~ ISSUE 52 · OCTOBER 2021 ~

VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS

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WELCOME TO VIEWPOINT

DR JOHN HOLDER

Chairman,
Chelsea

Welcome to the Autumn edition of Viewpoint. The past year seems to have flown by and some of us may not have had time to focus on what's been happening in the financial world. Darius' Market View (page 4) will bring you right up to date and give you his outlook for the coming months.

If you have ever struggled to get to grips with the difference between value and growth funds, our feature (on pages 20-25) provides a fantastic overview of the characteristics of both types of investing, illustrated by two 'value' and two 'growth' fund managers who share their views on their respective styles.

Further clarification, on a very different but equally complex asset class, can be found in the article on bonds (page 26-27), which explains about the different types of bonds available to a strategic bond manager.

The VT Chelsea Managed funds continue to prove very popular with our clients and we are often asked about how we run them. Some of your questions have been answered by the research team on page 7.

Please refer to the glossary on our website for further explanation of any technical terminology used within the magazine.

Call us on **020 7384 7300**

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

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

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MARKET VIEW

DARIUS MCDERMOTT
Managing director,
Chelsea

Resiliency has been the order of the day for financial markets in the past six months. Despite the continued threat of the Delta variant, the success of the vaccination programme has slowly seen economies opening up and growing once again.

I think the best way to summarise the new status quo is that after 18 months of restrictions the world is starting to learn how to live with Covid, although we also have to recognise different regions are recovering at different speeds.

PENT-UP DEMAND

Importantly, there is pent-up demand from consumers, who have been unable to spend on the likes of holidays and other discretionary items due to lockdown. Take the UK for example, I remember reading there were excess savings of about £100bn built up by UK households during the pandemic*.

That has trickled into financial markets – where we've seen an investing boom, with some £40bn in net retail sales into investment funds in the nine months to the end of June 2021**. This is supported by global equities rising some 50 per cent since March 2020***.

You could paint a picture of this being a pleasant time to invest post-Covid but, as always, it is never that simple. We do have challenges on the horizon in the shape of traditional asset classes looking fairly expensive at the moment and the impact of rising inflation.

INFLATION THOUGHTS

Let's start with inflation, which has divided opinion throughout 2021. The big issue being whether it is transitory or not, as markets get to grips with the supply and demand challenges that come with a quick re-opening of the global economy.

I'm still in the transitory camp, but recent comments made by US Federal Reserve chairman Robert Powell do stick in one's mind.
Powell said that he felt these inflation fears were only limited to a handful of sectors, like commodities, however, it did not take long for asset managers to release their own statements pointing to it being more widespread.

Essentially, it appears to me that the actions of central banks, like the Federal Reserve, could be the greatest risk to markets at the moment. For example, what would happen if they chose to start raising interest rates before the economy was ready for it?
Markets broadly look expensive again, with bonds and equities looking fully valued when compared with historic levels. We've almost gone back to the pre-pandemic period, with markets continuing to grind ever higher, with the likes of the S&P 500 in the US continuing to hit record highs.

"YOU COULD PAINT A PICTURE OF THIS BEING A PLEASANT TIME TO INVEST POST-COVID BUT, AS ALWAYS, IT IS NEVER THAT SIMPLE."

What investors do have to remember is that when an unforeseen event comes along - such as China's decision to intervene in their education stocks - you are going to see quite a volatile reaction in markets.

I want to quickly caveat this by saying that if markets are expensive, it does not mean they won't continue to rise in a booming economy. Big technology companies are a great example of this, as although they appeared to be thriving compared with the rest of the global economy in 2020, they were also adversely affected by the pandemic. Apple closed all its retail stores and Google lost all its revenue from travel-related searches. These lost benefits were hidden by the strength of their longer-term growth stories – until we saw far stronger earnings unveiled this year.

On the back of a challenging time for all of us, I am pleased to see more people investing in the true sense of the word, rather than looking to trade in and out at specific points. The old adage is that it's "time in the market, not timing the market" which counts. Investors mustn't be swayed by short-term volatility when building towards their long-term goals.

***Source:** The Guardian - UK public's £100bn Covid savings could help recovery, says Haldane.
****Source:** Investment Association figures.
*****Source:** FE Analytics, total returns in pounds sterling for MSCI World, figures from 13 March 2020 to 10 September 2021.

OUR ISA UPDATE

SAM HOLDER
Operations director,
Chelsea

IT'S NEVER TOO LATE TO START SAVING

As we all embrace the return to our normal daily routine, perhaps now is the time to think about starting another regular habit - saving monthly.

It's never too late to start saving, but for some people investing a lump sum can feel daunting. So why not consider investing monthly?

Here are some of the advantages of opting for saving regularly rather than with a lump sum:

- Peace of mind - once you've set up your direct debit, the decision of when to invest no longer needs to be made. You can sit back and watch the money accumulate.

- Smooths out the highs and lows - often people make the mistake of investing at the top of the market because they see prices are rising. When investing smaller amounts on a regular basis, the fluctuations in the value of your portfolio will be less pronounced.

- Pound cost averaging - when we invest the same amount on a regular basis, we simply buy more units when an investment is cheaper and fewer units when it is more expensive. For example, a £100 investment into a fund with a unit price of £5 could provide you with 20 units during the first month. Say the unit price fell by month two, your £100 buys 25 units at a price of £4. You now have 45 shares at an average price of £4.44.

- Set up monthly savings for as little as £10 a month on the Chelsea platform. If you've got an account with Chelsea already, just log in to set up your monthly savings. If you're new to us, it's quick and easy to set up an account - and we'd love to have you.

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

THE 2021/22 ISA ALLOWANCES ARE AS FOLLOWS:

Stocks & shares ISA: **£20,000**

Junior ISA: **£9,000**

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.

YOUR QUESTIONS ANSWERED

THE CHELSEA RESEARCH TEAM (L TO R):

JULIET SCHOOLING LATTER
Research director

RYAN LIGHTFOOT-AMINOFF
Senior research analyst

JAMES YARDLEY, CFA
Senior research analyst

DARIUS MCDERMOTT
Managing director

We often get asked by those of our clients who invest, or are thinking of investing, in our VT Chelsea Managed funds about the funds' decision-making process. Here we answer some of those questions, shedding some light on the way things work.

How often do you change holdings in the funds? Why don't you hold funds for the long term - is this not what you encourage clients to do?
When any holding is bought it is usually with the intention of holding it for the long term. Many of the holdings bought when the funds were first launched are still in the portfolios today but there have also been a lot of changes as well.

We closely monitor the funds' holdings and we are not shy about advising changes for them if they don't behave as we expect or if we find something better. Sometimes a change is forced upon us by a manager change or retirement. This is one of the benefits of the fund of funds structure in that we can stay on top of these changes and make alterations without a holder in the funds ever having to worry about it.

There tend to be a lot more changes made to the investment trust holdings in the portfolio. Here, there is the added complication that a trust can trade at a discount or premium to its value. Quite often the funds have bought into a trust on a substantial discount intending to hold it for the long term. However, a trust can quickly move from a discount to a premium. At that stage the risk reward becomes much worse and the position will usually be sold and the capital recycled into a better idea. This has been highly beneficial to the funds' performance.

A good example of this would be PRS REIT which owns and rents out residential property. This was bought at around 76p in November 2020 at a substantial discount. It didn't make sense for it to be trading at such a big discount, given the strength of UK house prices. However, the market soon came to the same conclusion and by the middle of 2021 the trust was back at a premium. So the position was trimmed, and then exited at 104p and collected a few dividends along the way.

How do you decide how much to invest in each of the funds you hold?
It comes down to a number of factors. The first is conviction. The funds will have more weight in the best ideas, which will hopefully aid performance.

Risk is also a consideration when adding new positions to the portfolios. We look at the historic volatility but also correlation, or in other words how similar a fund is to the existing holdings. The funds can have a higher weight in funds which add something different to the portfolio. It is important that the holdings do not go up and down at the same time together. This is why in our Cautious, Balanced and Monthly Income funds you'll see a huge range of different exposures from music royalty rights to wind farms and data centres to care homes, alongside the more traditional equities and bonds.

The Aggressive fund is a bit different since it is almost entirely composed of equities but even here it's important to have a good mixture between small and large caps and different geographies.

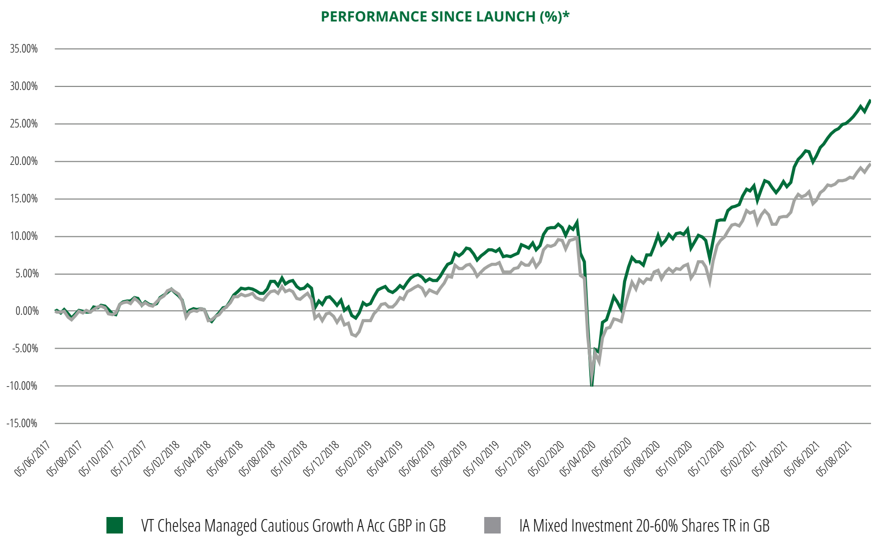
Finally, liquidity is an important consideration - holding large weights in illiquid positions, which may be hard to trade, should be avoided.

Have you found any new ideas recently?
We're constantly running performance data, looking for the next upcoming manager. As a research team, we see new managers all the time. On the investment trust side we keep a constant eye out for interesting ideas, sometimes getting the opportunity to buy into an IPO.

A new trust that was recently bought at IPO was Taylor Maritime which owns and charters 'handysize' ships. With shipping rates going through the roof, the trust has performed well. It offers us a diversified income stream to our existing assets as well as some inflation protection due to the nature of the trusts. We currently hold the trust in all four of our funds.

VT CHELSEA MANAGED

CAUTIOUS GROWTH



***Source:** FE fundinfo 05/06/2017 - 01/09/2021, total returns in sterling

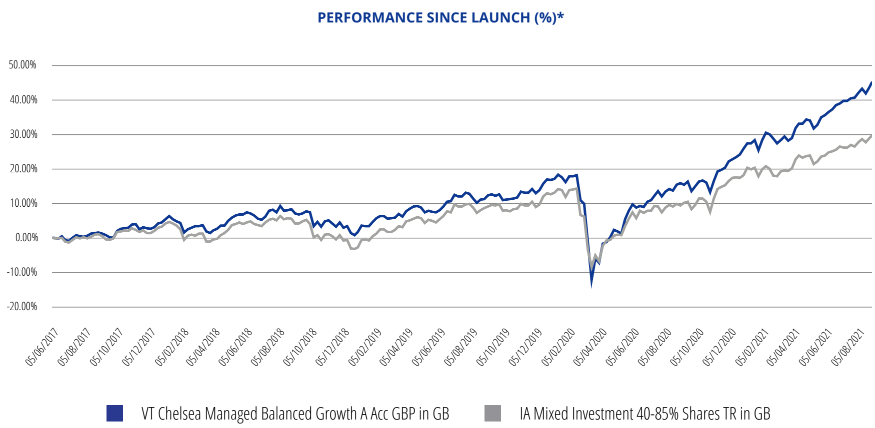
OUR MOST DEFENSIVE PORTFOLIO

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:	**1.18%**
Payment dates:	**30th Jun, 31th Dec**
Indicated yield:	**1.93%**
Performance since launch:	**28.29%**
Sector average:	**19.74%**
Chelsea Risk Rating:	**4**

BALANCED GROWTH



***Source:** FE fundinfo 05/06/2017 - 01/09/2021, total returns in sterling

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:	**1.00%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**45.19%**
Sector average:	**29.75%**
Chelsea Risk Rating:	**5.5**

WHAT ARE THE RISKS?

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

OUR PUREST GROWTH PLAY

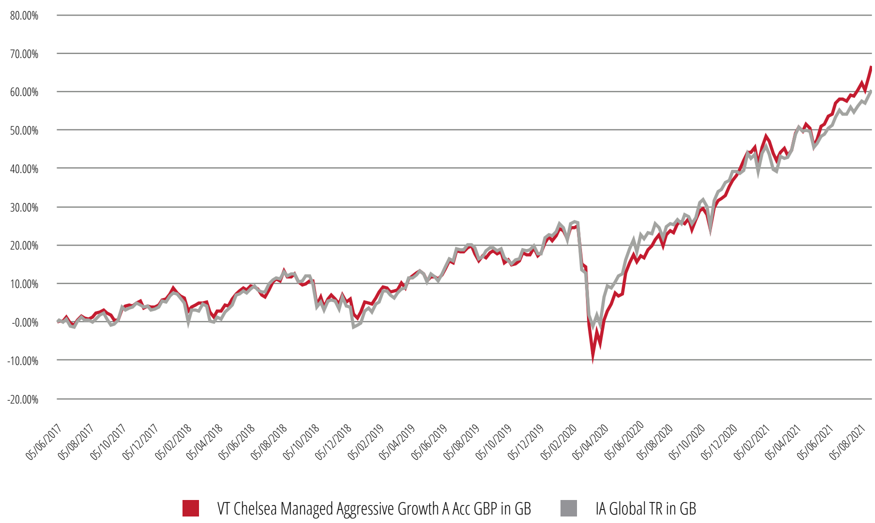
Quite simply, the aggressive fund aims to grow your money over the long term using our purest ideas†. We will invest heavily in stock markets around the world, which means the fund may be more volatile that the other VT Chelsea Managed funds.

KEY FACTS:

Ongoing charges figure:	**1.04%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**66.60%**
Sector average:	**60.28%**
Chelsea Risk Rating:	**7**

AGGRESSIVE GROWTH

PERFORMANCE SINCE LAUNCH (%)*



***Source:** FE fundinfo 05/06/2017 - 01/09/2021, total returns in sterling

OUR FUND FOR YIELD

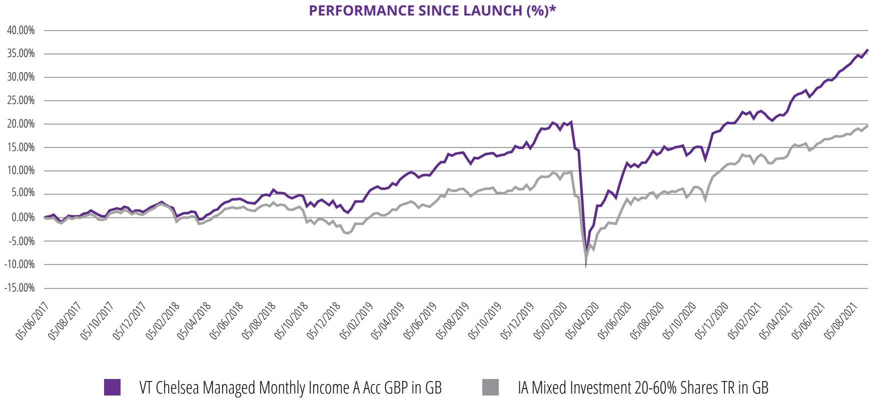
The monthly income fund aims to pay roughly the same amount of income each month* so that you can budget with confidence. The fund targets an above-market income that is sustainable and consistent, as well as some capital growth, over the long term†.

KEY FACTS:

Ongoing charges figure:	**0.91%**
Payment dates:	**Monthly**
Indicated yield:	**4.52%**
Performance since launch:	**35.98%**
Sector average:	**19.74%**
Chelsea Risk Rating:	**4.5**

MONTHLY INCOME

PERFORMANCE SINCE LAUNCH (%)*



***Source:** FE fundinfo 05/06/2017 - 01/09/2021, total returns in sterling

WHAT ARE THE RISKS?

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

MORE INFORMATION »

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

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

Indicated yields and OCFs correct as at 03/09/2021.

† 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)	0.68%^†*
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.89%
UNIT TYPE	ACC or INC

LF GRESHAM HOUSE UK MICRO CAP

Manager Ken Wotton levers the extensive resource of the private equity background of his team – who also run the Baronsmead VCT range - to focus on four areas: technology; consumer goods; healthcare and business services for differentiated companies with unique businesses. The team often know these companies from their nascent stages and will actively engage with management to help the business deliver on its plans. Stocks are ranked on a conviction score to formalise the buying, sizing and selling of their 40-50 holding portfolio.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.85%^#
ONGOING CHARGES FIGURE (OCF)	0.93%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.00%
UNIT TYPE	ACC or INC

LF LINDSELL TRAIN UK EQUITY

SPOTLIGHT

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.60%^#
ONGOING CHARGES FIGURE (OCF)	0.65%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	1.55%
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	0.99%
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)	0.82%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.13%
UNIT TYPE	INC

MARLBOROUGH UK MICRO CAP GROWTH

This fund has one of the best track records in the industry. Guy Feld & Eustace Santa Barbara have recently taken over from veteran founder manager Giles Hargreaves. 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)	0.81%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.06%
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	0.06%
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)	0.93%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	2.85%
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	2.72%
UNIT TYPE	ACC or INC

GUINNESS GLOBAL EQUITY INCOME

NEW ENTRY

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.81%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.61%
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	0.66%#
ONGOING CHARGES FIGURE (OCF)	0.66%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.82%
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	4.67%
UNIT TYPE	ACC or INC

MONTANARO UK INCOME SEED**

Montanaro are specialists in small and medium-sized companies. This fund is co-managed by industry veteran Charles Montanro and Guido Dacie-Lombardo and invests in quality growth businesses, backed by strong management teams. The fund seeks to grow its dividend over time. One of its differentiating features is the fund's refusal to buy stocks listed on AIM (Alternative Investment Market) as the team believes these are too risky. The final portfolio is 40-50 stocks. Early supporters of this fund, including Chelsea clients, have access to the significantly cheaper seed share class. Income is paid in March, May, August and November.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.25%#^
ONGOING CHARGES FIGURE (OCF)	0.34%†^
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	3.60%
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	0.87%#
ONGOING CHARGES FIGURE (OCF)	0.87%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.40%
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 Financial Express fund info for period up to 01/09/2021 as at 03/09/2021. Yields as at 03/09/2021 and taken from Income units where applicable.

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

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

† 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 on 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	0.00%
UNIT TYPE	ACC or INC

FTF MARTIN CURRIE EUROPEAN UNCONSTRAINED

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.97%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	-
YIELD	0.19%
UNIT TYPE	ACC or INC

MARLBOROUGH EUROPEAN MULTI-CAP

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

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.83%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.21%
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	0.02%
UNIT TYPE	ACC

THREADNEEDLE EUROPEAN SELECT

Manager Ben Moore focuses on buying companies with a competitive advantage, high quality defensible earnings and consistent growth rates. His approach is growth orientated, but other factors, such as brand loyalty or pricing power, are also key. Consequently, he favours certain sectors and may choose not to invest in some sectors altogether. He likes companies with strong market share in emerging markets. The fund is fairly concentrated and typically has around 40 holdings, of which around 80% are in large-caps.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.82%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	-
YIELD	0.30%
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	0.00%
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	1.11%
UNIT TYPE	ACC or INC

PREMIER MITON US OPPORTUNITIES

This fund brings together the talents of two managers, Nick Ford and Hugh Grieves, who both have strong track records. Between them, they have run both small and large-cap, and value & growth mandates meaning they have a wide experience of asset classes to call upon. They run a concentrated portfolio, investing across the market-cap spectrum, with a small and mid-cap bias, to create a portfolio differentiated from their peers. They take a long-term view when investing, creating a portfolio of around just 35-45 stocks. Because of this, stock selection is imperative. They favour easy-to-understand, cash-generative businesses which they will trade at prices with considerable upside potential.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.84%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.00%
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)	0.61%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.87%
UNIT TYPE	ACC or INC

BAILLIE GIFFORD PACIFIC

NEW ENTRY

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

CHELSEA RISK RATING	8.5
ANNUAL MANAGEMENT CHARGE	0.65%#
ONGOING CHARGES FIGURE (OCF)	0.71%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	-
YIELD	0.32%
UNIT TYPE	ACC

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	0.00%
UNIT TYPE	ACC

FSSA GREATER CHINA GROWTH

NEW ENTRY

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

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	1.00%#
ONGOING CHARGES FIGURE (OCF)	1.07%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	0.36%
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	0.10%
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	0.26%
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.

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)	0.91%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.00
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	0.19%
UNIT TYPE	ACC or INC

NINETY ONE GLOBAL ENVIRONMENT

SPOTLIGHT

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.88%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	SILVER
YIELD	0.46%
UNIT TYPE	ACC or INC

RATHBONE GLOBAL OPPORTUNITIES

Manager James Thomson has a mandate to invest across the globe, though in practice only focuses on the more developed world markets to create a concentrated portfolio of 40-60 stocks. These companies are typically out-of-favour and under-the-radar growth companies, but at attractive valuations. James is a pure stock picker and has a flexible asset allocation mandate to go with it. He likes differentiated companies that are easy to understand, with a repeatable strategy and with barriers to entry for competitors. There is also a defensive bucket of stocks less dependent on the economic environment to manage risk and protect the fund in falling markets.

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.65%^#
ONGOING CHARGES FIGURE (OCF)	0.67%^†
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)	0.59%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	-
UNIT TYPE	ACC

FIXED INTEREST

ARTEMIS CORPORATE BOND

NEW ENTRY

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

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.25%#
ONGOING CHARGES FIGURE (OCF)	0.40%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.62%
UNIT TYPE	ACC or INC

BAILLIE GIFFORD STRATEGIC BOND

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

CHELSEA RISK RATING	3.5
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.52%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	3.20%
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	2.00%
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)	0.70%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	-
YIELD	2.40%
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	3.50%
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	5.63%
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)	0.70%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	1.96%
UNIT TYPE	ACC or INC

TWENTYFOUR DYNAMIC BOND

TwentyFour was founded in 2008 by a group of leading bond managers and it specialises entirely in fixed income. This fund is their flagship product. There is no lead manager and asset allocation is decided by a 10-strong investment committee on a monthly basis. Portfolio managers are then responsible for managing their own parts of the portfolio. This is a flexible, high-conviction fund managed by a very experienced and well-resourced team. A significant portion of the fund is invested in asset-backed securities (around 20%).This makes the fund quite different from some other strategic bond funds which lack the expertise to invest in this area of the market.

CHELSEA RISK RATING	3.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.78%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	4.20%
UNIT TYPE	ACC or INC

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	0.52%
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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- ***** A performance fee may be applied, see the Key Investor Information Document for further details.
- ****** Cheaper share class available. Please contact us on 020 7384 7300.
- **†** 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.

CORE SELECTION SPOTLIGHT

GRAEME BAKER

Co-Portfolio manager,
Ninety One Global Environment
Elite Radar by FundCalibre

When I joined Ninety One* in 2010 as an energy analyst, my research into clean-energy businesses was rather a sideline. 'Big Oil' still ruled the roost. But it was clear where the wind was blowing.

In 2015, we made a dedicated allocation within our Global Energy fund to renewables companies. Over time, this grew into the Ninety One Global Environment equity strategy, which today invests in businesses across industries that are enabling decarbonisation (the process of reducing carbon dioxide emissions).

TOWARDS NET ZERO

Global Environment formally launched in 2018, with Deirdre Cooper and I as co-portfolio managers. The idea behind the strategy is simply this: we believe that companies with products and services which help the economy to transition sustainably towards net zero have the potential to grow revenues and profits faster than the market average. We think that should be good for investment returns, the planet and future generations. Allocating to the potential winners from decarbonisation may also help balance some of the climate risk elsewhere in investors' portfolios. There is no guarantee that this investment will make profits; losses may be made.

To identify companies that may benefit from efforts to cut emissions, we 'follow the carbon'. First, decarbonisation requires an energy revolution. Our portfolio includes companies leading the clean-energy transition, such as renewables-focused utilities, as well as manufacturers of essential technologies like solar glass and wind-turbine blades.

Decarbonisation also requires a transport revolution, which should drive growth for select companies. Investing in carmakers can be tricky, as it's unclear which will dominate in the future. So we are currently getting exposure to the electric-vehicle (EV) growth trend via the supply chain – specifically, through businesses that make the software, hardware (e.g., power semiconductors) and components (e.g., batteries) that EVs need.

ENERGY EFFICIENCY

Another essential pathway to decarbonisation is energy efficiency. Our portfolio includes providers of 'green' heating and cooling systems for buildings and cars; biotech and speciality chemicals companies with products which cut carbon from industrial, food and agricultural processes; and businesses with technologies which reduce energy consumption in manufacturing.

Though our potential investment opportunity is large at around US$12 trillion in market capitalisation, we keep the portfolio fairly small, typically at about 25 stocks**. There are a couple of reasons for this. First, decarbonisation is going to be disruptive. We think companies that are leaders in their fields with competitive advantages are more likely to emerge from the economic upheaval as winners, so we focus on them. Second, having a small portfolio lets us engage closely with companies, both to understand them better and to encourage positive change from an impact perspective. As the portfolio invests in a relatively small number of individual holdings, this may mean wider fluctuations in value than more broadly invested portfolios.

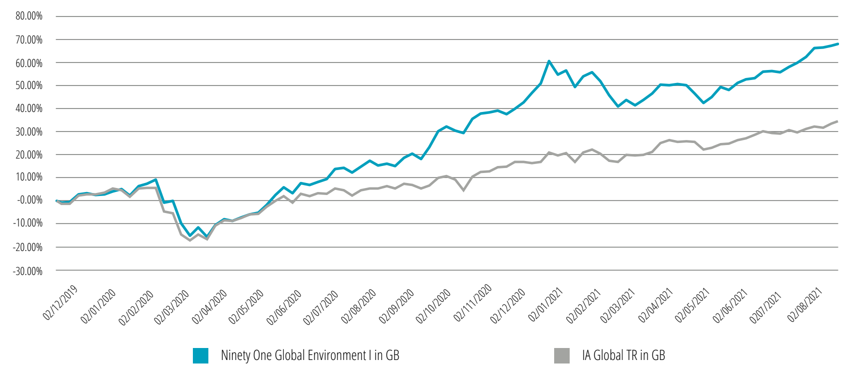
In terms of current positioning and thinking, a focus of our research is food. Decarbonising meat production especially would take a big bite out of total emissions, which suggests growth potential for companies that reduce the carbon emitted from field to plate. Overall, the Global Environment portfolio remains aligned with the broad structural growth trend of decarbonisation and is diversified across regions and sectors. But every company we hold contributes 'carbon avoided': that is, their products and services are measurably lower-carbon than the traditional alternative.

Day to day, the Global Environment team spends a lot of time analysing valuations. The massive economic transformation required to tackle climate change is generating tremendous uncertainty. We think that makes it difficult for the market to accurately price companies, which presents exciting opportunities for active investors like us.

THE CHELSEA VIEW

This fund has one of the most unique processes to come out in the past few years. The 'carbon avoided' approach has never been more pertinent. This is supported by a high-conviction portfolio which will allow the fund to benefit from both the investment trend, and help towards environmental goals for years to come.

NINETY ONE GLOBAL ENVIRONMENT SINCE LAUNCH



Source: FE fundinfo, 01/09/2016 to 01/09/2021, total returns, net of fees, in sterling.
**Then Investec Asset Management*
***These internal parameters are subject to change not necessarily with prior notification.*

CORE SELECTION SPOTLIGHT

NICK TRAIN

Fund manager,
Lindsell Train UK Equity
Elite Rated by FundCalibre

I co-founded Lindsell Train Limited in 2000 and have been the portfolio manager for the LF Lindsell Train UK Equity fund since its launch in 2006. I have over 40 years' experience in investment management, having previously worked at M&G Investment Management, as head of Global Equities, and at GT Management where my final role was as Chief Investment Officer for Pan-Europe, having built long investment track records in both UK and Global equities. I have a degree in Modern History from the University of Oxford.

FOCUSED PORTFOLIO

I employ a very strategic approach in managing my fund, taking positions in a limited number of companies (typically 20-30) that I believe have the right characteristics to produce attractive returns for our investors over the long term. By long term, I mean at least five years, although when I invest in a company I expect to hold it for much, much longer unless its circumstances change enough to worry me. I am also optimistic about the long-term prospects for the global economy, and that growth in demand from across the globe will have a positive impact for the companies the fund holds.

My fund is invested in a collection of what I analyse to be exceptional companies, by both UK and global standards. There are four key themes: digital winners, representing around 40% of the portfolio (by value); trusted consumer brands (30%); luxury/premium brands (20%); and financial proxies (10%).

Digital winners include the London Stock Exchange Group, RELX and Experian, all advantaged by the ongoing changes we see in technology and the distribution of critical information and services. For example, RELX owns unique publications and services in the medical, scientific, legal and risk areas. It is difficult to see how their groups of customers can function without subscribing to these services, whilst digital distribution offers the opportunity to increase efficiencies and the range of services, to the benefit of shareholders.

BRAND POWER

Nothing endures more than beloved consumer brands (for me particularly those owned by Mondelez, Diageo, Heineken and Unilever), and history tells us that considerable wealth can be generated by the owners of these unique assets. An investor in my fund can know that through it they own stakes in wonderful brands such as Guinness, Ben & Jerry's, Johnnie Walker, Hellman's, Tanqueray, Dove and Cadbury. These companies are also benefiting from the shift to premium, especially in developing countries, as incomes rise. As are Burberry, Fever-Tree and Remy Cointreau, which sit in my luxury/premium brands bucket.

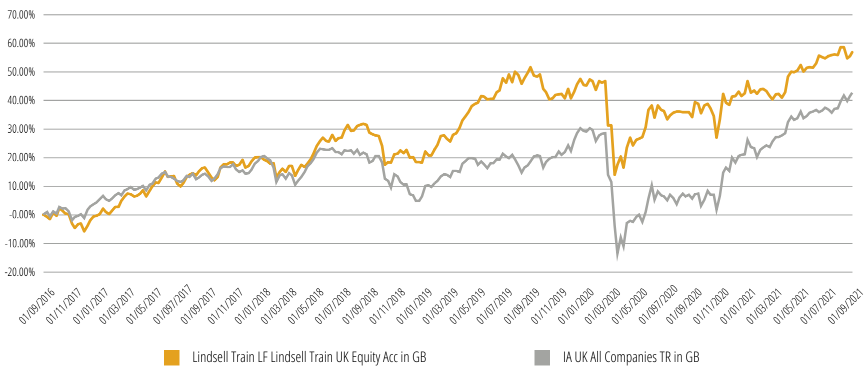
I also invest in several outstanding businesses which provide proxy exposure to financial markets. Although my fund is often described as "defensive" in nature – meaning that it is likely to fall less than the average portfolio when the market takes a downward turn - these financial proxies help support performance in a rising market scenario. Apart from a major holding like the London Stock Exchange, which I also categorise as a "digital winner", these include two fund management houses Schroders (the UK's largest asset management company by market cap) and Rathbones.

Finally, given my intention to hold all my investments in the fund for the very long term, all relevant long-term issues - including those related to environmental, social and governance factors – are considered carefully, with the objective of pre-empting risk and enhancing returns for our investors.

THE CHELSEA VIEW

Run by one of the industry's most well-known names, this eponymous fund is almost a perfect encapsulation of active management. It has a highly defined process, a concentrated portfolio and ideas backed with conviction. If the manager gets it right, which he regularly does, it should generate strong outperformance.

FUND PERFORMANCE OVER 5 YEARS



Source: FE fundinfo, 01/09/2016 to 01/09/2021, total returns, net of fees, in sterling.

THE CHELSEA SELECTION

	Elite Rating	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	% Yield	Fund Size(m)
UK ALL COMPANIES												
Artemis UK Select		7	61.20	7	39.44	18	81.17	20	205.65	33	0.82	1325.9
AXA Framlington UK Select Opportunities		6	25.98	209	19.04	106	37.86	115	130.78	102	0.93	1062.4
BlackRock UK		6	26.56	193	28.60	45	67.43	38	180.74	54	0.55	653.2
JOHCM UK Dynamic		6.5	48.98	29	7.89	184	39.87	104	167.27	65	3.89	1393.3
Jupiter UK Special Situations		6	40.13	64	9.21	176	31.83	147	149.45	75	1.80	2062.8
LF Lindsell Train UK Equity SPOTLIGHT		6.5	17.33	244	19.29	102	56.87	53	252.18	16	1.55	6537.8
Liontrust Special Situations		6	30.38	142	30.51	36	70.13	29	245.71	18	0.99	6505.7
Marlborough Multi-Cap Growth		7	36.68	87	34.68	27	91.75	12	280.05	10	0.13	338.7
Marlborough Special Situations		7.5	51.88	20	47.07	11	109.48	6	351.37	3	0.26	1699.9
MI Chelverton UK Equity Growth		7.5	61.34	6	84.27	2	185.98	1	-	-	0.06	1748.0
Schroder Recovery		7.5	54.46	13	9.39	174	36.03	121	175.13	56	1.58	1170.5
Slater Growth		7	54.00	16	68.21	4	120.00	4	323.53	6	0.00	1391.7
VT Downing Unique Opportunities		7	44.62	41	-	-	-	-	-	-	-	50.5
Sector Average			34.94	249	17.75	238	42.75	226	135.48	198	-	-
UK EQUITY INCOME												
Artemis Income		5	31.10	52	15.19	23	36.83	20	142.27	18	3.37	4905.6
JOHCM UK Equity Income		6.5	54.66	2	8.16	53	37.68	18	149.81	10	5.59	2142.0
LF Gresham House UK Multi Cap Income		7.5	34.40	34	39.33	1	-	-	-	-	3.48	112.6
Man GLG Income		6.5	34.03	37	11.52	41	48.65	6	152.77	8	4.67	1539.1
Marlborough Multi Cap Income		7	33.85	38	15.88	17	37.73	17	183.94	3	3.58	1179.8
Montanaro UK Income†^		7.5	44.56	42 / 249	40.44	17 / 238	77.45	23 / 226	237.70	22 / 198	3.60	799.1
Rathbone Income Fund		5	32.39	46	11.19	45	25.29	44	132.38	24	3.42	840.4
TB Evenlode Income^		5	16.59	245 / 249	20.61	93 / 238	49.84	77 / 226	212.20	29 / 198	2.40	3607.0
Threadneedle UK Equity Alpha Income		5.5	28.49	63	14.45	25	32.70	24	152.43	9	3.09	332.3
Sector Average		5.5	33.79	83	11.28	81	28.26	75	117.60	65	-	-
UK SMALLER COMPANIES												
ES R&M UK Equity Smaller Companies		8	55.47	22	60.7	8	121.28	11	518.39	1	0.53	614.1
LF Gresham House UK Micro Cap		8	40.62	47	42.82	29	118.72	15	412.98	5	0.00	301.8
Liontrust UK Micro Cap		8	58.09	16	74.43	2	168.79	4	-	-	0.00	195.1
Marlborough UK Micro Cap Growth		8	58.08	17	63.72	5	143.14	5	436.1	4	0.06	1729.9
TB Amati UK Smaller Companies **		8	42.87	43	46.19	23	137.76	8	367.47	10	0.40	1012.3
Sector Average		8	54.28	49	43.19	47	102.82	45	277.96	42	-	-
STERLING CORPORATE BOND												
Artemis Corporate Bond		2.5	6.99	3	-	-	-	-	-	-	2.62	636.1
BlackRock Corporate Bond		3.5	3.12	56	15.85	54	20.57	25	79.74	21	2.00	1283.5
Rathbone Ethical Bond		2.5	6.39	5	21.55	12	31.12	2	95.72	9	3.10	2568.7
Royal London Corporate Bond		2.5	7.05	2	19.66	17	23.86	8	87.87	10	2.75	1412.6
TwentyFour Corporate Bond		2.5	4.17	27	16.65	44	20.98	17	-	-	3.78	1383.3
Sector Average		2.5	3.52	103	16.07	97	17.08	89	66.01	68	-	-
STERLING HIGH YIELD BOND												
Baillie Gifford High Yield Bond		4	6.80	27	15.53	18	26.89	10	87.81	3	4.20	948.9
Man GLG High Yield Opportunities		4	24.95	1	-	-	-	-	-	-	5.75	150.4
Sector Average			9.69	33	15.79	30	25.45	26	72.64	18	-	-
STERLING STRATEGIC BOND												
Baillie Gifford Strategic Bond		3.5	6.09	34	18.60	20	25.56	16	88.71	9	3.20	1351.4
GAM Star Credit Opportunities#		4	11.23	7	20.46	16	32.92	7	140.31	1	3.50	687.7
Janus Henderson Strategic Bond**		3	4.32	45	21.94	13	24.88	20	79.18	14	2.40	3359.5
Jupiter Strategic Bond		2.5	4.02	53	17.00	31	21.57	35	74.08	17	3.50	4425.0
Nomura Global Dynamic Bond#		4	6.19	32	27.29	4	35.51	4	-	-	1.96	3285.7
TwentyFour Dynamic Bond		3.5	8.04	18	18.02	24	28.28	14	90.65	8	4.20	1967.7
Sector Average		3.5	5.08	85	16.32	78	20.10	69	62.38	48	-	-
TARGETED ABSOLUTE RETURN*												
Janus Henderson Absolute Return		4	4.98	-	8.89	-	12.97	-	59.66	-	0.00	1488.0
Jupiter UK Specialist Equity#		5	0.28	-	11.30	-	34.20	-	-	-	-	449.6
SVS Church House Tenax Absolute Return Strategies		4	5.61	-	7.59	-	11.57	-	41.11	-	0.52	490.0
Sector Average			6.58	-	8.02	-	11.77	-	29.28	-	-	-
EUROPE EXCLUDING UK												
BlackRock Continental European Income		7	21.58	126	36.80	34	64.08	72	236.71	14	2.85	1742.7
BlackRock European Dynamic		7	43.95	4	72.00	6	137.76	5	374.20	3	0.00	6655.2
FTF Martin Currie European Unconstrained		7.5	37.05	8	80.85	3	116.76	9	249.55	10	0.19	123.3
Jupiter European Smaller Companies^		8	35.50	21 / 25	-	-	-	-	-	-	1.00	31.8
Marlborough European Multi-Cap		8	62.60	1	77.65	5	144.88	3	401.28	2	0.21	458.4
Premier Miton European Opportunities		7.5	34.33	19	81.85	2	188.11	1	-	-	0.02	3088.6
Threadneedle European Select		7	28.04	65	48.70	13	91.68	17	257.38	9	0.30	1979.1
Sector Average			28.43	138	32.07	125	68.21	115	186.57	87	-	-
NORTH AMERICA												
Artemis US Extended Alpha		7	23.81	172	50.71	92	120.95	43	-	-	0.09	429.1
AXA Framlington American Growth		7	31.04	46	74.91	24	174.98	13	478.34	17	0.00	970.1
Baillie Gifford American**		7.5	31.15	43	147.86	1	364.17	1	990.07	1	0.00	7651.6

Fund	Elite Rating	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	% Yield	Fund Size(m)
Brown Advisory US Flexible Equity#		7	26.01	143	59.52	49	132.35	36	-	-	1.02	605.8
Fidelity Index US		7	27.70	93	54.05	74	116.55	62	-	-	1.11	2983.0
FTF Martin Currie US Unconstrained		7	28.13	86	74.66	25	145.92	23	413.55	36	0.00	222.2
Premier Miton US Opportunities		7	28.51	77	52.42	84	109.43	77	-	-	0.00	1267.0
Sector Average			28.08	213	49.77	191	108.05	152	346.22	101	-	-
JAPAN												
Baillie Gifford Japanese**		10	16.86	71	21.58	37	72.96	16	258.82	3	0.87	3740.9
FSSA Japan Focus		10	26.61	10	54.33	1	135.98	1	-	-	0.00	265.8
FTF Martin Currie Japan Equity		10	12.80	87	37.10	7	108.45	3	597.95	1	0.00	1372.2
JPM Japan		10	19.63	34	41.58	4	105.47	4	270.58	2	0.10	1584.3
Jupiter Japan Income		9.5	23.29	19	28.84	18	74.37	14	193.69	13	2.20	923.0
Sector Average			19.82	90	20.16	83	56.08	78	163.23	58	-	-
ASIA PACIFIC EXCLUDING JAPAN*												
Alquity Indian Subcontinent**#		10	67.04	-	16.46	-	71.29	-	-	-	-	23.4
Baillie Gifford Pacific NEW ENTRY		8.5	33.96	2	95.64	1	182.88	1	362.29	1	0.32	3451.9
Fidelity Asia Pacific Opportunities		8	28.45	13	61.43	8	105.89	6	-	-	0.00	1279.0
Fidelity Asian Dividend		7.5	23.64	35	24.97	67	60.32	58	-	-	3.55	56.0
FSSA Greater China Growth^		10	17.83	1 / 56	53.61	15 / 50	107.73	7 / 45	249.21	6 / 30	0.36	687.6
GS India Equity Portfolio#		10	56.8	-	48.65	-	88.2	-	307.77	-	-	1811.2
Guinness Asian Equity Income#		8	20.31	57	15.05	101	48.37	84	-	-	3.45	155.5
Invesco Asian		8	20.41	55	26.66	60	75.51	25	176.97	14	1.34	1522.7
Invesco China Equity^		10	-12.73	56 / 56	14.77	41 / 50	63.29	24 / 45	188.78	10 / 30	0.65	435.4
Matthews Pacific Tiger#		8	19.13	63	33.32	39	61.44	53	166.76	17	-	384.4
Schroder Asian Income		7.5	23.24	37	25.2	65	57.89	66	165.8	18	3.27	1356.8
Stewart Investors Asia Pacific Leaders Sustainability		7.5	31.52	-	38.62	-	73.13	-	192.49	-	0.26	7913.7
Sector Average			19.84	120	32.1	112	67.1	107	136.76	75	-	-
GLOBAL EMERGING MARKETS												
Aubrey Global Emerging Markets Opportunities**#		10	18.67	86	67.93	3	122.93	1	-	-	-	307.6
RWC Global Emerging Markets#		10	31.29	15	42.20	22	74.21	20	-	-	-	1663.1
Sector Average			21.27	142	28.92	125	55.68	107	84.26	66	-	-
GLOBAL												
Baillie Gifford Global Discovery**		8.5	16.98	398	66.39	43	194.74	5	592.40	2	0.00	2147.3
Fidelity Global Special Situations		7	24.71	300	41.65	188	98.64	91	307.25	36	0.00	3299.7
Fundsmith Equity		6	25.80	274	60.07	59	128.60	31	507.06	4	0.19	27767.4
LF Blue Whale Growth NEW ENTRY		8	22.35	350	69.71	36	-	-	-	-	0.08	979.9
Ninety One Global Environment SPOTLIGHT		7.5	45.98	12	-	-	-	-	-	-	0.46	1693.0
Pictet Global Environmental Opportunities#		7.5	31.54	99	67.37	40	117.92	47	293.11	46	-	8000.4
Rathbone Global Opportunities Fund		6.5	25.11	291	62.00	51	141.05	24	378.76	15	0.00	4061.4
T. Rowe Price Global Focused Growth Equity		7.5	28.14	178	81.11	15	180.35	8	469.88	6	-	4016.1
Sector Average			27.43	440	42.61	379	86.78	314	213.62	208	-	-
GLOBAL EQUITY INCOME												
Fidelity Global Dividend		6	16.95	50	33.59	15	58.28	15	-	-	2.72	2506.0
Fidelity Global Enhanced Income		5.5	15.93	51	28.04	25	49.39	27	-	-	4.60	430.5
FTF ClearBridge Global Infrastructure Income		5	18.30	46	43.24	4	61.45	12	-	-	5.43	896.3
Guinness Global Equity Income#		6.5	26.63	20	40.70	7	74.42	8	235.52	2	2.61	1573.8
M&G Global Dividend^		7	30.79	112 / 440	27.20	302 / 379	73.33	207 / 314	194.18	152 8	2.82	2302.3
TB Evenlode Global Income		6	24.33	30	40.90	6	-	-	-	-	2.00	1345.0
Sector Average			25.15	56	26.95	50	54.34	44	163.44	20	-	-
MISCELLANEOUS*												
AXA Framlington Global Technology		10	28.22	12 / 21	92.96	9 / 20	247.16	6 / 16	693.22	5 / 10	0.00	1605.4
BMO European Real Estate Securities#		7.5	30.44	-	27.32	-	55.15	-	232.51	-	-	54.0
Jupiter Gold And Silver#		10	-16.92	-	67.50	-	23.42	-	-	-	-	869.9
Jupiter Financial Opportunities		8	18.23	-	36.66	-	94.91	-	228.17	-	0.00	632.4
M&G Emerging Markets Bond		4.5	4.81	6 / 19	18.31	4 / 16	25.57	2 / 11	89.10	1 / 5	5.63	947.4
Polar Capital Biotechnology#		10	31.93	-	60.99	-	165.05	-	-	-	-	1064.8
Polar Capital Healthcare Opportunities#		8	26.36	-	36.07	-	94.35	-	510.56	-	-	1546.5
VT Gravis UK Infrastructure Income		4.5	10.23	-	26.10	-	36.34	-	-	-	4.23	774.7

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 01/09/2021 as at 03/09/2021

Yields per annum as at 03/09/2021 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.

VALUE VS GROWTH

JULIET SCHOOLING LATTER
Research director,
Chelsea

There has been much talk of value investing and growth investing over recent years. Value investing has become unfashionable, as it has struggled against its counterpart – just take a look at the graph opposite. In fact, value investing has become so unloved that there are few funds which continue to invest in this way.

But what actually is meant by 'value' and 'growth'? I will try to provide some insight here and then I will hand the floor over to two value managers who will talk about how they invest and two growth managers who will give their side.

VALUE – STOCKS AT SALE PRICES

Put simply, value stocks are stocks that are 'cheap'. The most traditional way of calculating this is in terms of 'book value' or the net assets on a company's balance sheet. If the company's net assets are greater than the value of the company implied by its share price, it is considered to be a value stock.

Value investing is also associated with buying stocks that are currently out of favour and trading on low price to earnings (PE) multiples (the PE ratio is probably the most common way to value a company, measuring its current share price relative to its earnings per share).

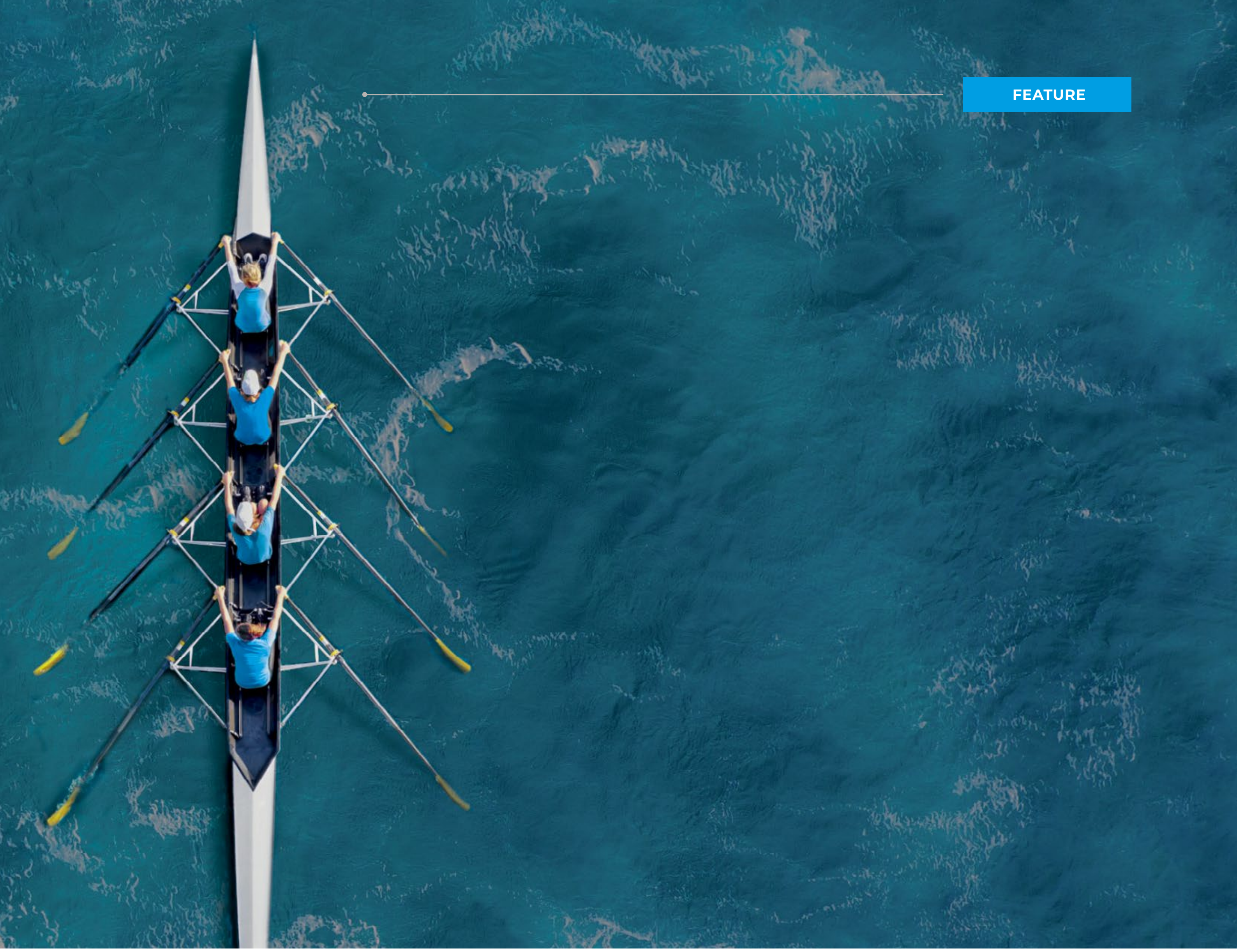
So think slow and steady, the tortoise versus the hare of growth. Value stocks can often be found in sectors such as financials and energy.

GROWTH – REASSURINGLY EXPENSIVE

By contrast, growth stocks are higher priced than the market, trading on high PEs. They have above average growth and are expected to earn a lot more in the future. So investors are willing to pay a premium for these stocks with the expectation of selling them at even higher prices as the companies continue to grow.

While the earnings of some companies may be depressed during periods of slower economic improvement, growth companies may potentially continue to achieve high earnings growth regardless of economic conditions. So think dynamic growing sectors, such as technology.

Expensive stocks do come with a risk warning though – if their growth isn't maintained then their high PE can come tumbling down.



SO WHICH STYLE WILL WIN THE DAY?

Historically, over the very long term, investing in value stocks has delivered better returns than investing in growth stocks. The theory goes that investors tend to overpay for exciting new growth companies and often these companies fail to meet their high expectations. By contrast, investors underestimate the ability for cheap value stocks to recover. However, over the past few years, growth stocks have dramatically outperformed value stocks.

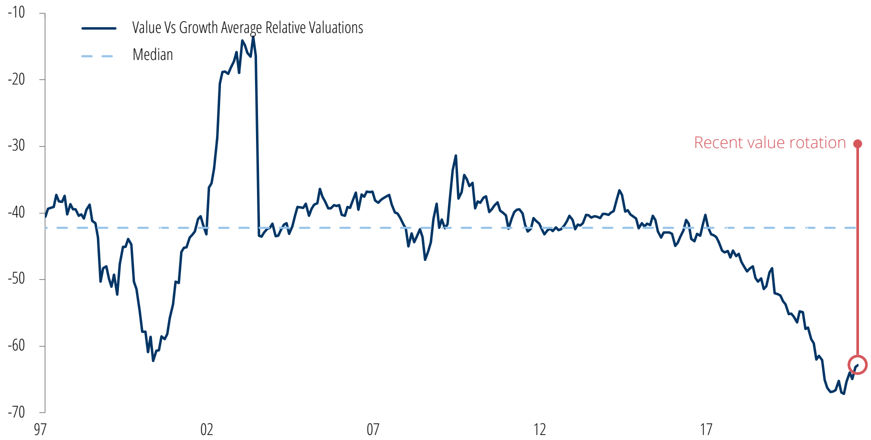
WHY IS GROWTH WINNING?

Growth stocks tend to thrive in a low interest rate world and we have had low interest rates for many years now, subsequent to the financial crisis. Also, in a world of low economic growth or indeed recession, growth stocks are favoured by investors, as they can grow at a faster and higher rate than the things around them. If the economy is only growing 2% in a year but a company is growing by 5% or more, that's going to be attractive.

VALUE VACCINE COMEBACK

Value investors were granted a reprieve when they finally saw value stocks start to outperform towards the end of last year on news of the discovery of successful vaccines against Covid. With the prospect of a bounceback in the economy and potential higher inflation, suddenly value seemed attractive once again. But the jury is out on whether this value rally is over or just at the beginning. Our fund managers over the next few pages will provide more insight.

MSCI WORLD VALUE % PREMIUM TO GROWTH ON P/E, P/BV & P/DIV



Source: MSCI, Morgan Stanley Research, 31 January 1998 to 8 June 2021.

VALUE VS GROWTH SCHRODER

NICK KIRRAGE
Fund manager,
Schroder Recovery
Elite Rated by FundCalibre

Much ink has been spilled over the years about the academic nature of value investing – the requirement for a forensic, impassioned analysis of company accounts to determine those trading at a discount to their intrinsic worth. While we're more than happy to have our heads stuck in the financial statements for longer than most, it's the behavioural side that attracted us to value as a style. Two forces drive stock markets; fear and greed, and it's up to the value investor to exploit that. As naturally contrarian people, we would be lying if we said we didn't enjoy challenging the consensus.

Value has had quite a renaissance in the past 12 months. The style rotation began on "Vaccine Monday", as news broke that a credible, distributable vaccine was discovered which could start the road to recovery. Value pockets of the market, such as financials and miners, were typically more economically-sensitive through the pandemic and therefore benefited the most from the news. Since then the rotation has run out of steam it would seem, and we're back to defending the role of the value investor in a world of low rates, quantitative easing and various disruptive forces that we are told are going to change the very nature of equity markets beyond all recognition forever.

THE OUTLOOK FOR VALUE

In aggregate, equities are pretty expensive today. The US, for instance, which accounts for 65% of the global benchmark, is as expensive as it has ever been on a variety of valuation metrics. Exceptionally high valuations can only point to exceptionally low returns over the longer-term.

If what you pay matters, and equities are expensive, how can we be so excited about prospective returns for investors from today?

Because valuation dispersion within the market – the gap in fundamental valuation between the most highly rated shares and least highly rated – remains at extreme levels. On a global basis, the gap is more extreme than at the dotcom peak in 2000. Valuation dispersions mean that returns from the most undervalued parts of the market can be stellar over the coming years, even if overall market returns prove to be paltry. If the valuation gaps that we see today are to return to something more like normal in the context of long-term history, this value recovery has a long way to go.

WE'RE BANKING ON IT

So what areas of the equity market are we finding interesting? We're well aware banks have been cheap for a number of years, yet despite a recent strong run of performance their valuations still reflect a fair degree of investor cynicism. Many of the banks we own are already making more than 10% return on equity, yet share prices aren't reflecting this economic reality. They can pay out half of this and still provide excellent returns. Their balance sheets are looking stronger and stronger, as capital ratios enter the mid-teens, and they have also proven they can strip out costs which will benefit the bottom line. Our investment case doesn't depend on rate rises for it to come to fruition. We think share prices have attractive potential upside even if rates stay where they are today.

THE CHELSEA VIEW

This fund has one of the most well-constructed processes in the industry. The managers are unmoved by corporate management noise, and focus entirely on the numbers behind the company. This leads to one of the best valuation-focused funds there is, and one of the truest examples of the deep value investment style.

Chelsea Risk Rating: 6.5
AMC: 0.75%
OCF: 0.90%
Yield: 1.65%

VALUE VS GROWTH JUPITER

BEN WHITMORE
Fund manager,
Jupiter UK Special Situations
Elite Rated by FundCalibre

Ben Whitmore and the Jupiter Value Equities team employ a value investment style to the funds they manage. The team believe a key determinant of future returns is whether the valuation paid for a security is high or low relative to its long-term history. A significant amount of evidence shows that securities purchased at a low valuation have historically delivered above-average returns over time. Analysis of the US stock market, for example, shows that from 1951 - 2021, the cheapest decile of the market in terms of price-earnings ratio (a measure of valuation) returned 5.8% more per year than the most expensive decile. They are value investors for this reason: the evidence shows that it works over time.

THE CHEAP KEEP GETTING CHEAPER

While value investing does work over time, the path it takes is not linear. This has been evident over most of the past five years, where value as a style has struggled. Over this period we have seen the most expensive parts of the market become even more expensive, while the cheapest parts of the market have struggled to keep pace. The difference in valuation between the cheapest and most expensive parts of the market is what's known as valuation dispersion. The evidence shows that increasing valuation dispersion over the past five years has led to value investing as a style underperforming growth investing.

Valuation dispersion can be thought of as a rubber band; there is only so far it can stretch. We believe that the August 2020 levels represent a likely maximum, albeit this is open to debate. In March 2021 valuation dispersion was at its 98th percentile relative to the past 50 years i.e. it has only been more stretched 2% of the time. If valuation dispersion does normalise from here, value investors will significantly outperform growth investors. This makes us very optimistic about the outlook.

VA-VA-VOOM

We employ a proven, repeatable process to select our investments. We focus on identifying lowly-valued securities with strong balance sheets and good franchises to capture this value premium. Our investment in Volkswagen, the car manufacturer, is a good example of being led by our bottom-up process. Volkswagen shares were very depressed after the dieselgate emissions scandal was exposed and were trading at very low levels. There was a concern that the customers would turn away from buying the company's cars as a result of the emissions scandal but we felt these fears were overblown. In addition, the market was worried that VW would struggle to hold on to their market share as the world transitioned to electric vehicles. We felt it was unlikely that one of the biggest spenders on R&D in the world would be left behind in this transition and they had the balance sheet to cope in almost any scenario (large cash reserves). In early 2021, the company announced they were on track to produce 1 million Electric Vehicles (EVs) this year. Tesla, currently the largest EV producer, is on track to produce 800,000. To some extent this seems to vindicate the view that VW will be able to maintain existing market share. However, Tesla's market cap is still 5x larger than VW's so the market still seems unconvinced!

Currently, we think the outlook for value investing is the most promising that we have seen in our careers. Valuations are so stretched that we believe this could be a once in a generation opportunity for investors.

THE CHELSEA VIEW

Manager Ben Whitmore is a very skilled and experienced individual, and takes a classical value approach with this fund. Whilst the fund is quite stylistic, meaning there are periods where it can drift in and out of favour, the process remains well-defined and is executed with discipline. For those looking for a contrarian investment approach, Ben is a safe pair of hands.

Chelsea Risk Rating: 6
AMC: 0.75%
OCF: 0.76%
Yield: 1.80%

VALUE VS GROWTH T. ROWE PRICE

DAVID EISWERT
Fund manager,
T. Rowe Price Global Focused Growth Equity
Elite Rated by FundCalibre

APPROACH

As a growth investor, we look at a variety of factors when building the portfolio, from the compounding of superior profits and cash flow growth, through to company specific disruption that can lead to spectacular market share gains. To be a successful investor, and deliver meaningfully different returns, imagination and deep research are both required, and we find these disciplines fit well within a growth oriented investment framework.

We believe that our framework is not one that relies on the growth factor itself, but on companies that are seeing fundamental improvement at any given time. Throughout my career, focusing on stock-specific insights about improving economic returns and not paying too much, has proved to be a good compass in both opportune and challenging times for growth investing. Not only has this approach acted as a guide when building a stock position when it matters most, but it has also helped when making hard choices about selling stocks that no longer fit our framework.

OUTLOOK

We see the extremes of growth and value as being relatively crowded. We believe that differentiated research, imagination and a gently contrarian spirit are principles that will be required in the next stage of the cycle. In our view, we are increasingly leaning towards a Goldilocks scenario where we have lower inflation (than today) but higher rates (although still historically low). This is driven by 1. A significant slowdown in the Chinese economy as reform and regulation is implemented when it can be i.e. during the current period of high growth. 2. The acceleration in Covid cases from Delta slowing economic recovery. 3. Continued progress in improving supply chains. The need to invest in a world still influenced by COVID, as opposed to a world without COVID, is one of our key assumptions for the short and medium term.

This is one of the most complex and noisy market environments that we can remember. These points within market cycles are when active managers are tasked with making difficult decisions and building successful portfolios for the future. While challenging, embracing complexity for clients is ultimately the reason why I enjoy the role of Portfolio Manager for the T. Rowe Price Global Focused Growth Equity Strategy.

PORTFOLIO

The valuation of many growth assets increased significantly during the worst of the Covid crisis and many of these valuation levels have been sustained. Mega-cap I.T. stocks have dethroned consumer staples and utilities as a source of defensive positioning and we see some significant crowding and momentum in some areas of growth. This requires prudence and active management to avoid significantly mispriced risk. Today, we are underweight I.T. as a result of our stock insights.

There are several segments of the portfolio where we are being carefully contrarian. We are particularly searching for growth assets that are out of favour now, but where we see solid growth in 2022 and beyond. This includes some travel-related names. We also believe that it is worth exploring China's regulatory changes and opportunities it may create - albeit with prudence. We have been selective with companies that we think have "crossed the chasm" in Covid and expanded their addressable markets and opportunities.

Being clear, we are very comfortable with our portfolio, especially on a relative basis when compared to the barbells of the growth and value factors and our outlook is one of cautious optimism. As we move through an extraordinary period, we will continue to focus our time on the hard decisions required in complex times. Choices to own stocks where we have an insight about improving economic returns, as well as choices to avoid stocks that are implying unnecessary risks.

THE CHELSEA VIEW

David focuses on growing companies that will be the leaders of tomorrow. He has a 'go anywhere' approach but typically finds these ideas in technology companies, and often in the US. The T. Rowe Price approach has a huge analyst team for generating ideas for David to pick from, and this strength in depth really allows David to capture these best opportunities from around the globe.

Chelsea Risk Rating: 7.5
AMC: 0.50%
OCF: 0.59%
Yield: . . . . N/A

Fees include a 0.25% reduction for Chelsea investors.

VALUE VS GROWTH BAILLIE GIFFORD

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

At Baillie Gifford, we state our own style clearly as growth, by which we mean searching for companies which can meaningfully grow their earnings over the next five years and beyond. However, we don't believe comparing that approach to a traditional 'value' approach – where investors buy companies they believe 'cheap' compared with a historic mean – is overly useful or fair.

It's becoming increasingly apparent to us that the 'old world' of mean-reversion, that favoured value investors, may no longer be a useful model. We're experiencing an acceleration in the pace of change and disruption. This is increasingly leading to winner-takes-all dynamics, with a handful of companies being the big winners. In this changing world we don't believe the core tenets of value investing continue to hold true.

LONG-TERM VIEW

For Global Discovery we believe that, within this changing environment, the best way to invest on behalf of our clients is to take a long-term view and focus on the opportunities presented by the super-cycle of technological innovation. If you're able to genuinely assess companies for the next decade and beyond this presents compelling opportunities. Although markets may fluctuate around it, moved by concerns around inflation or geopolitical tensions, the technical progress it represents cannot be halted.

Over the past decade we've seen new technologies dramatically change the dynamics of large industries, such as advertising and commerce. Yet, there's reason to believe this is only the start. Coming out of the global Covid-19 pandemic we're hopeful of entering a new, more intense phase of technical innovation and progress. The convergence of new technologies, such as artificial intelligence, cloud computing and robotics, combined with cost reductions of key hardware components, such as lithium-ion batteries and transistors, mean we could be entering a new technology supercycle of innovation. We often observe that it is the smaller, nimbler businesses which are at the heart of driving change, while our experience of running the fund for a decade tells us that it's only a handful of truly special businesses which go on to be the big winners, and so drive the majority of investment returns. Our investment philosophy therefore remains focused on identifying these businesses early and holding them for the long term as they scale.

INVESTING IN CHANGE

Although there are no limits on the areas we can research, we find our philosophy draws us to the areas of the economy undergoing the most intense innovation and change. Historically, the fund has been overweight in healthcare and information technology businesses. These continue to be interesting areas for us. Within healthcare we tend to stay away from the traditional biotech businesses focused on a single treatment, instead looking at businesses with a core piece of intellectual property which has the potential to form a platform of multiple treatments. Our holding in Alnylam (the pioneer of treatments based on RNA interference) is a strong example. We're also increasingly excited by the developments in medical devices, as demonstrated by our holding in Novocure (a wearable treatment for solid-state cancers). We continue to be interested in information technology businesses. This is a broad classification, and we'd argue all our holdings utilise IT to some degree, however we are interested in software businesses creating digital platforms operating in relatively undisrupted areas of the economy. Chegg (a digital learning platform for US college students) is typical of this. Finally, we're increasingly fascinated by the forthcoming energy transition, which will be a defining trend of the next decade. We're convinced multiple solutions will be required if we are to move away from hydrocarbon fuels, and we foresee hydrogen-based solutions as being a large part of this. These thoughts are represented by our long-standing investment in Ceres Power (the designer of hydrogen fuel cells).

THE CHELSEA VIEW

Baillie Gifford's strength, namely rigorous company research, with a long-term perspective, plays a big part in the running of this fund. The focus on growth and smaller companies differentiates it from many of its peers. While perhaps not for the faint-hearted, investors have had periods of exceptional returns.

Chelsea Risk Rating: 8.5
AMC: 0.75%
OCF: 0.76%
Yield: .... N/A

BONDS: EXPLAINED

JUAN VALENZUELA
Fund manager,
Artemis Strategic Bond

The global bond market is enormous. In 2021, the estimated size of the market was $119tr across the various different facets and divisions, all the way from government bonds to debts backed by credit cards and others. With such a wide variety, many investors can get confused. Juan Valenzuela, part of the highly successful Artemis bond team, has helped talk us through the universe.

Bonds can be a very complicated subject – and some fund managers make it more so by adding complexity. Factors like currencies, derivatives or the many different sorts of bonds such as preference shares, junior bonds or bank bonds are examples of how bewildering it can be. For now, in this introduction we will try to unravel some of that complexity, explaining the different sorts of investments available to strategic bond managers and briefly highlighting what we think the pitfalls are.

The IA Strategic Bond sector is a pretty broad universe; so different managers will have different priorities. Our aim is to generate the best returns we can - but without taking too much risk. Risk can be measured in a number of ways, but we focus on two. Firstly, interest rate risk. Secondly, credit risk, perhaps better explained as the chance of a bond defaulting. Different bonds demonstrate some of each of these. The best managers will balance those risks to generate the best returns.

GOVERNMENT

Government bonds are driven primarily by interest rate risk. That's because the chance of a government defaulting is low (unless it's Argentina, which makes a bit of a habit of it!) In simple terms, if interest rates rise, the price of a bond will fall, and vice versa. Interest rates are driven by inflation. So rising inflation will likely lead to higher interest rates, which then leads to bond prices falling. To add complexity, the longer the bond has until it matures, the more the price moves when interest rates change.

A strategic bond manager will look to own longer-dated bonds when interest rates and yields are falling; and shorter-dated bonds when they are rising. Of course there are other complexities, as monetary policy isn't just about interest rates...

Quantitative easing is the term used by central banks for the buying of government bonds – it is commonly called money-printing, as the central banks are creating money in order to buy these bonds. The consequence is government bond yields have been forced to record lows; bond managers (and economists) argue endlessly about whether this is temporary or permanent.

INFLATION-LINKED

Rising inflation can be good for inflation-linked bonds which are popular investments issued by many countries. Though fiendishly complicated, they are a useful extra tool for strategic bond managers when inflation is rising – but not necessarily a complete panacea as their yields are currently negative meaning investors buying in today are locking in a negative return if they hold until maturity. They'll only make a profit if inflation continues to rise and they are able to sell the bond at an even higher price.

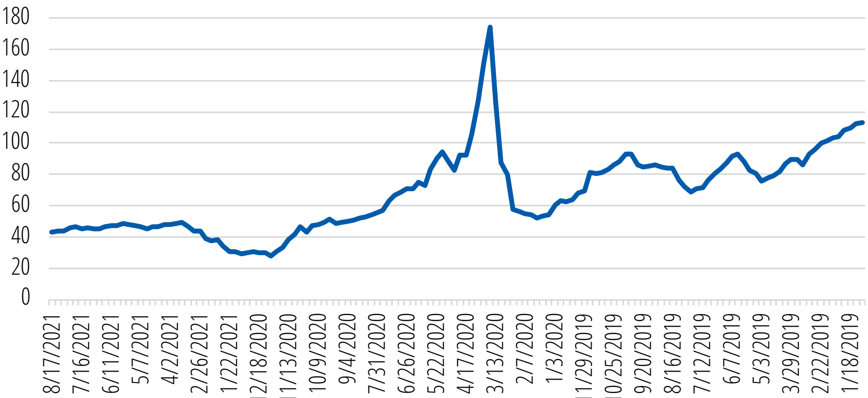
CORPORATE BONDS

There are plenty of other bonds available to strategic bond managers. The most common of these are bonds issued by corporations with varying levels of credit risk – the likelihood of the company being able to pay you interest throughout the duration of the bond's life. A bond from Apple yields only a little more than a government bond. It has a small amount of credit risk – Apple could go bust, though that is unlikely, especially over the next 10 years or so. For this reason the extra yield you get is pretty small. Higher quality bonds with credit risk are known as investment grade bonds. Normally they follow government bonds but there is this extra credit risk, which can be pretty volatile in extreme times.

For example, the pandemic last year saw the 'spread', measured in basis points (1/100th of a %), rise to 170bp (1.7%) from 50bp (0.5%). That spread is the yield difference between the government bond and the yield of this Apple bond. Remember, yields rising (in this case from 50bp to 170bp in the spring of 2020) means the price falling, so the spread widening is bad for capital values.

APPLE 3.05% 2029 BOND SPREAD

Source: Bloomberg.



Bond managers measure this credit risk using credit rating agencies such as Moodys or Standard & Poors.

RATING AGENCIES FOR BONDS

STANDARD & POORS	MOODYS	CREDIT RISK	
AAA	Aaa	Lowest	Investment grade
AA	Aa	Very Low	
A	A	Low	
BBB	Baa	Moderate	
BB	Ba	Substantial	High yield
B	B	High	
CCC and below	Caa and below	Very high or in default	

Source: Bloomberg.

The agencies' ratings are useful, but they tend to be historic, focusing on past trends, whereas the role of us, as fund managers, is to be forward-looking to determine whether a company will rise up the ratings. If so, that is good as their credit risk, (the chance of them defaulting on their repayments) , diminishes and we would expect the price to go up. As an example, Tesco bonds were "A" rated back in 2008. They fell to "BB", high yield, in 2015 after their reported accounting fraud, before recovering to "BBB" in 2019. The price of their bonds fluctuated widely throughout this episode.

HIGH YIELD

The price of more speculative high yield bonds moves less due to interest rates but more due to economic factors and the company specifics. They tend to be smaller companies or in more economically exposed companies. A strongly growing economy is perceived as good, and smaller, high-yield companies tend to thrive, whereas an economy in recession is bad, as these smaller companies are more likely to default.

IN SUMMARY

In essence, this is our role as strategic bond managers to switch between the different asset classes, whether high yield bonds with lots of credit risk, when economies are thriving, through to longer-dated government bonds with lots of interest rate risk when recessions are impending. The most difficult aspect of our role is to determine what is likely to happen in six months' or even a year's time, as markets will react to the ever-changing economic landscape.

Of course, there are pitfalls. It's easy to be attracted by higher-yielding funds - but they have more risk., whereas government bond funds may offer more protection, but the yield they offer is negligible. Ultimately, we aim for a balance within our fund for our investors, offering an attractive income within an acceptable risk tolerance.

TESCO USD 6.15% 2037, PRICE

Source: Bloomberg.

THE CHELSEA VIEW

Juan Valenzuela works within the Artemis bond team based in Edinburgh. He joined, along with a number of managers, from Aegon *(formerly Kames)* in 2019. The team is headed up by the new Head of Fixed Income Stephen Snowden, who runs the Artemis Corporate Bond, a new addition to the Core Selection (see P14). Stephen co-manages the Artemis Target Return Bond alongside Juan. Both of these funds feature in the VT Chelsea Managed fund range *(pages 6-9)*. Juan also manages the Artemis Strategic Bond fund.

INFLATION - A TRANSITORY EFFECT, OR A LONG-TERM CONCERN?

This year you've probably heard a lot of talk about inflation. Inflation is not something we've had to worry about for a long time. For the past 30 years, it has been low and stable. However, this has changed with the onset of the pandemic. So what's happened, and does it matter? How will it affect you and your savings?

First, a quick reminder on what inflation is and why it occurs. Inflation is a general increase in prices across the whole economy. As prices go up, the purchasing power of your money falls so you buy less tomorrow than you could buy with the same money today.

WHAT CAUSES INFLATION?

Inflation occurs when too much money is chasing too few goods. So for example, if we all have lots of money and want to buy bread, but there's not much bread available, the price is going to rise. So this is how inflation happens. Either when there's too much money (or demand) or there is too little supply. The pandemic resulted in both these things happening.

On the demand side, a lot of people were able to save money during the pandemic. We no longer had to buy expensive train fares to commute and we were also unable to spend our money on holidays or in restaurants, bars or cinemas. This left us with more money for things like food, computers or garden furniture. On top of this, in some countries like the US the government handed out extra money to people in the form of stimulus cheques, putting more money directly into people's pockets to spend.

There were also problems on the supply side. Factories around the world were forced to shut due to Covid. Container ships got stuck in the wrong place at the wrong time. Semiconductor chip shortages affected production of everything from cars to fridges. Companies couldn't find employees because they were all stuck at home isolating or looking after children. The result of all this is some of the highest inflation we've seen for years. US inflation hit 5.4% in July (a 13-year high).* The Bank of England has warned that inflation is likely to hit 4% in the UK by the end of the year.**

WHAT'S WRONG WITH INFLATION?

Inflation is a headache for savers and investors. If you've got money in the bank earning little or no interest, it is slowly being withered away and your purchasing power can be considerably reduced. For example, if you hold £100 in your wallet and inflation were to average 5% a year over a 10-year period, your £100 would be worth just £55 . Inflation is also a big problem for some types of debt investment. You don't want to be locked into a 20-year bond paying 2% if inflation is running at 5 or 6%.

The good news is that a lot of this inflation is expected to be 'transitory'. The pandemic was an extraordinary shock and it has taken us all time to adapt.

Factories and shipping are readjusting. Employees are now coming back to work. There are still powerful deflationary forces in the world such as demographics and technology. Our current view is that inflation will normalise. However, we can't ignore the risk that we may see persistently higher inflation in the future and investors may want to consider some investments with inflation protection.

Traditionally the easiest way to protect against inflation was to buy inflation-protected government bonds. Unfortunately, these have now become prohibitively expensive to the point where buying them today guarantees a capital loss.***Gold has historically been a good protector of purchasing power. One fund we like is the Jupiter Gold and Silver fund. This fund invests in physical gold and silver but also gold and silver miners. Please be aware that this fund is extremely volatile.

Other commodities often do well at a time of high inflation. The JPM Natural Resources fund is one potential option which has exposure to energy producers, and industrial and precious metals miners. Another alternative might be infrastructure. Whilst not a perfect hedge, given they are potentially sensitive to higher interest rates, they do often have stable inflation-linked cash flows. FTF Clearbridge Global Infrastructure is one potential option and it currently has an attractive yield of over 5%.

** https://www.ft.com/content/8a2ad340-5ecf-4aa5-be35-aa7f528c8b83*
*** https://www.theguardian.com/business/2021/aug/05/bank-of-england-uk-inflation-interest-rates-prices*
**** https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield*

RISK STRANDED ASSETS

As technology influences and disrupts the world at speed, we are seeing a record pace of change and obsolescence. While much of the investment world looks at the new industries and products created as a result of this change, little attention is given to those left behind. So here we look at these so called 'stranded assets' and what risks they pose to investors.

Stranded assets are items such as a resource or pieces of equipment that has been paid for, but will have no further economic use or value. This is beyond simple depreciation, it is the removal of any economic value due to an external change, such as through technology, policy updates or societal change.

One of the most common examples though is from the mining industry. A company could have spent years getting a permit for a new coal mine or oil field, only for the demand (and therefore price) of such assets to fall, meaning it is potentially uneconomical for them to be extracted. They have become 'stranded' assets. Diesel cars in the UK are another good example. In the mid-00's, they were encouraged by the UK government as a way of limiting CO_2 emissions due to their higher mileage capabilities. Fast-forward to now, and updated knowledge of their other emissions such as nitrogen dioxide has turned them into pariahs, with many cities effectively banning them from their centres. In London, any diesel car built before 2015 will soon have to pay £12.50 a day to come inside the North or South Circular. As such, the resale value of diesel cars has plummeted. They have turned from assets to liabilities for owners.

Whilst environmental changes are behind the majority of stranded assets, it is not always the case. Many companies who have recently moved to new, central London offices may be rueing their prime rates, as hybrid working has become more likely due to the pandemic.

For businesses, these stranded assets are likely to lead to a write-down in the value of the assets on the balance sheet, or lead to reduced profit margins. A coal mine that would have been expected to generate millions in revenue and thus be valued accordingly, has suddenly had a drop in worth and severely reduced future income. This can create large accounting and cash losses for a business, likely resulting in a big share price fall.

The best way to mitigate these risks is through diversification and good active managers. A good active manager will spend a large amount of their time analysing a company's financial statements and will therefore be able to understand their asset base and do scenario tests to assess what could go wrong. Similarly, they will invest in a variety of different companies and industries in order to diversify away the risk of any one company creating an irrecoverable impact on performance. Investors can also look to have a mix of different assets too. The majority of stranded asset risks are around energy companies, therefore looking for funds with integrated environmental, social and governance (ESG) analysis will again help diversify and manage potential write-downs.

RYAN LIGHTFOOT-AMINOFF
Senior research analyst,
Chelsea

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

HOW TO USE THE CHELSEA RISK THERMOMETER

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

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

FUNDS UPDATE

JAMES YARDLEY
Senior research analyst,
Chelsea

RWC GLOBAL EQUITY INCOME

Whilst this fund may seem new, it is from the same team that previously ran the BNY Mellon Global Equity Income fund for many years, headed up by Nick Clay. As a team, they decided to leave BNY and set up at RWC in 2020. They have kept the same process and contrarian approach, looking to "buy the controversy and sell the consensus", with a concentrated set of stocks, but spread across a range of industries, which yield at least 25% above the market average. At BNY, the team and fund were very successful and we see no reason why this cannot be replicated at RWC and therefore initiate the fund as a buy.

INVESCO MONTHLY INCOME PLUS

This fund is a widely-held fund amongst retail clients in the UK. The two veteran managers, Paul Read and Paul Causer are retiring and handing duties over to Rhys Davies, who has worked with the pair for over 18 years. The fund has a higher risk tolerance than many of its peers in order to achieve the higher income target many of its investors are looking for. This includes holding some equities where appropriate. As part of the management handover, there are to be changes in how the allocations and selections are made. Because of this, and the substantial management change, we have moved the fund to a hold rating.

AXA FRAMLINGTON HEALTH

Manager Dani Saurymper has left AXA to take on a new challenge. Fund management has passed to Linden Thomson and Peter Hughes. Linden has a long history in medical investment and also manages the AXA Framlington Biotechnology fund where she worked alongside Dani, so knows the fund and space very well. The fund will continue to be actively managed as an all-cap strategy, unconstrained by the benchmark with a bottom-up process looking for innovative companies within a value framework. However, due to the manager change we have moved the fund to a hold.

JUPITER UK GROWTH

Whilst this fund had a manager change only last year, the new manager - Chris Smith - has had a difficult start. This has also come in a period that should have been supportive to the fund's investment style, and yet the fund has underperformed the sector average and benchmark since the manager change, compounding the poor long-term performance numbers. The UK All Companies sector is endowed with a number of excellent managers and strategies, and as such, we have moved this fund to a switch.

BUY

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

HOLD

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

SWITCH

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

CHELSEA GENERIC FUND RATING

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

WOULD YOU RECOMMEND CHELSEA?

Many of our clients come to us after being recommended by an existing client. We are pleased and grateful that people are so happy with our service they feel confident to recommend us to their friends and family.

If you recommend a friend (someone new to Chelsea), we will send them details of our services and we will send you:

- **£50 WORTH OF JOHN LEWIS VOUCHERS WHEN THEY INVEST OR TRANSFER OVER £25,000**
- **£25 WORTH OF JOHN LEWIS VOUCHERS WHEN THEY INVEST OR TRANSFER OVER £5,000**

Investments must be retained with us for at least 12 months. Please visit chelseafs.co.uk for terms and conditions. Just complete this form and return it to us. You can recommend as many people as you like – there's no limit.

1 YOUR DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

2 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

3 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

WE'RE HERE TO HELP







- We're proud to offer our clients a very personal service.
- Unlike others, we're not 'online only'.
- We haven't 'outsourced our customer support function'.
- We have a team in our office in Chelsea and we'd be pleased to help.
- So if you need a little extra help or guidance, you can call us on **020 7384 7300** or email us at **info@chelseafs.co.uk**

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