Asia Pacific ex Japan	7.5-10
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 COVID EFFECT

The year 2020 didn't turn out as anyone was expecting, but for all its economic, social and emotional upheaval, the changes it brings about should make the world a brighter place.

DOUGLAS BRODIE
Fund manager,
Baillie Gifford Global Discovery
Elite Rated by FundCalibre

ONWARDS AND UPWARDS

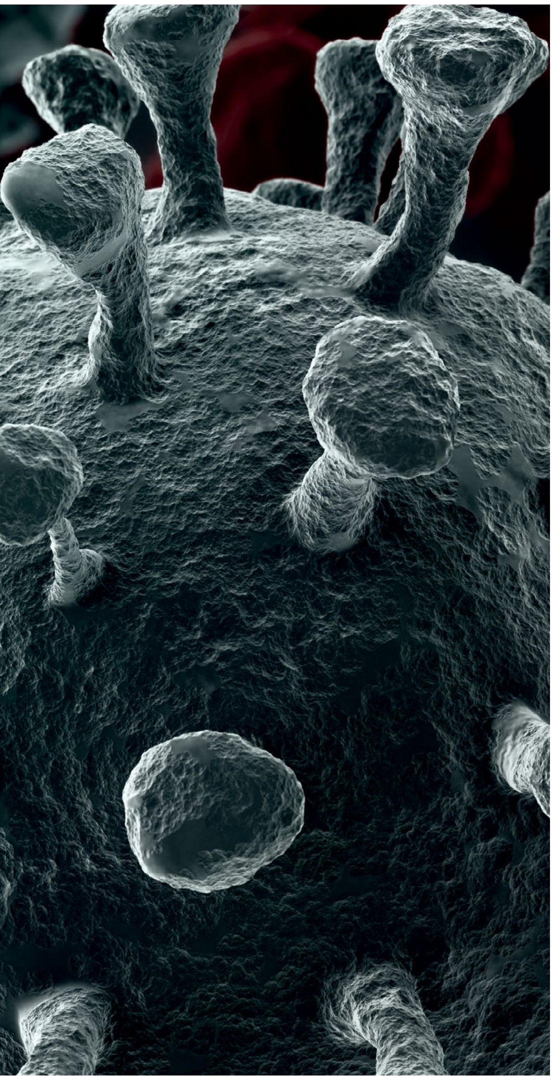
The ramifications of the pandemic will be felt for years to come and will touch on many aspects of life, from politics through to business and from education to lasting societal and workplace change. Many pages will be written on the subject. Much will be made of the negatives, be they failures of systems and leadership or the vast humanitarian and financial cost. Without wanting to downplay the challenges ahead, we think the lessons learnt from past crises warrant a more optimistic, forward-looking narrative regarding the present turn of events. Crises, whether they take the form of famine, plague or war, or more recently, the oil crisis, the Dotcom crash or the financial crisis, tend to follow a similar pattern. One which provides a deep impetus for the powerful forces of ingenuity, resourcefulness and innovation to push progress more rapidly forward in subsequent years.

An exogenous shock of the predictably unpredictable variety invariably creates near-term challenges, but it also often acts as a potent catalyst for a long-term change in behaviours. Moreover, the bigger the shock, the more profound the adaption and far-reaching the response. In its simplest form, it encourages adaptability at the individual level: an openness to engage with new practices through the melting away of embedded scepticism and inertia. In its more abstract form, it will provide the fuel to the innovators and the entrepreneurs to build for the future.

SILVER LININGS

For instance, while the costs to healthcare systems are still widespread and ongoing, there does at least appear to be progress being made. This is based on a deeper understanding of Covid-19 as a disease and of emerging therapeutic agents that can either mitigate its impact or severely blunt its spread. Within a year of an unknown, insidious pathogen emerging, it has been extensively characterised, a range of diagnostic tests developed, therapies fast-tracked and vaccines developed, extensively tested and approved. The speed at which this insight has been gleaned and then harnessed is breath-taking and speaks volumes of the accelerated entrepreneurial spirit that is emerging.

Our growing sense is that how we as societies adapt will underpin an acceleration in the rate of change across many aspects of our lives. Immediate changes included the surging e-commerce orders and the rapid shift to digital forms for delivering healthcare, education and entertainment etc. This benefits companies such as Wayfair (online home furnishings), Teledoc (telemedicine), Dexcom (healthcare digitalisation), and Chegg (online education). While some of this will undoubtedly normalise, in many cases it will simply whet the appetite among both consumers and businesses for more. Greater volume through these channels will drive the virtuous circle of scale, greater investment and ongoing improvements. In many areas, it feels as if the path to fresh



offerings that are both better and cheaper is tantalisingly close if not here already.

SURVIVAL OF THE FITTEST

In the sphere of business and commerce, an acceleration in the underlying rate of change is likely to be expressed through a quickening in the ascendancy of digital platforms and innovative, nimble disruptors. The winners will be anointed over the next two to three years, where it might ordinarily have taken 10 or more years. The speed with which it happens will significantly limit the number of players that could feasibly enter these markets and will ensure that the spoils accrue to a smaller number of existing participants (these dynamics will likely apply in retail, software, healthcare and beyond). The strong-getting-stronger is a well-documented phenomenon observed in previous downturns. Our impression is that this is likely to be an even more prominent feature this time around. This will be matched by a hastening in the demise of stale, structurally-challenged, frequently-indebted incumbents.

The acceleration will be neither uniform nor linear. We believe the companies held in Baillie Gifford's Global Discovery fund, such as LendingTree (online marketplace for US consumer credit products) and Zillow (online property portal), will ultimately be long-term beneficiaries, despite the unavoidable near-term operational pain. We are comfortable being patient supportive shareholders, because we believe that they have the flexibility to emerge from these challenges, most likely with their competitive positioning strengthened. And as for businesses such as Ocado (online grocery fulfilment) and the aforementioned Teladoc (telemedicine), the current environment has near-term benefits alongside a significant unlocking of longer-term opportunity as their offerings morph from being mere alternatives to highly-valued necessities.

As long-term investors in innovative, problem-solving companies, we are mindful that their paths to success are unlikely to be smooth and are often decades in the making. When a new product or service emerges it commonly needs a degree of refinement, awareness and education to broaden its appeal and overcome the twinned headwinds of scepticism and inertia. As those refinements occur, a company's proposition evolves, and the promise of a better/cheaper/more efficient offering is revealed. Ultimately, a tipping point is reached and what was once novel and scarce becomes mainstream and of mass market relevance.

We are acutely aware that many individuals and businesses will bear a huge cost from the current pandemic, with the financial and economic impacts reverberating for many years. The companies we invest in are clearly not cocooned from this backdrop. However, for the sizable majority of our Global Discovery holdings, the opportunity afforded by structural growth, disrupting incumbents and taking market share are likely to comfortably offset any economic headwind over the longer term. In actively looking for companies that are innovating and trying to move the world forward, we believe we are concentrating on an opportunity set whose own actions will be the greatest determinant of their success or failure. As observers along the frontiers of innovation in a wide range of industries and applications, we continue to be excited by the opportunities that abound.

THE CHELSEA VIEW

Baillie Gifford's strengths, namely rigorous company research, with a long-term perspective, play a big part in the running of this fund. The focus on growth and smaller companies separates it from many of its peers. While perhaps not for the faint hearted, investors have, so far, been richly rewarded over the medium and longer term

BAILLIE GIFFORD GLOBAL DISCOVERY

- **Targets innovative small-cap growth companies**
- **Each team member has expertise outside finance**
- **Well diversified**
- **Aggressive high risk fund not afraid to pay up for growth**

Chelsea Risk Rating: **8.5**
AMC: **0.75%**
OCF: **0.76%**

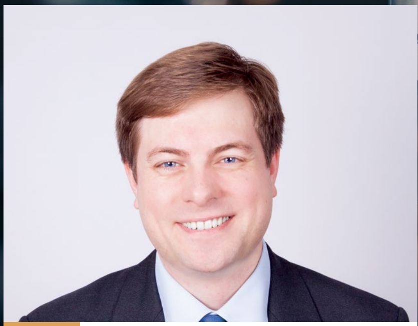
THREE VCTs TO CONSIDER

VCTs, despite being a high-risk asset class, have proven remarkably resilient in the face of unprecedented economic turbulence. Entrepreneurial instincts have kicked in, with many managers and their portfolio companies adapting quickly to the circumstances.

In recent years, tech-based and e-commerce businesses have become popular with VCT managers, and many of these businesses have been in a very good position to provide goods and services for an economy forced into lockdown.

This is good news for VCT investors. Not only does an investor receive 30p in tax relief for every £1 invested in a new VCT share offer, they will also pay no income tax on dividends or capital gains tax on profits.^

To give you an insight, we have invited three VCT managers to discuss their portfolio experiences and to highlight what opportunities they may bring to your portfolio.



PETER HICKS
Research analyst
Chelsea Financial Services

BILL NIXON
Maven VCTs

MAVEN VCTs

Maven's investment strategy is focused on growth companies that have strong recurring or contractual revenues, and which operate in defensive sectors such as software, cyber security, web archiving, data analytics, training and healthcare; these businesses are generally less directly consumer dependent. We take a highly selective approach to private company investment, with every proposed investment subject to extensive external due diligence and management referencing, and Maven executives taking a position on the board post investment.

CURRENT PORTFOLIO

The pandemic has clearly accelerated the ongoing digitalisation of the economy in many areas, reflecting changing consumer behaviours and remote working patterns, as well as increasing the focus on health-related areas. Our portfolios have significant exposure to innovative emerging businesses, including software companies, as well as companies operating in other interesting sectors such as biotech, healthcare and therapeutics.

Portfolio examples include BioAscent, which delivers compound collection facilities and drug discovery processes for pharmaceutical and biotechnology organisations, and has played a leading role in accelerating the UK programme of COVID-19 testing. The VCTs also recently invested in MirrorWeb, a regulatory technology business, which provides secure cloud-based social media and website archiving solutions for the public and private sector.

OUTLOOK

Although COVID-19 has created a challenging environment for business, Maven responded swiftly to the pandemic in order to protect shareholder value, conducting a full portfolio review and taking decisive action to implement costs and cash management measures. We have also maintained a regular dialogue with portfolio companies, which has helped management teams build an understanding of how to maintain operational resilience during a major economic displacement event.

The majority of portfolio companies have continued to trade satisfactorily throughout the pandemic, and our view is that VCT-backed companies will play an important role in the restoration of UK economic growth and that attractive new opportunities will continue to emerge.

IMPORTANT NOTICE: Please be aware that VCTs are long-term investments and invest in small, unquoted companies and therefore carry a greater risk than many other forms of investment. They are also very illiquid and you may have to hold them for longer than the minimum five-year investment period. In addition, the level of charges are often greater than unit trusts and OEICs. Past performance is not necessarily a guide to the future. The value of investments, and the income from them, can fall as well as rise, due to market and currency fluctuations and you may not get back the amount originally invested. Chelsea Financial Services offers an execution-only service. If you require investment advice you should contact an expert adviser. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

^ New shares must be held for a minimum five-year period otherwise income tax-relief will have to be paid back. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

NAME OF VCT	TYPE OF VCT	MINIMUM INVESTMENT	CHELSEA DISCOUNT	CLOSING DATE *
Maven VCTs	Generalist	£5,000	4.5% existing; 4.25% new**	30/03/2021
ProVen VCTs	Generalist	£5,000	2.75%	31/03/2021
Seneca Growth Capital VCT	Generalist	£3,000	4.50%	30/03/2021

*For 20/21 tax year
**Early bird expires noon 26/02/2021

KAREN MCCORMICK
ProVen VCTs

PROVEN VCTs

THE VIEW FROM BERINGEA

'Unprecedented' has been the cliché of the pandemic. And yet, the ProVen VCTs have weathered several recessions during their 20-year history and the precedents set by these turbulent periods have proved invaluable as we have reacted and adapted to a world shaped by COVID-19.

CURRENT PORTFOLIO

Inevitably, there have been write-downs in the portfolio due to the impact of a global downturn. The portfolio has, however, demonstrated its resilience, due, in part, to a limited exposure to sectors that have been acutely hit, such as hospitality and travel, while a substantial number of software businesses in the portfolio, such as Zoovu and DeepCrawl, and online retailers such as My 1st Years and Papier, have benefited during the lockdowns.

A strong cash position has also enabled the funds to support those businesses impacted by the pandemic that we feel have demonstrated the resilience and leadership to recover strongly when we emerge from this downturn. We are also seeing plenty of opportunities to expand the portfolio, focusing on small and medium-sized, unquoted companies with strong growth prospects.

OUTLOOK

It is clear that ongoing lockdowns and a shift in consumer behaviour will hasten the decline of high-street retail and accelerate the rise of e-commerce. With vast swathes of the population working from home, we will see commercial landlords forced to adapt. We also expect online retailers focused on DIY, home improvement and furniture to benefit as the remote workforce becomes tired of staring at the same four walls every day.

Over the coming year, there will be an increase in consumers spending locally and there will be a renewed focus on wellness and healthcare. Second Nature, a recent addition to the ProVen portfolio, has already seen an increase in sign-ups for its digital weight-loss programme as people look to improve their health and wellbeing. Bikes, scooters, and exercise programmes will be the order of the day for many consumers.

Having kept plenty of powder dry, we also feel that the ProVen VCTs could stand to benefit from the inevitable thinning of competition and declining valuations that result from this recession. Downturns have often provided vintage returns and, with the seeds of recovery emerging, VCTs provide a tax-efficient way to participate in this potential uplift as we begin life after the pandemic.

JOHN DAVIES
Seneca Growth Capital VCT

SENECA GROWTH CAPITAL VCT

The Seneca VCT, which we launched in 2018 off the back of our decade-long experience in growth capital investing, targets a mix of AIM-quoted and private businesses.

With 50% of its net assets held in cash, Seneca is primed to use its fundraising to take advantage of investment opportunities with the full benefit and consideration of the impact of COVID-19, selecting those businesses which have demonstrated both resilience and strong growth potential through the recent economic turbulence.

CURRENT PORTFOLIO

Silkfred and Qudini are good examples of businesses which are able to adapt quickly to the changing environment. Silkfred has a strong e-commerce presence and an operating model that does not carry physical stock. The business has successfully adapted sales to focus on the current buying preferences of its customers during lockdown.

Qudini's use of digitech and algorithms has enabled them to provide a solution for managing customer and people flow. This has clear relevance in virtually every worldwide setting, not only now but probably as a permanent way of life. A recent example of this is supporting NHS clinicians with patient appointments. Quidini has also helped businesses operate their stores in compliance with public health guidelines and social distancing.

OUTLOOK

With a large cash balance we believe we are in a strong position to take advantage of further opportunities. Dividends of 6p have been paid to date, with distributable reserves available to facilitate future payments.

FUNDS UPDATE

JULIET SCHOOLING LATTER
Research director,
Chelsea Financial Services

SCHRODER ASIAN ALPHA PLUS

Matthew Dobbs, the fund's long-standing manager, is retiring and handing management duties over to Richard Sennitt, who runs the Schroder Asian Income fund. Richard and Matthew have worked alongside each other for 13 years and share a similar flexible strategy. They look to build a reasonably concentrated portfolio of large companies from across the Asia Pacific region, with visible earnings growth and sustainable returns. As such, the philosophy of the fund will be little changed and, while the industry will lose one of its biggest characters in Matthew, the handover to Richard gives us reassurance of the future success of the fund, which maintains its generic buy rating.

LF BLUE WHALE GROWTH

This is a reasonably new fund, launched in 2017 by Stephen Yiu, who has had previous stints at New Star, Artemis and Nevsky Capital. The fund is highly concentrated, at just 25 to 35 holdings, and buys high-quality businesses that will be at the forefront of growth in their respective industries. Stephen is not concerned about any benchmark weights, and simply finds companies he likes at palatable valuations and backs them with conviction. The fund has got off to a strong start, and now that it has gone through a milestone three-year period, we have initiated a generic buy rating on the fund.

MAN GLG JAPAN COREALPHA

Two of this fund's veteran managers - Steve Harker and Neil Edwards - are retiring in early 2021. Jeff Atherton, who is taking over, returned to the fund in 2011 as part of the succession planning, having originally joined the team in 2001. The fund itself has had a difficult period. It's 'value' style, where it looks for the cheapest companies, hasn't worked. Instead, wider stock markets have been rewarding growing companies, and overlooked increasing valuations. As such, this fund's performance looks poor on a relative basis. However, if this style preference reverses, this fund will be best placed to capture a reversal in this historically large gap between the two contrasting styles. The fund retains its buy rating for the time being, as it is one of the purest examples of its style, albeit one that is seriously out of favour.

BUY

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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