~ ISSUE 53 · MARCH 2022 ~

VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS

THE SUSTAINABILITY SPECTRUM

P22

REGULARS:

WELCOME TO VIEWPOINT

DR JOHN HOLDER
Chairman,
Chelsea

Welcome to the spring edition of Viewpoint. There's not long to go before the end of the current tax year, so turn the pages for some ISA inspiration.

ESG is our main, and much talked about, feature of this edition, so turn to pages 22-25 to hear from some experts in the field of sustainable investing.

Inflation is another prominent subject matter, and a concern for anyone wanting to see their investments grow, so two of our features cover this issue, with an in-depth view from a leading economist and some ideas to inflation-proof your portfolio. We hope you enjoy this Viewpoint.

Call us on **020 7384 7300**

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

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

IN THIS ISSUE

MARKET VIEW

DARIUS MCDERMOTT
Managing director,
Chelsea

I never had the patience for solving a Rubik's cube – for me it's one of those things you pick up and within a couple of minutes you're annoyed at the lack of progress.

I recently found out there are 43 quintillion (43 followed by 18 zeros) possible combinations. That's six times the estimated grains of sand on earth – it seems impossible when you think about it like that.

There have been points when markets have felt just as challenging since Covid became a mainstay of our lives two years ago. Having witnessed a heavy sell-off and a strong recovery, we've now entered a period of time where we're not really sure what direction markets are likely to take next.

It instantly reminded me of the Rubik's cube, given the uncertainty that your next move could either be one step closer or 10 steps further away from the solution.

THE FED EFFECT

Much of what I've read and listened to recently has been about the disconnect in markets in terms of policy, the economy and valuations. Monetary policy is only just starting with Central Banks beginning to raise interest rates; the economy is currently mid-cycle; while stretched equity valuations (where nothing looks cheap) are reminiscent of a late-cycle scenario.

Take the US as an example - inflation has just hit 7%* and the US 10-year bond currently stands at 1.8%**.

Normally there is a relationship between inflation and rates – but that is not the case at present. We do believe there will be a convergence, where inflation comes down and interest rates go up. However, this could also lead to trouble as we don't know what would happen if the US Federal Reserve is too slow to raise rates. The same can be said of raising them too aggressively - as was the case in 2018 when the market sold off some 25% as a result.

Let's not forget markets did do exceptionally well in 2021 as the vaccine rollout - and the subsequent market reopening - led to a strong surge in demand across the globe. Ultimately this year is likely to be more subdued, particularly as inflation no longer looks transitory. I do think inflation will fall back in the first half of this year, but I don't think it will fall to 1% again in the foreseeable future.

> "INFLATION HAS JUST HIT 7%* AND THE US 10-YEAR BOND CURRENTLY STANDS AT 1.8%**"

WHICH WAY FOR INVESTORS?

But what about the golden question – what should investors do? You really might not want to go into cash when interest rates are 1%, or even lower, and inflation in the UK is 5%, as that scenario means you are losing 4% of your purchasing power every year.

We also know bonds struggle when interest rates go up – making them equally unattractive.

That only leaves equities where, despite the challenges, there will still be opportunities to garner returns. Change is occurring in this asset class too. We've seen a growth style of investing dominate for more than a decade, aided by low interest rates and a willingness from investors to pay for that growth. I'm not saying the party is over for growth – but the free bar is certainly closed. It's a view we've had to evaluate in our managed funds' range, where we're considering our growth and value balance.

It all brings me back to the dreaded Rubik's cube. Apparently, there is a cheat sheet to help you solve them quite quickly, to the point where some pros can solve them in a matter of seconds. Clearly, it's not the same for financial markets, but we've found sticking to our principles of investing for the long term, being diversified and having a reasonable allocation to small and mid-caps has helped us manage uncertainty well in the past – providing the building blocks towards our long-term investment goals.

***Source:** CNBC.com - Inflation rises 7% over the past year, highest since 1982. Published 12th January 2022.
****Source:** MarketWatch – figures at 18 January 2022

THE ISA UPDATE

SAM HOLDER
Operations director,
Chelsea

THE PROBLEM WITH CASH

Whilst a Cash ISA may seem a safe option, rising inflation actually means that cash savers are losing money in real terms. The longer you remain in cash, the more the problem compounds. For example, £10,000 within a Cash ISA would only be effectively worth £6,139 after 10 years with inflation at 5% and interest rates at 0%*. With the majority of Cash ISAs paying minimal interest this is a real problem.

You may therefore be wondering what to do with any money you have languishing in a Cash ISA. The good news is that you can transfer Cash ISAs to Investment ISAs - simply complete and return an ISA transfer form and we will do the rest.
The potential returns from an Investment ISA are far greater than those you would earn on cash and can provide protection against inflation. Companies are putting up prices in response to inflationary pressures, which in turn should be passed onto investors in the form of higher dividends or profit growth.

You should remember that the value of Investment 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.

EIGHT REASONS TO CONSIDER AN INVESTMENT ISA

- 0% capital gains tax
- 0% tax on interest
- 0% tax on dividends
- Interest rates on cash savings remain low
- Rising inflation will erode your cash savings
- No need to declare on your tax return
- Inheritable ISA allowance – leave your ISA pot to your spouse/civil partner
- Access your money whenever you want

END OF TAX YEAR DEADLINES

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

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

Paper-based applications -
April 4th – 12pm

Investment fund to ISA - **March 25th**

Junior ISA - **April 4th – 12pm**

THE 2021/22 ISA ALLOWANCES ARE AS FOLLOWS:

Investment ISA:	**£20,000**
Junior ISA:	**£9,000**

THREE EASY WAYS TO BUY YOUR ISA

Simply call **020 7384 7300**

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

Send us a completed **application form**

***Calculations:** £10,000 invested over a 10 year period with inflation at 5% and interest rates at 0%. (£10,000/(1.05^10)=£6,139).

VT CHELSEA MANAGED

THE VT CHELSEA MANAGED FUNDS

We have four fully-managed funds. Each contains a mix of investments selected by our expert team. You simply choose which fund is right for you and leave the rest to us:

Learn more at
www.chelseafs.co.uk

VT CHELSEA MANAGED
CAUTIOUS GROWTH

VT CHELSEA MANAGED
AGGRESSIVE GROWTH

VT CHELSEA MANAGED
BALANCED GROWTH

VT CHELSEA MANAGED
MONTHLY INCOME

OUR FOUR-STEP PROCESS

1 EXAMINE THE MACROECONOMIC ENVIRONMENT

We start by looking at the world around us and our place within it. We focus on potential risks, turning points and opportunities that the markets may have overlooked. This view determines our allocations to asset classes and regions.

2 SELECT THE FUNDS

We then select funds using quantitative and qualitative analysis. If we are considering investing, we always meet the manager to ask about their process, their team and how closely their interests are aligned with their investors. A fund will not be added solely on strong past performance, we must be confident there is a repeatable and consistent process in place.

3 BUILD THE PORTFOLIOS

How we combine funds is also very important. We look for those which have the ability to perform independently of one another. This means they shouldn't all go up and down at the same time, which helps to smooth returns and reduce risk.

4 MONITOR & MODIFY

We monitor closely the performance of all underlying funds. In weekly team meetings, we drill down into each portfolio to assess if each holding is still correct. Typically, we expect to back managers for the long term and will avoid unnecessary trading to keep costs low. That said, we regularly see new managers and we will replace funds where we find a better alternative.

YOUR QUESTIONS ANSWERED

THE CHELSEA RESEARCH TEAM (L TO R):

JULIET SCHOOLING LATTER
Research director

RYAN LIGHTFOOT-AMINOFF
Senior research analyst

JAMES YARDLEY, CFA
Senior research analyst

DARIUS MCDERMOTT
Managing director

WHAT ARE THE KEY THEMES IN THE VT CHELSEA MANAGED FUNDS?

As advisers to the funds, we often look at certain themes that will be tailwinds to performance. Our primary approach is to find well-run funds and trusts with sound and repeatable processes and combine them with an eye on different geographies and asset classes. However, it is also worth looking at certain structural themes that can transcend market cycles and offer us alternative, robust drivers to help long-term performance.

AGEING DEMOGRAPHICS

The average age of populations has increased over the past few years, especially in the developed world. Lower birth rates and increased life expectancy have led to older populations which, while presenting some societal issues, does offer some investment opportunities. There are more obvious ones in areas such as care homes, but there are also some wider opportunities in the healthcare and biotechnology space, where longer life expectancy has led to an increased demand for medicines and treatments. This theme has given the funds a diverse range of structural growth opportunities to tap into, including specialist biotechnology funds, laboratory buildings and care home leasing.

DIGITISATION

It is no overstatement to say that the world is increasingly adopting online services, a trend that has massively accelerated during the pandemic. There are multiple ways in which the funds can play this theme, as digitisation is affecting almost all industries. There are the clear opportunities with the technology companies themselves that are benefiting from increased usership, or in more low-profile opportunities in data centres and subsea cables which provide the 'backbone' of the internet. Technology is disrupting a huge number of industries, offering the funds opportunities in everything from digital payments solutions, to video conferencing to music streaming. It is essential to be on the right side of this trend, with the risk of digital disruption higher than ever, which the funds have taken advantage of through broad technology funds as well as in more specialist areas such as music royalties.

WAREHOUSES

One major sufferer of the digital revolution has been the retail industry. The theme of moving from the high street to the internet has been dominant, especially so in the past two years. One consequence of this is the huge demand increase of delivery networks, including warehouses. This can range from the central mega depots, to the 'last mile' delivery points on the edges of city centres. It was seeing strong growth pre-pandemic and has gone exponential since. The funds have been able to gain access to this theme through a range of vehicles based in both the UK and European markets.

RENEWABLES

The demand for renewable energy will only continue to increase as the role of carbon emissions in climate change becomes more critical. The funds have had exposure to this theme throughout their history. They have held positions in a variety of specialist trusts including solar, wind and battery storage. Not only do they offer us exposure to a strong theme, but they also have some excellent characteristics, with government-backed revenues, linked to inflation with excellent demand characteristics.

The funds have traded these holdings though as sentiment has moved around, often pushing valuations up or down to attractive or unappealing levels. While we see the attraction in these trends for the long term, we don't wish to fall in love with holdings and therefore may take profit and recycle these into other assets, or just be patient and wait for a better entry point. This pragmatism has also added to the funds' performance.

VT CHELSEA MANAGED

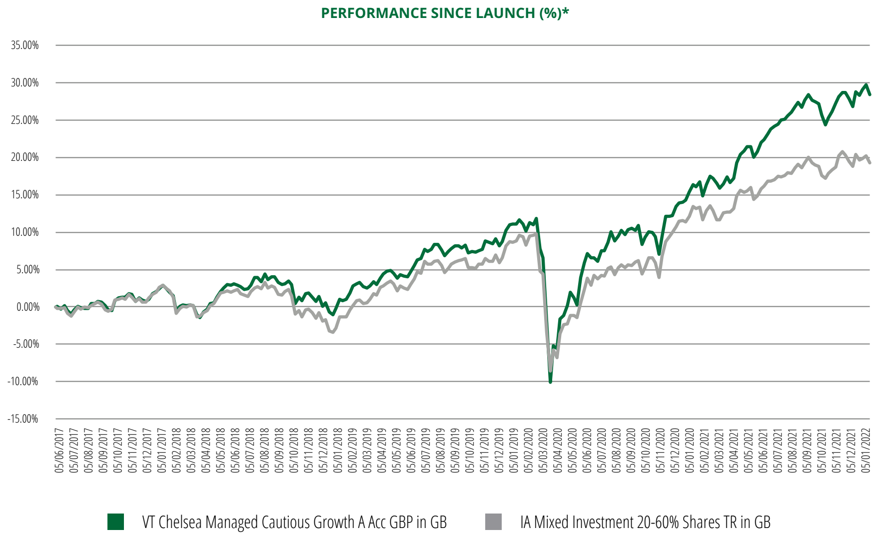
CAUTIOUS GROWTH

OUR MOST DEFENSIVE PORTFOLIO

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

KEY FACTS:

Ongoing charges figure:	**1.39%**
Payment dates:	**30th Jun, 31ST Dec**
Indicated yield:	**2.00%**
Performance since launch:	**28.31%**
Sector average:	**19.18%**
Chelsea Risk Rating:	**4**



***Source:** FE fundinfo 05/06/2017 - 07/01/2022, total returns in sterling

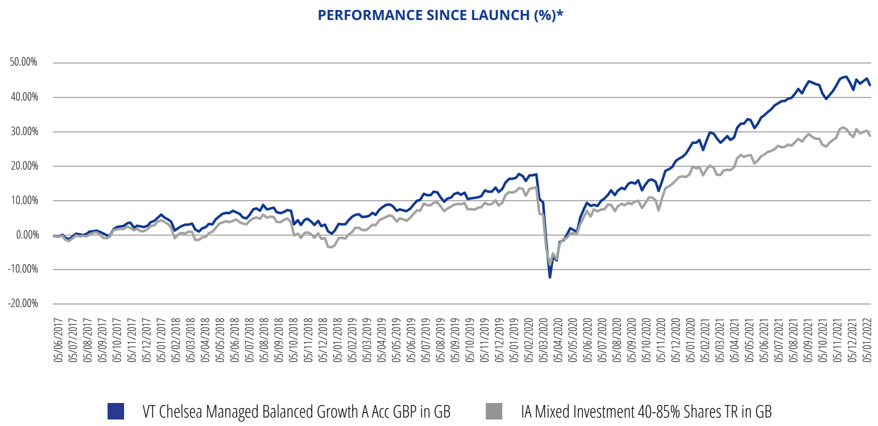
BALANCED GROWTH

OUR 'HAPPY MEDIUM' PORTFOLIO

In the balanced fund, we aim to grow your money over the long term. At the same time, we don't want you to lose sleep if the stock market tumbles, so we'll strive to build a portfolio with lower volatility than global equities†.

KEY FACTS:

Ongoing charges figure:	**1.22%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**44.44%**
Sector average:	**29.45%**
Chelsea Risk Rating:	**5.5**



***Source:** FE fundinfo 05/06/2017 - 07/01/2022, total returns in sterling

WHAT ARE THE RISKS?

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

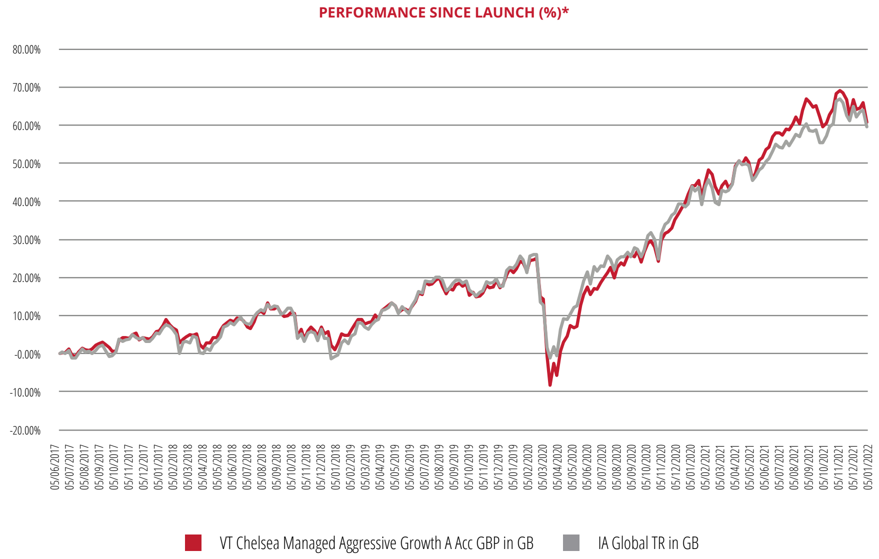
AGGRESSIVE GROWTH

OUR PUREST GROWTH PLAY

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

KEY FACTS:

Ongoing charges figure:	**1.15%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**60.89%**
Sector average:	**59.71%**
Chelsea Risk Rating:	**7**



***Source:** FE fundinfo 05/06/2017 - 07/01/2022, total returns in sterling

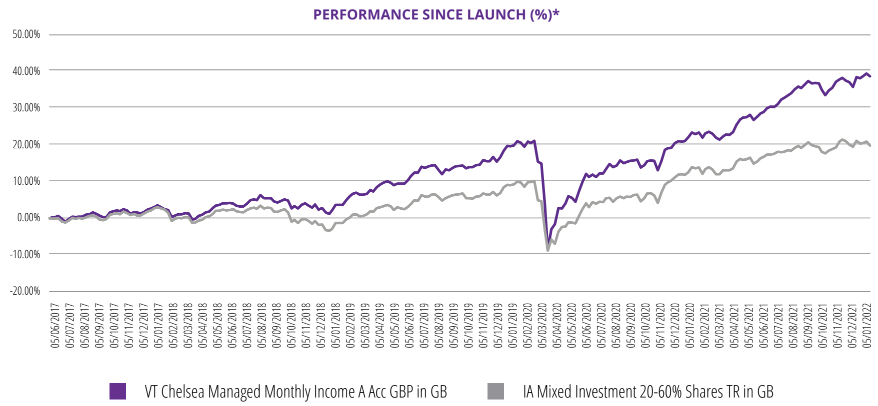
MONTHLY INCOME

OUR FUND FOR YIELD

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

KEY FACTS:

Ongoing charges figure:	**1.25%**
Payment dates:	**Monthly**
Indicated yield:	**4.30%**
Performance since launch:	**37.33%**
Sector average:	**19.18%**
Chelsea Risk Rating:	**4.5**



***Source:** FE fundinfo 05/06/2017 - 07/01/2022, total returns in sterling

WHAT ARE THE RISKS?

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

MORE INFORMATION »

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

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

Indicated yields and OCFs correct as at 07/01/2022.

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

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

CHELSEA CORE SELECTION

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

UK EQUITIES

IFSL MARLBOROUGH MULTI-CAP GROWTH

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

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.80%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.15%
UNIT TYPE	INC

IFSL MARLBOROUGH UK MICRO CAP GROWTH

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

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.06%
UNIT TYPE	ACC

JOHCM UK DYNAMIC

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.63%^#*
ONGOING CHARGES FIGURE (OCF)	0.69%^†*
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.28%
UNIT TYPE	ACC or INC

LF GRESHAM HOUSE UK MICRO CAP

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

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

LF LINDSELL TRAIN UK EQUITY

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.65%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	1.79%
UNIT TYPE	ACC or INC

LIONTRUST SPECIAL SITUATIONS

This UK multi-cap fund is a 'best ideas' portfolio, which encompasses any stock regardless of size or sector. However, there will usually be around 50% in small and mid-cap stocks. The managers, Anthony Cross and Julian Fosh, look for firms with 'intellectual capital' or strong distribution networks, recurring revenue streams and products with no obvious substitutes. They also like to invest in companies where management teams have a significant personal equity stake. The fund is concentrated with 40-50 stocks.

CHELSEA RISK RATING	6
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	1.00%
UNIT TYPE	INC

MI CHELVERTON UK EQUITY GROWTH

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.06%
UNIT TYPE	ACC or INC

ALL CORE SELECTION FUNDS ARE AVAILABLE AT 0% INITIAL CHARGE

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

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

We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 29 for further details.

EQUITY INCOME

BLACKROCK CONTINENTAL EUROPEAN INCOME

Andreas Zoellinger manages this core European income fund which invests predominately in large-cap stocks. The fund is supported by the highly regarded BlackRock European team which is made up of 18 investment professionals. All members of the team, including fund managers, undertake fundamental research. Bottom-up research is key to the fund's performance. The fund has a preference for quality sustainable dividends with the potential for growth and inflation protection. The final portfolio has around 50 stocks. Income is paid in February, May, August and November.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.93%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	2.96%
UNIT TYPE	ACC or INC

FIDELITY GLOBAL DIVIDEND

This is a solid core global income fund, which aims to pay a regular and growing dividend, whilst preserving capital. Manager Dan Roberts invests in predictable resilient businesses, which can continue to generate strong cash flows, even when times get tough. Dan mostly invests in larger companies although his overall portfolio looks very different from the benchmark, and he may avoid some countries or sectors altogether. The fund typically outperforms a falling market but can struggle when markets rise strongly. Income is paid in February, May, August and November.

CHELSEA RISK RATING	6
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.93%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.63%
UNIT TYPE	ACC or INC

GUINNESS GLOBAL EQUITY INCOME

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.80%#
ONGOING CHARGES FIGURE (OCF)	0.80%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.61%
UNIT TYPE	INC

M&G GLOBAL DIVIDEND

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

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.66%#
ONGOING CHARGES FIGURE (OCF)	0.66%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.74%
UNIT TYPE	ACC or INC

MAN GLG INCOME

Manager Henry Dixon has an unconstrained mandate, allowing him to invest across the market-cap spectrum. Henry has a clear and repeatable process, targeting stocks with good cash generation, trading below the replacement cost of their assets i.e. 'value' stocks. Initial stock screens are combined with bespoke in-house models to highlight stocks for further research. Henry also has the flexibility to invest in a company's bonds if he believes they offer better value than its shares. He will have 40-60 holdings and a yield typically above 4%, which pays monthly.

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.90%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	4.69%
UNIT TYPE	ACC or INC

MONTANARO UK INCOME SEED**

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.30%#^
ONGOING CHARGES FIGURE (OCF)	0.34%†^
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	3.60%
UNIT TYPE	INC

TB EVENLODE INCOME

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

CHELSEA RISK RATING	5
ANNUAL MANAGEMENT CHARGE	0.87%#
ONGOING CHARGES FIGURE (OCF)	0.87%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.40%
UNIT TYPE	ACC or INC

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

Data sourced from FE (Financial Express) fund info for period up to 04/01/2022 as at 07/01/2022. Yields as at 07/01/2022 and taken from Income units where applicable.

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

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

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

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

^ Includes Chelsea discount.

EUROPE

BLACKROCK EUROPEAN DYNAMIC

Giles Rodbarth has recently taken on management of this fund, but runs it with the same conviction and flexibility, being prepared to have large over and underweight positions at both the stock and sector level. The fund primarily focuses on large-cap companies, though can hold some more medium-sized stocks, and will move between different styles depending on the stock and economic backdrop. This means turnover can often be higher than its peers and the portfolio is concentrated, with around 50 holdings. Giles has the support of BlackRock's very well-resourced European equity team, which we consider to be one of the best around.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.92%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	NEUTRAL
YIELD	0.00%
UNIT TYPE	ACC or INC

FTF MARTIN CURRIE EUROPEAN UNCONSTRAINED

SPOTLIGHT

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.97%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.20%
UNIT TYPE	ACC or INC

IFSL MARLBOROUGH EUROPEAN SPECIAL SITUATIONS

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

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	1.48%
UNIT TYPE	INC

PREMIER MITON EUROPEAN OPPORTUNITIES

This fund has been managed by Carlos Moreno and Thomas Brown since its inception in 2015. It is a growth fund which invests across the market-cap spectrum but has a bias to mid-caps. The managers like companies with high profit margins, a strong competitive advantage and accelerating revenue growth. They are not put off by high short-term valuations if the company is good enough. They will also invest in more economically-sensitive businesses, as long as the company is a world leader in its niche. The final portfolio is 40-55 holdings with no position exceeding 4%, ensuring the fund is well diversified.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.02%
UNIT TYPE	ACC or INC

THREADNEEDLE EUROPEAN SELECT

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

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.80%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	-
YIELD	0.30%
UNIT TYPE	ACC or INC

US

AXA FRAMLINGTON AMERICAN GROWTH

Manager Steve Kelly runs this fund within a stock-picking framework. He has a strong growth bias, focusing on companies that are able to exhibit genuine, organic growth through the strength of their brand. He also prioritises good management in his investment decisions, as he looks for companies where management delivers their stated goals. The fund typically holds 65-75 stocks.

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

FIDELITY INDEX US

This is a low-cost tracker fund which aims to match the performance of the S&P 500 over time. The US market is dominated by some of the largest companies in the world and has historically been a very efficient market, where only the very best active managers have outperformed. A tracker fund such as this is a cost-efficient way to access this market. Fidelity has a strong track record in this space and this fund is particularly cheap.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.06%#
ONGOING CHARGES FIGURE (OCF)	0.06%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	SILVER
YIELD	1.04%
UNIT TYPE	ACC or INC

PREMIER MITON US OPPORTUNITIES

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

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.85%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.00%
UNIT TYPE	ACC

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

We then assign a Chelsea Risk Rating to the fund, with 1 as the lowest risk and 10 the highest. See page 29 for further details.

ASIA PACIFIC, JAPAN AND EMERGING MARKETS

BAILLIE GIFFORD JAPANESE

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

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.61%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.93%
UNIT TYPE	ACC or INC

BAILLIE GIFFORD PACIFIC

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

CHELSEA RISK RATING	8.5
ANNUAL MANAGEMENT CHARGE	0.65%#
ONGOING CHARGES FIGURE (OCF)	0.71%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	-
YIELD	0.38%
UNIT TYPE	ACC or INC

FIDELITY ASIA PACIFIC OPPORTUNITIES

SPOTLIGHT

Singapore-based Anthony Srom manages this high-conviction fund of around 30 stocks. Higher conviction should not mean higher risk and the portfolio is carefully constructed to ensure good diversification. Stock selection is based on three factors: fundamentals, sentiment and valuation. Anthony has a contrarian instinct and understanding other investors' sentiment is a key factor in his decision making. Alongside the company specifics, Anthony believes it is important to consider the prospects for the industry in which a company operates. The fund invests across the market-cap spectrum but around two thirds of the holdings are in large-caps.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.90%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.00%
UNIT TYPE	ACC

FSSA GREATER CHINA GROWTH

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

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	1.00%#
ONGOING CHARGES FIGURE (OCF)	1.07%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	0.37%
UNIT TYPE	ACC

JPM JAPAN

Tokyo-based manager Nick Weindling runs this domestic Japanese growth fund. When selecting stocks he incorporates a thematic approach, built on his on-the-ground knowledge and understanding of Japanese culture. Nick avoids the traditional 'old Japan' stocks, looking more for stocks that have improved corporate governance. He takes a long-term focus when highlighting opportunities, and ensures he meets company management in order to understand their business properly, aided by being fluent in Japanese. The portfolio will be checked to ensure it is aligned with the manager's macroeconomic views.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.82%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	BRONZE
YIELD	0.11%
UNIT TYPE	ACC or INC

RWC GLOBAL EMERGING MARKETS

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

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

STEWART INVESTORS ASIA PACIFIC LEADERS SUSTAINABILITY

The fund is managed by David Gait and Sashi Reddy. They have a strong focus on capital preservation by considering corporate governance and social responsibility in order to maintain a sense of stewardship over investors' money. The portfolio is concentrated at 40-60 stocks, with the top 10 making up around 40% of the whole portfolio. David makes meeting company management an integral part of company analysis, and the stocks will typically be large-cap, with firms under around $1bn removed from the stock selection process.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.80%#
ONGOING CHARGES FIGURE (OCF)	0.84%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	0.26%
UNIT TYPE	ACC or INC

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

Data sourced from FE (Financial Express) fund info for period up to 04/01/2022 as at 07/01/2022. Yields as at 07/01/2022 and taken from Income units where applicable.

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

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

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

^ Includes Chelsea discount.

GLOBAL

FIDELITY GLOBAL SPECIAL SITUATIONS

Manager Jeremy Podger is a pragmatic bottom-up stock picker who does not stick too rigidly to one particular investment style. His investments fall into one of three buckets. Corporate change – shorter-term investments which take advantage of corporate restructuring or initial public offerings (new stocks coming to the market). Exceptional value – cheap stocks which have the potential to grow earnings. Unique businesses – companies with a dominant position within their industries which should be able to grow for many years to come. The resulting portfolio is a well-diversified mix of around 70 to 130 different stocks.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.91%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.00
UNIT TYPE	ACC

FUNDSMITH EQUITY

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

CHELSEA RISK RATING	6
ANNUAL MANAGEMENT CHARGE	0.90%#
ONGOING CHARGES FIGURE (OCF)	0.95%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.28%
UNIT TYPE	ACC or INC

NINETY ONE GLOBAL ENVIRONMENT

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.65%#
ONGOING CHARGES FIGURE (OCF)	0.78%†
FUNDCALIBRE RATING	RADAR
MORNINGSTAR RATING	-
YIELD	0.59%
UNIT TYPE	ACC or INC

RATHBONE GLOBAL OPPORTUNITIES

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.65%^#
ONGOING CHARGES FIGURE (OCF)	0.67%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.00%
UNIT TYPE	ACC

T. ROWE PRICE GLOBAL FOCUSED GROWTH EQUITY

Lead manager David Eiswert is supported by T Rowe Price's large global analyst network. David combines his macroeconomic view with his analysts' best ideas to build a portfolio of around 60-80 growth stocks. He targets businesses with accelerating returns on capital over the next 12 to 24 months. The fund currently has a third invested in technology and, unlike some global funds, it does invest in emerging markets.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.50%^#
ONGOING CHARGES FIGURE (OCF)	0.63%^†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	-
UNIT TYPE	ACC

FIXED INTEREST

ARTEMIS CORPORATE BOND

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

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.25%#
ONGOING CHARGES FIGURE (OCF)	0.39%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	2.62%
UNIT TYPE	ACC or INC

BAILLIE GIFFORD STRATEGIC BOND

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

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

JANUS HENDERSON STRATEGIC BOND

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

CHELSEA RISK RATING	3
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.70%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	-
YIELD	2.70%
UNIT TYPE	ACC or INC

FIXED INTEREST (CONT)

JUPITER STRATEGIC BOND

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

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.73%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.70%
UNIT TYPE	ACC or INC

M&G EMERGING MARKETS BOND

Another star of the highly-regarded M&G fixed income desk, is manager Claudia Calich, who is extremely knowledgeable about her asset class. With this fund, Claudia has the flexibility to invest across the whole emerging market bond spectrum. She can invest in both government and corporate bonds, denominated in local currencies or in US dollars ('hard' currency). Claudia pays considerable attention to the macroeconomic environment to determine the framework for the fund, before looking at the individual companies and governments to pick what she believes to be the best mix of bonds for this portfolio.

CHELSEA RISK RATING	4.5
ANNUAL MANAGEMENT CHARGE	0.70%#
ONGOING CHARGES FIGURE (OCF)	0.70%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	6.00%
UNIT TYPE	ACC or INC

NOMURA GLOBAL DYNAMIC BOND (HEDGED)

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

CHELSEA RISK RATING	4
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.70%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	1.87%
UNIT TYPE	ACC or INC

RATHBONE ETHICAL BOND

NEW ENTRY

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

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.63%#
ONGOING CHARGES FIGURE (OCF)	0.65%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	3.20%
UNIT TYPE	ACC or INC

TWENTYFOUR DYNAMIC BOND

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

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

TARGETED ABSOLUTE RETURN

SVS CHURCH HOUSE TENAX ABSOLUTE RETURN STRATEGIES

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

CHELSEA RISK RATING	4
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.87%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	-
YIELD	0.57%
UNIT TYPE	ACC or INC

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

Data sourced from FE (Financial Express) fund info for period up to 04/01/2022 as at 07/01/2022. Yields as at 07/01/2022 and taken from Income units where applicable.

- * A performance fee may be applied, see the Key Investor Information Document for further details.
- ** Cheaper share class available. Please contact us on 020 7384 7300.
- # The annual management charge is paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Ongoing Charges Figure (OCF).
- † OCF: The cost includes the annual management charge and other fees such as registration, regulatory, audit and legal fees but does not include transaction costs and performance fees.
- ^ Includes Chelsea discount.

CORE SELECTION SPOTLIGHT

ANTHONY SROM

Fund manager,
Fidelity Asia Pacific Opportunities
Elite Rated by FundCalibre

I have managed the Fidelity Asia Pacific Opportunities fund since its launch in September 2014, having joined Fidelity in 2006. I have over 18 years' investment experience. The fund provides concentrated exposure to the region's multi-year growth story through a portfolio of just 25-35 stocks.

POSITIONING FOR WHAT LIES AHEAD

It's difficult to predict future returns, but with the broader market looking relatively expensive, our expectation is for low single digit total returns on an annualised basis over the medium term. That said, we'll wait for opportunities to emerge and remain of the view that careful stock picking remains the most effective way to outperform the market.

In this regard, the good news is that there are still opportunities out there. While regulation in China remains something of a hot topic, this is being increasingly 'factored in', with valuations over-correcting in some areas like the A-share market. Here, we've taken advantage of negative sentiment towards the property sector and linked industries to buy Chinese paint company SKSHU Paint. The stock price was down significantly, but we have taken a view that even if new development of buildings does slow down, the demand for paint remains robust due to renovation and maintenance needs. Plus, the industry structure is favourable.

Elsewhere, we have relatively high conviction in some of the leading global technology firms based in Asia. The portfolio is exposed to the hardware value chain through equipment supply, foundry and memory, where there is a clear structural supply/demand gap. Key beneficiaries include leading companies like TSMC, SK Hynix and Mediatek.

It is important to look at both cyclical and structural factors in these industries and it looks like we are in a shallow cyclical downturn. Stock prices have reacted quite severely, particularly in the memory space. However, the long-term opportunity hasn't changed, with structural demand for servers, artificial intelligence and machine learning still intact.

At a macro level, the market is currently focused on how transitory this bout of higher inflation will be. We believe that inflation is likely to be higher for longer and continue to focus on stock selection. Companies with genuine pricing power and capex light business models are preferred.

SUSTAINABILITY CONSIDERATIONS

Sustainability continues to become a greater focus for the market overall and we consider this within the holistic fundamental analysis of a business. ESG is both a risk factor to consider, but also an opportunity given it involves regulatory change and policy support. However, we are also aware that this is a trend with lots of positive sentiment behind it, thus valuations may be rich for certain companies linked to ESG themes.

Waterproofing and insulation materials company Beijing Oriental Yuhong is an example of integration of sustainability considerations into the investment process. While the industry environment is favourable for the company as government regulation is getting tighter on waterproofing quality, the company's insulation business also stands to benefit from the Chinese government's carbon neutral commitment by 2060. Properties are among the largest carbon emitters, so good insulation will go a long way to cutting emissions in the coming years.

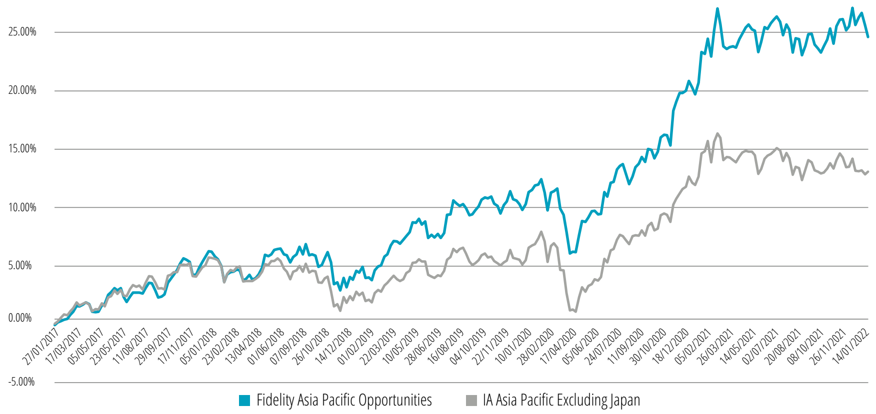
IN CONCLUSION

Although we have a cautious outlook for the broader market, with uncertainties remaining around Chinese regulation, we believe the primary way to generate performance is careful stock picking and there are opportunities to be exploited.

THE CHELSEA VIEW

Anthony's high conviction and disciplined approach helps this fund to stand out from its peers. He is a true active manager, who focuses on finding the best companies rather than simply focusing on an industry or theme. His track record of minimising volatility is also impressive.

FIDELITY ASIA PACIFIC OPPORTUNITIES



Source: FE fundinfo, 03/02/2017 to 14/01/2022, total returns, net of fees, in sterling

CORE SELECTION SPOTLIGHT

ZEHRID OSMANI

Fund manager,
FTF Martin Currie European Unconstrained
Elite Rated by FundCalibre

I joined Martin Currie in May 2018 as Head of the Global Long-Term Unconstrained team, launching FTF Martin Currie European Unconstrained in December 2018. Prior to that, I was Head of European Equities Research at BlackRock, as well as Global Head of Investment Process. At BlackRock, I managed several European equity funds, with a specific focus on unconstrained, high-conviction, long-term portfolios. I have over 17 years' experience managing European equity portfolios.

I am originally from Paris and I have a BA in Economics and Finance from University of Paris-La Sorbonne; I moved to Scotland where I obtained a Masters in International Finance from the University of Glasgow. I like detailed fundamental analysis and a well structured investment process, and have an attention to detail across all parts of the process.

STRUCTURAL GROWTH AND A SUSTAINABLE FUTURE

I focus on making long-term investments in quality growth companies, through a high-conviction portfolio of 20-40 stocks. This is backed by fundamental research, at the heart of which is our systematic fundamental risk assessments. This is an in-depth analysis of specific company, industry, governance & sustainability, and portfolio risks. Proprietary environmental, social and governance (ESG) analysis is fully integrated in our research.

To capture long-term structural growth themes, we apply our proprietary thematic analytical framework, focusing on our three long-term mega-trends which are well aligned within a world transitioning towards a more sustainable future: (i) Demographic Changes is about Sustainable Living, (ii) Future of Technology is about Decarbonisation, and (iii) Resource Scarcity is about Climate Change. We currently find thematic opportunities with supportive structural growth prospects across green energy, energy-efficient buildings, electric transportation, 5G telephony and healthcare infrastructure, alongside cloud computing & cyber security, robotics & automation, and quantum computing.

OPPORTUNITIES IN A TRANSITIONING WORLD

We believe Europe is an exciting place to invest with global leading companies harnessing the opportunities described above.

Providing both direct and indirect exposure to areas such as electric transportation infrastructure, green energy and energy-efficient buildings is Atlas Copco, a Swedish global leader in vacuum and compressor technologies. With diverse end clients, Atlas Copco is strongly positioned to supply the vital equipment to these projects.

In robotics and automation, Hexagon is a Swedish technology firm capitalising on digital transformation across industries, offering easy-to-use product, which appeal to industries that have been slower to adapt. These can help improve sustainability and reduce carbon footprints.

We have exposure to the electric vehicle (EV) market through semiconductor manufacturers, given that EVs require more chips to power their technology and connectivity. Here, Germany's Infineon Technologies is producing a wide range of products for the car industry from power controllers to the Advanced Driver Assistance Systems (ADAS).

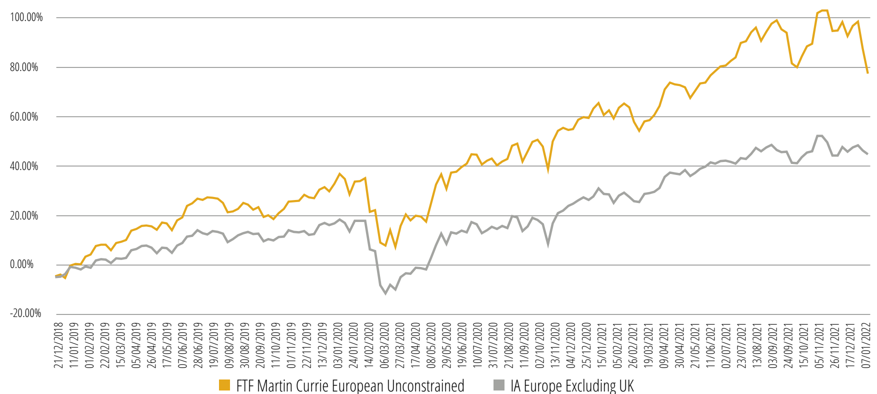
Linking the electric vehicles opportunities and the long-term luxury spending is Italian car manufacturer Ferrari, which has an enviable pricing power, given the scarcity and long waiting lists for its products. Ferrari have committed to 60% hybridisation by 2022, and released its first hybrid in 2020 and its first all-electric car is scheduled for release in 2025.

In an uncertain inflationary backdrop, we continue to focus on finding European companies with strong leadership positions, dominant market positions and therefore strong pricing power and low disruption risk, and that are exposed to long-term structural growth segments, and generate high returns, strong cash flows, and with solid balance sheets. This, combined with strong corporate culture, quality management and sustainable business models can offer investors the opportunity to invest in companies that are well positioned to benefit in a world transitioning towards a more sustainable future.

THE CHELSEA VIEW

We like the concentrated, unconstrained nature of this fund. Zehrid has a lot of experience of investing in European equities in this way and had considerable success at BlackRock with a similar fund. He takes a long-term approach, which is refreshing at a time when many investors are becoming increasingly short-term.

FTF MARTIN CURRIE EUROPEAN UNCONSTRAINED



Source: FE fundinfo, 21/12/2018 to 14/01/2022, total returns, net of fees, in sterling.

THE CHELSEA SELECTION

	Elite Rating	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	% Yield	Fund Size(m)
UK ALL COMPANIES												
Artemis UK Select		7	19.55	62	70.72	11	65.24	23	189.04	41	0.82	1466.6
AXA Framlington UK Select Opportunities	⚐	6	14.63	183	36.85	99	35.42	104	120.26	108	1.33	1032.9
BlackRock UK		6	13.72	197	50.57	46	59.66	32	161.78	65	1.18	660.3
○ IFSL Marlborough Multi-Cap Growth	⚑	7	17.42	112	64.91	14	76.19	14	249.79	14	0.15	354.2
IFSL Marlborough Special Situations	⚑	7.5	19.77	56	71.30	9	90.31	6	340.76	2	0.29	1655.6
○ JOHCM UK Dynamic	⚑	6.5	23.14	24	22.72	193	28.10	155	164.63	59	2.28	1364.7
Jupiter UK Special Situations	⚑	6	21.31	35	21.93	200	23.66	184	137.29	83	2.40	2054.3
○ LF Lindsell Train UK Equity	⚑	6.5	11.11	225	36.89	98	61.52	29	248.51	16	1.79	6100.8
○ Liontrust Special Situation	⚑	6	19.69	58	45.83	59	65.13	24	228.66	20	1.00	6473.3
○ MI Chelverton UK Equity Growth	⚑	7.5	28.93	9	110.80	2	155.23	1	-	-	0.06	1766.8
Schroder Recovery	⚑	7.5	26.82	12	22.87	192	27.92	158	190.43	39	1.47	1060.7
Slater Growth	⚑	7	29.77	6	99.11	3	119.87	4	334.35	3	0.00	1655.7
VT Downing Unique Opportunities	⚐	7	25.94	16	-	-	-	-	-	-	-	57.9
Sector Average			17.09	250	35.27	241	36.97	229	129.14	199	-	-
UK EQUITY INCOME												
Artemis Income	⚑	5	15.80	57	33.92	19	35.91	15	133.51	22	3.62	4927.7
IFSL Marlborough Multi Cap Income	⚑	7	21.52	21	34.52	18	38.76	10	185.34	5	3.72	1139.1
Janus Henderson UK Responsible Income 🌿 NEW ENTRY	⚑	6	13.95	74	37.76	10	37.15	13	163.11	7	3.90	432.0
JOHCM UK Equity Income	⚑	6.5	25.76	9	27.41	43	30.17	32	148.81	12	3.82	2161.0
LF Gresham House UK Multi Cap Income	⚑	7.5	26.46	6	56.29	2	-	-	-	-	3.79	205.2
○ LF Montanaro UK Income†^	⚑	7.5	25.21	17 / 250	58.57	23 / 241	69.34	20 / 229	243.08	18 / 199	3.60	776.7
○ Man GLG Income	⚑	6.5	15.65	60	21.86	59	44.34	5	139.23	18	4.69	1540.0
Rathbone Income	⚑	5	20.44	25	29.03	38	28.05	37	132.38	23	3.88	825.3
○ TB Evenlode Income^	⚑	5	16.95	128 / 250	37.87	95 / 241	58.01	37 / 229	205.70	33 / 199	2.40	3570.0
Sector Average			18.29	86	27.43	84	27.12	77	113.56	68	-	-
UK SMALLER COMPANIES												
○ IFSL Marlborough UK Micro Cap Growth	⚑	8	24.39	24	84.09	11	120.77	7	415.09	6	0.06	1675.6
○ LF Gresham House UK Micro Cap	⚑	8	25.13	20	60.35	31	106.48	10	434.59	4	-	311.8
Liontrust UK Micro Cap	⚑	8	33.61	2	94.04	1	144.28	3	-	-	-	213.5
TB Amati UK Smaller Companies**	⚑	8	11.73	46	61.60	29	104.48	15	350.18	11	0.40	965.0
Sector Average	⚑		23.05	50	64.27	48	84.67	45	276.34	42	-	-
STERLING CORPORATE BOND												
○ Artemis Corporate Bond	⚑	2.5	-0.80	14	-	-	-	-	-	-	2.62	782.1
BlackRock Corporate Bond	⚑	3.5	-2.39	48	14.44	58	20.70	30	75.24	15	2.20	1171.1
○ Rathbone Ethical Bond 🌿	⚑	2.5	-1.03	18	21.43	8	30.05	4	93.67	5	3.20	2802.1
Royal London Corporate Bond	⚑	2.5	0.19	4	20.00	13	26.61	10	82.95	9	2.84	1322.9
TwentyFour Corporate Bond	⚑	2.5	-2.26	40	15.72	35	21.54	26	-	-	3.42	1422.4
Sector Average	⚑		-2.55	103	15.01	97	18.91	92	61.02	68	-	-
STERLING HIGH YIELD BOND												
Baillie Gifford High Yield Bond	⚑	4	2.54	26	19.23	19	24.14	9	90.76	4	4.30	838.2
Man GLG High Yield Opportunities	⚐	4	10.98	1	-	-	-	-	-	-	5.81	177.7
Sector Average			4.03	34	20.04	29	22.92	26	73.10	17	-	-
STERLING STRATEGIC BOND												
○ Baillie Gifford Strategic Bond	⚑	3.5	-0.95	69	17.41	36	25.16	18	84.34	9	3.30	1276.2
GAM Star Credit Opportunities#	⚑	4	3.94	12	23.78	12	32.00	9	146.95	1	3.20	710.7
○ Janus Henderson Strategic Bond**		3	-0.09	59	20.09	20	26.19	16	77.85	13	2.70	3398.9
○ Jupiter Strategic Bond	⚑	2.5	1.03	37	15.94	45	20.13	39	70.24	22	3.70	4342.5
○ Nomura Global Dynamic Bond#	⚑	4	1.20	34	29.80	4	35.16	4	-	-	1.87	3625.2
○ TwentyFour Dynamic Bond	⚑	3.5	2.00	26	19.30	24	26.26	15	90.28	7	4.20	1950.8
Sector Average		3.5	0.47	89	16.97	81	20.34	71	59.16	50	-	-
TARGETED ABSOLUTE RETURN*												
Janus Henderson Absolute Return	⚑	4	3.91	-	12.08	-	12.36	-	59.07	-	-	1409.5
Jupiter UK Specialist Equity#		5	-3.36	-	18.08	-	26.70	-	-	-	-	403.9
○ SVS Church House Tenax Absolute Return Strategies	⚑	4	1.41	-	8.97	-	9.62	-	41.89	-	0.57	491.0
Sector Average			3.47	-	10.84	-	11.48	-	30.46	-	-	-
EUROPE EXCLUDING UK												
○ BlackRock Continental European Income	⚑	7	12.09	115	51.96	52	62.56	38	234.78	19	2.96	1710.0
○ BlackRock European Dynamic	⚐	7	17.21	32	107.69	4	126.26	3	381.12	3	-	6544.0
○ FTF Martin Currie European Unconstrained SPOTLIGHT	⚑	7.5	19.94	16	104.88	6	104.19	10	263.70	11	0.20	123.3
○ IFSL Marlborough European Special Situations	⚑	8	32.36	1	105.53	5	122.75	5	423.86	1	1.48	507.1
Jupiter European Smaller Companies^	⚐	8	17.96	12 / 28	-	-	-	-	-	-	-	29.3
○ Premier Miton European Opportunities	⚑	7.5	15.51	71	115.17	2	165.93	1	-	-	0.02	3014.1
○ Threadneedle European Select	⚐	7	16.55	40	74.26	18	87.76	17	259.54	12	0.30	1867.1
Sector Average			15.24	142	53.10	129	58.57	120	195.67	87	-	-
NORTH AMERICA												
○ AXA Framlington American Growth	⚑	7	27.25	122	122.9	11	174.66	8	483.46	14	-	1133.2
Baillie Gifford American**	⚑	7	-3.20	226	171.94	1	275.87	1	763.30	2	-	6425.1
Brown Advisory US Flexible Equity**#	⚑	7.5	27.90	110	89.88	63	113.30	44	-	-	1.02	546.8
○ Fidelity Index US		7	30.25	56	89.21	67	108.39	51	-	-	1.04	3247.0
FTF Martin Currie US Unconstrained	⚐	7	24.05	165	105.35	19	133.23	30	413.37	27	-	218.9
○ Premier Miton US Opportunities	⚑	7	22.97	178	89.32	66	101.15	74	-	-	-	1349.7
Sector Average			25.61	228	80.59	204	96.49	173	337.99	106	-	-
JAPAN												
○ Baillie Gifford Japanese**	⚑	10	2.15	58	43.73	24	55.98	16	258.04	3	0.93	3786.4
FSSA Japan Focus	⚑	10	2.25	56	85.04	2	116.45	2	-	-	-	327.7
FTF Martin Currie Japan Equity		10	-18.05	88	45.24	19	77.27	5	507.46	1	-	1134.7
○ JPM Japan		10	-2.16	76	71.38	3	91.50	3	280.76	2	0.11	1630.7
Jupiter Japan Income	⚑	9.5	7.67	15	48.09	16	58.88	13	198.08	12	2.00	960.9
Sector Average			2.94	88	36.27	83	40.50	75	162.89	55	-	-
ASIA PACIFIC EXCLUDING JAPAN*												
Alquity Indian Subcontinent**#^	⚐	10	41.36	2 / 21	40.24	13 / 19	83.81	4 / 16	-	-	-	24.6
○ Baillie Gifford Pacific		8.5	5.62	29	121.27	1	163.68	1	363.54	1	0.38	3987.3
○ Fidelity Asia Pacific Opportunities SPOTLIGHT	⚑	8	12.37	6	80.58	8	114.11	4	-	-	-	1358.0
Fidelity Asian Dividend	⚐	7.5	11.23	9	35.62	70	57.93	42	-	-	3.54	56.0
GS India Equity Portfolio#	⚑	10	36.42	-	66.98	-	101.98	-	409.41	-	-	1801.0
○ FSSA Greater China Growth^	⚑	10	3.30	4 / 56	69.89	12 / 50	99.27	6 / 45	267.83	6 / 31	0.37	673.4
Guinness Asian Equity Income#	⚑	8	10.50	11	36.25	69	48.06	69	-	-	3.45	156.1
Invesco Asian	⚑	8	1.78	54	40.12	56	65.49	28	203.25	12	1.50	1421.0
Matthews Pacific Tiger#	⚑	8	-3.06	78	34.20	75	59.29	40	173.52	21	-	359.4
Schroder Asian Income	⚑	7.5	6.67	24	37.95	63	52.13	56	176.39	19	3.22	1354.6
○ Stewart Investors Asia Pacific Leaders Sustainability	⚑	7.5	11.54	-	46.63	-	73.17	-	203.84	-	0.26	7765.5
Sector Average			0.49	120	42.98	115	58.38	107	148.49	78	-	-
GLOBAL EMERGING MARKETS												
Aubrey Global Emerging Markets Opportunities**#	⚑	10	-6.32	117	72.30	3	106.92	2	-	-	-	327.2
○ RWC Global Emerging Markets#		10	-4.66	108	54.50	9	51.67	42	-	-	-	1585.1
Sector Average			-1.65	152	31.07	131	42.86	112	87.44	-	-	-
GLOBAL												
Baillie Gifford Global Discovery**	⚑	8.5	-20.27	451	77.03	96	141.61	16	506.52	2	-	1694.6
○ Fidelity Global Special Situations	⚑	7	15.79	292	67.67	166	83.32	121	332.14	28	-	3340.7
○ Fundsmith Equity	⚑	6	20.42	173	82.96	75	125.11	28	482.61	3	0.28	27845.5
LF Blue Whale Growth	⚑	8	18.96	220	94.64	35	-	-	-	-	0.08	1115.8
Montanaro Better World NEW ENTRY	⚐	8	14.43	328	101.94	27	-	-	-	-	-	689.2
○ Ninety One Global Environment 🌿	⚐	7.5	9.60	-	-	-	-	-	-	-	0.59%	962.4
Pictet Global Environmental Opportunities# 🌿	⚑	7.5	15.21	309	107.26	20	117.86	36	312.84	35	-	8331.1
○ Rathbone Global Opportunities	⚑	6.5	18.83	224	101.08	28	136.44	21	388.26	10	-	4333.9
○ T. Rowe Price Global Focused Growth Equity	⚑	7.5	10.47	385	110.21	17	152.35	10	475.17	4	-	4075.4
Sector Average			17.02	451	64.74	380	76.60	319	217.39	214	-	-
GLOBAL EQUITY INCOME												
○ Fidelity Global Dividend	⚑	6	11.92	49	44.58	25	57.37	13	-	-	2.63	2474.0
Fidelity Global Enhanced Income		5.5	10.03	53	35.86	36	46.68	23	-	-	4.57	431.7
FTF ClearBridge Global Infrastructure Income^		5	11.81	13 / 22	51.59	2 / 21	66.47	1 / 13	-	-	4.48	939.4
○ Guinness Global Equity Income#	⚑	6.5	23.37	8	62.42	8	76.55	5	238.44	3	2.61	1782.7
○ M&G Global Dividend^	⚑	7	14.92	316 / 451	49.85	294 / 380	58.61	234 / 319	196.40	156 / 214	2.74	2225.2
TB Evenlode Global Income	⚑	6	21.67	19	59.01	10	-	-	-	-	2.00	1387.0
Sector Average			18.31	53	45.42	47	50.84	42	165.72	19	-	-
MISCELLANEOUS*												
AXA Framlington Global Technology	⚑	10	21.91	10 / 26	146.78	8 / 25	237.14	5 / 22	664.99	6 / 13	-	1682.2
BMO European Real Estate Securities#	⚑	7	15.00	-	41.90	-	64.31	-	282.44	-	1.20	51.3
Jupiter Gold And Silver#	⚑	10	-16.7	-	51.07	-	35.36	-	-	-	-	893.7
Jupiter Financial Opportunities	⚑	8	7.96	8 / 13	62.22	7 / 13	78.57	3 / 10	244.24	5 / 8	0.70	596.8
○ M&G Emerging Markets Bond	⚑	4.5	-1.95	4 / 23	11.28	4 / 19	16.86	3 / 14	88.90	1 / 8	6.00	955.7
Polar Capital Biotechnology#	⚑	10	2.25	-	66.85	-	107.81	-	-	-	-	1214.3
Polar Capital Healthcare Opportunities#	⚑	8	7.54	10 / 15	42.45	12 / 13	80.98	5 / 11	441.02	1 / 7	-	1416.5
VT Gravis UK Infrastructure Income	⚐	4.5	11.49	14 / 22	28.64	13 / 21	36.54	9 / 13	-	-	3.73	817.2

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

Source: FE fundinfo, IA (Investment Association) universe, total return from main units (unless the fund has an income mandate, in which case the income share class of the main unit has been used) All figures for period up to 04/01/2022 as at 07/01/2022.

Yields per annum as at 07/01/2022 taken from income unit where applicable.

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

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

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

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

† Please call our dealing line on 020 7384 7300 - the cheaper Montanaro seed share class is currently only available via telephone dealing. Normal T&Cs apply.

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

UNDER THE RADAR

SAM SLATOR
Head of communications,
Chelsea

The Investment Association (IA) have made changes to the fund universe for UK investors. This involves the inclusion of Exchange Trades Funds (ETFs) for the first time, as well as adding new sectors to help navigate this broader universe, such as dedicated sectors for India and Infrastructure. As a result, the number of funds qualifying has nearly doubled. This has a knock-on effect on RedZone, which has become unsustainable with these changes.

Rather than simply publishing a giant data table with all these funds, we have instead identified some key themes from the results, pulled out a few notable inclusions and covered some other investment stories that may have gone unnoticed, to help investors take stock of what has been happening in the past few months.

BIG NAMES FALTER IN 'FORGOTTEN MIDDLE'

RedZone contained a few quite well-known funds, the most notable of which is ***Lindsell Train Global Equity***. Run by the eponymous Nick Train and Mike Lindsell, it is a concentrated, high-conviction global equity fund which rarely changes its holdings. The stocks it holds are established firms with enduring brands, but these have suffered from being in a so-called 'forgotten middle' of the market. They have been neither pandemic beneficiaries, such as technology names, nor vaccine winners, such as the travel and leisure names. As such, they have been broadly ignored by a market competing between two different narratives, and have underperformed. We have seen a similar issue with ***Fidelity Global Dividend*** which has been a stalwart of the Core Selection. This underperformance is not enough to cause grave concern quite yet; we still believe in the capability of the managers' process over the long term and that their stock picking abilities will help them outperform when markets stabilise, but the development of their performance is worth keeping an eye on.

BIG TECH LEADS TO US DIFFICULTIES

RedZone has also seen a lot of North America funds perform badly. This has been exacerbated by the prevalence of ETFs. These are similar to traditional funds, but trade live on an exchange and are often run by a set of rules and parameters and rebalanced on a regular basis, rather than decided on by a manager. The worst ETF performers are those focused on specific industries or factors, such as utilities or value stocks. As they are focused on one area, they have underperformed the broader market. Furthermore, the performance of the index has been dominated by just a handful of key stocks (Tesla, Microsoft, Apple etc) which has made it a difficult period for active managers to outperform, as it is very risky to take an overweight position in these names.

TIDE TURNS AGAINST GROWTH

For a broader perspective, the latter half of 2021 has been a struggle for the high growth companies. ***Baillie Gifford Global Discovery*** is perhaps the best example of this. This fund had an exceptional 2020, with many of the companies it invests in being 'pandemic winners' such as online GPs, food delivery companies and ecommerce services. This trend has reversed in 2021, with the market looking more favourably on those benefiting from economies reopening. The prospect of higher inflation, leading to higher interest rates, has also undermined the prospects for these firms, as the benefit of ultra-cheap borrowing from which they have benefitted looks to be coming to an end.

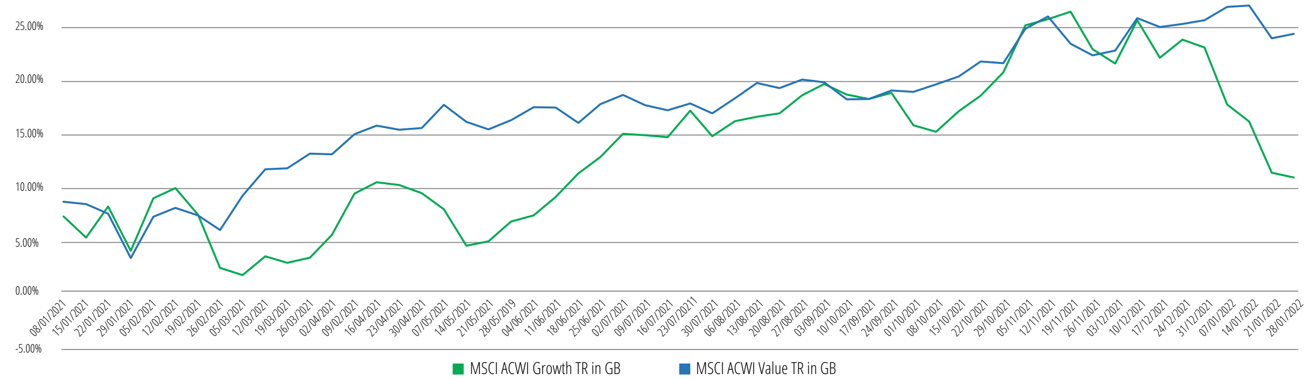
EMERGING MARKETS HAVE ECHOES OF 2007

Emerging market debt is a sector that features prominently in RedZone. Some of this is technical, with the universe divided into how the funds use currency, but there is still an upward trend. Emerging markets have also had a rocky period generally. It is a very wide sector and incorporates a great many regions and vastly different regimes and people. China has had a big influence on this performance. Some of this has been led by the Evergrande concerns. They were one of the largest property developers in the country and are in severe financial difficulties due to overleveraging. This led to fears of contagion and a 2007-style property crash. Furthermore, there has been a big regulatory clampdown in the education-for-profit sector in China. This reminded investors of what the other 'C' in the CCP stands for, and led to market volatility. Beyond China, there have been big political moves in areas such as Latin America and Eastern Europe which have added to investor concerns and resulted in market pullbacks.

SELECTION STALWARTS SEEM TO STRUGGLE

Eagle-eyed investors will notice that ***M&G Global Dividend*** looks to be underperforming. Despite the fund being a global equity income fund, it sits in the global sector due to its dividend growth approach. This means that manager Stuart Rhodes is not being forced into buying higher yielding but lower total return prospects, just to meet arbitrary sector rules. As such, we compare the fund to the global equity income sector against which it is outperforming. We have also seen one fund removed from the Chelsea Selection - ***Invesco China*** - which also features in RedZone. The fund has been underperforming for a sustained period and, while it has been a particularly difficult period for China, we have lost faith in the managers, with performance worsening as the mandate was amended to increase the allocation to the domestic A-Share market. The China sector is expanding, with some interesting new opportunities starting to show promise. We continue to monitor these, but the outlook for the region remains clouded. ***FSSA Greater China*** remains on the Selection and our preferred fund in the region for its defensive conviction qualities and good performance through the difficult backdrop.

GROWTH VS VALUE



Source: FE fundinfo 08/01/2021 - 28/01/2022, total return in sterling.

FEATURE

THE SUSTAINABILITY SPECTRUM

An under-the-bonnet look at ESG investing

RYAN LIGHTFOOT-AMINOFF
Senior research analyst,
Chelsea

Sustainable investing and the incorporation of environmental, social and governance (ESG) factors into investment strategies has seen an inexorable rise over the past few years.

There have been hundreds of new launches, multiple examples of legacy funds repurposed as ESG mandates and existing funds insisting some incorporation of ESG has been part of the process all along.

It has been difficult to keep up with. The landscape has also become swamped with different titles and acronyms - impact, ethical and socially responsible investing (SRI) to name just a few. This has led to claims of 'jumping on the bandwagon' and accusations of 'greenwashing'.

Ultimately, we believe sustainable investing is a spectrum, from traditional negative screening, where so-called 'sin stocks' are removed from an investable universe, to active engagement (using a stakeholding to enact change within the business). Each approach has its merits and drawbacks.

So here we aim to highlight three of our favoured ESG strategies and bring out what exactly they are trying to address. As well as that, we have asked them to discuss a specific talking point with which their fund has recently been associated.

THE SUSTAINABILITY SPECTRUM - MONTANARO BETTER WORLD

MARK ROGERS
Fund manager,
Montanaro Better World
Elite Radar by FundCalibre

The Montanaro Better World fund aims to achieve long-term capital growth by investing globally in quoted small and mid-cap companies that make a positive impact on the world.

Every company in the fund must provide products or services that help to solve one of the world's major challenges – such as climate change, the need for better education, or the provision of new healthcare services – in support of the UN Sustainable Development Goals (SDGs).

To help us identify such companies, we use a thematic framework of six impact themes: Environmental Protection; Green Economy; Healthcare; Innovative Technology; Nutrition; and Well-being. Companies must have at least 50% of revenue aligned to these themes and be run by management teams focused on generating positive impact over time.

The fund shares Montanaro's long-term quality growth philosophy. This means that we do not fall into the trap of buying "concept" impact stocks that sound impactful but are unlikely to deliver good investment returns.

THE SOCIETAL IMPACTS OF COVID ON OUR INVESTMENT UNIVERSE

Covid has had a huge impact on the investment landscape over the past two years. Healthcare budgets increased in the quest for a vaccine and improved testing for Covid-19. Several of our companies were actively and directly involved in helping to save lives. Technology was largely unaffected by the move to working from home and proved quite defensive. Our overweight positions to both sectors aided performance.

The portfolio has little exposure to the consumer and end markets that were initially most impacted by the pandemic such as restaurants, high street retail, airlines, banks, oil and gas. During short periods, however, these "value" areas of the market recovered strongly, such as when Pfizer and BioNTech announced the first effective vaccine in November 2020.

The arrival of the Omicron variant has unsettled the landscape once again, leading to extreme intra-day volatility in equity markets. Trying to time such short-term swings is not for us. We are long-term investors and have therefore spent the past few weeks ensuring that our portfolios are well positioned for 2022.

KEY FACTORS CURRENTLY AFFECTING THE PORTFOLIO

We remain of the view that the world is much better placed to deal with Covid than it was this time last year. This means that, with the exception of short-term restrictions, we think that economies will continue to open up and recover in 2022. As this happens, investors will grapple with the spectre of inflation, which raised its head time and again in 2021. Our view is that, by and large, our smaller companies can weather this turbulence because they are nimble enough, have enough pricing power, and are less exposed to commodity cycles and supply chains than many larger companies.

Aside from Covid and inflation, another global threat continues to impact the portfolio: climate change. We are continuing to work on a multi-year engagement project to encourage our companies to play an active role in creating a more sustainable environment.

WHY HAS THERE BEEN SUCH AN INCREASE IN POPULARITY IN ESG FUNDS IN THE PAST FEW YEARS?

The easiest answer to this is that many ESG funds have performed well over the past few years. Yet this is too simplistic. It is about more than headline returns, as important as this is. Investors increasingly wish to align their investment decisions with what matters most to them. If climate change is something they wish to do something about, they may not just be looking to buy an electric car, but will want to place their money in a fund that avoids fossil fuels. An additional element is that investors have woken up to the importance of not only ESG considerations, but impact investing too. They want to invest in companies that are providing solutions to the many problems facing the world. This is what our fund is all about: creating a Better World for tomorrow.

THE CHELSEA VIEW

We are big fans of the Montanaro approach: finding overlooked, small and medium-sized companies whose quality and growth potential has been under-appreciated by the wider market. This fund has a global mandate, with the addition of a straightforward positive impact screen, which is highly complementary to the strategy.

Chelsea Risk Rating: 8
AMC: 0.85%
OCF: 1.00%
Yield: .... N/A

THE SUSTAINABILITY SPECTRUM - NINETY ONE GLOBAL ENVIRONMENT

DEIRDRE COOPER
Fund manager,
Ninety One Global Environment
Elite Radar by FundCalibre

GRAEME BAKER
Fund manager,
Ninety One Global Environment
Elite Radar by FundCalibre

WAS COP26 MUCH COP? ASSESSING THE CLIMATE CONFERENCE'S INVESTMENT IMPLICATIONS

The idea behind Global Environment is simply this: we believe that companies, the products and services of which help the economy transition towards net zero, have the potential to grow revenues and profits faster than the market average. We think that should be good for investment returns, the planet and future generations.

Many investors have been wondering what COP26, the international climate summit, means for their portfolios. Given the focus of the Ninety One Global Environment fund, we were keeping a close eye on proceedings.

THE ENVIRONMENT IMPACT OF COP26 ON OUR INVESTMENT UNIVERSE

Medium- to longer-term, we don't think COP26 has changed the decarbonisation investment opportunity. The summit did not deliver everything people had hoped for. But nor did it derail the massive economic transformation taking place to transition to a low-carbon economy. In our view, decarbonisation remains a powerful tailwind for select businesses.

According to the International Energy Agency, achieving net zero requires a four-fold increase in wind, solar and renewable energy capacity by 2030. By that same year, the number of electric cars on the road must increase by 18 times. This is to say nothing of the huge changes needed to reduce emissions from industry, agriculture and the built environment. For businesses that provide the technologies, products and services to enable these transformations, we believe it's a once-in-a-generation opportunity.
In the near term, COP26 was always going to be more about sentiment than concrete outcomes that would alter investors' fundamental views on a sector or company. On these terms, it was something of a damp squib. The emissions pledges made by countries are still inadequate to achieve a 1.5c outcome and will result in higher emissions by 2030 than today. And the last-minute reprieve for coal was a disappointment for many. So there was no short-term 'pop' for environmental shares.

However, one decision that may have nearer-term investment implications is the pledge by 100+ countries to cut methane, a very harmful greenhouse gas. That could impact companies in the waste, oil & gas, and agriculture sectors in particular. Reducing methane isn't easy, so investors will need to monitor how companies are responding to the challenge. For me, this reinforces why it is important to be highly selective when investing in this area, and to focus on leading businesses with competitive advantages.

DECARBONISATION DRIVERS

Looking ahead, the three key drivers of the structural-growth being fuelled by decarbonisation – regulatory developments, technology advances and changing consumer preferences – will all remain highly relevant in 2022.

On the regulatory side, the Build Back Better legislation in the US – which has been whittled down to essentially just the climate measures – and China's decision to provide subsidised financing for 'green' sectors should fuel growth for select companies in 2022 and beyond.

In technology, sectors where we are seeing exciting developments include software companies that are helping to make buildings more efficient, and companies developing clean-tech solutions for areas that are difficult to decarbonise, like air transport. Food has been another focus of our research, given growing awareness of the need to reduce emissions from agriculture and food production.

As for consumer trends, a striking aspect of COP26 was how engaged the public was in the discussions. Addressing climate change is on almost everyone's agenda – which is one reason ESG funds continue to grow in popularity. As a result, consumer preferences are shifting further towards sustainable offerings. So whatever 2022 throws at us, we continue to see long-term opportunities for investors in decarbonisation.

THE CHELSEA VIEW

This fund's approach is genuinely unique. The proprietary screen used to build the investable universe is comprehensive and dynamic, to ensure the futureproofing of the strategy in the event of considerable technological enhancement. Subsequently, the fund is set to benefit from the massive tailwind of the some $2.4 trillion of annual spend required to meet global temperature goals.

Chelsea Risk Rating:	**7.5**
AMC:	**0.65%**
OCF:	**0.78%**
Yield:	**0.59%**

THE SUSTAINABILITY SPECTRUM - RATHBONE ETHICAL BOND

NOELLE CAZALIS
Deputy fund manager,
Rathbone Ethical Bond
Elite Rated by FundCalibre

Investing that integrates environmental, social and governance (ESG) principles has been shifting from the hinterland towards the mainstream for several years now. When the Rathbone Ethical Bond fund first launched back in 2002, it was very much a minority taste. Over the years, it's gradually won a wider investor base as more and more people have chosen to prioritise ESG principles. Millennials (and younger generations) are driving this trend and a huge wealth transfer towards these younger age groups is under way. Appetite for ESG investing has been further fuelled by the breakdown of the fallacy that sustainable investments can't generate attractive returns.

One of the key themes underpinning our fund is our focus on bonds that help build a greener world, whether that's by supporting sustainable energy sources (like wind, solar and hydro) and development projects, protecting biodiversity and natural resources or funding environmental education. COVID-19 may still be throwing huge spanners into the works of virtually everything, but it hasn't slowed the surge in the issuance of sustainable (i.e. green and social) bonds. These are being issued by more and more governments and companies to earmark funds for projects that benefit the environment and tackle a range of social problems (like affordable housing and the provision of healthcare). Bank of America recently announced that it expects $1 trillion sustainable bonds to have been issued by the end of this year. And the UK government has finally joined the green bond juggernaut. Its debut green gilt in September raised £10 billion, with investors placing more £100 billion in orders for these bonds, beating all previous records for British government debt sales.

GREEN... OR JUST GREENWASHED?

Huge investor appetite for green government debt seems to be encouraging companies to issue their own green bonds. More and more companies operating in 'mainstream' sectors (i.e. outside things like wind and solar energy) have been getting in on the green bond act.

But the market's growth is raising awkward questions about the legitimacy of some bonds labelled as sustainable. Strong investor demand for green bonds in particular has led to many being priced at a premium (or 'greenium') to conventional bonds, which means their issuers end up paying cheaper borrowing costs. This has led to claims that some issuers could be 'greenwashing' their bonds by spending more time and money on marketing them as environmentally friendly than on achieving meaningful environmental goals.

Closer scrutiny is the obvious way to counter this criticism. When we decide which bonds to buy, we always prioritise downside risks: how much money could we lose if the issuer can't pay the coupons? We must also be certain that the money raised by bonds labelled as sustainable will be ringfenced for a specific purpose. The issuer must have a clear sustainability goal that we're confident is achievable and will bring measurable benefits. We also expect the issuer to report back regularly on what's been spent and its impact.

Before buying any bonds for our fund, we carefully consider how they rate on a range of ESG metrics. We like bonds issued by select financial firms that we regard as well-capitalised, profitable businesses that we expect to prove resilient even if Covid-19 continues to make life challenging. When we consider which financial bonds we want to own, we carefully examine the ESG credentials of the businesses that they fund. For example, we don't want to invest in the bonds of a firm that makes an outsized proportion of loans to oil and gas companies.

This level of scrutiny involves a lot of painstaking work. But it's vital if we're to win the trust of our investors and thereby encourage them to do the right thing for the environment and society.

THE CHELSEA VIEW

This fund typifies stable management, with Bryn having been at the helm for over 17 years, with Noelle a deputy for over six. It has outperformed regardless of its ethical constraints, illustrating that income and ethics can be combined without sacrifice. It is a solid, core investment grade bond fund.

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

FEATURE

INDIA Vs CHINA Q&A

Investing in India and China has seen growing interest in recent times, but it can feel slightly like an unknown entity. Here, two regional experts - Mike Sell, fund manager of India Alquity, and Andrew Keiller, emerging market equity specialist at Baillie Gifford - answer questions to shed some light on investing in these two interesting regions.

MIKE SELL
Fund manager,
Alquity Indian Subcontinent
Elite Radar by FundCalibre

ANDREW KEILLER
Emerging market equity specialist,
Baillie Gifford Pacific

WHAT WOULD YOU CONSIDER THE INVESTMENT CASE TO BE FOR THE REGION? WHY SHOULD WE INVEST THERE NOW?

MS In our view, India represents one of the most exciting long-term investment opportunities globally. Firstly, India's working-age population of over 930 million, growing at approximately 1% per annum, will drive consumption for many years. No other country in the world will ever have such rapid growth, in stark contrast to China, which suffers from an ageing population and where the total workforce peaked in 2013. Secondly, with an urbanisation rate of just 35%, which is only a little more than half that of China, there is ample room for migration to the burgeoning cities to continue. Finally, there has been a strong drive by the government to formalise and reform the economy. The reform drive began with a financial inclusion initiative in 2014-15 to improve access to finance, followed by demonetisation, aimed at curbing corruption. A goods and service tax was introduced in 2017 to improve the efficiency of the tax system, replacing multiple existing central and state government taxes. More recently, the government has introduced several labour reforms and a new education policy, bringing higher expenditure on education and R&D. Besides on-going infrastructure spending, the government plans new land reforms, an electricity bill to improve competition and it's also working on the inclusion of Indian bonds in global bond indices to attract more foreign inflows.
In the nearer-term, India looks set to maintain robust GDP growth rates with 9%+ expected in this year, followed by 7.5% the following year. Inflation is well controlled and monetary policy will remain accommodative, in our view. Although we expect the current account deficit to widen next year, partly due to higher oil prices, it should remain modest, at around 2% of GDP. And, while equity market valuations are not cheap, we believe that they are justified by the strong recovery and positive multi-year structural themes.

AK I think China is the best country example of openness to change. I don't bring this up simply due to the regulatory change that companies are having to navigate during 2021, but instead because this might be a bigger driver of potential investment success in Chinese equities than we think.

China "has developed an astonishing propensity for adopting and adapting to innovations, at a speed and scale that is unmatched elsewhere on earth", Zak Dychtwald, author, founder of the think tank, Young China Global Group, wrote in Harvard Business Review in May 2020.

Change has been driven by countless factors, but the Chinese Communist Party's relentless desire to alter the economic progress model is clearly very important. This has led to rapid trial and error in both state and private spheres. As a result, the barriers to adopting new products and services are low. Chinese citizens are very willing to try and to trust new technologies.

HOW DO YOUR STOCK CHOICES REFLECT YOUR REASONS FOR INVESTING IN THE REGION AND WHAT ARE YOUR MAIN SECTORS/AREAS OF INTEREST?

MS At Alquity, we target attractive long-term returns through portfolios that invest in transparent companies with effective management. We particularly focus on companies that benefit from domestic, structural growth themes such as the burgeoning express delivery industry, digitalisation or the increasing penetration of the formal banking sector. Further examples include the rapidly growing manufacturing and IT sectors, as well as beneficiaries of India's rapid urbanisation and the increasing purchasing power of consumers.

AK 5G is just one example of China's willingness to try new technologies. Whilst most other countries have been dithering, China has got on and built more 5G base stations than the rest of the world combined.

China has a clear will to embrace new technologies and behaviours. And there is a way. The way is what we try to invest in. For me, this is the crux of the investment case for many Chinese companies – brute force innovation (NOT imitation), coupled with an open-minded potential customer base, used to change.

Take the healthcare sector as an example, where despite being very happy to avoid most companies in the sector, we do have exposure to a number of innovative companies. One example is Zai Lab, a founder-led company focused on bringing transformative medicines for cancer, autoimmune and infectious diseases to patients in China. Another is Ganzhou Kingmed Diagnostics Group, which is an independent clinical laboratory that provides clinical testing for the Chinese population. It has a transformational growth opportunity, likely to be driven by testing volumes and the outsourcing rate rising dramatically over the next decade.

Other technical factors support the Chinese story too. China contributes close to 20% of global GDP, more still to GDP growth, yet it is only around 5% of MSCI ACWI. As such, it is underrepresented in portfolios and benchmarks relative to its importance in the world.

WHAT ARE THE MAIN RISKS OF INVESTING IN THE REGION? WHAT KEEPS YOU UP AT NIGHT?

MS Of course, investing in India, as with any investment, is not without risks. Indeed, we must be cognisant of political risks ahead of state elections in early 2022, against a backdrop of the earlier farmer protests in Delhi. However, Prime Minister Modi's popularity remains high overall, and the ruling BJP continues to be in an extremely strong position nationwide, supported by the robust economic recovery.

AK One of the key challenges has been to find companies on the right side of policy where valuations are digestible. Most companies with clear policy support are already eye-wateringly expensive. The value we can add here is not in second guessing government policy, but instead in understanding the market reaction to this and where we might have a different view. In the long term we are of the view that much of the regulatory change is likely positive.

WHAT IS YOUR MEDIUM TO LONG-TERM OUTLOOK FOR THE REGION?

MS Valuations in the Indian market are never cheap, but reflect the unparalleled growth opportunity and the plethora of well-run companies. In our view, the long-term outlook for India remains exceedingly bright. Much improved macroeconomic management, on-going reforms which have opened the economy to increasing international investment (which has increased from $US9.4bn to $US43.8bn pa over the past 10 years) and powerful long-term structural forces have laid the foundations for a period of strong growth, which we expect to result in attractive returns for the long-term investor.

AK There is room for much excitement regarding China. Investors should get used to and comfortable with the model of progress for China that has both regulation and innovation at its core. For a long-term investor, history would suggest that this actually puts companies on a more sustainable footing than totally unshackled market forces.

THE CHELSEA VIEW

Alquity Indian Subcontinent

This fund offers exposure to the exciting domestic growth story in India through mid-sized companies. Charismatic manager Mike holds stocks that many large funds wouldn't even notice, let alone invest in. It is a fund that has rewarded investors in their pockets and their minds with the firm's admirable responsible approach.

Chelsea Risk Rating: 10
AMC: 0.80%
OCF: 0.90%
Yield: .... N/A

Baillie Gifford Pacific

China is a huge part of the Asia Pacific index and the fund currently holds over 30% in Chinese stocks. Lead manager Roderick Snell takes a sensible approach to some of the more cyclical opportunities and will also avoid investing in state-owned companies, prioritising good governance practices.

Chelsea Risk Rating: 8.5
AMC: 0.65%
OCF: 0.75%
Yield: 0.38%

REAL ASSETS

For a diversified portfolio, consider looking beyond equities and bonds to real assets, which can provide good inflation protection and a steady income. Vince Childers, fund manager of Cohen & Steers Diversified Real Assets, takes us through the fundamentals of this asset class.

VINCE CHILDERS
Head of Real Assets
Multi-Strategy
Cohen & Steers
Diversified Real Assets

WHAT ARE REAL ASSETS?

Real assets are a mix of physical structures and raw materials critical for economies to function and be productive, including:

- Commercial and residential property, including industrial warehouses, apartments, shopping centres, offices, self-storage and data centres
- Listed infrastructure such as electric utilities, renewable energy developers, toll roads, railways, airports and cell towers
- Natural resource equities, encompassing companies that own agribusiness, energy and metals and mining businesses
- Commodities, from petroleum products to steel, copper, silver, soybeans and livestock.

Real assets have historically been popular amongst institutional investors such as pension trustees and sovereign wealth funds and complement traditional portfolios concentrated in stocks and bonds. Listed real assets, which trade on public exchanges, provide a simple way for individual investors to gain access to these assets, with the added benefits of liquidity and low investment minimums.

WHAT ARE THE BENEFITS OF A DIVERSIFIED REAL ASSETS ALLOCATION?

Investments in real assets typically seek to achieve three core objectives: long-term capital appreciation, diversification and inflation resilience.

In a perfect world, there would be one asset class that could generally succeed across each of these goals. But in reality, each real asset tends to do some things better than others. For example, real estate has a history of strong returns, but has lagged in providing diversification and inflation protection. By contrast, commodities have historically made an excellent inflation hedge and portfolio diversifier, but returns have been less compelling.

We manage these tradeoffs by combining multiple real assets in one portfolio. This approach takes advantage of the unique performance patterns of each type of real asset to potentially deliver more consistent benefits over time. What's more, blending real assets together may smooth the ups and downs of individual asset classes, offering the potential for attractive returns with far less volatility.

WHAT ARE THE CONCERNS OVER INFLATION?

It's easy to forgive those investors who may be too young to recall any episodes where inflation has been a real consideration. But after decades of declining global inflation rates, a reckoning appears long overdue. In 2021, inflation surprise hit 40-year highs in some regions of the world, meaning that actual inflation exceeded expectations on a scale not seen since the early days of Thatcher and Reagan.

There's been a lot of debate over whether inflation is transitory or sustained. *But could both sides be right?* Even if short-term inflation peaks, the possibility of higher sustained inflation over the next several years should not be dismissed. Governments around the world have been taking advantage of historically low borrowing rates to enact fiscal spending programs designed to boost economic growth and achieve aggressive carbon reduction goals.
At the same time, many central banks have been working to drive inflation *higher*.

These inflationary policies could have major implications for asset allocations, as stocks and bonds have historically delivered their best returns in periods of below-median inflation.

And with real rates deeply negative and equity valuations near historic highs, traditional asset allocations appear to have little margin of safety to defend against the potential ravages of prolonged higher inflation. It is difficult to try and predict inflation, but real assets tend to deliver more favourable returns in rising inflation environments, without sacrificing long-term return potential and therefore offer a compelling opportunity to investors.

THE CHELSEA VIEW

Whilst new to the UK investment market, Cohen & Steers are global leaders and experts in this asset class, which means they have excellent scope and resources to assess this complex and disparate asset class. This supports an attractive, risk-managed approach as part of a diversified portfolio.

Chelsea Risk Rating: **4.5**
AMC: **0.45%**
OCF: **0.55%**
Yield: .... **N/A**

THE RISK OF FALLING IN LOVE

JAMES YARDLEY
Senior research analyst,
Chelsea

It's easy to fall in love with your favourite fund. However, there is a danger that you end up forgetting the rest of the market. The most common mistake I see is that investors have everything invested in one or two funds. This can lead to too much in one fund manager, one country, one style or one asset class. It can leave you vulnerable to sudden changes in the market. This doesn't apply to fund of funds which have many underlying funds and are a whole portfolio in their own right.

Every fund has a bad year at some point. Maybe the country it invests in falls out of favour or maybe its style of investing falls out of fashion. No fund can perform every year. This doesn't make it a bad fund but if you have your whole portfolio invested in one fund you're going to feel disappointed when it inevitably has a tough year. This is also why it's dangerous to chase performance and switch everything into funds which have only done well recently.

If you have everything in one or two funds you are taking on more risk than you need to and you're not being compensated for the extra risk you're taking. By mixing different funds together you can reduce your risk. The idea is different funds will perform in different ways to one another. When one is down maybe the other is up and hopefully they still both make a positive return over the long term.

The more different funds are the more they're going to help reduce the overall risk of your portfolio. For example, two UK growth equity funds are likely to perform in similar ways. There is a benefit to risk from holding both instead of one but it is likely to be fairly limited. Whereas, a UK government bond fund and an US equity fund are quite different. They're likely to be less correlated and therefore provide a greater risk benefit.

Let's look at a simple example. The market often rotates between 'risk on' and 'risk off'. In a risk on period people sell safety like government bonds and buy risk like stocks and in risk off its vice versa. By owning both in the same portfolio we can reduce our risk.

Take the great financial crisis or the March 2020 pandemic sell off for example. Both were examples of 'risk off'. Stocks fell heavily but government bonds rallied meaning an investor who owned both in a portfolio would have been cushioned from the worst of the damage and had lower risk. The tricky part is that correlations can change. There are times where both government bonds and equities are falling together – for example if interest rates rise faster than expected. That's where the skill of building a portfolio comes. Having a broad range of options is helpful and Chelsea investors have access to many thousands of funds to help them build their portfolios.

HOW TO USE THE CHELSEA RISK THERMOMETER

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

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

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

INVESTMENT THEMES FOR 2022

STEVEN BELL
Chief Economist
BMO Global Asset Management

Chief Economist at BMO Global Asset Management, Steven Bell, gives us his views and insights on what 2022 holds in store for the global economy.

As investors plan for the year ahead, they face a long list of worries. Omicron is sweeping the world. Restrictions are being reimposed in many countries but government support is limited. Indeed, fiscal policy is being tightened and central banks are preparing to tighten policy. Surging input costs, supply disruptions and labour shortages threaten corporate profitability.

After one of the longest and strongest bull markets in history, are equities due for a major correction? Is this the time to take the chips off the table and bank the gains already made? In my view there are good reasons why risk assets should continue to perform:

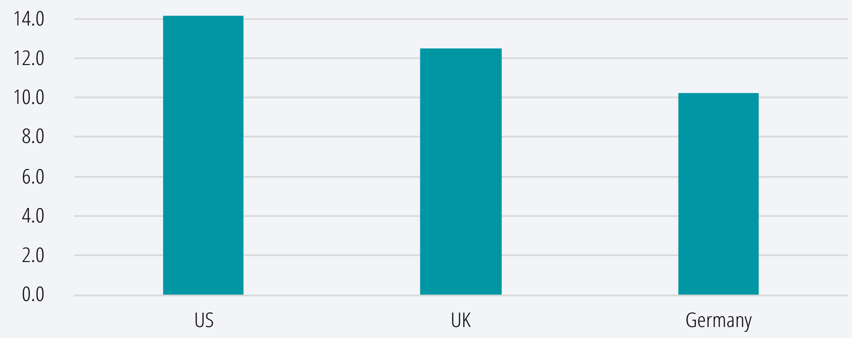
- Financial conditions remain exceptionally supportive.
- Company profitability is high and balance sheets are strong
- Household finances are also exceptionally strong in aggregate
- Economic growth may have suffered a setback over the winter due to Omicron but should recover as the year unfolds.
- Equities may have had a good run but valuations have improved and are far from being excessive given prevailing financial conditions.

Let's look at these issues in more detail. First, companies have taken advantage of supportive financial conditions to strengthen their balance sheets. They are cash rich and prepared to buy back shares, raise dividends and boost capex. Yes, fiscal policy is being tightened. The failure of the latest Biden fiscal package in the US means that the child tax credit has expired which will hurt consumer spending in the next few months.

COVID PIGGY BANKS

Cumulative saving as % of household income

Fig 01



The UK government announced £1bn of support for the hospitality industry but that is chicken feed alongside the expiry of the £20 per week additional universal credit, the increases in VAT and prospective rise in National Insurance contributions. Surging energy and other costs are squeezing incomes in every country. Despite all this, consumers have plenty of spending power with much of the enormous fiscal support over the past two years unspent. The chart above shows the cumulative savings made since covid arrived in Germany, the UK and the US. A sort of covid piggy bank. Even if only part of this is spent over the next few years, consumer spending will remain strong despite the squeeze on real incomes.

MONETARY POLICY

Second, although central banks are tightening policy, they are taking baby steps. Tapering by the Federal Reserve is just slowing their pace of easing. Federal funds lift-off will follow but interest rates will remain low in both nominal and real terms. Past experience suggests equities perform well even after the Federal Reserve starts tightening. Bear markets typically set in when the economy turns down or there is a financial squeeze. Neither of these looks imminent.

Third, the supply shortages and disruptions that have been such a feature of the pandemic recovery are easing. Exports of semi-conductors from Korea and Taiwan are strong and the benefits are now being seen in increased output in many areas, notably autos. With Christmas behind us, pressures on shipping and air freight have eased considerably.

As the weather improves in the Northern Hemisphere – one forecast we can rely on – energy prices should ease too.

Finally, let's take a look at valuations. Although equities rallied strongly last year, earnings grew even faster so valuations improved. Even though official interest rates are set to rise in the UK and US in 2022 and bond buying programmes end, yields remain at record lows when set against inflation. The fundamental value of a company is the path of future earnings discounted to present value, and that discount rate is very low. So while equities are not cheap, they are far from being expensive.

Yes, there are headwinds and I do not expect a super strong year for equities but returns of 5-10% seem reasonable.

FURTHER AFIELD

That is the prospect in my view for equities in developed markets. It is a rather different story in emerging markets. Covid piggy banks are smaller or non-existent. Interest rates have been rising in many EM countries for a year or more. China has not suffered higher interest rates but it has much bigger problems. The huge over-indebted property sector is struggling and this will handicap the economy for years to come.

SECTORS TO WATCH

In terms of sectors, large-cap companies might continue to outperform their smaller counterparts. They have greater pricing power in general and should be better able to cope with labour shortages. There is pent-up demand for travel and leisure but I'm not sure how rapidly consumer confidence will recover in the face of fears of new variants.

The past few years have seen a plethora of unprecedented forces. Yet governments, businesses and society as a whole have coped remarkably well, helped by amazing medical support. Financial markets have benefitted from this and should continue to deliver solid returns.

1YR FORWARD P/E RATIOS

Fig 02

- P/E are price earning multiples, the ratio of a Stockmarket price to the total earnings of the companies within it.
- It is a measure of how much investors must pay for a year of earnings, in this case consensus earnings for the year ahead.

***Fig 01* - Source:** Bloomberg and BMOGAM estimates as at 28/12/2021.
***Fig 02* - Source:** Datastream and BMOGAM as at 28/12/2021.

VENTURE CAPITAL TRUSTS (VCTS)

AN OVERVIEW

PETER HICKS
Research analyst
Chelsea

WHAT ARE VCTs?

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

YOU MUST ACT QUICKLY

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

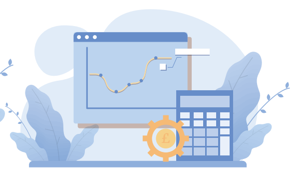
TAX BENEFITS FROM VCTs

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

TAX RELIEF EXAMPLE

INITIAL INVESTMENT
£10,000

30% INCOME TAX RELIEF
£3,000



70% EFFECTIVE INVESTMENT COST
£7,000

NAME OF VCT	TYPE OF VCT	MINIMUM INVESTMENT	CHELSEA DISCOUNT	CLOSING DATE ^
Amati AIM VCT	AIM	£4,000	2%	Opening soon with limited capacity!
Northern VCTs	Generalist	£6,000	2.75% existing, 2.25% new	31/03/2022
Pembroke VCT	Generalist	£5,000	2.50%	05/04/2022

^ For the 2021/22 tax year.

DON'T MISS OUT – JOIN THE CHELSEA VCT MAILING LIST TODAY

Please contact Peter on either **020 7384 7300** or **peter@chelseafs.co.uk** to receive notifications and personal service.

FIVE THINGS TO CONSIDER

1 Investors must be aware the **tightening of regulatory rules has shrunk the pool of investments** available to VCT providers. A smaller pool of companies means there is likely to be more competition to invest – which could result in valuations increasing. This is where existing providers offering top-ups have an advantage – for now. They can still hold existing less risky investments. Dividend payments have been a popular way for providers to pay off excess cash in their portfolios in the past couple of years, and this is likely to remain so in a bid to comply with the rules.

2 Investors should know that **VCTs fall into three main camps**, with the majority being classified as 'Generalists' – these VCTs basically have the flexibility to invest anywhere they feel the opportunities lie. By contrast the second group (Specialists) focus on a specific area, for example technology. These tend to be smaller in size but have higher fixed costs. The third group is Alternative Investment Market (AIM) VCTs, these are listed portfolio companies meaning they are required to meet minimum regulatory and governance requirements. One benefit of these offerings is they can be easier to sell than their unquoted counterparts.

3 **Management of a VCT can also play a key role.** With the exception of AIM companies, VCTs invest in unlisted companies, which means providers need to take a closer look at the management of a company and the industry it invests in. All of this helps to understand the long-term growth story. This is where VCT management with a strong network will have a distinct advantage over their peers. They have the ability to target these early-stage companies before they enter a bidding war with a growing number of competitors – deal flow has become more important than ever.

4 **Negotiation is a critical - yet often overlooked - part of venture capital investing.** Deals are often made face to face and management who can deliver on this front have a strong advantage. Some VCT managers can go as far as to simulate and practice negotiation via the use of external training teams, with the training focused around them being able to extract as much value from their deals as possible. It is also an important consideration when selling their positions. A VCT manager may not always be the highest bidder, but will aim to add value through their network of contacts and knowledge of growing small businesses. To put this into context, many VCT providers actively participate in the company's growth plans. It's not uncommon for a VCT manager's team to sit on the board of directors, allowing them to actively participate in a company's development.

5 **VCTs invest in higher risk,** smaller companies which may fail. They are also very illiquid, which means investors may end up investing for longer than the minimum five-year period. There is a risk that you will get back less than your original investment. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

IMPORTANT NOTICE: Please be aware that VCTs are long-term, highly illiquid investments. VCTs usually invest in small, unquoted companies and 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 relief is restricted to total VCT investments for each investor to £200,000 per tax year. Tax is subject to statutory change and the value of tax relief (if any) will depend upon individual circumstances.

FUNDS UPDATE

UPDATE

JULIET SCHOOLING LATTER
Research director
Chelsea

ARTEMIS STRATEGIC BOND

The long-standing management of this fund has changed, with James Foster and Alex Ralph handing over management duties to the Edinburgh-based Juan Valenzuela and Stephen Snowden. Artemis has seen a big change in its fixed income team. Stephen Snowden came over from Kames (now Aegon) and brought several colleagues with him, Juan included, to set up a range of funds for the boutique in 2019. The team have now consolidated, with Stephen taking the role of head of fixed income as part of this. While we believe in the capabilities of the team to make a success of this fund, the wholesale change in management has led us to move the fund to a hold rating while the changes settle.

MONTANARO UK INCOME

We have been supporters of this fund since its early days. We like the firm's boutique nature and their focus on small- and mid-sized businesses. Because of this support, we were able to offer Chelsea clients the seed share class of this fund at just 0.25% annual management charge. However, the fund has now grown in size, due to inflows as well as excellent performance, and Montanaro have taken the decision to increase the fee on this share class to 0.45% gradually over the course of a four-year period. Rather than close it to new investors. While a fee increase is never welcome, the fees on this fund are still nearly half of the industry average, for a top performing fund.

There has also been a slight change in the fund's management. Eponymous founder Charles Montanaro remains a co-manager on the fund and still very involved in the process, but Guido Dacie-Lombardo has taken on lead manager duties. Guido joined Montanaro as an analyst in 2015 from Rothschild where he worked in a variety of roles from M&A to corporate finance and is a graduate of

FIDELITY GLOBAL ENHANCED INCOME

This fund was previously run by Dan Roberts as a mirror of his Fidelity Global Dividend fund, with an overwriting strategy on top to increase the income at the expense of total return potential. Fidelity are amending the management and approach slightly. Dan will remain manager of the Global Dividend fund, but management of the Global Enhanced Income fund will transition to Jochen Breur - manager of the Fidelity Asian Dividend fund - and Fred Sykes. The mandate will stay broadly the same; looking for an attractive, resilient and higher level of income from a relatively low-risk, high quality portfolio of companies. However, the Global Dividend portfolio and Enhanced funds will diverge as Jochen and Fred take charge. Dan will no longer be a named manager after a 12-24 month handover period. Despite this change, we still believe Jochen and Fred are capable managers, and the overall goal of the fund remains the same and therefore the fund maintains a generic buy rating. This fund, though, has underperformed recently, primarily due to its type of stocks being in a 'forgotten middle' of the market which has moved between 'lockdown winners' and 'reopening winners' during the pandemic. We believe the fund's holdings should come back into favour once pandemic concerns ease. The fund remains one of the better enhanced income funds in a market where income is increasingly scarce but still in strong demand for investors.

BUY

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

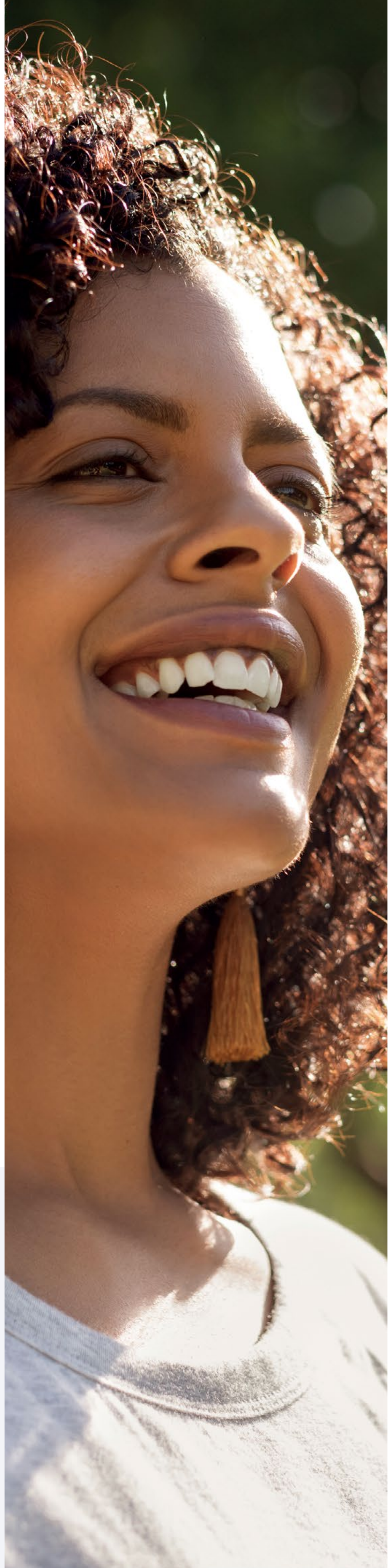
HOLD

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

SWITCH

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

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



WOULD YOU RECOMMEND CHELSEA?

REFERRALS

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

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

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

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

1 YOUR DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

2 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

3 FRIEND'S DETAILS

Title: ☐ Mr ☐ Mrs ☐ Ms ☐ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

WE'RE HERE TO HELP

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

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