Issue 43 March 2017

VIEWPOINT

The magazine for Chelsea Investors

CHELSEA
Investment Intelligence™

WELCOME TO VIEWPOINT

Dr John Holder
Chairman, Chelsea

Welcome to our Spring edition of Viewpoint. We have refreshed our magazine with a new look. I hope you like our new style and, be assured, that all our familiar features are still included. All the tools you need to invest this tax year and next are still here and don't forget that the new tax year brings a new increased ISA allowance of £20,000.

CONTACT POINT

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

I have to confess that I've never been a fan of surprises. Something to which my wife will happily testify! So the past year has been testing. Last Market View, we analysed the surprise Brexit vote and, more recently, the world was surprised by the election of Donald Trump. Many didn't predict these events, but some did. Although, markets then surprised by not reacting in the way they anticipated! Doesn't it make you long for a good dose of predictability?

In UK terms

We're all familiar with the reason for UK markets being up, with sterling sinking like a stone. Those with overseas investments have done well, but those of you contemplating foreign holidays are suffering. Although potentially this is of benefit to UK plc, as increasing numbers of overseas visitors, combined with those of us who will now choose to holiday at home, should boost GDP. GDP has held up better than expected, but will it continue to do so in the light of deferred investment and potential job losses, as some companies relocate divisions outside the UK? GDP will be further hampered by the UK consumer dealing with higher inflation. The consensus is that growth is likely to decline in the UK. So, whilst we expect inflation to continue to rise, it seems highly unlikely that we will see rate rises this year. Drilling down into the market, it is the larger companies with earnings outside the UK which have performed strongly, aided by sterling's weakness, versus smaller domestic-facing companies, which are currently unloved. 2017 is likely to be a bumpy ride, with markets and sterling taking the brunt of any negative Brexit negotiation news.

La La Land

Despite much of the world being vehemently opposed to Donald Trump, many of his policies are positive for corporates, such as infrastructure spend, tax cuts, etc. The dollar has already strengthened on the back of these and it may well continue to do so. However, one major concern is his rhetoric on trade tariffs. As a net importer, the US would be hit badly by a trade war. Trump's main focus is China and a breakdown in relationships between these two major world powers can only be negative for all. A further concern is the renegotiation of the debt ceiling, due in March. Whilst we don't expect the chaos that caused last time round, it could cause issues for Trump's planned infrastructure spend and markets may well get jittery. Generally the macroeconomic environment is positive across the pond, but geo-political risk has increased and valuations are looking expensive, so any negative sentiment is likely to hit markets.

In Europe the macroeconomic picture looks less rosy. With economies still struggling and low wage growth, the impact of inflation (caused by the increase in the oil price) is likely to hurt. Furthermore, reduced demand from the UK, due to sterling's weakness, is likely to hurt European exporters. Brexit and European elections will cause further uncertainty. So, almost the polar opposite of the US, with a bleak macroeconomic picture mitigated by lower stock-market valuations.

Japan looks more interesting. Abe has Trump to thank, with the stronger dollar weakening the yen, to the benefit of Japanese exporters. Corporate balance sheets are strong, reforms are taking place and the weak yen may even bring about some much longed-for inflation.

Asia broadly looks good, with fairly solid GDP, combined with cheaper valuations. There is obviously the China v US situation to take into account, but for more adventurous investors taking a long-term view, it could be an interesting entry point. As ever, we are positive on the long-term prospects for India, which has strong demographics, reforms slowly taking effect and huge potential. The Indian market was hit last year by demonetisation, when the government pulled bank notes out of circulation, but it has already partially recovered and over the long term it should be beneficial.

Fixed interest still doesn't look tempting, particularly in light of increasing inflation and rising rates in the US. Yields have already risen in response to this and we prefer bonds which offer enough yield to counteract these factors.

As you've probably gathered, I'm finding it hard to find value. Although, having taken a look at my savings account and realised that I'm receiving a measly 0.1% (see page 6), markets don't have to rise much to beat that! 2017 market movements are likely to be driven more by geo-political events, than fundamentals, but we must always remember that investing is for the long term and look beyond short-term shock headlines. Diversification is key. Take a look at your portfolio and make sure that you are diversified, that your money is being invested by managers with sound fundamental processes and try to ignore the short-term noise.

MAKE THE MOST OF YOUR ISA ALLOWANCE

With the government continuing to tinker with the pension rules, it is worth remembering that stock and shares ISAs remain as attractive as ever:

- **0% capital gains tax**
- **0% tax on interest earned on bonds**
- **0% tax on dividend income**
- **No need to declare ISAs on your tax return**

Sam Holder
Operations Director,
Chartered
Financial Planner,
Chelsea

Using your ISA allowance each year enables you to build a substantial tax-efficient portfolio.

The 2016/17 ISA allowances are:	
Investment ISA **£15,240**	Junior ISA **£4,080**

End of tax year deadlines:

Telephone (with debit card) **5th April 2017 by 10pm**

Paper-based applications **5th April 2017**

Online (with debit card) **5th April 2017 by 10pm**

Investment fund to ISA **31st March 2017**

Junior ISA **4th April 2017 by midday**

The 2017/18 ISA allowances are:	
Investment ISA **£20,000**	Junior ISA **£4,128**

Three easy ways to buy your ISA

1 Call us on **020 7384 7300**

2 Visit **chelseafs.co.uk** and click 'Invest now'

3 Post a completed application form (see booklet)

CASH NO LONGER KING

ARE YOU HAPPY WITH YOUR CASH ISA?

Belinda Venning
Research Assistant,
Chelsea

Every time we write about cash ISA interest rates, we mention the words "all-time low". But things have never before reached such dismal depths as they are at present. The Bank of England cut rates in August 2016 from 0.5% to 0.25%, making cash even less attractive.

Not only have interest rates never been lower, but to make matters worse inflation is on the rise and is expected to accelerate throughout 2017. But what does this mean for investors?

The interest rate on a savings account needs to be higher than the rate of inflation in order for your money to grow. The current rate of Retail Price Index (RPI) inflation is 2.5%. This means that your savings account interest rate would need to be at least 2.5%, otherwise you would be losing money in real terms i.e. your cash will be worth less. The chart below shows the diminishing effect inflation has on a pound over 10 years:

The value of £1 today versus January 2007

Cash is a good asset class when interest rates are above inflation, but the current situation makes cash a very unattractive place to be.

Source: Based on RPI (Retail Price Index)data from ONS Jan 2007-Dec 2016

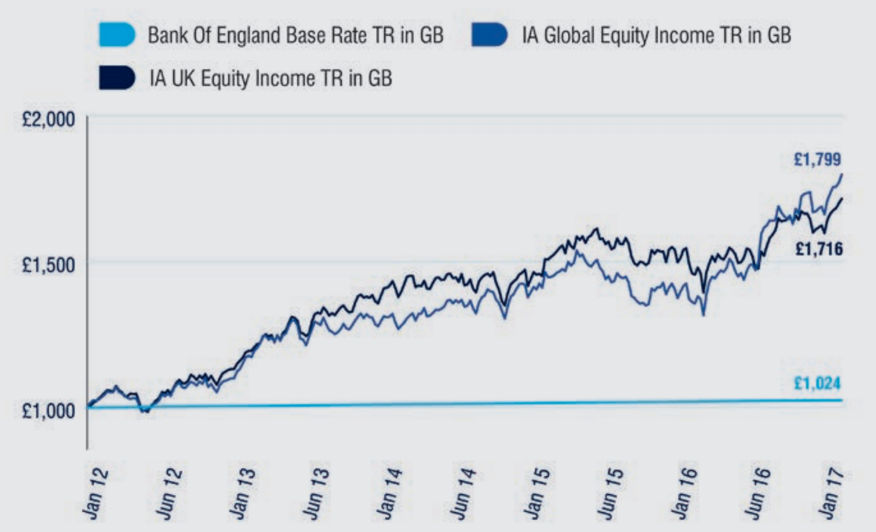
Cash ISA exodus

With the average rate on an easy-access cash ISA at 0.73%[1], and some high street banks offering a mere 0.01%, at the time of writing, it's no surprise that we at Chelsea have been noticing an increase in the number of investors transferring their cash ISAs into stocks and shares ISAs.

Investing in equities has a totally different and much higher risk profile than cash, but the potential returns can be far greater than those that you would earn on a cash ISA; the FTSE 100 has returned more than 32% over the past year and more than 51% over five years[2].

But what if you want to invest in a managed fund, rather than just tracking the index? The IA UK Equity Income and IA Global Equity Income sectors returned 71.56% and 79.85% respectively over five years, and 15.83% and 30.38% over one year[3]. If the next five years produces just half of the performance of the past five, these returns should still beat the paltry cash ISA rates, although there is no guarantee and your capital is at risk.

Growth on £1,000 invested in the average UK Equity Income fund vs the average Global Equity Income fund vs cash invested at the Bank of England base rate over the past five years



Source: FEAnalytics 06/01/2012-13/01/2017

How do I transfer my cash ISA to a stocks and shares ISA?

It couldn't be easier. All you need to do is complete an ISA transfer form (in the enclosed booklet) and return it to us. We will do the rest. There is no need for you to contact your cash ISA provider as we will take care of that. And there are no transfer charges at our end – but you may wish to check there are no exit penalties for transferring out of your cash ISA.

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

If in doubt you should seek investment advice.

[1]Source: This is Money 29/11/2016
[2]Source: FEAnalytics, Total Return, Bid-Bid, 24/01/2017
[3]Source: FEAnalytics, Total Return, Bid-Bid, 23/01/2017

THE CHELSEA EASYISA

When it comes to considering funds for your ISA, the range is vast and the task of choosing just a few for your portfolio can be daunting.

Juliet Schooling Latter
Research Director,
Chelsea

That's why we've created the Chelsea EasyISA portfolios. All you have to do is choose one of the five options, based upon your own requirements and attitude to risk. Your ISA will then be spread equally across the corresponding six funds, within the Chelsea FundStore. These EasyISAs are simply suggested portfolios and, due to their exposure to equities, may be subject to volatility, and thus potential capital loss.

Our EasyISAs take the hard work out of investment selection.

How much can you invest?

The ISA allowance is £15,240 for the current tax year and £20,000 for 2017/18.

What to do next

1 **Select the EasyISA which best suits you** (and read the KIID* for each relevant fund)

2 **Tick the relevant box on the ISA application form (insert) and decide how much you want to invest.**

3 **Complete the form and return it to us with payment, easy!**

*See covering letter for details, or visit chelseafs.co.uk

Three easy ways to buy your ISA

Call us on **020 7384 7300**

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

Send us a completed application form (see booklet)

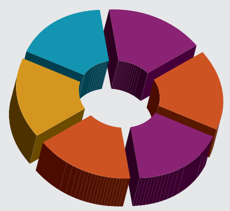
Portfolio Changes

Cautious Growth EasyISA: Baillie Gifford Corporate Bond replaces Man GLG Strategic Bond‡
Balanced Growth EasyISA: Fidelity American Special Situations replaces AXA Framlington American Growth
Global Income EasyISA: Guiness Global Equity Income replaces Neptune US Income‡

‡Please see page 38 for more details.

Cautious Growth EasyISA

Cautious Growth is for the more risk-averse investor who is looking for growth with lower volatility. The portfolio has approximately one third invested in equities. Approximately one third will be invested in fixed interest, which tends to be less volatile than equities. The final third of the portfolio comprises targeted absolute return funds that should produce uncorrelated returns. N.B. this portfolio contains up to 40% equity exposure, so may be subject to greater volatility than the term Cautious may suggest and there is potential for capital loss.



Average Annual Management Charge	0.67%*#
Average Ongoing Charges Figure (OCF)	0.76%†
Benchmark	1/3 Strategic Bond (Sector Av) 2/3 Mixed Investment 20-60% (Sector Av)

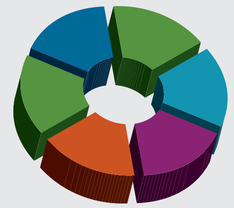
	Cautious Growth Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	18.97%	15.20%	17.10%
5 Year Performance	44.35%	35.24%	38.09%
10 Year Performance	49.95%	45.86%	45.08%

FE Analytics data as of 02/01/2017 compiled by Chelsea. *A performance fee may be applied, see page 19 for details. **Sector average

† 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). These portfolios do not include cash allocations.

Balanced Growth EasyISA

Balanced Growth offers a medium level of risk and is for investors who wish to benefit from global equity markets, with some defensiveness offered through one sixth of the portfolio being invested in fixed interest and one sixth in targeted absolute return. The portfolio has the majority of its assets invested in equities based in developed markets (up to a maximum of 70% in equities), and so there is the potential for capital loss. The fixed interest portion is invested in a strategic bond fund which has the ability to invest across the credit quality spectrum.



Average Annual Management Charge	0.77%*#
Average Ongoing Charges Figure (OCF)	0.85%†
Benchmark	1/3 UK All Companies (sector average) 1/3 Global (sector average) 1/3 Mixed Investment 20-60% shares (sector average)

	Balanced Growth Portfolio	Benchmark	Mixed Investments 40-85% Shares**
3 Year Performance	25.29%	21.99%	21.56%
5 Year Performance	66.05%	61.79%	52.97%
10 Year Performance	76.91%	64.53%	59.15%

FE Analytics data as of 02/01/2017, compiled by Chelsea. *A performance fee may be applied, see page 19 for details. **Sector average

Aggressive Growth EasyISA

Aggressive Growth is for the investor looking for pure capital growth, who is comfortable with a higher degree of risk and willing to invest a portion in Asian and emerging market equities. The portfolio is an unconstrained global equity portfolio, with exposure to large, mid and small-cap companies. It has the potential to produce greater returns through investing in faster-growing regions and more dynamic companies, but with a greater degree of risk and volatility. This portfolio can hold up to 100% in equities so there is the potential for capital loss.

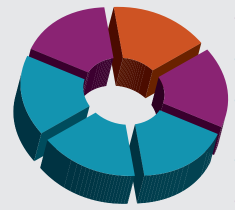
Average Annual Management Charge	0.73%*#
Average Ongoing Charges Figure (OCF)	0.88%†
Benchmark	MSCI World Index

	Aggressive Growth Portfolio	Benchmark	Global Retail**
3 Year Performance	32.96%	50.36%	35.78%
5 Year Performance	83.00%	105.99%	80.62%
10 Year Performance	97.63%	130.97%	91.70%

FE Analytics data as of 02/01/2017, compiled by Chelsea. *A performance fee may be applied, see pages 14 and 18 for details. **Sector average

Income EasyISA

Income is for investors looking to generate income, with some prospect for capital growth. The portfolio is invested in fixed interest, across the credit quality spectrum, and defensive, dividend-paying companies, based largely in developed markets. There is also one sixth invested in absolute return to further diversify the income stream. This combination aims to maintain, and potentially grow, capital over the long term, whilst paying dividends throughout the year. The portfolio has approximately 50% exposure to equities, at the time of writing, so there is the potential for capital loss.



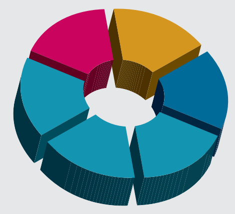
Average Annual Management Charge	0.78%#
Average Ongoing Charges Figure (OCF)	0.88%†
Benchmark	1/2 Strategic Bond (sector average) 1/2 UK Equity Income (sector average)

	Income Portfolio	Benchmark	Mixed Investments 20-60% Shares**
3 Year Performance	16.79%	15.84%	17.10%
5 Year Performance	54.24%	51.64%	38.09%
10 Year Performance	79.12%	56.17%	45.08%
Average Portfolio Yield	4.05%		

FE Analytics data as of 02/01/2017, compiled by Chelsea. **Sector average

Global Income EasyISA

Global Income offers investors a medium to high level of risk within a globally-diversified portfolio and these equity income funds are selected for their potential to grow their income over time. Over 50% of the portfolio is invested in US and European equities, with approximately 15% in UK equities. The remainder is invested across other regions, such as Asia, emerging markets and Japan. This portfolio can hold up to 100% in equities so there is the potential for capital loss.



Average Annual Management Charge	0.71%#
Average Ongoing Charges Figure (OCF)	0.95%†
Benchmark	Global Equity Income

	Global Income Portfolio	Benchmark	Global Equity Income**
3 Year Performance	36.43%	35.49%	35.49%
5 Year Performance	N/A	N/A	N/A
10 Year Performance	N/A	N/A	N/A
Average Portfolio Yield	3.90%		

FE Analytics data as of 02/01/2017, compiled by Chelsea. **Sector average

† 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). These portfolios do not include cash allocations.

THE CHELSEA EASYSIPP

Get FREE money from the government here!

Sarah Culver
Head of Pensions,
Chelsea

Saving into a personal pension is a great way to boost your retirement savings.

…Thought that might get your attention. How often do you get anything free nowadays? Even better is that it might be easier than you think, and Chelsea can help!

Retirement planning has changed over the years, with the most recent flexibility throwing the landscape of pensions wide open. In the past they seemed inflexible and complicated, with individuals not viewing them as a priority.

With auto-enrolment and the state pension, people are often put off investing into personal pensions because they seem confusing and time-consuming. Not with Chelsea. Put simply, pensions are a wrapper, a bit like an ISA, that you can save into and access at a later date. Better still, they are a wrapper that the government adds to when you save into it.

Simple huh? We aren't saying that pensions are the simplest product out there, but they also don't need to be as daunting as they initially look.

Judith Coverdale from Essex, said,

"I put off transferring my pensions as I thought it was going to be a long, complicated process. I couldn't have been more wrong - it was simple and stress-free and the staff at Chelsea were polite, helpful and kept me fully updated at all times."

Who can invest?

You, or any third party, can invest into your pension. What's more, the government will add 20% tax relief to any contribution made by you or anyone else (providing that individual isn't your employer – the tax works differently there). That means, if £800 is invested, the government will automatically add £200, so you save £1,000 towards your retirement.

Better still, if you are a higher-rate or additional-rate tax payer, you can claim further tax relief through self assessment, meaning the contribution will cost you even less.

Another barrier to investing is having to choose where to invest. If you aren't sure where to start, we have the **Chelsea EasySIPPs**, which are similar to the popular and successful Chelsea EasyISAs.

All you need to do is choose an EasySIPP, based on your own requirements and attitude to risk, and your investment will be spread across the funds within the Chelsea FundStore.

As with our EasyISAs, any changes that are made to the portfolios are not automatically updated on your account, so please check the 'portfolio changes' box below for changes you may like to make if you are already invested. Chelsea does not offer investment advice so if you are unsure of anything you should seek expert advice.

WHY THE CHELSEA SIPP?

- Competitive platform and service charges
- 0% set-up charge
- Free transfers in – consolidate and manage your schemes in one place
- Help with exit charges, when moving to Chelsea*
- Free switching and telephone dealing
- 20% tax relief automatically reclaimed for you
- Access to 25% tax-free cash from 55
- 0% charge for processing probate
- Personal pensions administrator to help you along the way

End of 2016/17 tax year deadlines
New Clients 31/03/2017
Existing Clients 04/04/2017

Do you want to open a pension with Chelsea?

Visit **chelseafs.co.uk/products/pension/questionnaire**

Want to top up a pension you already hold or discuss your options?

Call Sarah on **020 7384 7300**

Portfolio Changes

Balanced Growth EasySIPP: Jupiter Absolute Return replaces Henderson Cautious Managed
High Alpha EasySIPP: Henderson Emerging Market Opportunities replaces Newton Global Emerging Markets

Please be aware that there is a minimum initial investment amount of £5,000 to open a pension (this can be from a single investment and/or transfer). After the initial investment the minimum investment amount is £50, per EasySIPP. Any individual wanting to open a pension through Chelsea must be at least 18 years old. In most cases, you cannot take money out of the pension until the age of 55. Chelsea does not provide investment advice so if you are unsure of anything you should seek expert advice. *Please be aware of any exit charges that may be levied by your existing provider and any guarantees that you may be giving up.

Cautious Growth EasySIPP

The Cautious Growth EasySIPP offers diversification via equities, bonds, property and targeted absolute return funds. This diversification should offer the cautious investor lower volatility than a portfolio solely focused on equities. However, please be aware that this portfolio still contains up to 35% in equities, which means there will still be a moderate amount of volatility and this is likely to increase at times of market stress.

	Cautious Growth Portfolio	Mixed Investments 0-35% Shares**
Performance since 01/10/14	**15.67%**	**11.18%**

**sector average

- Artemis Global Income 10%
- Artemis Strategic Assets 10%
- Aviva Investors Multi Strategy Target Income 2 10%
- Fidelity Strategic Bond 15%
- Fundsmith Equity 10%
- Henderson UK Absolute Return ^ 10%
- Jupiter Strategic Bond 15%
- Premier Defensive Growth 10%
- Woodford Equity Income 10%

Average Annual Management Charge (AMC)	**0.74%#**
Average Ongoing Charges Figure (OCF)	**0.84%†**

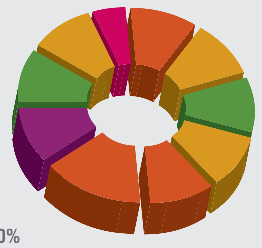
Balanced Growth EasySIPP

The Balanced Growth EasySIPP currently invests approximately 50% in equities, but can reach a maximum of 70%, with bonds, property and targeted absolute return funds offering diversification. With an increased weighting in equities than that of the Cautious Growth EasySIPP, this portfolio may be ideal for investors who have a longer time horizon and those who are comfortable with a higher degree of risk.

	Balanced Growth Portfolio	Mixed Investments 20-60% Shares**
Performance since 01/10/14	**20.30%**	**14.35%**

**sector average

- BlackRock European Absolute Alpha 10%
- BlackRock European Dynamic 10%
- Evenlode Income 10%
- Miton US Opportunities 10%
- Jupiter Absolute Return 10%
- JPM Global Macro Opportunities 15%
- Jupiter Strategic Bond 10%
- Liontrust Special Situations 10%
- MI Somerset Emerging Markets Dividend Growth‡ 10%
- VT UK Infrastructure Income 5%



Average Annual Management Charge (AMC)	**0.74%#**
Average Ongoing Charges Figure (OCF)	**0.89%†**

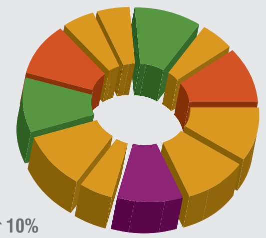
Aggressive Growth EasySIPP

The Aggressive Growth EasySIPP is for investors who are comfortable with a higher degree of risk. The portfolio currently comprises approximately 70% in equities, but could be higher, with exposure to Asia, emerging markets, Europe and North America. This portfolio has the potential to produce greater returns, but with less investment in bonds and property funds this is only for those who are prepared to accept a high level of risk and invest for the long term.

	Aggressive Growth Portfolio	Mixed Investments 40-85% Shares**
Performance since 01/10/14	**24.30%**	**19.79%**

**sector average

- AXA Framlington UK Select Opportunities 10%
- Baillie Gifford Japanese 5%
- BlackRock UK Absolute Alpha 10%
- Fidelity American Special Situations 10%
- Fundsmith Equity 10%
- Henderson Strategic Bond 10%
- Invesco Perpetual Hong Kong and China 5%
- Jupiter European 10%
- Marlborough UK Micro-Cap Growth 10%
- Old Mutual Global Equity Absolute Return Hedged ^ 10%
- MI Somerset Emerging Markets Dividend Growth‡ 5%
- Stewart Investors Asia Pacific Leaders 5%



Average Annual Management Charge (AMC)	**0.78%#**
Average Ongoing Charges Figure (OCF)	**0.90%†**

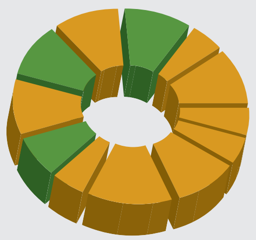
High Alpha EasySIPP

The High Alpha EasySIPP comprises a range of equity funds that tend to be high risk in nature. This is a globally-diverse portfolio, with 100% of the holdings in equities and over 70% of the portfolio investing overseas. Due to the nature of these investments, this could be a highly volatile portfolio, and is more appropriate for long-term investing. Those who invest in this portfolio may see higher returns, but it should only be invested in by those willing to take a higher level of risk.

	High Alpha Portfolio	Mixed Investments Global**
Performance since 01/10/14	**33.60%**	**30.70%**

**sector average

- AXA Framlington UK Select Opportunities 10%
- Baillie Gifford Global Discovery 5%
- Henderson Emerging Markets Opportunities 10%
- JOHCM Asia ex-Japan Small & Mid-Cap*5%
- JPM Japan 5%
- Jupiter European 10%
- Legg Mason Clearbridge US Aggressive Growth 13%
- M&G Global Dividend 5%
- Marlborough UK Micro-Cap Growth 7%
- Matthews Asia Pacific Tiger 10%
- Neptune UK Mid Cap 10%
- Rathbone Global Opportunities 10%



Average Annual Management Charge (AMC)	**0.75%#**
Average Ongoing Charges Figure (OCF)	**0.95%†**

● Absolute Return ● Fixed Interest ● Multi-Asset ● Infrastructure ● UK Equity ● Overseas Equity

Important Notice: Please be aware that none of the funds available via Chelsea FundStore are without risk, and the Key Investor Information Documents, for each fund, should be read before investing.

^ A performance fee may be applied. See page 19 for details.
* There is a 15% performance fee on outperformance of the benchmark subject to a high watermark.
‡ This fund has a dilution levy of 0.4% when buying or selling.
† 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).
Source: FE Analytics data as of 02/01/2017, compiled by Chelsea

THE CHELSEA JUNIOR EASYISA

The Junior ISA is a version of the long-standing and popular ISA but aimed at parents, guardians and grandparents who wish to save for the child's future. The Junior ISA limit is £4,080 for the current tax year and £4,128 for the 2017/2018 tax year. The Junior ISA has the advantage of no capital gains tax and no further liability to income tax. Furthermore, there is currently no service or platform charge to pay on Junior ISAs via Chelsea. All you pay is the annual management charge of the funds held, whilst this offer lasts.

Why should you use the Junior ISA allowance?

Act now to protect your child's future. The Junior ISA could be used for university costs, house deposits, a wedding or possibly a car.

Alternatively, at the age of 18, the Junior ISA will be automatically rolled into an 'adult' ISA and remain invested.

Unsure where to invest?

To make it as easy as possible to invest in a Junior ISA, our research team has produced three Junior EasyISA portfolios to help you maximise returns over the long term*. These are simply suggested portfolios, which are split equally between three funds. As the Junior EasyISA is aimed at children and, consequently, the investment term is generally longer, they offer a broad, but predominately equity, spread. Therefore it should be noted that they may be subject to volatility, and thus potential capital loss.

Please note that children with Child Trust Funds (CTF) cannot open a Junior ISA as well. However, you can now transfer a CTF to a Junior ISA and, once transferred, you can top up the Junior ISA. See application form booklet.

0% SERVICE CHARGE

HOW DO I INVEST?

An application form and a transfer form can be found within the booklet.

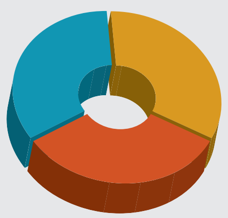
Please take a look at the Key Investor Information Documents (KIID) online before you invest (see covering letter for details or visit our website at chelseafs.co.uk/documents/fundstore). You will also find further information on our website at chelseafs.co.uk/products/children/isa.

Junior ISA guide: we have written a guide which explains how the Junior ISA works, who can invest in it and what the benefits are. It is available on our website at the address above.

Core Equity Junior EasyISA

Core Equity is designed to provide capital growth through investment in equities in a variety of regions and some targeted return, with the aim of reducing volatility. The resulting portfolio will hold up to 100% in equities, so there is still potential for capital loss.

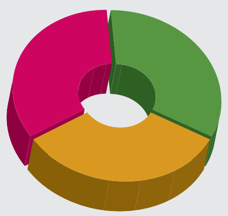
Average Annual Management Charge 0.83%# Average Ongoing Charges Figure (OCF) 0.87%†



Balanced Equity Junior EasyISA

Those investors prepared to take a balanced level of risk and aiming to generate a return on capital through a mix of growth and income should opt for Balanced Equity. The portfolio primarily invests in developed Asia and UK equity markets, although it is exposed to other regions such as the US, Europe and some emerging market countries. The fund will hold up to 100% in equities so there is potential for capital loss.

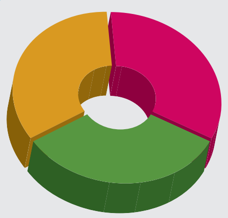
Average Annual Management Charge 0.75%# Average Ongoing Charges Figure (OCF) 0.91%†



Aggressive Equity Junior EasyISA

Aggressive Equity aims to maximise capital growth by investing in a mix of UK, emerging market and global equities. Consequently, investors should be willing to accept a higher degree of risk and volatility due to the nature of the underlying investments in these regions, particularly in emerging markets. The fund will hold up to 100% in equities so there is potential for capital loss.

Average Annual Management Charge 0.75%# Average Ongoing Charges Figure (OCF) 0.96%†



All funds are chosen from the Chelsea Selection ...see pages 22 & 23

*Chelsea does not provide investment advice so if you are unsure of anything you should seek expert advice.

†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).

STYLE RISK

When people hear the word style, they are more likely to think Carnaby Street than Canary Wharf, but in the investment world, a fund's investment style is a very important factor that can easily leave an investor lagging, even though they may have picked managers that are otherwise very good.

Ryan Lightfoot-Brown
Research Analyst,
Chelsea

What is investment style?

This is the type of stocks a fund manager seeks. Typically this is determined by the company size (small cap to large cap) or by stock type, either growth or value. This style will reflect the sort of companies they invest in, and therefore how the fund will perform in different macroeconomic conditions. The first thing you can do to mitigate this risk is to understand what style of funds you own, although not all funds have an obvious style bias. For further explanation see James' article on pages 32-34.

When one of these styles is in favour, the other is usually out of favour and these trends can stay in place for long periods. As a trend persists, the same style of funds are likely to be the best performers which then typically drives investment choices. Increasing style risk is easy to do and often goes unnoticed. This can make a portfolio very exposed to a sudden change in style. Having a large proportion of funds investing in the same type of companies will create a very lopsided portfolio. Investments are then likely to perform very similarly and, should your style be out of favour, go down together.

This is why constantly switching between funds and following what did well recently is rarely the right approach. It is virtually unheard of that a fund manager is able to beat the market every year. Even the very best managers go through periods of underperformance and the main reason for this is when their style goes out of favour.

The best way to mitigate this risk is to hold a variety of different funds and styles to create a balanced portfolio, don't just look at which funds have performed well recently. If you have a strong view, you can tilt your portfolio towards it but know that there is support in case this view doesn't play out. Funds should be selected based on their long-term performance, not just whether they are top of the charts over one year. A diversified portfolio of different styles and assets with a long-term view will give investors the best chance of enhancing their risk reward balance.

How to use the Chelsea Risk Rating

The Chelsea Risk Rating is simply a generic guide to the **relative** risk of funds within the market. 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. The primary determinant of the rating is volatility, which is largely determined by asset class. However, through our qualitative research process we also attempt to understand the relative risk of funds within asset classes. For instance, a fund rated five, in the middle spectrum, does not mean it is suitable for medium risk investors, merely that according to historic volatility, and our understanding of the manager's investment process, we think that it is more risky than a fund rated four, and less risky than a fund rated six. **Even funds rated one are subject to risk.**

At Chelsea we offer an execution-only service and consequently we make no assessment of your financial situation, nor do we consider your investment objectives or constraints. This means it is up to you to determine your optimum asset class mix. We do, however, distribute research to help our clients make their own informed decisions on the relative risk of funds we cover.

CHELSEA RISK THERMOMETER

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

CHELSEA CORE SELECTION

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

UK Equities

AXA Framlington UK Select Opportunities

Nigel Thomas is a pragmatic stock picker who looks for both growth and value opportunities across the market-cap spectrum, although typically his fund will have around 50-60% in large-cap stocks. Stock selection is driven by bottom-up fundamental analysis and the introduction of new products or a change in management are also deemed important factors. Nigel places considerable emphasis on meeting companies and their management, to assess the feasibility of their business plans and their ability to implement them. Strength of management is the most important attribute he considers when making investment decisions. The portfolio typically holds around 70 stocks.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	1.98%
Unit Type	ACC or INC

Franklin UK Smaller Companies

The strategy of this fund was completely changed around in 2012 when Richard Bullas took over the fund. The team are based in Leeds to enable them to focus on their stock selection and portfolio construction without the 'noise' of the city. Richard takes responsibility for the small-cap stocks and Paul Spencer manages the mid-caps, split around 80:20 respectively. The process is similar to Paul's highly successful mid-cap fund, with an emphasis on established, quality businesses with visible earnings. The fund has a long-term vision, with no particular bias to growth or value, and is quite concentrated, typically holding around 50 stocks, with no position worth more than 5% of the total portfolio. The smaller size of the fund, relative to its peers, allows the managers to be nimble.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	1.24%
Unit Type	ACC or INC

SPOTLIGHT

JOHCM UK Dynamic

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

Chelsea Risk Rating	6
Annual Management Charge	0.63%*#
Ongoing Charges Figure (OCF)	0.73%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.42%
Unit Type	ACC or INC

Jupiter UK Growth

Manager Steve Davies has a long history with this fund, having started as an analyst in 2007, before taking full control in May 2015, when this fund was merged with his Jupiter Undervalued Assets fund. This change has not altered the style though. The fund holds a concentrated portfolio of 40-50 stocks that aims to achieve long-term capital growth. Steve is not constrained by a benchmark, meaning he has the discretion to avoid sectors. He selects companies on one of two main criteria: firms that are out of favour with the markets, but have a catalyst for future growth, and companies that will generate above average growth, but are currently under-priced.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.02%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.90%
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 60% in small and mid-cap stocks. The managers 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 and, due to the nature of the companies, the portfolio may perform well in flat or falling markets.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.88%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.76%
Unit Type	INC

Marlborough UK Micro-Cap Growth

Run by Giles Hargreave and Guy Feld, who are supported by one of the best small-cap teams in the country, the fund invests at the bottom end of the market capitalisation spectrum primarily into companies valued at below £250m. The managers have a growth bias and look for companies that will benefit from changing consumer trends, are leaders in niche markets or possess disruptive technology. The fund is extremely diversified at the stock level (around 220 stocks) and also across investment themes and sectors. The managers will aggressively run winners and add to them if appropriate. Typically the fund has around 15-20% overlap with Marlborough Special Situations, which invests further up the capitalisation scale.

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.75%
Unit Type	ACC

Marlborough UK Multi-Cap Growth

This fund takes an unconstrained approach and can invest in businesses of all sizes, although Richard Hallett, manager since 2005, won't invest in any stock worth less than £100m. The portfolio typically holds between 40–50 stocks, with a one-in, one-out limit and each stock taking a maximum of 4% of the portfolio. Richard doesn't make big macroeconomic calls, but looks at individual firms and their prospects for the next two to five years. He buys firms that can grow regardless of the economy and avoids cyclical businesses, meaning that despite a mid- and small-cap bias, the fund can still outperform in falling markets.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.85%†
FundCalibre rating	–
Morningstar rating	–
Yield	1.01%
Unit Type	INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
* There is a 15% performance fee payable to the fund manager on outperformance of the benchmark. See the KIID for further details.
† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF).

Equity Income

Artemis Global Income

Jacob de Tusch-Lec adopts a similar methodology to that of the successful Artemis Income fund. The ability to choose companies worldwide offers greater opportunities to find organisations with sustainable and growing yields. The fund favours large and mid-cap companies in a high-conviction portfolio of 60-80 stocks. The portfolio is structured using themes forming a balance between a stable core of stocks, growth companies and those with greater risk/reward potential. The manager aims to derive a yield from various sources through differing market conditions. Income is paid in April and October. The manager has a strong valuation discipline.

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.81%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	2.95%
Unit Type	ACC or INC

Evenlode Income

Long-term thinking is key for this fund, with managers Hugh Yarrow and Ben Peters believing the market obsesses with short-term factors and thus overlooks key fundamentals. They only buy the highest quality businesses that are able to grow their dividends and create compound growth over a very long period. 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.

Chelsea Risk Rating	5
Annual Management Charge	0.95%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.40%
Unit Type	ACC or INC

M&G Global Dividend

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

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.91%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.04%
Unit Type	ACC or INC

Rathbone Income

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

Chelsea Risk Rating	5
Annual Management Charge	0.65%^#
Ongoing Charges Figure (OCF)	0.70%^†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.58%
Unit Type	ACC or INC

Standard Life UK Equity Income Unconstrained

Manager Thomas Moore looks for non-consensus ideas across the market-cap spectrum. He wants companies with dividend growth that can be sustained for the long term, evidenced by earnings growth accelerating faster than dividend payouts. While the unconstrained mandate allows Tom to move around the capitalisation scale, and he is happy to shun some equity income stalwarts in the FTSE 100, the portfolio maintains around 40% in large-caps. As this style may otherwise cause higher volatility than the sector average, this large-cap weighting helps to manage risk. He also follows a strict sell discipline and cuts positions quickly if the fundamentals deteriorate. Income is paid in March and July.

Chelsea Risk Rating	6
Annual Management Charge	1.00%#
Ongoing Charges Figure (OCF)	1.15%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	3.80%
Unit Type	ACC or INC

Threadneedle UK Equity Alpha Income

Co-manager since 2010, Richard Colwell has now taken full control following Leigh Harrison's retirement. He continues to place emphasis on generating a total return from a concentrated portfolio of UK equities. The portfolio is constructed from the managers' best ideas, consisting of 25–30 UK stocks. The team identify economic investment themes and position the portfolio accordingly. This may lead to a greater focus on certain sectors. This unconstrained approach provides the flexibility that allows Richard to take active positions in his best ideas. Income is paid in January and July.

Chelsea Risk Rating	5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.87%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	4.20%
Unit Type	INC

Woodford Equity Income

Perhaps one of most well known fund managers in the industry, Neil Woodford's eponymous fund has enjoyed a strong start since his departure from Invesco Perpetual. Neil continues to search for companies with sound balance sheets, transparent earnings and resilience to macro-economic headwinds all at attractive valuations. The portfolio will have a core of large cap stocks to generate the bulk of the income, but also a tail of smaller, earlier stage companies aiming to generate strong long term capital growth. Income is paid in January, April, July and October.

Chelsea Risk Rating	5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.75%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	3.32%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
† 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

Alister Hibbert runs this fund with an aggressive mentality, being prepared to have big over and underweight positions at both the stock and sector level. The fund itself has a focus on large-cap companies and these tend to have growth, rather than value characteristics. The portfolio make-up can shift dramatically at times, which can lead to periods of volatility. However, during his tenure Alister has used this risk well. He is supported by BlackRock's well-resourced European equity team, which we consider to be one of the best around. The portfolio is reasonably concentrated with typically 50 holdings and turnover can be higher than other funds in the sector.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.92%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.23%
Unit Type	ACC or INC

Jupiter European

The fund manager, Alexander Darwall, runs a concentrated, conviction portfolio of 30-40 stocks, with a focus on mid-cap companies. Alexander takes a long-term view, focusing predominantly on bottom-up stock analysis and places a high degree of emphasis on management meetings and having an in-depth understanding of the companies in which he invests. Turnover is thus very low. Alexander will only consider stocks with sound business characteristics and favours those which he believes will emerge stronger from a recession. His preferred sectors are currently industrials and healthcare.

Chelsea Risk Rating	6.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	1.03%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.50%
Unit Type	ACC or INC

Threadneedle European Select

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

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.83%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.00%
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 whose management delivers their stated goals. The fund typically holds 65-75 stocks. The manager is currently overweight technology stocks as he feels they will benefit from a consumer recovery.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.82%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC or INC

Fidelity American Special Situations

Manager Angel Agudo takes a value approach to running this fund, aided by one of the largest US research teams in London, to create long-term capital appreciation for his investors. He looks for firms which are out of favour, but where the market has undervalued the potential for an improvement. This leads to a concentrated portfolio of 40-60 stocks which are in different stages of their turn-around, so that the portfolio has the potential to outperform through different macroeconomic environments. Once he has highlighted potential stocks, he invests at valuations where he believes there is a 50-100% upside. Angel uses scenario analysis to assess his stocks, including assessing how a stock should perform if the worst were to happen.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.95%†
FundCalibre rating	
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Legg Mason Clearbridge US Aggressive Growth

The managers of this fund have a long and proven track record, with one of the co-managers, Richie Freeman, having been at the helm since 1983. Despite the name of the fund, the managers are conscious of valuations and we would describe it as a 'growth at a reasonable price' type strategy, with a bias towards large-cap stocks. They take a very long-term view, with the average holding period being around 10 years. They see a huge amount of companies and carry out incredibly in-depth due diligence, with the intention of seeking out only the highest quality companies with the most competent management teams. This enables them to have a concentrated portfolio, take big deviations from the benchmark and have very low turnover. The process is labour intensive but they are ably supported by a team of 30 analysts, all of whom are based in the US.

Chelsea Risk Rating	7
Annual Management Charge	0.65%#
Ongoing Charges Figure (OCF)	1.11%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC

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

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 13 for further details.**

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
† 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).

Asia Pacific, Japan and Emerging Markets

JOHCM Asia ex-Japan Small and Mid Cap

Managers Cho Yu Kooi and Samhir Mehta have worked together for 15 years and are based in Singapore. This is a high conviction fund, which is willing to make big calls on which countries and sectors it invests in. The fund is a mix of core high quality companies (minimum 75% of the fund) and more cyclical stocks. It has historically been heavily exposed to the consumer. As its name suggests, the fund invests in small and mid-sized stocks and can be volatile as a result. Every stock in the portfolio is tested to see how it performed in previous down markets.

Chelsea Risk Rating	9
Annual Management Charge	0.75%^#*
Ongoing Charges Figure (OCF)	1.08%^†
FundCalibre rating	–
Morningstar rating	–
Yield	–
Unit Type	INC

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)	0.93%†
FundCalibre rating	–
Morningstar rating	NEUTRAL
Yield	0.07%
Unit Type	ACC or INC

SPOTLIGHT Man GLG Japan CoreAlpha

This fund takes a contrarian look at the Japanese stock market with a strong focus on value investing. The team use a valuation model, which compares a stock's share price with the net assets on its balance sheet. This method has historically been a reliable measure of returns. The stocks they target are typically the large-cap, 'core' Japanese companies, the well known names that export their goods around the world. From this, they create a high-conviction portfolio of around 50 holdings, which may differ greatly from the benchmark.

Chelsea Risk Rating	10
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	GOLD
Yield	0.95%
Unit Type	ACC or INC

Matthews Asia Pacific Tiger

Matthews is an American investment house which focuses exclusively on Asia. They are deliberately based in San Francisco to remove themselves from short-term market noise. However, they make regular visits to the region and undertake around 2,000 company meetings a year. Between them, the team speak 13 languages and many of them grew up in the region. The fund aims to invest in the very best Asian businesses for the long term. It is almost entirely bottom-up and typically has a bias to domestic consumer orientated businesses. Lead manager, Sharrat Schroff, has managed the fund since 2010. The portfolio has around 60 to 70 holdings and is very different to the benchmark.

Chelsea Risk Rating	8
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	1.29%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	–
Unit Type	ACC or INC

MI Somerset Emerging Markets Dividend Growth

The team at Somerset have been together for 15 years, operating out of London and Singapore, with manager Edward Lam running this strategy since inception. Edward seeks quality companies which generate growing dividends. The fund is a highly concentrated portfolio of around 40, predominately large-cap stocks. Please note that Somerset charge a dilution levy of 0.4% on entry to, or exit from, this fund in order to protect existing investors on redemptions to the fund.

Chelsea Risk Rating	9.5
Annual Management Charge	1.00%#
Ongoing Charges Figure (OCF)	1.26%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	1.80%
Unit Type	ACC or INC

Schroder Asian Alpha Plus

This Asian fund is actively managed from the bottom up, with manager Matthew Dobbs often looking for catalysts in order to provide upside in the stocks he owns. Matthew is focused on valuations but also looks for companies that can exhibit organic growth. This concentrated portfolio will typically consist of 60-80 of the best ideas in the region and a 'one in one out' policy is followed. The fund is relatively unconstrained, but risk-aware, and can invest across the market-cap spectrum. .

Chelsea Risk Rating	8
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.96%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.06%
Unit Type	ACC or INC

Stewart Investors Asia Pacific Leaders

The fund was previously managed by veteran Angus Tulloch, who has handed over full responsibility to the previous co-manager David Gait, though Angus remains in a research and consultancy capacity. The fund maintains its strong focus on capital preservation by considering corporate governance and social responsibility in order to maintain a sense of stewardship over investors' money. The portfolio is concentrated at 40-60 stocks, with the top ten making up around 40% of the whole portfolio. David makes meeting company management an integral part of company analysis, and the stocks will typically be large cap, with firms under around $1bn removed from the stock selection process.

Chelsea Risk Rating	7.5
Annual Management Charge	0.85%
Ongoing Charges Figure (OCF)	0.90%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	1.02%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
* There is a 15% performance fee payable to the fund manager on outperformance of the benchmark. See the KIID for further details.
† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). ^ **Includes Chelsea discount.**

Miscellaneous

Artemis Strategic Assets

Managers William Littlewood and Giles Parkinson assess the macroeconomic environment to help make their investment decisions. They aim to achieve long-term growth by investing in a range of assets, including UK equity, international equity, fixed interest, currency, commodities and cash. Adopting a total return mentality, the managers aim to outperform equities when markets are favourable, and preserve capital when markets are poor. They often take advantage of shorting individual securities or currencies that they believe are overpriced.

Chelsea Risk Rating	6
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.87%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	0.11%
Unit Type	ACC

Global

Fundsmith Equity

Manager Terry Smith is one of the most outspoken and high profile personalities in the city. Terry founded Fundsmith in 2010 and has consistently proven himself over a long and glittering career. The fund invests in high quality well-established mega-cap companies. Terry buys businesses which 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)	0.98%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	0.80%
Unit Type	ACC or INC

JOHCM Global Select

Christopher Lees and Nudgem Richyal run this unconstrained fund of around 50 equally-weighted stocks. The global team generate ideas from the 500 stocks held by the JOHCM regional teams. They screen for companies with positive earnings momentum and improving returns on capital. The team perform country analysis, sector analysis and stock analysis. They then identify which of these factors has the biggest impact on the stock over time and build their portfolio accordingly. All stocks in the portfolio are high conviction ideas, but positions are equally-weighted to avoid any manager overconfidence. The fund will typically have a slight bias to growth.

Chelsea Risk Rating	7
Annual Management Charge	0.75%#*
Ongoing Charges Figure (OCF)	0.81%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	INC

Rathbone Global Opportunities

Manager James Thompson 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 whose sectors have barriers to entry. 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)	0.69%^†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	0.19%
Unit Type	ACC

Fixed Interest

Henderson Strategic Bond

Long-standing managers, Jenna Barnard and John Pattullo run this fund with up to 70% in high yield bonds. This is one of the more aggressively managed strategic bond funds. The managers can invest across the fixed income spectrum, but can also invest in synthetic fixed income securities (i.e. preference shares) and equities. In addition, the managers have the freedom to vary the source of their returns between income or capital growth. This means the fund can take short positions to enhance returns or protect capital. Income is paid in March, June, September and December.

Chelsea Risk Rating	3
Annual Management Charge	0.60%#
Ongoing Charges Figure (OCF)	0.70%†
FundCalibre rating	–
Morningstar rating	SILVER
Yield	4.40%
Unit Type	ACC or INC

Invesco Perpetual Monthly Income Plus

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

Chelsea Risk Rating	3.5
Annual Management Charge	0.67%#
Ongoing Charges Figure (OCF)	0.67%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	5.01%
Unit Type	ACC or INC

Jupiter Strategic Bond

The manager, Ariel Bezalel, seeks out the best opportunities within the fixed interest universe globally. He identifies debt issues he feels are mispriced using 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	BRONZE
Yield	4.30%
Unit Type	ACC or INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
* There is a 15% performance fee payable to the fund manager on outperformance of the benchmark. See the KIID for further details.
† OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
# The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF). **^ Includes Chelsea discount.**

Fixed Interest continued

Kames Investment Grade Bond

Co-managers Stephen Snowden and Euan McNeil target total return by investing mainly in global investment grade corporate bonds (at least 80%), however gilts, high yield bonds and cash are also held. A strong team ethic, together with their significant fixed income resource, influences both top-down strategy and bottom-up stock picking and the resulting portfolio typically has around 150 stocks. The fund pays out in January, April, July and October.

Chelsea Risk Rating	2.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.79%†
FundCalibre rating	ELITE
Morningstar rating	SILVER
Yield	2.89%
Unit Type	ACC or INC

NEW ENTRY Baillie Gifford Corporate Bond

Baillie Gifford have a long-standing reputation when it comes to fixed income, and this fund, run by Torcail Stewart and Stephen Rogers, 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 Stephen 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)	0.53%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	3.90%
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 ten-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. It typically has between 50 and 75 holdings. 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. The fund has a high yield and income is paid in March, June, September and December.

Chelsea Risk Rating	3.5
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.80%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	4.69%
Unit Type	ACC or INC

Targeted Absolute Return

Aviva Investors Multi-Strategy Target Income 2

This is a multi-asset absolute return fund that aims to generate a good monthly income while preserving investors' capital. Income is derived from five different sources: equity dividends, real estate investment trusts (REITs), option premia and corporate and government bonds. The fund has clear visibility over its future income and it never takes income from the capital of the fund. It employs a number of risk-reducing strategies, which cost very little but are designed to protect the fund in market sell-offs. The portfolio is regularly scenario-tested against past and hypothetical events.

Chelsea Risk Rating	4
Annual Management Charge	0.75%#
Ongoing Charges Figure (OCF)	0.85%†
FundCalibre rating	–
Morningstar rating	–
Yield	4.57%
Unit Type	INC

BlackRock UK Absolute Alpha

This is a long-short UK equity fund that seeks to generate a positive return over a rolling 12-month period in all market conditions. The fund was re-structured and strengthened following the addition of Nigel Ridge in 2013. Since Nigel joined, the fund is now higher conviction but maintains a conservative net exposure to the wider stock market. The fund aims to add value through fundamental stock analysis. It will buy individual shares that are cheap but will also short-sell stocks it views as overvalued. The fund then combines these positions with a more conservative pair trading strategy, whereby it will buy one stock in a sector and simultaneously short-sell another in the same sector to hedge out the market risk.

Chelsea Risk Rating	4
Annual Management Charge	0.75% §#
Ongoing Charges Figure (OCF)	0.93%†
FundCalibre rating	–
Morningstar rating	BRONZE
Yield	–
Unit Type	ACC

Henderson UK Absolute Return

This is a stock-picking fund that aims to deliver 8-10% p.a. in all market conditions. The managers aim to identify stocks that will either exceed or fall short of analysts' expectations and construct a portfolio of both long and short positions. There are limits on the overall market exposure, which serve to reduce the volatility of the fund. Two thirds of the portfolio will be in shorter-term tactical ideas, where the managers believe an earnings surprise could be imminent. The remainder will be in core holdings, where the managers think there are long-term drivers in place that will either increase or decrease the share price over time.

Chelsea Risk Rating	4
Annual Management Charge	1.00%§#
Ongoing Charges Figure (OCF)	1.06%†
FundCalibre rating	ELITE
Morningstar rating	BRONZE
Yield	0.10%
Unit Type	ACC

Old Mutual Global Equity Absolute Return Hedged

The fund is designed to offer a return of cash +6% on a rolling three-year basis, in all market conditions. The fund invests only in equities but is equity-market neutral, which means the fund's long positions will offset the short positions at all times. The process itself is essentially a sophisticated quantitative screen that scans the world's most liquid 3,500 companies for shares that exhibit certain characteristics. Suitable stocks are grouped into one of five buckets. As one bucket starts to outperform, the managers will tilt the portfolio towards that bucket. What sets this fund apart from other equity long/short funds is the very deliberate and methodical way that the managers have designed the process to minimise style risk.

Chelsea Risk Rating	5
Annual Management Charge	0.75%§#
Ongoing Charges Figure (OCF)	0.82%†
FundCalibre rating	ELITE
Morningstar rating	–
Yield	–
Unit Type	ACC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 13 for more information.
For performance statistics please refer to pages 22-23.
All data sourced from FE Analytics, 02/01/2017. Yields as at 20/01/2017.
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^ Includes Chelsea discount.
§ There is a 20% performance fee payable to the fund manager relative to the hurdle rate and high watermark. See the KIID for further details.

CORE SELECTION SPOTLIGHT

MAN GLG JAPAN COREALPHA

Elite Rated by FundCalibre

Stephen Harker
Head of Japanese Equities,
Man GLG

There is a certain maturity to the Japan CoreAlpha investment management team. Between us, we have more than a century of investment experience, with the bulk of that in the Japanese stock market. That maturity may have deepened wrinkles and caused hairlines to recede, but we would claim that it has also enhanced our willingness to let the market do the talking, rather than try to impose our own view on it.

Contrarian thinking

Our investment process is simple. We aim to buy stocks when they are cheap and sell them after they have risen in value – buy low, sell high. How do we define cheap? The measure we use is the price to book ratio or PBR. In technical terms, this divides the stock's current share price by the accounting value per share of the company's assets. In other words, it shows how much investors are willing to pay for a company's assets, which are one of the sources of its ability to generate future profits.

Our aim is to have the largest exposure to a stock when it is at the bottom of its valuation cycle. This is the contrarian approach. However, this presents three challenges: no one knows in advance when a stock reaches the bottom of the cycle; what valuation marks the bottom of the cycle; or what the bottom of the cycle looks like (sharp price plunge and recovery or slower, more extended decline and recovery). So, in an attempt to reduce the risks associated with this trilogy of uncertainty, we have developed a dynamic version of the contrarian approach which says: increase weightings on weakness; decrease on strength.

This works as follows. First, we wait until a stock has underperformed TOPIX for a long enough time and by a large enough amount, a process that can take years. Then, when we believe such a point has been reached, we make an initial investment. That initial investment will usually be small, as little as 0.1% of the portfolio. If – which is typically the case – the stock continues to underperform, we will then increase the weighting. If the stock underperforms for an extended period, we can build a significant weighting. When the stock starts outperforming, we then reduce the weighting. If it keeps on outperforming, we keep on reducing down to zero, all the time reinvesting the proceeds in other underperforming stocks. This is where the willingness to let the market do the talking comes in – we act in response to relative price moves rather than trying to predict them.

Sony shines

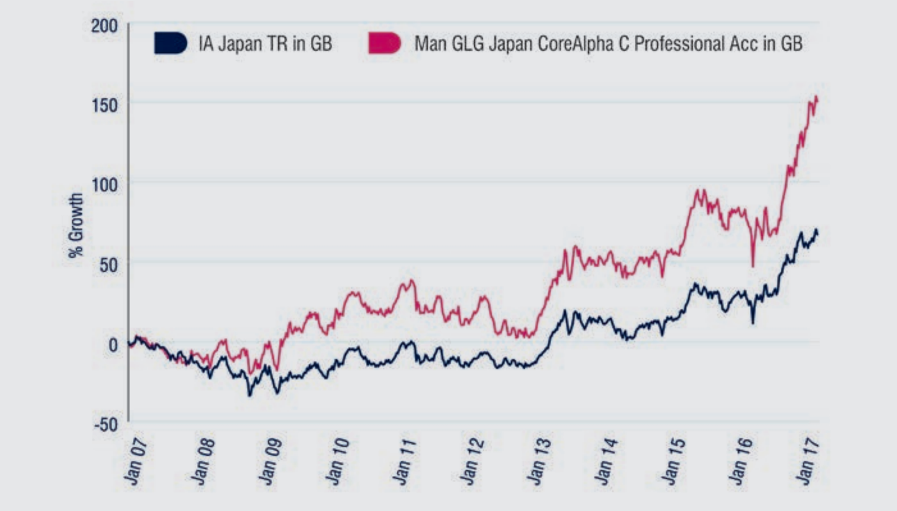
The approach is simple, but that should not be confused with easy. The contrarian approach has a habit of setting us apart from the crowd, leaving us isolated in our investment positions as stocks approach major turning points. Just to take one example: in 2012, we had a large weighting in Sony, the Japanese consumer electronics giant. Now Sony is a name known around the world, so every investor had an opinion on the company, and in 2012 among many that opinion was not flattering. Fair enough; Sony's share price peaked in March 2000 and, 12 years later, had fallen by 90%. Our judgment was that Sony was not heading for bankruptcy and was therefore particularly cheap. We built up exposure as it underperformed so that, by the time the share price hit its lowest point in late 2012, it was our largest holding. The following year, it turned into the biggest contributor to our performance. Such cases are not frequent – but extremes tell the story most clearly.

Speaking of extremes, the largest positions in the Man GLG Japan CoreAlpha fund today are in financial stocks, led by Japan's biggest banks, whose share prices peaked in April 1987. In 2016, many saw banks as investments to be avoided at all costs in the first half of the year, but market leaders in the second half. The contrarian approach at work.

THE CHELSEA VIEW

This is an authentic contrarian value fund which sticks religiously to its process of investing in cheap stocks. It is one of very few funds whose process has worked consistently well over the long term in the tricky Japanese market.

Man GLG CoreAlpha



Source: FEAnalytics 05/01/2007-20/01/2017

CORE SELECTION SPOTLIGHT

JOHCM UK DYNAMIC

Elite Rated by FundCalibre

Alex Savvides
Fund manager,
JOHCM UK Dynamic

I worked for a stockbroking firm after university. Some years later I made the switch to fund management after one of my broking clients, Mark Costar at JO Hambro Capital Management (JOHCM), invited me to join him on the JOHCM UK Growth fund. After working on that fund for five years, I launched the JOHCM UK Dynamic fund in June 2008.

Backing positive change

Corporate change is at the heart of my process, hence the name dynamic. My colleague Tom Matthews and I scour the UK stock market for mispriced or undervalued companies that are making positive changes to transform their businesses, usually either in the form of new management teams, new business strategies, or invariably both. Often these companies are going through or have recently gone through difficult times.

Why this approach? It is the chance to profit from this uncertainty. Change at companies is often misunderstood or overlooked by the stock market, but that provides opportunity. Investors are quick to include known or quantifiable threats in their analysis of a company, but they are often very slow to identify and assess how company management teams are responding and tackling issues in their businesses. Not only do investors invariably shun companies operating at these more challenging points in their history, they also often saddle themselves with excessively low expectations for such stocks. This can result in a share price that materially understates what a company is really worth. And that's where our opportunity resides as long-term investors.

Our process in action

It is easiest to illustrate our process by using the example of two currently held stocks.

We bought supermarket group Morrison's in summer 2014. At that point it was an unloved stock in the food retail sector, an area that had been out of favour with investors because of competition from discounters Aldi and Lidl and intense pricing pressure across the sector. Morrison's had been struggling and things needed to change. A new, highly experienced management team and board were put in place. They implemented a more competitive strategy focused on giving customers good value but differentiated from rival 'value' supermarkets through better quality products, including its fresh produce – Morrison's is the second-largest food producer in the UK. With a new team at the helm, Morrison's represented a unique opportunity, supported by a well-developed brand with a high market share and the fact that it owns over 90% of its store base. Under the new management team's strategy, Morrison's fortunes are, we believe, now firmly on the up.

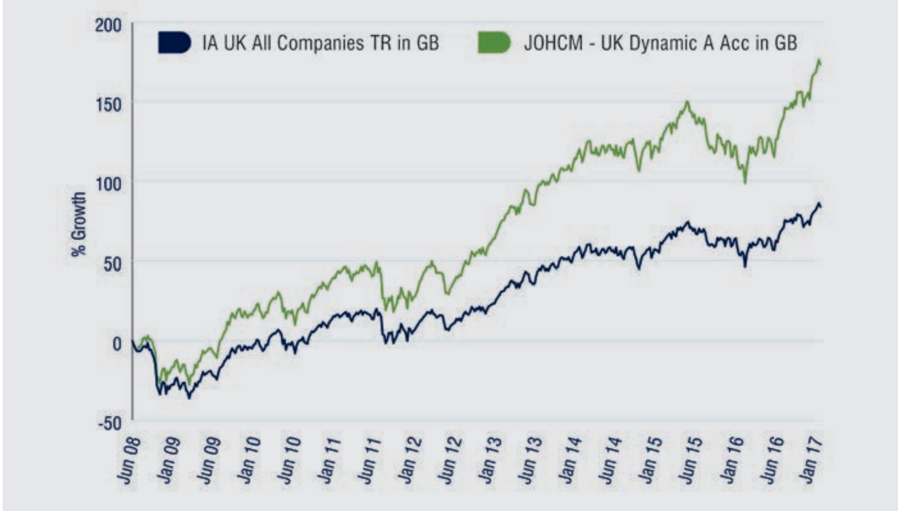
Another company which we have backed which is successfully restoring its fortunes is QinetiQ, a British multi-national defence technology company. Again, this is a company that had lost its way but whose prospects have been revived after a significant restructuring and the installation of a new management team equipped with a new commercially-focused strategy. This strategy is paying off, most recently evidenced by a number of new contract wins including a £1 billion multi-year contract award from the Ministry of Defence (MoD) for equipment-testing and evaluation (T&E) services. QinetiQ is investing approximately £180 million in upgrading and modernising facilities at three MoD sites to create world-class expertise in this field. Once complete, the facilities will enable QinetiQ to compete for T&E contracts in the multi-billion dollar global defence market and even the commercial pilot market.

Of course, we don't always get it right, and sometimes it takes longer than we would like for the stock market to appreciate the positive changes being made at the companies we own in the fund. However, this is an approach to investing which can work regardless of how the economy is performing; the fund's fortunes are not tied to the economic environment. Moreover, our insistence that every stock held in the fund pays a dividend, or is expected to do so in the next 12 months, gives the fund a decent yield, which might be attractive to investors also keen on income.

THE CHELSEA VIEW

We consider Alex Savvides one of the most exciting young fund managers in the UK today. His strong process, focusing on positive corporate change, and robust stock-picking skills have generated excellent performance since this fund launched in 2008.

JOHCM UK Dynamic



Source: FEAnalytics 05/01/2007-20/01/2017

THE CHELSEA SELECTION

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

	Fund	Elite Rated	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	Yield %	Fund Size (m)
	UK All Companies												
C	AXA Framlington UK Select Opportunities	✓	6	4.05	230	14.40	178	64.31	154	103.60	46	1.98	3864.1
	CF Lindsell Train UK Equity		6.5	11.31	129	33.10	14	118.63	15	194.25	4	2.04	3136.1
	Franklin UK Managers' Focus		7	7.70	187	27.85	29	116.62	16	119.95	25	2.22	333.2
	Franklin UK Mid Cap	✓	6	-0.23	253	16.26	144	104.14	34	172.62	8	2.18	904.9
	Investec UK Alpha	✓	6	8.84	168	23.53	60	109.81	23	116.51	29	1.89	1311.7
C	JOHCM UK Dynamic SPOTLIGHT	✓	6	20.95	12	25.01	44	109.80	24	-	-	3.42	354.0
	JOHCM UK Opportunities	✓	5	13.75	101	26.56	37	73.44	116	121.32	24	2.79	1800.0
C	Jupiter UK Growth	✓	7	-6.41	264	8.54	231	94.00	53	74.90	96	1.90	1441.7
	Jupiter UK Special Situations NEW ENTRY	✓	5	22.44	8	27.20	33	93.94	54	134.13	19	1.90	1520.5
	L&G UK Special Situations Trust NEW ENTRY		6.5	12.16	121	26.07	39	103.94	35	-	-	1.30	250.9
C	Liontrust Special Situations	✓	6	15.77	65	34.32	11	101.19	41	212.54	2	1.76	2300.6
C	Marlborough UK Multi-Cap Growth		7	9.98	153	30.42	18	103.25	36	144.52	11	1.01	127.6
	Neptune UK Mid Cap	✓	6	3.93	232	33.83	12	139.56	8	-	-	1.85	600.2
	Old Mutual UK Dynamic Equity		7	10.45	143	44.10	5	165.43	4	-	-	-	430.6
	Schroder Recovery	✓	7.5	31.11	2	16.89	134	130.32	10	139.98	15	1.85	920.6
	Threadneedle UK Extended Alpha NEW ENTRY	✓	7	12.88	115	28.85	25	88.80	64	115.60	30	2.30	136.8
	Sector Average			**10.83**	**264**	**16.96**	**254**	**69.84**	**241**	**67.69**	**195**	**-**	**-**
	UK Equity Income												
	Artemis Income	✓	5	10.49	26	21.28	31	73.66	35	89.76	11	4.15	6438.2
C	Evenlode Income***	✓	5	17.06	44 / 264	37.39	6 / 254	95.87	49	-	-	3.40	1099.0
	Fidelity Enhanced Income	✓	5	4.04	65	15.35	58	48.08	65	-	-	6.49	503.0
	JOHCM UK Equity Income	✓	6	16.79	5	19.22	44	93.03	11	112.08	5	4.29	2700.0
	Marlborough Multi Cap Income	✓	7	-3.21	77	16.35	55	107.36	4	-	-	4.65	1486.5
	Montanaro UK Income Seed***		8	0.97	248 / 264	24.66	47 / 254	104.54	32	140.04	14 / 195	-	151.0
C	Rathbone Income***	✓	5	8.38	177 / 264	26.75	35 / 254	83.13	87	70.65	106 / 195	3.58	1314.5
	Royal London UK Equity Income	✓	5	11.03	23	25.23	11	104.11	6	113.66	4	3.85	1702.0
C	Standard Life Investments UK Equity Income Unconstrained	✓	6	-4.10	78	15.99	56	98.95	7	-	-	3.80	1092.4
C	Threadneedle UK Equity Alpha Income		5	14.05	12	24.70	12	93.64	10	111.46	6	4.20	825.1
C	Woodford Equity Income	✓	5	3.19	67	-	-	-	-	-	-	3.32	9456.5
	Sector Average			**8.85**	**78**	**19.24**	**72**	**70.20**	**68**	**64.27**	**46**	**-**	**-**
	UK Smaller Companies												
	AXA Framlington UK Smaller Companies		8	5.88	29	39.55	8	147.08	7	125.54	22	0.94	280.7
C	Franklin UK Smaller Companies		8	-0.47	40	24.57	23	105.90	31	67.87	34	1.24	274.1
	Liontrust UK Micro Cap		8	-	-	-	-	-	-	-	-	0.00	14.3
	Livingbridge Wood Street Microcap Investment	✓	8.5	4.61	34	36.08	12	156.85	5	-	-	0.70	64.2
	Marlborough Special Situations	✓	7.5	10.53	16	40.46	6	132.78	17	221.43	3	1.00	1141.2
C	Marlborough UK Micro Cap Growth	✓	8	15.05	5	35.60	13	133.58	14	247.79	1	0.75	672.0
	R&M UK Equity Smaller Companies	✓	8	7.07	27	34.04	15	198.76	1	212.34	6	1.09	701.6
	Sector Average			**8.06**	**46**	**22.07**	**45**	**105.30**	**43**	**105.61**	**37**	**-**	**-**
	Sterling Corporate Bond												
	Invesco Perpetual Corporate Bond	✓	2	5.15	78	12.52	73	40.48	28	69.47	18	3.77	4964.1
C	Kames Investment Grade Bond	✓	2.5	8.39	56	21.56	30	44.83	15	74.77	13	2.89	1390.0
	Royal London Corporate Bond	✓	2.5	9.54	39	23.33	16	44.93	14	65.12	22	3.70	922.9
	Sector Average			**9.08**	**88**	**19.48**	**83**	**35.89**	**70**	**56.86**	**54**	**-**	**-**
	Sterling High Yield												
	Aviva Investors High Yield Bond 2	✓	3.5	7.82	232	18.06	62	55.62	49	-	-	4.67	169.4
	Baillie Gifford High Yield Bond	✓	4	10.09	186	12.89	131	54.00	58	93.68	33	4.00	570.2
	Schroder High Yield Opportunities NEW ENTRY		3.5	11.43	166	22.99	47	58.66	41	80.96	43	6.37	321.7
	Sector Average			**10.09**	**271**	**10.72**	**235**	**41.32**	**169**	**67.82**	**109**	**-**	**-**
	Sterling Strategic Bond												
	Artemis Strategic Bond***		3	8.38	17 / 67	15.13	22 / 65	42.86	12 / 56	65.76	10 / 36	4.12	977.3
C	Baillie Gifford Corporate Bond***	✓	3.5	10.14	7 / 67	20.37	9 / 65	47.80	5 / 56	81.47	3 / 36	3.90	570.4
	Fidelity Strategic Bond***	✓	2.5	5.29	45 / 67	13.71	30 / 65	29.92	35 / 56	82.01	2 / 36	2.20	1776.2
	GAM Star Credit Opportunities*	✓	4	10.35	13 / 81	30.11	-	86.92	-	-	-	4.90	437.0
C	Henderson Strategic Bond		3	4.44	70	13.98	38	41.36	22	71.35	11	4.40	1670.7
C	Invesco Perpetual Monthly Income Plus	✓	3.5	5.96	49	12.50	-	49.48	-	78.70	-	5.01	3317.0
C	Jupiter Strategic Bond	✓	2.5	7.45	38	13.61	41	41.77	20	-	-	4.30	3391.1
C	TwentyFour Dynamic Bond	✓	3.5	4.46	69	13.30	44	51.19	4	-	-	4.69	1430.2
	Sector Average			**7.28**	**80**	**14.19**	**74**	**31.91**	**63**	**55.29**	**41**	**-**	**-**
	Targeted Absolute Return												
C	Aviva Inv Multi Strategy Target Income 2		4	0.84	-	-	-	-	-	-	-	4.57	1806.4
	BlackRock European Absolute Alpha	✓	3.5	-5.18	-	4.74	-	16.45	-	-	-	-	93.8
C	BlackRock UK Absolute Alpha		4	2.44	-	17.72	-	23.26	-	46.94	-	-	290.8
C	Henderson UK Absolute Return	✓	4	1.58	-	15.01	-	41.79	-	-	-	0.10	1894.9
	JPM Global Macro Opportunities		5	-3.16	-	19.35	-	-	-	-	-	0.44	813.9
	Jupiter Absolute Return NEW ENTRY	✓	4.5	10.23	-	16.51	-	20.18	-	-	-	-	762.6
C	Old Mutual Global Equity Absolute Return Hedged	✓	5	2.42	-	16.73	-	40.37	-	-	-	-	5774.8
	Premier Defensive Growth	✓	3	2.05	-	7.59	-	20.56	-	-	-	0.05	433.7
	Smith & Williamson Enterprise	✓	5	1.77	-	15.39	-	40.13	-	97.42	-	-	129.4
	SVS Church House Tenax Absolute Return Strategies NEW ENTRY	✓	4	7.57	-	15.48	-	29.69	-	-	-	0.98	74.0
	Sector Average			**1.06**	**-**	**6.44**	**-**	**16.96**	**-**	**34.42**	**-**	**-**	**-**
	Europe Excluding UK												
	Baring Europe Select***	✓	8	23.82	3 / 25	49.65	2 / 21	153.62	2 / 20	201.39	1 / 15	1.40	1602.4
	BlackRock Continental European	✓	7	13.91	82	28.80	36	100.85	29	135.90	7	1.39	634.7
	BlackRock Continental European Income	✓	7	12.81	89	33.80	18	108.43	20	-	-	4.26	1453.1
C	BlackRock European Dynamic***	✓	7	14.23	72 / 99	31.88	18	115.56	-	185.28	-	1.23	2057.6
	FP CRUX European		7	18.81	41	-	-	-	-	-	-	1.77	27.5
	GAM Star Continental European Equity	✓	7	15.47	72	32.70	22	114.78	-	127.64	-	1.18	963.8
C	Jupiter European	✓	6.5	5.19	104	36.95	11	113.65	12	182.69	3	0.50	3776.1
	Mirabaud Equities Europe Ex-UK Small & Mid Cap* NEW ENTRY	✓	7.5	19.41	6 / 25	-	-	-	-	-	-	-	32.6
C	Threadneedle European Select	✓	7	12.48	91	30.58	28	95.15	33	127.26	9	1.00	3054.6
	Sector Average			**16.42**	**108**	**26.01**	**97**	**89.18**	**85**	**74.99**	**68**	**-**	**-**
	North America												
C	AXA Framlington American Growth	✓	7	17.21	113	51.16	92	110.19	78	194.94	21	-	567.6
	Brown Advisory US Flexible Equity	✓	7	29.34	-	-	-	-	-	-	-	-	219.8
	CF Miton US Opportunities		7	37.95	20	72.26	11	-	-	-	-	0.20	238.4
	Dodge & Cox US Stock		7	45.87	4	73.07	9	171.63	5	-	-	-	326.0
C	Fidelity American Special Situations		7	34.15	34	86.02	1	175.32	3	225.89	6	-	1277.8
	Hermes US SMID Equity*	✓	8	43.38	4 / 13	72.14	2 / 10	-	-	-	-	-	458.6
C	Legg Mason ClearBridge US Aggressive Growth	✓	7	24.90	102	52.55	88	134.76	-	183.56	-	-	1996.2
	Sector Average			**29.32**	**123**	**58.68**	**108**	**121.99**	**94**	**161.14**	**67**	**-**	**-**
	Japan												
	Baillie Gifford Japanese	✓	10	33.89	1	49.95	20	129.64	2	130.04	4	0.68	1503.5
C	JPM Japan		10	18.13	61	53.49	15	98.22	17	77.11	18	0.07	269.0
	Legg Mason IF Japan Equity		10	29.19	9	93.23	1	246.11	1	170.79	1	-	538.3
C	Man GLG Japan CoreAlpha SPOTLIGHT	✓	10	32.43	5	58.28	8	112.18	5	148.66	2	0.95	1590.1
	Neptune Japan Opportunities	✓	10	2.56	65	5.65	58	87.91	24	142.19	3	0.98	256.9
	Sector Average			**23.32**	**65**	**43.54**	**58**	**86.93**	**54**	**64.75**	**43**	**-**	**-**
	Asia Pacific Excluding Japan												
	Fidelity Asia Pacific Opportunities NEW ENTRY		8	32.28	7	-	-	-	-	-	-	-	47.0
	Invesco Perpetual Asian		8	37.98	2	50.06	-	84.02	-	177.59	-	1.19	758.4
	JOHCM Asia ex Japan	✓	8	22.67	75	39.38	27	75.20	10	-	-	-	499.7
C	JOHCM Asia ex Japan Small and Mid Cap		9	11.37	96	55.08	4	98.19	4	-	-	-	63.5
C	Matthews Asia Pacific Tiger	✓	8	19.96	83	45.99	14	70.01	17	-	-	-	291.8
C	Schroder Asian Alpha Plus	✓	8	25.79	55	39.12	28	69.17	19	-	-	1.06	565.5
	Schroder Asian Income	✓	7.5	29.98	25	42.82	22	80.76	7	193.76	5	3.63	1049.7
C	Stewart Investors Asia Pacific Leaders	✓	7.5	19.64	84	46.16	12	76.10	9	234.21	3	1.02	9414.7
	Sector Average			**25.64**	**98**	**32.96**	**88**	**56.94**	**77**	**124.45**	**55**	**-**	**-**
	Global Emerging Markets**												
	Aberdeen Latin American Equity	✓	10	64.12	-	8.53	-	6.39	-	-	-	1.20	192.4
	GS India Equity Portfolio	✓	10	16.19	-	97.47	-	151.67	-	-	-	-	1388.1
	Henderson Emerging Markets Opportunities NEW ENTRY		10	31.86	43 / 84	29.58	19 / 75	42.29	17 / 64	65.87	22 / 31	1.50	292.7
	Invesco Perpetual Hong Kong & China	✓	10	17.88	25 / 38	31.48	-	97.08	-	173.22	-	1.24	310.5
	Jupiter India		10	22.76	-	112.72	-	127.45	-	-	-	0.40	632.8
	Lazard Emerging Markets	✓	10	46.20	2 / 84	24.95	37 / 75	41.92	20 / 64	112.71	5 / 31	2.10	1052.5
	M&G Global Emerging Markets	✓	10	40.31	7 / 84	21.77	53 / 75	40.54	22 / 64	-	-	1.18	1707.9
C	MI Somerset Emerging Markets Dividend Growth†	✓	9.5	26.83	65 / 84	28.71	21 / 75	44.32	13 / 64	-	-	1.80	1297.0
	Schroder Small Cap Discovery		10	19.36	-	37.67	-	-	-	-	-	1.25	150.8
	Global												
	Baillie Gifford Global Discovery	✓	8	10.63	251	34.41	164	153.29	4	207.70	-	-	234.2
	Fidelity Global Special Situations		7	27.85	76	62.56	8	138.54	6	109.73	61	-	2008.7
C	Fundsmith Equity	✓	6	28.29	66	83.44	1	159.17	2	-	-	0.80	9305.9
C	JOHCM Global Select	✓	7	21.49	176	37.59	139	103.02	64	-	-	-	2207.5
C	Rathbone Global Opportunities	✓	6.5	16.79	229	47.91	64	107.21	49	172.77	13	0.19	905.1
	Sector Average			**23.35**	**266**	**35.73**	**238**	**80.70**	**205**	**92.13**	**137**	**-**	**-**
	Global Equity Income												
C	Artemis Global Income	✓	6.5	22.49	30	47.32	8	127.65	1	-	-	2.95	3362.4
	Fidelity Global Dividend	✓	6	22.56	29	50.64	3	-	-	-	-	2.45	717.0
	Fidelity Global Enhanced Income		5.5	23.27	24	47.81	6	-	-	-	-	3.29	201.7
	Guinness Global Equity Income	✓	6.5	26.89	14	43.40	11	91.82	7	-	-	2.79	247.8
C	M&G Global Dividend***	✓	6.5	40.75	9 / 265	35.21	155 / 237	88.03	115 / 204	-	-	2.04	6721.8
	Newton Global Income	✓	6	29.55	8	55.50	1	97.84	3	164.55	1 / 6	2.91	5531.1
	Sector Average			**23.24**	**39**	**33.48**	**34**	**76.36**	**24**	**99.74**	**6**	**-**	**-**
	Miscellaneous**												
C	Artemis Strategic Assets	✓	6	16.70	54 / 141	13.19	114 / 125	44.91	82 / 104	-	-	0.11	816.0
	AXA Framlington Global Technology	✓	10	28.50	6 / 16	76.80	3 / 13	126.11	6 / 13	274.99	1 / 10	-	344.8
	BlackRock Gold & General	✓	10	80.02	-	51.86	-	-28.93	-	33.78	-	0.25	1253.6
	F&C Real Estate Securities	✓	7	8.84	19 / 47	55.61	5 / 43	132.15	1 / 35	-	-	-	82.7
	Guinness Global Energy		10	52.52	3 / 265	0.49	234 / 237	20.71	200 / 204	-	-	-	261.4
	Jupiter Financial Opportunities		8	12.93	-	26.86	-	90.86	-	72.67	-	0.90	451.2
	Legg Mason IF RARE Global Infrastructure Income		5	-	-	-	-	-	-	-	-	5.30	233.9
	Polar Capital Biotechnology		10	10.33	-	108.07	-	-	-	-	-	-	95.1
	Polar Capital Healthcare Opportunities	✓	8	4.59	-	59.87	-	192.41	-	-	-	-	863.4
	Premier Pan European Property	✓	7.5	-0.56	36 / 47	40.62	17 / 43	118.82	3 / 35	28.96	11 / 19	3.23	234.8
	Standard Life Investments Emerging Market Debt	✓	4	31.23	9 / 40	51.84	9 / 36	-	-	-	-	3.91	191.1
	VT UK Infrastructure Income		4	-	-	-	-	-	-	-	-	-	107.7

C **Funds featured in The Chelsea Core Selection (see pages 14-19).**

Funds that are Elite Rated by FundCalibre (see FundCalibre.com for further details). FundCalibre is an appointed representative under Chelsea Financial Services.

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

** Where there is multiple sector amalgamation, sector positions shown are within various different underlying sectors. Some funds aren't ranked as they are not comparable due to the diverse nature of the sector.

*** These funds fall within a different sector, hence the sector positions shown vary.

† This fund has a dilution levy of 0.4% when buying or selling.

Yields as at 20/01/2017.

THE REDZONE

The RedZone names and shames the worst-performing funds over three years. The DropZone brings funds to your attention which have underperformed their sector averages.

Sam Slator
Head of Communications, Chelsea

The eagle-eyed among you will have noticed we took a break from RedZone in the last issue of Viewpoint. Turning fund performance around – or admitting defeat and making changes to, or closing, a fund – can take fund providers time.

So we decided to make it an annual feature in the March issue and I'm delighted to say that there have been a number of improvements in the past year. The value of underperforming assets in the RedZone has fallen almost 20% to just under £93.7bn and the number of funds has fallen by a very pleasing 40% from 259 this time last year to 184 today.

Improving fortunes

One of the reasons for the large drop in numbers is that there were 50 UK All Companies funds in the RedZone last year, a third of which were index tracking funds. Today, there are just 12 funds making an appearance in this sector. Instead, Global is the worst sector, with 24 funds (down from 40 this time last year) and £10.78bn of assets under management. If you happen to be invested in one of these funds, you may like to read page 23, where a number of our preferred global funds are featured. Remember: switching is free via the Chelsea FundStore.

In second place is the Global Bond sector, with 15 funds – but three times as many assets at £30.51bn – and, in third place, is UK All Companies with the aforementioned 12 funds – but just £2.24bn in assets. The Global Emerging Market Bond sector has fewer funds (nine) making an appearance, but is third worst in terms of assets with £8.55bn. More on this sector later.

There is also good news when it comes to companies. Aberdeen has finally started to see a turnaround in performance and, although still top in terms of numbers of funds, has 'just' 15 in this list today, compared with a whopping 46 funds 12 months ago – a 66% decrease. Its assets in the RedZone have fallen by a similar amount, standing at £11.38bn – down from £30.75bn.

Legg Mason is in joint second place alongside Thesis, with six funds apiece, but these represent very few assets in total (less than £600m in each case). The bigger culprits in terms of assets are Franklin Templeton (with £18.33bn in the RedZone) and Vanguard. The latter has just one fund in the list but it's a big one: £5.98bn.

Currency risk

There are a number of new faces in the main table and in the DropZone – including three global emerging market debt funds. I mentioned this sector earlier, as it's worth noting the funds appearing there are mainly those that invest in emerging market bonds issued in local currencies. As the US dollar has continued to strengthen, emerging market currencies have been hit pretty badly, explaining why these funds are suffering more than those investing in bonds issued in US dollars. It is something to be aware of when investing in this sector – and indeed others. Currency movements tend to balance out over time, but we have seen some dramatic moves in recent months and they can have a big impact on performance, as evidenced in this report. Should the US dollar stabilise or weaken, these local currency emerging market bond funds may well see their performance strengthen. More on currency risk can be found on page 12 of issue 41 of this magazine.

So all in all, while it was a very turbulent 12 months in terms of stock market ups and downs and political upheaval, it's been a better 12 months for the RedZone and therefore for investors too. Let's hope the next 12 months bring about even more improvements.

**Based on three-year cumulative performance. All data sourced from FEAnalytics.

THE DROPZONE

The DropZone has also seen something of a turnaround. The amount of underperformance has decreased significantly and SF Webb Capital Smaller Companies, which had topped the list for so long, has finally fallen to second place. There is just £1m left in the fund, but it's good news nevertheless. That ignominious position now goes to HC FCM Salamanca Global Property 1. Again it is a very small fund though, with just £7m under management.

Six of the funds in the DropZone last year have had a much better 12 months. Four have been in the top quartile of their peer group and the other two in the second quartile. Two have disappeared altogether from the database: TM Progressive UK Smaller Companies and CF Richmond Core. The only information I can find about these funds suggests that they have been closed down.

	% UNDERPERFORMANCE FROM SECTOR AVERAGE**	
1	HC FCM Salamanca Global Property 1	-69.03%
2	SF Webb Capital Smaller Companies Growth**	-53.17%
3	New Capital Asia Pacific Equity Income	-41.13%
4	Natixis Loomis Sayles Emerging Debt & Currencies	-37.31%
5	MFM Techinvest Technology	-33.71%
6	JB BF Local Emerging	-31.48%
7	JB BF Emerging Markets Inflation Linked	-29.45%
8	MFS Meridian US Value	-28.88%
9	MFS Meridian Emerging Markets Equity	-26.63%
10	Sarasin Responsible Global Equity (Sterling Hedged)	-25.39%

	3 Year % growth	Quartile position
Asia Pacific Excluding Japan		
Aberdeen Asia Pacific Equity	24.50	4
Aberdeen Global Asia Pacific Equity	24.13	4
CF Canlife Asia Pacific	12.81	4
Henderson Asia Pacific Capital Growth	31.53	3
Henderson Asian Dividend Income	32.06	3
Legg Mason Martin Currie Asia Long Term Unconstrained	24.84	4
Natixis Emerise Pacific RIM Equity	16.87	4
D New Capital Asia Pacific Equity Income	-7.55	4
Newton Oriental	22.68	4
Principal GIF Asian Equity	27.95	4
Sector average	**33.58**	
Asia Pacific Including Japan		
GAM Star Asia Pacific Equity	32.38	4
Sector average	**37.98**	
China/Greater China		
Baring China Select	29.11	3
JPM Hong Kong	21.74	4
Neptune China	13.25	4
Sector average	**30.04**	
Europe Excluding UK		
Legg Mason IF Martin Currie European Equity Income	18.07	4
MFS Meridian Continental European Equity	10.34	4
Sanlam FOUR Active European Ex-UK Equity	11.37	4
Standard Life Investments European Equity Growth	23.68	4
Standard Life Investments European Ethical Equity	21.90	4
Sector average	**27.03**	
Europe Including UK		
Virgin Climate Change	2.61	4
Sector average	**23.14**	
Flexible Investment		
CF Ruffer Equity & General	9.89	4
HC KB Capital Growth	15.73	4
MI Momentum Factor 3	15.05	4
MI Momentum Factor 4	20.83	3
S&W Starhunter Managed	18.78	4
Scottish Widows HIFML Dynamic Return	6.34	4
Thesis Balanced Growth	18.22	4
Sector average	**21.77**	
Global		
BlackRock NURS II Global Equity	35.06	3
Carmignac Investissement	16.97	4
Dominion Global Trends Managed GBP	22.73	4
FP Matterley UK & International Growth	30.44	4
Guinness Alternative Energy	-13.28	4
Henderson Multi-Manager Global Select	23.14	4
JB EF Luxury Brands	11.88	4
JGF-Jupiter Global Ecology Growth	26.75	4
Marlborough Global	38.93	3
MFS Meridian Global Energy	-7.96	4
MI Thornbridge Global Opportunities	28.54	4
Natixis Harris Associates Global Equity	30.01	4
Neptune Global Equity	22.61	4
Old Mutual Global Best Ideas	25.41	4
Royal Bank of Scot International Growth	34.54	3
Sanlam Global Best Ideas	29.28	4
D Sarasin Responsible Global Equity (Sterling Hedged)	10.39	4
Scottish Widows Opportunities Portfolio	32.63	3
SKAGEN Global	25.67	4
Stonehage Fleming Global Equities I	25.01	4
Stonehage Fleming Global Equities II	31.64	3
The 140 Investment Managers Broadway ICVC Balanced	16.42	4
TM UBS (UK) Global Equity	29.80	4
Waverton Tactical Equity	23.90	4
Sector average	**35.78**	
Global Bonds		
Candriam Bonds Credit Opportunities	12.14	3
Candriam Bonds Total Return	10.97	4
CF Canlife Global High Yield Bond	8.62	4
GS Global High Yield Portfolio	9.67	4
JB BF Total Return	3.42	4
L&G Global Inflation Linked Bond Index	7.74	4
Legg Mason IF Western Asset Global Multi Strategy Bond	9.65	4
New Capital Global Value Credit	8.65	4
Pimco GIS Euro Bond	17.85	3
Pimco GIS Euro Low Duration	4.27	4
Pimco GIS Euro Short-Term	2.28	4
Templeton Emerging Markets Bond	2.61	4
Templeton Global Bond	2.90	4
Templeton Global Total Return Bond	1.39	4
The 140 Investment Managers Broadway ICVC Income	7.79	4
Sector average	**21.25**	
Global Emerging Market Bond		
Aviva Investors Emerging Markets Local Currency Bond	12.38	3
Candriam Bonds Emerging Debt Local Currencies	15.90	3
Investec Emerging Markets Local Currency Debt	14.05	3
D JB BF Emerging Markets Inflation Linked	-6.28	4
D JB BF Local Emerging	-8.31	4
D Natixis Loomis Sayles Emerging Debt & Currencies	-14.14	4
Pimco GIS Emerging Markets Corporate Bond	5.63	4
Schroder ISF Emerging Market Local Currency Bond	11.70	4
Threadneedle Emerging Market Local	12.33	4
Sector average	**23.17**	
Global Emerging Markets		
Capital Group Capital International Emerging Markets	15.19	4
Investec Emerging Markets Equity	18.60	4
Legg Mason QS Emerging Markets Equity	14.66	4
D MFS Meridian Emerging Markets Equity	-4.71	4
Newton Emerging Income	15.20	4
Threadneedle Global Emerging Market Equity	17.36	4
Vanguard Emerging Markets Stock Index	23.59	3
Sector average	**21.92**	
Global Equity Income		
Davy Defensive Equity Income	31.02	3
Legg Mason IF ClearBridge Global Equity Income	32.68	3
Legg Mason IF Martin Currie Global Equity Income	31.01	3
Neptune Global Income	20.93	4
Sector average	**33.93**	
Japan		
BlackRock GF Japan Flexible Equity	36.66	4
Cavendish Japan	37.48	4
JOHCM Japan	36.43	4
JPM Japan Select Equity	32.08	4
Legg Mason IF Martin Currie Japan Alpha	29.94	4
Polar Capital Japan	34.97	4
Polar Capital Japan Alpha	33.27	4
Threadneedle Japan	36.10	4
Threadneedle Japan Growth	37.64	3
Sector average	**43.82**	
Japanese Smaller Companies		
BlackRock GF Japan Small & MidCap Opportunities	51.39	3
Sector average	**62.19**	
Mixed Investment 20% 60% Shares		
BlackRock Global Multi Asset Income	12.46	4
TB Doherty Cautious Managed	16.05	3
FP Distinction Diversified Real Return	1.69	4
Invesco Perpetual Distribution	11.39	4
L&G Distribution Trust	12.98	4
L&G Multi Manager Income Trust	15.16	4
Margetts Providence Strategy	14.97	4
MGTS Frontier Cautious	11.27	4
MGTS Future Money Real Value	13.72	4
Scottish Widows HIFML Diversified Return	6.45	4
UBS Multi Asset Income	5.50	4
Sector average	**17.10**	
Mixed Investment 40% 85% Shares		
Consistent Practical Investment	16.81	4
TB Doherty Active Managed	21.38	3
Family Balanced International	18.67	4
FP Thoroughbred Core Alpha	16.90	4
L&G Multi Manager Balanced Trust	16.34	4
McInroy & Wood Income	19.29	4
Neptune Balanced	18.17	4
SVS Church House Balanced Equity Income	17.20	4
Thesis Libero Strategic	19.00	4
TM Fulcrum Diversified Growth	3.04	4
TM UBS (UK) UK Income Focus	19.03	4
Sector average	**21.56**	
North America		
Aberdeen Global North American Equity	46.41	4
Aberdeen North American Equity	48.97	4
Candriam Sustainable North America	51.88	4
GAM Star Capital Appreciation US Equity	35.01	4
Legg Mason IF Martin Currie North American	56.32	3
Legg Mason Martin Currie North American	51.41	4
Legg Mason Opportunity	40.80	4
D MFS Meridian US Value	29.32	4
Smith & Williamson North American Equity	48.33	4
Sector average	**58.20**	
North American Smaller Companies		
JPM US Smaller Companies	37.56	4
Sector average	**57.03**	
Property		
D HC FCM Salamanca Global Property 1	-39.83	4
Host Capital UK Student Accommodation	7.22	4
Sector average	**29.20**	
Sterling Corporate Bond		
Fidelity MoneyBuilder Income Reduced Duration	4.49	4
Halifax Corporate Bond	16.16	4
Legg Mason IF Western Asset Retirement Income Bond	7.31	4
M&G Global Corporate Bond	12.45	4
Premier Corporate Bond Monthly Income	11.14	4
Royal Bank of Scot Extra Income	17.95	3
Smith & Williamson Fixed Interest	18.29	3
TB Walker Crips Corporate Bond	12.79	4
Sector average	**19.46**	
Sterling High Yield		
NB Short Duration High Yield Bond	5.27	4
Scottish Widows High Income Bond	2.45	4
Sector average	**10.67**	
Sterling Strategic Bond		
Aberdeen World Opportunistic Bond	8.36	4
HL Multi Manager Strategic Bond	12.05	3
Invesco Perpetual Tactical Bond	9.31	4
JPM Strategic Bond	5.63	4
Kames Strategic Bond	7.45	4
M&G UK Inflation Linked Corporate Bond	3.19	4
Old Mutual Voyager Strategic Bond	6.25	4
Pimco GIS UK Low Duration	5.41	4
Pioneer SICAV Strategic Income	9.63	3
Standard Life Investments Strategic Bond	9.46	4
Sector average	**13.64**	
Technology & Telecoms		
Fidelity Global Telecommunications	30.08	4
GAM Star Technology	34.63	4
D MFM Techinvest Technology	17.59	4
Sector average	**51.30**	
UK All Companies		
FP Matterley Equity	5.32	4
GAM MP UK Equity	10.85	4
Henderson UK Equity Income & Growth	13.47	3
HSBC Common Fund for Growth	13.74	3
HSBC UK Freestyle	10.26	4
Sanlam FOUR Active UK Equity	0.71	4
Sarasin Fund for Charities Thematic UK Equity (GBP)	0.94	4
Sarasin UK Equity	1.90	4
Schroder UK Opportunities	0.54	4
Standard Life TM UK Equity General	9.06	4
Thesis TM Cartesian UK Enhanced Alpha	-0.02	4
Thesis TM Cartesian UK Opportunities	-1.36	4
Sector average	**17.04**	
UK Equity & Bond Income		
HSBC Monthly Income	15.58	4
Sector average	**19.01**	
UK Equity Income		
Allianz UK Equity Income	11.67	4
HC KB Enterprise Equity Income	13.33	4
HSBC Income	12.28	4
QAM Downing Monthly Income	10.74	4
Royal Bank of Scot Equity Income	17.70	3
Schroder UK Alpha Income	15.39	4
Sector average	**19.39**	
UK Gilts		
CF Canlife UK Government Bond	19.07	4
HSBC Gilt & Fixed Interest	21.33	4
Schroder Gilt & Fixed Interest	22.55	3
Scottish Widows Gilt	19.87	4
Sector average	**26.97**	
UK Index Linked Gilts		
Scottish Widows UK Index Linked Tracker	44.37	4
Sector average	**47.15**	
UK Smaller Companies		
Aberdeen UK Smaller Companies Equity	12.17	4
Aberforth UK Small Companies	15.65	3
Aviva Inv UK Smaller Companies	12.62	4
Halifax Smaller Companies	7.21	4
Investec UK Smaller Companies	9.46	4
Scottish Widows UK Smaller Companies	6.41	4
D SF Webb Capital Smaller Companies Growth	-31.37	4
Sector average	**21.80**	

Please read the important notice on page 2. This is a purely statistical chart, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 02/01/2017. Source FE Analytics. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies therein.

GOING GLOBAL

With a high degree of uncertainty at home following the Brexit vote, we have highlighted four of our favourite global funds; one growth, one income, one mid and small-cap and one specialist healthcare fund.

When investing, it is natural to focus on one's home market, but this can blind you to potential opportunities overseas. Global funds have a number of advantages. As well as offering something different they are usually naturally well diversified. This is because they are invested across a spread of different countries and currencies.

Brexit

This past year was a great example of just how valuable global diversification can be. Following the Brexit vote, the pound fell sharply against its major global peers. This helped push up the value of UK investors' global investments denominated in other currencies such as dollars, yen or euros. The average global fund returned an impressive 23.35% in 2016 thanks, in large part, to the currency.

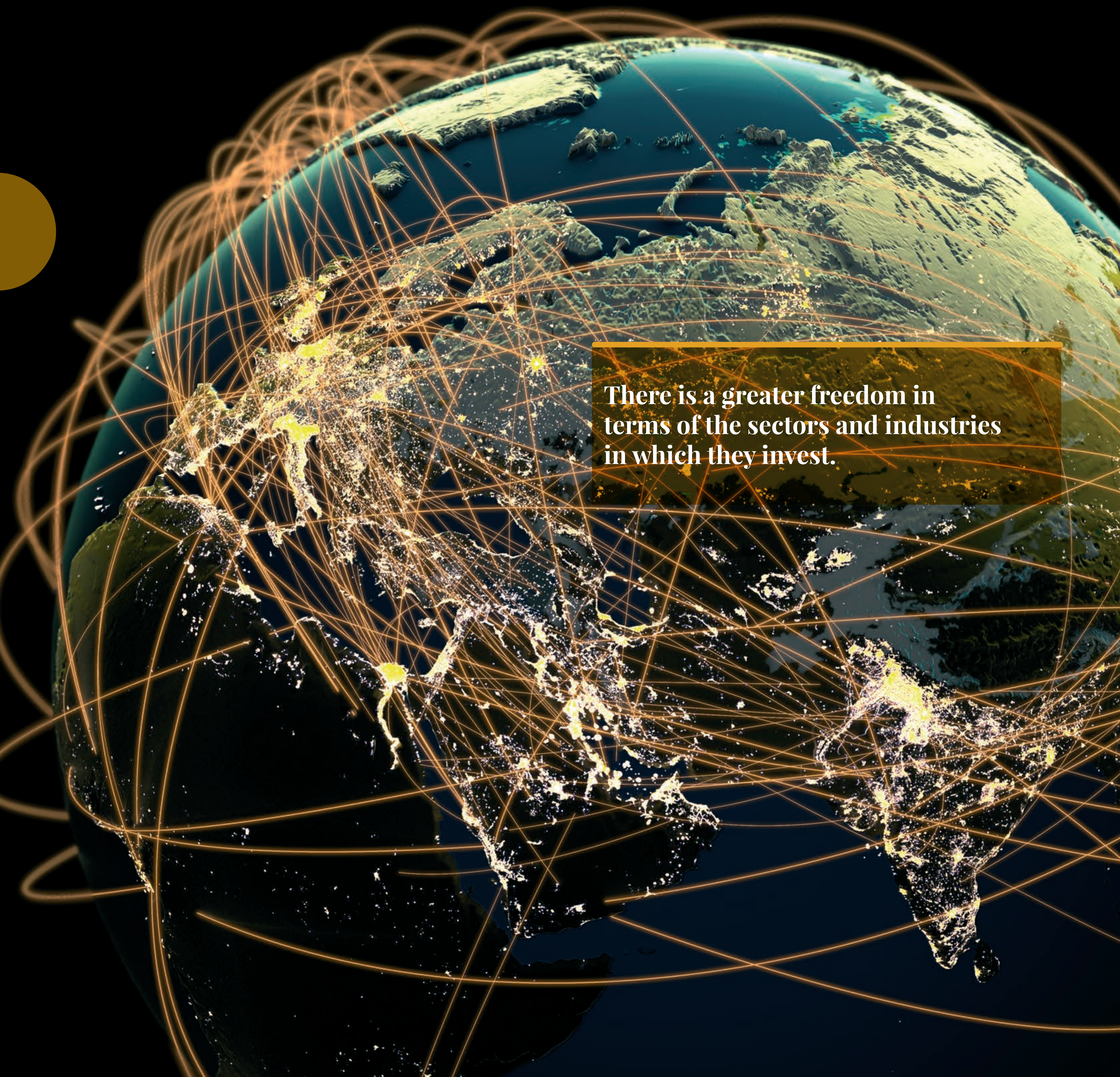
Nobody knows whether the pound will continue to fall but given the potential upheaval from Brexit, investors may wish to consider some non-domestic exposure away from their home market for part of their portfolio.

A broader perspective

Another advantage for global funds is their ability to invest across a much larger investment universe. They have a wider opportunity set and managers are not restricted by a company's domicile. For example, UK managers looking to invest in a large pharmaceutical company are restricted to just a few UK names (AstraZeneca, GSK or Shire). On the other hand, the global fund manager can see the bigger picture and consider all global pharmaceutical companies. He or she could also invest in Pfizer, Merk or Sanofi, for example, if they provide a better investment opportunity.

Another advantage of a global fund is their greater freedom in terms of the sectors and industries in which they invest. Single country funds tend to be dominated by one or two big sectors whilst other sectors may have little or no exposure at all. A UK manager would be hard pressed to invest in social media even if he wanted to but a global manager could invest in Facebook, Twitter or Chinese giant Tencent.

We believe the funds we have highlighted offer something a bit different. Each piece is written from the fund manager's perspective, giving you an idea of how they invest and what their outlook is for the current market.



There is a greater freedom in terms of the sectors and industries in which they invest.

RATHBONE GLOBAL OPPORTUNITIES

James Thomson
Investment manager,
Rathbone Global
Opportunities

With the continued threat of a Brexit paralysis hanging over the UK, never has it been more important for the fund to flex its global muscles.

President Trump has awoken animal spirits in the US, igniting the US dollar, as well as the US stock market. Luckily, it is also home to some of the most exciting growth companies in the world; companies that simply don't have an equivalent on this side of the pond. These companies are changing the world, and I feel it's crucial to have them in my portfolio. These include the likes of Amazon, Facebook, Electronic Arts, Adobe, Visa and many more that you've never heard of but soon will (well, that's the hope…!).

American advantage

The 'CVs' of these companies are pretty impressive: Amazon is capturing more than 50% of ALL the growth in US retail sales; Facebook is changing the advertising industry by offering targeted and relevant ads to over a billion daily users; Electronic Arts is at the heart of the video game supercycle, as player numbers swell and new growth opportunities begin to take off. And then there's Adobe, the must-have software as the world goes digital, in my view. Visa is the largest credit and debit card network in the world, yet some 85% of the world's transactions are still conducted in cash...

I have been managing this fund for 13 years – now with my assistant manager, Sammy Dow – and recent months have definitely fit the bill as the most hated rally in history. This fund has delivered an average return of 12% per annum but, despite the opportunities, many investors are still sitting on the sidelines. Stock markets are hitting new highs, and yet, up until recently, investor sentiment was still bouncing off multi-decade lows. Mr. Trump, despite all his faults (and there are many), could be the most pro-growth, pro-business president in a generation.

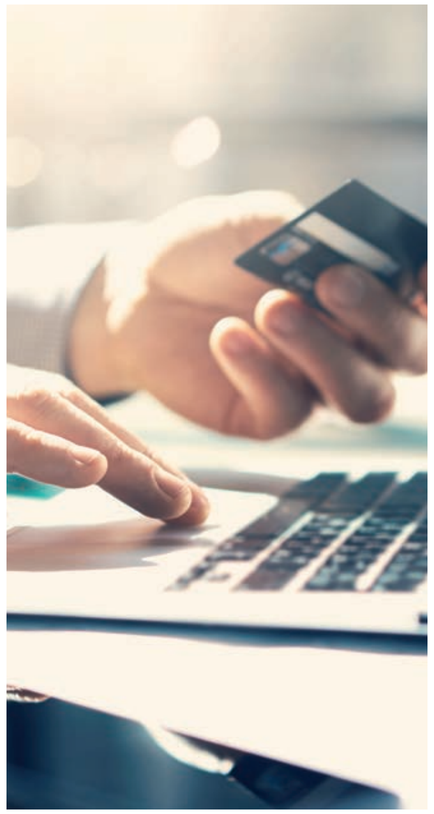
My philosophy

From day one, I wanted to do something different with the fund. Rathbones gave me free reign to shape the portfolio. Over time, the fund has evolved into a concentrated portfolio of 40 to 60 holdings that represent my highest-conviction, best ideas. I invest in under-the-radar and out-of-favour growth companies. Staying flexible and nimble is important, but the sweet spot is medium and large companies in developed markets in the US, Europe, UK and Asia. I avoid direct holdings in emerging markets because I feel this requires very specific skills and expertise.

The companies I do hold are unblemished, innovative, differentiated, scalable: these are sustainable growth companies that are shaking up their industries. But this growth-oriented investment style also has to take a responsible approach to risk, and embraces a sell discipline without emotion. It can be very easy for any fund manager to become 'attached' to a holding, especially if he or she has held the stock for a while. We look to cut our losers, and fast. It's a lesson I learned in 2008, and I haven't looked back. We also 'weather-proof' the portfolio by holding a defensive bucket of holdings that are less economically sensitive, with slower and steadier growth prospects, to provide a buffer in more difficult times.

Stock markets are entering 2017 with optimism, and I still believe that equities are the best place to make money, but there will be scary moments. Despite the promises, economic growth is likely to be slower than it used to be in the good old days.

Some parts of the stock market will come back to earth, but ironically, that should benefit the fund as we continue to embrace sustainable and long-term growth.



Chelsea Risk Rating	6.5
Annual Management Charge	0.65%^
Ongoing Charges Figure (OCF)	0.69%^
FundCalibre rating	ELITE

^ after 0.10% Chelsea unit rebate

THE CHELSEA VIEW

This is a true growth fund which aims to invest in innovative businesses shaking up their industries. It offers something different from the average global equity fund. Whilst James' portfolio contains a number of familiar large-cap names, he also finds many of his best ideas in smaller mid-cap stocks. James is a refreshingly honest and highly experienced fund manager and his excellent long-term performance speaks for itself. This is why we have supported the fund for many years and continue to do so.

FIDELITY GLOBAL DIVIDEND

Daniel Roberts
Investment manager,
Fidelity Global
Dividend

Since we launched the Fidelity Global Dividend fund back in January 2012 we have managed to navigate an ever-changing market backdrop to deliver a stable source of returns for investors.

What am I looking for?

The key to the fund's success has been a clear and consistent focus on investing in reasonably-valued, robust companies that are able to consistently increase their dividend payments to shareholders over time.

Finding these opportunities is certainly easier said than done – it requires a lot of research in order to get a detailed understanding of each company. I don't simply invest in the highest yielding or cheapest companies, as a high headline yield can often be a sign of stress in the underlying business. So while I place significant emphasis on the price I'm being asked to pay for a stock, I also demand certain characteristics from companies to help provide clarity over a stock's true value and sustainability of its earnings and dividend:

- **simple and understandable business models**
- **a predictable and resilient return profile**
- **a strong balance sheet**
- **shareholder-friendly management that recognise the importance of good capital allocation**

When it comes to finding these types of opportunities, the fund's global remit is particularly beneficial as it allows me to invest across a large and diverse universe of stocks. The UK's FTSE All Share, for example, contains around 640 companies, compared with more than 1,600 stocks in the MSCI AC World, the fund's comparative index.

This also provides attractive diversification benefits. Indeed, many single country equity income funds often face a challenge in that a large proportion of the index's yield is concentrated in a relatively small number of sectors or even individual companies. However, by investing globally, I can ensure that the fund has exposure to a wider selection of companies, whose earnings and dividends are well diversified across different industries and geographies.

At the broad sector level, healthcare is an example of an area which has historically displayed many of the fundamental characteristics that I look for in potential investments. A number of large healthcare companies, such as GlaxoSmithKline and Johnson & Johnson, are cash-generative, have strong balance sheets and healthy dividend yields.

Dominant drivers of markets

A major feature of market returns in recent years has been the strong performance of such quality dividend payers. This has caused some investors to question valuations in so-called 'expensive defensives' or 'bond proxies', particularly as investors have started to refocus on the potential for inflation to return and interest rates to finally rise.

My strict valuation discipline has seen me recently reduce or sell some of my holdings in areas like essential consumer products, particularly in the US. That said, I continue to find opportunities in a sector that justifiably commands a premium given the fact that it is home to a number of well-managed, cash-generative businesses with very resilient earnings profiles. Procter & Gamble, for example, is a relatively recent addition which I believe is attractively valued given its portfolio of high quality brands.

Looking ahead…

With the economic and political landscape both at home and abroad likely to remain at best uncertain over the coming year, I am confident that the diversification benefits of a prudently managed global equity income strategy can continue to navigate many of today's risks.

It's important to note that I do not try to manage every twist and turn in the market. The fund is designed for investors seeking a less risky way of investing in equities, which is why I will remain focused on companies which offer the prospect of attractive dividend-based total returns over the long term.

Chelsea Risk Rating	6
Annual Management Charge	0.75%
Ongoing Charges Figure (OCF)	0.97%
Yield	2.45%
FundCalibre rating	ELITE

THE CHELSEA VIEW

Dan is a qualified Chartered accountant and we particularly like his emphasis on owning businesses which are simple, transparent and resilient. Dan is very willing to ignore stocks and even whole sectors if they do not meet his strict investment criteria. This is a truly active income fund but it is very sensibly managed from a risk perspective. Since launch the fund has been the second best performer in its sector but equally impressively it has also been one of the least volatile.*

* FE Analytics 30/01/2012–11/01/2017

BAILLIE GIFFORD GLOBAL DISCOVERY

Douglas Brodie
Fund manager,
Baillie Gifford

Our fund aims to deliver attractive returns by identifying and holding high growth, smaller entrepreneurial companies.

We appreciate that growth companies, especially those which are young and hard to model, are difficult businesses to value. We approach the challenge with a genuinely long-term perspective, whilst accepting a degree of uncertainty, and we back robust innovation and entrepreneurial management. We believe we are well positioned to identify the smaller businesses most likely to shape the world in which we live.

Fund process

We employ a bottom-up, active and patient approach to identify these high-growth opportunities, focussing our efforts on understanding the fundamental long-term drivers of individual businesses.

Idea generation is restricted to companies with a market capitalization of $5bn or below, that have the scope for significant structural growth. We quickly, qualitatively, screen out stocks that we do not believe exhibit these characteristics.

The overall shape of the portfolio, be it exposure to industries or geographies, is determined by the stock ideas that we uncover and not on any benchmark index. We don't embark on our task with a preconceived notion as to what or where is interesting. Furthermore we seek companies innovating to serve global end markets thereby not overly restricting a holding's success to the prospects of a particular region.

Our unconstrained and patient approach allows us to circumvent the dangers of a myopic methodology and appreciate the wide-ranging implications of structural themes, such as the deepening and broadening out of technology across all areas of business and our lives. We believe that technology has the ability to level the playing field between small and large companies across many industries. Whilst it is available for all to utilise, it's often the innovative, more nimble smaller businesses that are best positioned to exploit it. Technology not only creates much of the opportunity for innovation, it also is having radical effects on the rate at which businesses can scale and globalise; digitisation bypasses much of the requirement for costly infrastructure and distribution, a trend that is seen in industries as diverse as retail, finance, transportation and healthcare. I believe preconceptions play no part in capturing this vast and evolving opportunity.

Innovation is at its most powerful when it creates novel platforms with wide ranging relevance. While technology platforms can come in many forms and can create large and highly scalable opportunity. We would highlight the holding in the biotechnology company, Alnylam, as a case in point. Here is a company which is pioneering the development of highly specific gene suppression technology which, given the modular nature of its drug platform, can be customised to treat a wide range of genetically-linked disorders. Another example would be MarketAxess, a US-based electronic bond trading platform. The combination of increasing regulatory pressure and a desire to access liquidity will continue to push bond investors towards the MarketAxess platform and, in time, allow the company to broaden out geographically and into alternative investment instruments. All too frequently we believe the market underestimates the long-term relevance of platform-based companies as it tends to obsess about their immediate relevance and near-term financial characteristics.

Outlook

The implications of a divisive US election and a 'Brexit' vote will no doubt continue to haunt markets well into 2017. The resultant volatility, although testing, will no doubt be transient within the context of a company's history, and superfluous to its growth. As bottom-up investors we seek to understand the factors that differentiate a company and how it might evolve into the opportunity ahead of it; it is a fundamental approach that requires patience and an acceptance that success (or indeed failure) of a company is more often determined by the individual company's actions rather than what is happening with the economy at large. At times, such an approach is likely to be out of kilter with the capricious gyrations and sentiment-led exaggerations of stock markets. However, we believe that the fund has the potential to significantly outperform over the long term.

Chelsea Risk Rating	**8**
Annual Management Charge	**0.75%**
Ongoing Charges Figure (OCF)	**0.78%**
FundCalibre rating	**ELITE**

THE CHELSEA VIEW

This is a unique high-growth fund which offers investors something very different. We particularly like the fund's very clear philosophy and its emphasis on high quality fundamental research. The fund's focus on the longer term means it does not get overly concerned with high short-term valuations. This, combined with the fund's small-cap nature, does mean the fund is prone to short-term sell-offs and it should be considered very high risk. However, Doug and his team have made this strategy work extremely well over the long term.

AXA FRAMLINGTON HEALTH

Dani Saurymper
Fund manager,
AXA Framlington
Health

I joined AXA Investment Managers in April 2015 as fund manager for AXA Framlington Health. I previously worked for Barclays Capital as a senior equity research analyst covering European healthcare.

Healthcare was one of many issues to take centre stage during the recent race for the White House. Many feared that if Hillary Clinton emerged victorious, valuations of company shares in the healthcare sector would tumble on the back of her plans to crack down on prescription drug pricing. Donald Trump's surprise victory had quite the opposite effect.

However, there are far greater forces at play than just political rhetoric and policy. After all, it is widely accepted that the older we become, the more health-related services we will need to consume, a phenomenon that takes on increasing relevance as the baby boomer generation ages. Health costs increase exponentially after the age of 50, with CVS Caremark noting that 50% of US seniors take eight or more prescriptions on average. Adults over the age of 85 also consume three times as much healthcare per person as those aged 65 to 74, and twice as much as those aged 75–84[1]. Compounding this issue further is the fact that we are living longer. Indeed, the average life expectancy globally increased by five years between 2005 and 2015, according to the World Health Organisation[2].

Another indisputable fact is that as Gross Domestic Product (GDP) per capita expands, healthcare expenditure also increases. The US spends some 18% of GDP on health, whilst China and India, the two most populous countries in the world, spend just 5.2% and 3.9% respectively[3]. Economic growth across emerging markets is creating a sizeable middle class population, with both the desire and, more importantly, the purchasing power, to spend more on healthcare.

Lifestyle diseases are also on the rise, some of which can be self-inflicted, such as obesity and type two diabetes. Environmental factors are also increasingly playing a role in global health. In China, for example, there are some 25 million asthmatics – that's not because the population is oddly susceptible to asthma but rather a result of increased air pollution[4].

Process

When looking at investment opportunities in the healthcare sector at a company level, we look at historical and projected growth, in particular free cash flow. We then screen out companies and drill down where we see potential, adding in analysts' forecasts to our own views to identify any valuation gaps between today's price and the projections. As fund manager of AXA Framlington Health, I then do my own fundamental analysis to see if the consensus is realistic.

Healthcare is generally viewed as a sector where performance is not highly correlated with the larger economic cycle, but arguably too often it is purely associated with the pharmaceutical giants in the space, such as AstraZeneca and GlaxoSmithKline, which ignores the multitude of sub sectors within healthcare, such as hospitals, medical devices, biotech and managed care. There are certainly opportunities within the company shares with a market capitalisation typically of over $80 billion (also known as "large-caps" or "mega-caps") – Celgene, for example, creates innovative treatments for rare forms of blood cancer and offers strong visibility on its earnings thanks to its volume-driven growth model. However, there's a lot more to the healthcare sector than just the 'mega-caps'.

Currently we see a multitude of opportunities within the company shares with market capitalisations typically between $1 billion and $5 billion. We believe these tend to be much more attractive in terms of their growth potential. Here we aim to identify more agile firms which we believe are bringing some truly innovative solutions to the market. For example, take orthopaedics group Wright Medical which specialises in ankle and shoulder surgeries. By addressing the inevitable wear and tear on people's joints, the company very much plays into the ageing population theme, which is pertinent given that every day some 10,000 Americans reach 65 years of age[5].

What's also very interesting right now is the application of technology to the administration of care, an area which is still in its infancy in terms of future opportunities. One example is DexCom, a leader in developing glucose monitoring systems, to help patients manage their diabetes. It has created a technology where users wear a sensor on their skin, which allows them to keep an eye on their blood glucose levels via a smartphone app.

Ultimately, for us the healthcare sector remains, at its core, a sector driven by science and innovation, with the global healthcare industry seemingly on the cusp of another wave of innovation driven by advances in genomics, robotics and diagnostic imaging. Tremendous innovation is taking place, for example in the field of immuno-oncology, which harnesses the body's own immune system to attack cancer cells.

We believe the long-term growth drivers of the sector, namely ageing populations, increasing frequency of lifestyle diseases and growing demand in emerging markets, remain intact.

Chelsea Risk Rating	**8**
Annual Management Charge	**0.75%**
Ongoing Charges Figure (OCF)	**0.83%**

AXA Framlington Health Z Inc has returned 134.66% versus 135.98% for MSCI World/Healthcare over the past five years.[6] Dani took over the fund on 01/04/2015.

THE CHELSEA VIEW

We met Dani after he took over this fund and we like the changes he has made. The fund is now more concentrated and has higher conviction. This is a truly active fund which is willing to be different from its benchmark. We particularly like Dani's focus on company financials and business models rather than just an exciting new drug or a new scientific technique. The fund's single sector focus inevitably increases risk.

[1]Fuchs V. Cambridge, MA: National Bureau of Economic Research; 1998. "Provide, Provide: The Economics of Aging." NBER working paper no. 6642
[2]Global Health Observatory data – Life Expectancy http://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends_text/en/
[3]Health at Glance 2013 OECD Indicators http://www.oecd.org/els/health-systems/Health-at-a-Glance-2013.pdf
[4]Vectura establishes strategic partnership (Kinnovata) for new respiratory business in China http://www.vectura.com/
[5]Baby Boomers Retire, 29 December 2010 http://www.pewresearch.org/daily-number/baby-boomers-retire/
[6]FE Analytics, total return, IA universe, 02/01/2017

GROWTH v VALUE

Growth versus Value is an ongoing investment debate and in this article we explore what they are and how these different types of stock investing apply to funds. There are managers who have been very successful with both styles. Each style tends to go in and out of favour and understanding which style your funds are exposed to can help in your decision making.

James Yardley
Senior Research Analyst, Chelsea

GROWTH INVESTING

Growth investing is about investing in companies which are growing their sales and/or earnings at a faster pace than the wider market. Growth investors are more interested in the future of the company and are less concerned if a stock might look expensive based on current profits and sales.

They will look for companies that have the potential to become future leaders in their field. These companies will often be in industries which are experiencing substantial growth. Growth investors will usually spend most of their time analysing the company's competitive position versus it peers and the potential size of the market.

V

VALUE INVESTING

Value investing is all about looking for stocks which are cheap. In its purest sense you are looking for a business that is valued by the stock market at less than its intrinsic value. These stocks are often unpopular or neglected.

Value investors will typically do a lot of analysis of a company's financials. They'll look at its income statement, cash flow statement and its balance sheet. For example, one question they might ask is does the company have assets which have been overlooked by the current share price?

Different interpretations of growth and value

There are many different interpretations of growth and value investing and this can make it difficult to compare funds. Not all funds are obviously growth or value; some funds will have a mix of both or may swing between the two styles. Other strategies are a combination of the two for example the 'GARP' style, or growth at reasonable price, looks to buy growth companies whilst keeping an eye on valuation.

Another style which has recently been popular is 'quality growth' or 'steady compounders'. These companies are often slightly more expensive than the average company and unlikely to shoot the lights out but they are typically very consistent and offer steady growth year after year.

You can often find an immediate clue to the style of your fund in its name. Funds labelled recovery or special situations will typically have a value tilt. Funds labelled growth, discovery or innovation will typically have a growth tilt. However, be aware that this is not always the case. You often get managers with different styles taking over a fund with a name they didn't decide on. It is a good idea to explore a fund's factsheet, and any commentary from the fund manager, to get a better understanding of his or her style.

Another reason it is important to understand your funds' styles is that you usually don't want to have too many of the same type, otherwise you risk all your funds underperforming at once. See more on this in our risk article on page 13.

Every manager underperforms

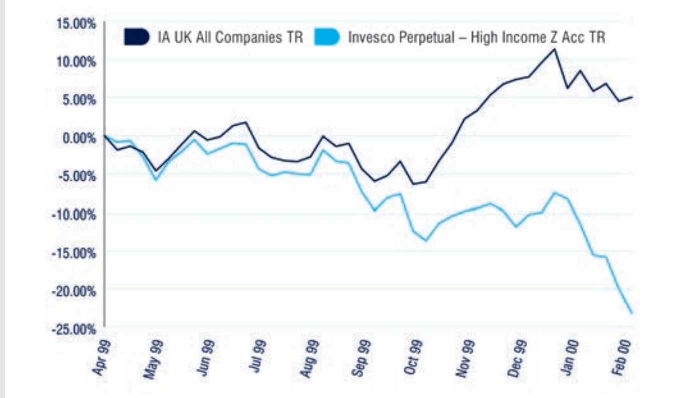
Understanding which approach your funds take can help you to understand why a fund is out or underperforming. This is important. A fund manager might have struggled for a few years because his or her style has been out of favour. At this point it could be tempting to switch to a better-performing fund. This might be a mistake though; when the manager's style comes back into fashion he or she is likely to experience a long period of outperformance.

Even the very best managers go through periods of underperformance.

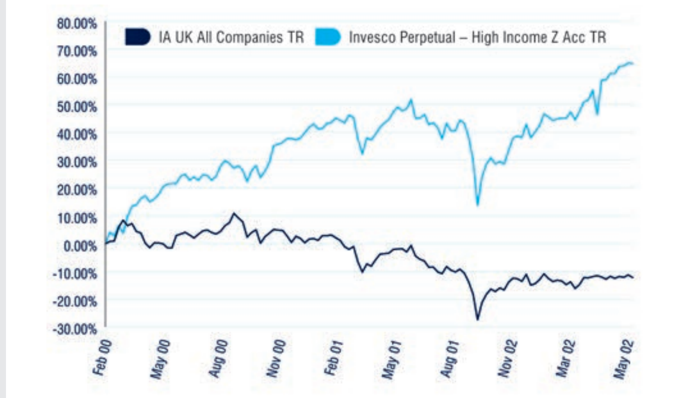
Here is a great example of a good manager's style going out of favour. The graph below shows the performance of the Invesco Perpetual High Income fund, managed, at the time, by Neil Woodford at the height of the dotcom bubble. It would be wrong to pigeonhole Woodford as a growth or value investor, as one of the reasons for his success is his willingness to be flexible and adapt. However, in 1999 the Invesco Perpetual High Income fund had a definite value bias.

At the time, Woodford refused to buy into fashionable internet growth stocks which, in his view, were too expensive. However, the rest of the market was dumping safer, boring stocks and switching the proceeds into flashy internet businesses. As a result, Woodford's fund suffered a catastrophic period of relative underperformance, losing 28% versus its peers in just nine months (see graph 1).

1 Invesco Perpetual High Income v IA UK All Companies



2 Invesco Perpetual High Income v IA UK All Companies



However, to sell the fund at this point would have been a disastrous error. The dotcom bubble subsequently burst. Woodford's stocks came back into fashion and he went on a run of incredible outperformance (see graph 2).

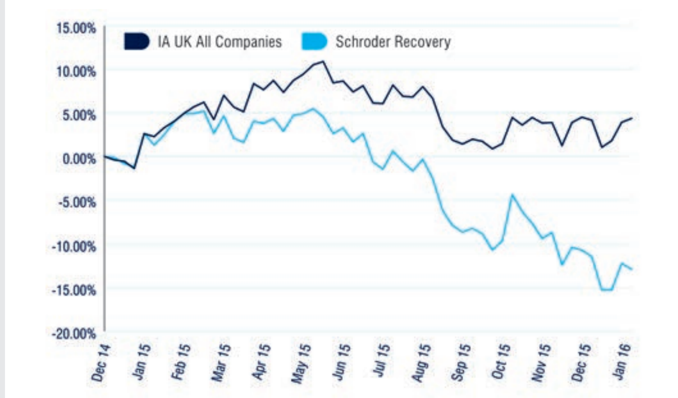
This example illustrates two points. Firstly, even the best managers go through periods of underperformance; you cannot expect them to outperform all the time. Secondly, don't just focus on recent performance numbers when making an investment decision. Ask yourself – why has the manager underperformed? Is it because something is fundamentally wrong or has their style simply gone out of favour?

Schroder Recovery – a recent example

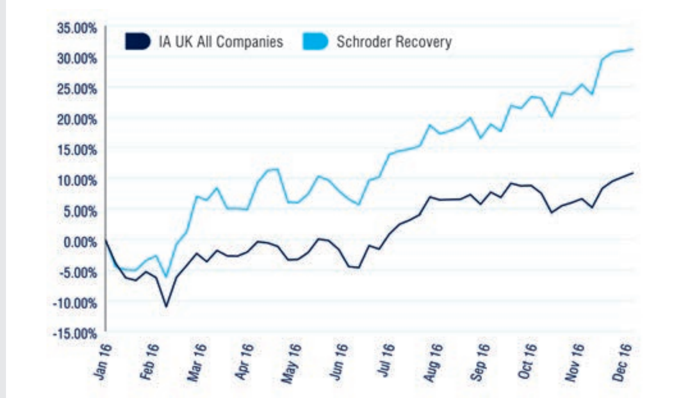
Schroder Recovery, currently on the Chelsea Selection, is a more recent example. This is a true deep value fund. The fund managers only buy the cheapest and most unloved stocks.

The fund's long-term performance has been strong but its deep value style does sometimes go out of fashion. In 2015 Schroder Recovery was the worst-performing fund in the IA UK All Companies Sector (256/256 and 17% behind its peers) (see graph 1 below).

1 Schroder Recovery



2 Schroder Recovery v IA UK All Companies



However, in 2016 the fund's style came back into favour and it went from being the worst fund the previous year, to the second best, outperforming its peers by over 20% (see graph 2).

This is another example of how it can be dangerous to pay too much attention to short-term performance. Given the fund managers' heavy value bias it was no surprise they struggled in 2015. In fact, it would have been very odd had they strongly outperformed. Similarly, you would have expected them to outperform in 2016 when their style came back into favour.

Value versus growth in Japan

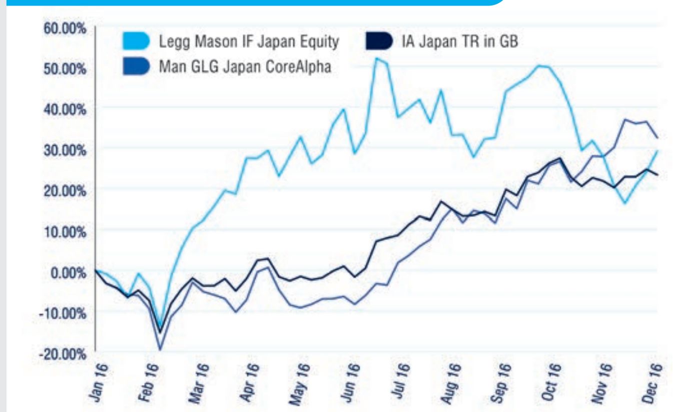
The swing between value and growth investing has historically been even greater in some other markets outside the UK and it is definitely something of which to be aware. The US and Japan are two examples of markets which tend to swing very heavily between each style. Japan is perhaps the most extreme example.

Here we show the extraordinary difference in performance between Legg Mason IF Japan Equity (on the Chelsea Selection) and Man GLG Japan CoreAlpha (on the Chelsea Core Selection, see more on page 20) throughout 2016.

Legg Mason IF Japan Equity typically invests in high growth smaller companies. In recent years growth has been very much in favour and this fund has benefited from its style of investing. By contrast the Man GLG Japan CoreAlpha fund is a true value fund which focuses heavily on company valuations. By the end of June, Legg Mason IF Japan Equity was up 51.99% for the year, versus Man GLG Japan CoreAlpha which was down 3.25%, an enormous 55% difference in just six months. At this point, the yield on long-term Japanese government bonds started to tick up (i.e. they started to yield more) and this triggered a swing away from the growth style in favour of value.

By the end of the year the situation had completely reversed and Man GLG Japan CoreAlpha was up 32.43% in sterling terms overtaking Legg Mason IF Japan Equity, although both funds ended the year well ahead of the sector average. This is a good example how extreme and how quickly the swing between growth and value can be in some markets.

Legg Mason IF Japan Equity v Man GLG CoreAlpha



Which is better, value or growth?

Academics have shown that historically, over the very long term, value investing beats growth investing.[1,2] The theory is that investors tend to get too excited about growth companies and end up paying too much for them. However, simply saying one style is better than the other is overly simplistic.

In recent years the growth style of investing has far outperformed value. This is partly due to the low interest rate environment. In a world where growth is scarce investors have been prepared to pay more for it. Furthermore, because investors are now aware that value stocks have done better historically, the market may have now corrected itself and this phenomenon may no longer exist.

Throughout 2016 we saw a shift and cheap value stocks started to outperform again. This was initially driven by Chinese government stimulus, which led to higher commodity prices, which helped boost depressed oil and mining stocks. This then continued following the election of Donald Trump and the Federal Reserve raising interest rates. Higher interest rates caused some investors to sell out of their 'quality growth' stocks, sometimes known as 'bond proxies', and move into more economically-sensitive stocks.

Whether this will continue in 2017 is difficult to say but we would caution against having your entire portfolio geared to a particular style. See more on our style risk article on page 13.

CONCLUSION

Style is just one of many factors which may affect a fund's performance and every fund's style bias will be slightly different. However, knowing your fund's style will help you to make more informed decisions.

[1]The Cross-Section of Expected Stock Market Returns, by Fama & French, 1992, Journal of Finance
[2]Firm Size, Book-to-Market Ratio, and Security Returns: A Holdout Sample of Financial Firms, by Lyon & Barber, 1997, Journal of Finance

Q&A

COLUMBIA THREADNEEDLE UK EXTENDED ALPHA

Elite Rated by FundCalibre

Chris Kinder
Investment manager,
Columbia Threadneedle

Q. Chris, what is your background and how long have you been running the fund?

A. I started work at Threadneedle in 2010 and have been running the fund since November of that year. Prior to joining the firm, I held a position as assistant fund manager at RWC Partners and also worked at Govett Investments in the smaller companies space. Before entering the asset management industry, I spent four years at PwC where I qualified as a chartered accountant.

Q. What is your fund's investment philosophy and process?

A. The fund takes a traditional, long-term approach to investing (typically a three to five-year time horizon). I can invest on a long basis, meaning the fund can make gains from investments rising in value in the traditional sense. I can also short stocks, which is when we aim to make a gain when share prices fall.

When looking at stocks for the long book, I want to see persistently high returns on capital over time and a company's ability to reinvest cash flows at that same high rate. The team and I will examine everything from the ground up, including: barriers to entry; barriers to exit; what the moat is (the company's ability to maintain competitive advantage), and how replicable the assets are.

We sit down with management and quiz them on aspects such as capital expenditure and research and development spend and also how much they're spending on maintaining their competitive advantage. If we're unconvinced that the competitive advantage is sustainable, we'd be less inclined to invest our clients' money.

Q. Can you please explain how your fund is different from most other UK equity funds?

A. The key differentiator is the fund's ability to take short positions. Here we will look for the reverse of what we would want in the long book, so richly-valued companies with deteriorating fundamentals and that usually have an unjustifiably positive market sentiment around them. The ability to short allows us to 'extend' the long book and therefore gives investors the potential for greater returns.

Q. Does the fund's ability to go short make it more risky?

A. It's worth mentioning that shorting gives the fund good defensive properties in flat or down markets, during which it can offer investors a degree of protection. Furthermore, we have very strong risk management procedures and 'sell discipline' which is integrated into the fund. However, as with any offering, there is an added element of risk, but I would say that the fund's characteristics in terms of drawdowns and our track record of top-quartile risk-adjusted returns is testament to our prudent approach to managing risk.

Q. Why should investors consider investing in this type of fund?

A. Despite the fund's ability to short, it remains at heart a relatively easy-to-understand offering and is an attractive option as a high alpha, cost effective option for portfolios. It can be considered a predominantly long-only, all equity fund and not an absolute return solution. It is an ideal allocation for investors who are looking for large-cap, growth exposure in the UK market with the added benefit of taking advantage of opportunities when shorting stocks (making gains when share prices fall).

Q. Can you explain the fund's performance fee?

A. The performance fee is constructed in a way that ensures investors pay only for sustainable outperformance. The performance fee is charged when the share class return exceeds the performance of the FTSE All Share Index (with income reinvested) by more than 2% over a calendar year. Additionally, an excess return test is also implemented, in which prior years' performance is also taken into account. This means that the fee is not applicable unless any underperformance from the prior years (starting 2016) has been recovered in full.

Q. What is your outlook for the UK market and where are you finding the best opportunities on both the long and short side?

A. In terms of opportunities, we feel that the reflationary environment is more likely to benefit the US economy as a whole and we do have exposure to this in our portfolio. Notably, we are also not overly pessimistic on equities.

However, on the short side we do have some exposure to 'pure' bond proxies, which we define as those companies that also have elevated levels of debt, no free cash flows and no real prospects for genuine organic growth, as these stocks are largely expensive. When investing on a long basis, we see opportunities in quality, growing defensives that have been unfairly caught up in the sell-off as well as some UK domestic stocks which have been weakened due to "Brexit basket" trades. I feel that the expected ongoing market volatility will present plenty of opportunity for pragmatic active managers.

Chelsea Risk Rating	7
Annual Management Charge	0.75%**
Ongoing Charges Figure (OCF)	0.84%**
Performance Fee	20%*
FundCalibre rating	ELITE

* of any returns above the hurdle rate (the return of the FTSE All Share Index +2%), subject to recovering any prior underperformance in previous years.
** Inst Acc GBP share class.

THE CHELSEA VIEW

This fund offers something genuinely different with its ability to short some stocks and thus to 'extend' its long book. This increases the potential for higher returns but also the fund's reliance on the manager's skills. We think Chris is a very strong manager and he has a robust and sensible process. We have recently added this fund to the Chelsea Selection.

VCTs: TAX-EFFICIENT INVESTING FOR THE FUTURE

Investing into venture capital trusts (VCTs) gives you the benefit of receiving 30p income tax relief for every £1 invested, provided you hold the shares for at least five years, and the ongoing benefit of tax-free dividends for as long as you own the shares.

Chris Morris
Head of VCTs,
Chelsea

VCTs give you exposure to high quality smaller UK companies and may be used to minimize your income tax bill.

TAX BENEFITS OF VCTS

- Initial income tax relief of 30% (if held for five years)
- Tax-free dividends
- Free of capital gains tax
- Invest between £3,000 and £200,000 every tax year

TAX RELIEF EXAMPLE

Initial investment	£10,000
30% Income tax relief*	(£3,000)
Effective investment cost	£7,000

*Claim back on your tax return at the end of the year as long as you have made the relevant income tax payments

Venture capital trusts can be a good way to diversify an investment portfolio and, with new pension contribution limits now enforced, investors are increasingly using VCTs as an additional tax-efficient vehicle to supplement their income, both before and during retirement. Many VCTs target a 4%–5% annual tax-free dividend and often offer special dividends when they exit from the companies in which they are invested, making them an attractive income prospect.

VCTs invest into small UK-based companies with the potential to grow quickly. The VCT manager can make follow-up investments to continue the development of these companies (as long as the investee company does not receive more than £10m of venture capital funding in its lifetime) and will then decide the most opportune time to sell out of the investment and, hopefully, take a profit.

VCTs themselves were established in 1995 and many have now been operating for at least 10 years. This means investors can choose from a variety of trusts that have long track records of delivering reliable returns, as well as being able to buy into relatively mature portfolios whose companies are already paying dividends.

This has historically meant that there have not been many new entrants to the VCT market, as investors are understandably less willing to buy into a trust that does not have a long track record. However, with VCTs currently in high demand, new opportunities such as the Pembroke and the brand new Downing FOUR VCTs have launched with popular reception.

At this time of year, many VCTs open with top-up offers, which you may find worth considering as we approach the end of the tax year. To the right, we take a closer look at a few trusts that we particularly like.

Hargreave Hale AIM VCTs 1&2

The Hargreave Hale VCTs 1&2 were launched in 2004 and 2006 respectively. Co-managed by Giles Hargreave, who also runs the Marlborough Special Situations fund, and Oliver Bedford, these VCTs invest predominantly into companies in the Alternative Investment Market (AIM). There is a high level of crossover of investments between VCT 1&2, and both have excellent long-term track records. Over the past five years they have returned 44% and 31.6% respectively, initial income tax relief not included. Both VCTs target a 5% dividend yield per annum.*

*Hargreave Hale Ltd. Returns based on unaudited NAV as at 31/10/2016, excluding income tax relief.

Albion VCT

The Albion VCTs are a well diversified group of generalist VCTs and an investor can invest into any or all of the six VCTs they have on offer. A unique advantage of investing into all six is not only the increased overall diversification, but with each VCT paying a dividend twice a year, they are structured to give the investor a monthly tax-free income, currently at 5.7% p.a.

Pembroke VCT

Pembroke VCT is one of the relatively new VCTs mentioned earlier in this piece, having been launched in 2014. The manager focuses on businesses that have strong brand potential, mainly in the health and fitness, media and hospitality sectors. Pembroke targets a tax-free dividend of 3%, as it is a more growth-focused VCT. One thing that really differentiates it is that its annual running charges are capped at 2%, which is very low for a VCT and extremely transparent.

Name of VCT	Type of VCT	Minimum Investment	Initial Charge	Chelsea Discount	Closing Date	Target dividend yield
Albion VCT	Generalist	£6,000	3%	0%	05/05/2017	5% Monthly (if split over all 6 VCTs)
Downing FOUR VCT	Generalist & Healthcare	£5,000 or £500/month	4%	2.25%	05/04/2017	0% 4% from year 4 then semi-annual
Hargreave Hale VCTs 1&2	AIM	£5,000	3.5%	1%	05/04/2017	5% Semi-annual
Octopus Titan VCT	Generalist	£3,000 or £1,000/month	5.5%	3.5%*	05/04/2017	5% Semi-annual
Pembroke VCT	Generalist	£3,000	5%	4%**	05/04/2017	3% Semi-annual

*3.5% for existing investors; 2.5% for new investors. **until 03/03/2017; 3% thereafter.

The downside of VCTs

VCTs invest into very high-risk, smaller companies which may fail. They are also very illiquid and you may have to hold them for longer than the minimum five-year investment period. There is a risk that you will get back less than your original investment.

How to invest

1 Choose a VCT which you are comfortable with (after having read the funds' prospectus*)

*You can download the funds' prospectus from our website or call us and request one over the phone.

2 Call Chelsea and request an application form or download one from our website

3 Choose an amount you are happy to be locked away for at least five years

4 Once your shares have been allotted, you will be issued with a tax certificate

With this you can reduce the future tax payments you make, either by changing your PAYE code, or completing a self-assessment tax return.

Call us on 020 7384 7300

Visit us at chelseafs.co.uk

Important notice Please be aware that VCTs are long-term investments. VCTs usually invest in small, unquoted companies and therefore carry a greater risk than many other forms of investment. In addition, the level of charges is often greater than unit trusts and OEICs. Past performance is not necessarily a guide to the future. The value of investments, and the income from them, can fall as well as rise and you may not get back the amount invested. Chelsea Financial Services offers an execution-only service. If you require investment advice you should contact an expert adviser. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances. Tax relief is restricted to total VCT investments for each investor to £200,000 per tax year and the initial tax relief cannot exceed the amount which reduces the investor's income tax liability to zero.

FUNDS UPDATE

This is where we keep you up-to-date on some widely-held funds, often where some change has taken place that we believe to be noteworthy.

Neptune US Income

Former manager of Neptune US Income James Hackman has decided to leave Neptune. The management of this mandate has passed over to George Boyd-Bowman, who is also co-manager of the Neptune Global Income fund. We liked the fund because of James and his knowledge of the US market. Income is notoriously difficult to achieve in America and outperformance requires considerable experience. As such, we have moved the fund to a hold until George has demonstrated he can follow in James' footsteps.

DOWNGRADED

HOLD

Man GLG Strategic Bond

Since the surprise US election result, the markets have been predicting higher inflation and therefore an increase in interest rates. This is a bad environment for bonds and the GLG Strategic Bond fund has suffered. The management team remain unchanged and continue to be a talented group, but the fund has not protected clients' money as expected in a tough market and isn't the cautious portfolio option we had hoped for. As such, we have moved the generic rating to a hold.

DOWNGRADED

HOLD

Invesco Perpetual Corporate Bond

This fund is a mainstay of the Chelsea Selection and has been managed by Paul Read and Paul Causer since the mid 90s. As part of a company restructure, Paul Read is stepping back from the daily management of this specific mandate. He remains with the company to offer his expertise and to run other funds. Michael Matthews, a co-manager since 2013, now takes a dual responsibility with Paul Causer. This promotion from within demonstrates the strength and depth of the Invesco Perpetual team and there is no change to the strategy nor process as a result. As such, we continue to like the fund and team and maintain our generic buy rating.

MAINTAINED

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Nafeesa Ahmed
Management Accountant, Chelsea

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Is there a downside?

You will not receive the annual reports for the underlying funds and income payment dates will vary slightly from those of the underlying fund providers.

You will need to complete a withdrawal form or send in a written instruction to sell your funds. Please note that this process can take 5-10 working days.

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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 Marks & Spencer vouchers when they invest or transfer over £25,000**
- **£25 worth of Marks & Spencer vouchers when they invest or transfer over £5,000**

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

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Title | First name

Surname

Address

Postcode

Telephone

FRIEND'S DETAILS

Title | First name

Surname

Address

Postcode

Telephone

FRIEND'S DETAILS

Title | First name

Surname

Address

Postcode

Telephone

Josh Roberts from Staffordshire, said:

"I have had nothing but a positive experience with Chelsea Financial Services. Originally utilising their stocks and shares ISA for my personal savings, their pension platform became a perfect addition to my portfolio and now means I can manage my savings in one easy-to-use location. The perfect option for someone who wants to spread their investments but has a busy life."

Alex Willett from Merseyside, said:

"Chelsea are a friendly, efficient company to deal with. I can access my portfolio easily online and there are absolutely no hidden extras where charges are concerned."