~ ISSUE 58 · NOVEMBER 2024 ~

VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS

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Where are global fund managers finding opportunities?

P24-25 GLOBAL EMERGING MARKETS

Two GEM fund managers tell us why and where to invest in global emerging markets

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Welcome to the Autumn 2024 edition of Viewpoint.

In addition to our fantastic regular pages, our main feature explores investing in global markets, and a second feature looks at two global emerging markets funds. We also take an in-depth look into bond markets.

Our VT pages give you a fascinating snapshot of some of the companies the VT Chelsea managed funds invest in.

I hope you enjoy your latest edition of Viewpoint.

DR JOHN HOLDER
Chairman,
Chelsea

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

MARKET VIEW

RATES, RATES AND MORE RATES

I wanted to start with a trip down memory lane. To 2013 to be precise, as this was when the then governor of the Bank of England (BoE) Mark Carney introduced something called "forward guidance".

Forward guidance is designed to give the market some insight into what central banks are thinking about the direction of interest rates based on the data they have – it is a tool aimed at boosting market confidence. Other central banks in the developed world, such as the US Federal Reserve and the European Central Bank, also employ this strategy.

Fast forward to 2024 and this unconventional tool has been found out – it is actually flawed! It was only in late September 2024 that current BOE governor Andrew Bailey announced that interest rates would fall gradually, despite inflation falling back to a more palatable level of just 2.2% in the UK. Yet barely a week later (October 3) Bailey revealed the BoE could cut rates more quickly if price rises remain under control. As of writing, rate cuts in both November and December 2024 are being predicted by the bond market for the UK. Bailey could easily change his mind again, so there is no clarity, leaving many in limbo.

I have a colleague who, like millions of others in the UK, is set to refinance his mortgage in the next few months. The cost of living means they want the best deal – but Bailey's comments on quicker rate cuts are deterring them from re-mortgaging in the fear they might miss out on a better deal.

The reality is central banks do not know what is happening and seem to be easily swayed by one data point. Take the US Federal Reserve as an example. A few weeks ago there were concerns about a hard landing (recession) in the US, amid growing fears about a weakening jobs market. The response was a cut of 0.5% to US interest rates – the first in four years. We then saw stronger jobs data in September, with employers adding 254,000 jobs and suddenly this worrying narrative has disappeared.

We are now living in a world where we are incredibly reactive to interest rates with "forward guidance" not appearing to be particularly helpful.

WHAT IMPACT DOES THIS HAVE ON INVESTORS?

This makes the world of investing challenging. I only recently met with a bond manager who said the market was pricing in seven or eight rate cuts by the US Federal Reserve before we hit the bottom. The manager believes this is too many cuts and will look to take a different view from the market to make money. However, investors are getting incredibly mixed signals, making investing in areas like infrastructure, real estate or smaller companies a tough call.

We also have to consider geopolitical events in this conundrum. The crisis in the Middle East is first and foremost a horrible human tragedy, but it also affects the oil price, which has already risen from $70 to $80 a barrel and could go past $100 – which would have a big impact on inflation. Events in the US this November are also likely to be inflationary, as whoever wins the US election is likely to impose steeper tariffs on China.

It brings me back to my word of the year for investors – which is balance. We have seen tremendous resilience in markets throughout 2024 and being too cautious carries risk as well.

DARIUS MCDERMOTT
Managing director,
Chelsea

Diversification is always important, but particularly so today.

The final thing I want to touch upon is two areas of the market which have been heavily maligned in recent years. The first is China, a market which has almost halved in value, following a regulatory crackdown by the government in early 2021 and the property crisis. The recent announcement of stimulus has seen a strong turnaround in performance and there is scope for further gains given that valuations still look attractive. However, some would say the region is too volatile to invest in given the government can make an investment worthless overnight. It is a tough balancing act. What I would say is it is a welcome boost for both Asia and emerging markets to see a change in fortunes for the world's second largest economy.

And finally closer to home, as of writing we await the output from the UK Budget (30th of October) where we hope to have more positive news on lifting UK equities out of the doldrums by making them more attractive to investors.

***Source:** IMF World Economic Outlook – January 2024
****Source:** Capital Markets Industry Taskforce . Bloomberg Data as of 31 October 2023

CHELSEA ISA UPDATE

MAKE YOUR FUTURE LESS TAXING

THE ISA: YOUR INVESTMENT ALLY!

In a time when taxes are rising, ISAs are more valuable than ever.

As well as the main adult ISA allowance of £20,000 per year, you can save up to £9,000 annually for children under 18. You pay no tax on any investment gains or income, and you can access your funds whenever you want.

INTRODUCING THE FLEXIBLE ISA ALLOWANCE

Withdrawn funds now increase your ISA allowance, allowing reinvestment within the same tax year - including income paid out. Chelsea will notify you of your remaining allowance towards the end of the tax year if this applies to you.

INVEST TAX FREE WITH THE CHELSEA ISA

- £20,000 ISA allowance / £9,000 Junior ISA allowance.
- Save tax. No income or capital gains tax.
- Choose from our popular VT Chelsea Managed funds or pick your own funds.
- Get started in minutes. Low minimum investment amount - open or top up from as little as a £5 lump sum, or £5 a month.

SAM HOLDER, CFP
Operations director,
Chelsea

TRANSFER YOUR ISA

As Cash ISA rates are now falling from their peak, stocks and shares ISAs are becoming a more attractive option for those seeking potentially higher returns.

Although investing in stocks and shares involves a greater risk, the potential returns can far exceed those offered by cash ISAs.

If you would like to transfer an ISA, simply complete the ISA transfer form in your application booklet and return it to us. We will take care of the rest.

Please remember that ISA and tax rules can change and any benefits depend on your circumstances. You should remember that the value of investments, and income from them, will fall as well as rise so you could make a loss. For this reason, those investing should be comfortable investing for the longer term and the possibility of losses.

THE 2024/25 ISA ALLOWANCES ARE AS FOLLOWS:

Chelsea ISA:

£20,000

tax free every year.

Chelsea Junior ISA:

£9,000

tax free for those under the age of 18.

THREE EASY WAYS TO BUY YOUR ISA

Simply call **020 7384 7300**

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

Send us a completed **application form**

SEVEN REASONS TO CONSIDER A STOCKS & SHARES ISA

- 0% capital gains tax
- 0% tax on interest
- 0% tax on dividends
- Interest rates on cash savings look set to fall from here
- Access your money whenever you want
- There is no need to declare on your tax return
- Inheritable ISA allowance – leave your ISA pot to your spouse/civil partner

RISK

THE RISK OF CHASING PERFORMANCE: WHY YESTERDAY'S WINNERS COULD BE TOMORROW'S LOSERS

The type of stocks in which to invest is at the heart of a fund manager's decision-making process. Funds are typically categorised by the size of the companies in which they invest, broadly ranging from small, to mid to large-caps and by their investment style - growth, value or blend. Growth stocks represent companies expected to grow at an above-average rate; value stocks are those considered undervalued based on fundamental metrics; and blend being companies that have a mixture of both styles.

A fund's performance is heavily influenced by its style, which is not always obvious. So, understanding the style of the funds you own is crucial because certain styles perform better in specific macroeconomic environments. When one style, such as growth, is in favour, the other, like value, is typically out of favour—and vice versa. These trends can sometimes be quite extreme, leading to solid outperformance of certain funds in different years.

This can often lead investors to chase after funds that have performed well during these phases, pouring money into funds that delivered impressive returns the previous year. While this might seem like a wise strategy on the surface, history suggests it can be a dangerous trap. This is because investors are inadvertently increasing their exposure to style risk and might be running the risk of allocating capital to substandard managers who have just had the fortune of benefitting from a style tailwind. This results in portfolios becoming lopsided, with too much reliance on a single type of company. Should the market turn, those heavily skewed portfolios will see synchronised declines, eroding value across the board.

To take a recent example, in 2020 a well-known fund returned a staggering 76.80% against the global sector average of 15.27%, finishing 5/417 in its sector. However, over the following two years, it returned -20.59% (459/459) and -38.44% (495/498), a combined total of -63.31% behind the global sector, effectively giving up all the outperformance. This is not unique to this fund; many other funds across various sectors have gone from the top of the charts to near the bottom the very next year. This fund was heavily skewed towards small-cap and growth stocks, which were in vogue in 2020 but went heavily out of favour in the following years, amid rising interest rates and inflation concerns. Investors who chased the previous year's performance found themselves on the losing side of the equation.

Constantly switching between funds based on past performance is rarely effective. Even the most successful fund managers cannot consistently beat the market every year. While certain styles will have their moment in the sun, they eventually cycle out, leading to periods of underperformance.

The best approach for investors is to avoid reacting to short-term trends and instead focus on long-term strategies. There is a reason the funds in the selection are not always the best performers over one year, but usually have very strong 5 and 10 year numbers. Diversifying your portfolio across various fund styles and asset classes helps mitigate the risks posed by market fluctuations. A well-diversified portfolio holds different types of funds that behave differently depending on market conditions. This reduces the correlation of your investments, which is crucial during times of market stress.

If you have a strong view on a particular sector or style, you can tilt your portfolio towards it, but it's vital to ensure you have a balanced foundation. This gives your portfolio a safety net should your strong view not pan out as expected. By diversifying and taking a long-term view, investors can better manage their risk-reward balance and avoid the pitfalls of chasing yesterday's winners. A broad approach that considers valuation, style, cap-size and geographic exposure will lead to more resilient portfolios over time.

JOSS MURPHY
Research analyst,
Chelsea

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

HOW TO USE THE CHELSEA RISK THERMOMETER

The Chelsea Risk Rating appears throughout this magazine and is simply a generic guide to the relative risk of funds within the market. It is up to you to determine your optimum asset class mix. The Chelsea Risk Rating is shown as 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 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.

VT CHELSEA MANAGED FUNDS

THE CHELSEA RESEARCH TEAM (L TO R):

JOSS MURPHY
Research analyst

DARIUS MCDERMOTT
Managing director

JULIET SCHOOLING LATTER
Research director

JAMES YARDLEY, CFA
Head of investments

TUPPENCE

"You see Michael, you'll be part of railways through Africa, dams across the Nile, fleets of ocean greyhounds, majestic self-amortising canals and plantations of ripening tea. All from tuppence!"

Watching the film Mary Poppins was my first introduction to investing as a child. George Banks, director at Fidelity Fiduciary Bank, takes his children to work in a desperate (and ultimately failed) attempt to teach them the value of saving.

To me, as a child, investing sounded exciting. I loved the idea that a tiny investment could have an impact across the world and grow into something much bigger. Of course, in the film the children wanted to spend their money on feeding the birds, and the implicit message from the film is that they were right to do so. I must confess, I have always sided with Mr Banks.

I recently watched the film again with my own children (the first time for them), and my opinion has still not changed. Banks' determination to impart the wisdom of saving to his children was enlightened. Forget the birds! I guess, in hindsight, I always was destined for a career in investing!

Despite the great song, back in 1910 the average investor would have had a hard time investing in a diversified fund at a reasonable cost. Call me over zealous but I find the modern-day financial industry extraordinary. Anyone can invest almost any amount, in practically anything, anywhere.

We certainly try to take advantage of that on your behalf in the VT Chelsea Managed funds. We leave no stone unturned in our search for good investments across the globe.

When you invest in a fund it can be easy to get lost in the financial jargon and feel removed from what's actually going on. So we thought we would delve into what your money is actually invested in. And like the Mary Poppins' song, we will try our best to impart some of our enthusiasm for these investments to you. Hopefully we will have more luck than Mr Banks.

We may not have dams across the Nile, but we do have wind farms in the Scottish Highlands, olive processing plants near Granada, supermarkets in Paris, data centres in Kyoto, an ambulance hub in Bury St Edmunds, recycled energy plants in Michigan, four of the largest commercial aircrafts in the world and much, much more.*

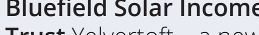
Despite a strong year for the funds, many of these assets still trade on a discount to their stated net asset value. That means we can buy them on your behalf for less than they are potentially worth. If interest rates continue to fall, we think this will support the value of these assets, many of which are paying out very generous dividends.

Greencoat UK Wind
Humber Gateway – Greencoat UK Wind owns a 37.8% stake in this huge offshore wind farm. It makes up 9% of its portfolio.

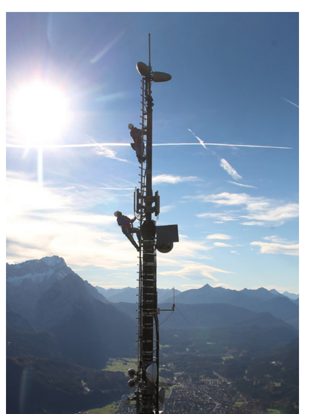
***Source:** As at 30/09/2024
Wind farms in the Scottish Highlands – Greencoat UK Wind.
Olive Processing Plants near Granada – Oliva, an important holding in SDCL Energy Efficiency Income Trust.
Supermarkets in Paris – Carrefour, Market Paris Nationale and Carrefour, Market Paris Tobiac – two positions in Supermarket Income REIT.
Data centres in Koyoto – CyrusOne, a large position in Pantheon Infrastructure.
An ambulance hub in Bury St. Edmunds – Assura.
In SDCL Energy Efficiency Income Trust's portfolio, they have an investment in three recycled energy projects in Michigan.
Stock and investment trusts examples are for illustration purposes only and are not a recommendation to buy. Chelsea views may have changed at the time of print.

Supermarket Income REIT
Sainsbury's in Ashford. One of 73 stores in the Super Market Income REIT portfolio.

Doric Nimrod Air Two and Doric Nimrod Air Three
An Emirates A380 – Doric Nimrod Air Two and Three (DNA2 and DNA3) own and lease A380 aircraft to Emirates. The A380 is one of the most highly rated aircraft by passengers in the world and it has become synonymous with Emirates. DNA2 recently agreed to sell its remaining 5 A380s back to Emirates. 4 A380 aircraft remain in DNA3.



Bluefield Solar Income Trust Yelvertoft – a new 50MW solar farm recently completed. One of many UK solar farms in the Bluefield portfolio.



Pantheon Infrastructure
GD Towers – the largest tower operator and telecom infrastructure network in Western Europe. Pantheon Infrastructure trust has a £42m minority investment alongside the sponsor Digital Bridge. It makes up around 7.8% of the Pantheon portfolio.

Assura
Cinderford health centre, which houses both Dockham Surgery and Forest Health Care. One of 614 properties in Assura's portfolio.

Target Healthcare REIT
Gower Gardens. One of 94 modern care homes in Target HealthCare REIT.

Assura
New ambulance hub in Bury St Edmunds which was very recently completed. It has a fully integrated repair workshop.

Pantheon Infrastructure
'The Gysers' geothermal plant in California, owned by Calpine. Calpine is a huge independent power producer with power plants all across the US. Pantheon Infrastructure holds a £77m minority investment alongside sponsor ECP. The position makes up around 14% of the value of the trust.

VT CHELSEA MANAGED

CAUTIOUS GROWTH

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:	**0.91%**
Payment dates:	**30th Jun, 31ST Dec**
Indicated yield:	**4.21%**
Performance since launch:	**34.39%**
Sector average:	**22.82%**
Chelsea Risk Rating:	**4**

PERFORMANCE SINCE LAUNCH

VT Chelsea Managed Cautious Growth A Acc GBP in GB — IA Mixed Investment 20-60% Shares TR in GB

Source: FE Funds Info 05/06/2017-25/09/2024 total return in sterling

BALANCED GROWTH

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:	**0.77%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**51.27%**
Sector average:	**26.56%**
Chelsea Risk Rating:	**5.5**

PERFORMANCE SINCE LAUNCH

VT Chelsea Managed Balanced Growth A Acc GBP in GB — IA Mixed Investment 40-85% Shares TR in GB

Source: FE Funds Info 05/06/2017-25/09/2024 total return in sterling

WHAT ARE THE RISKS?

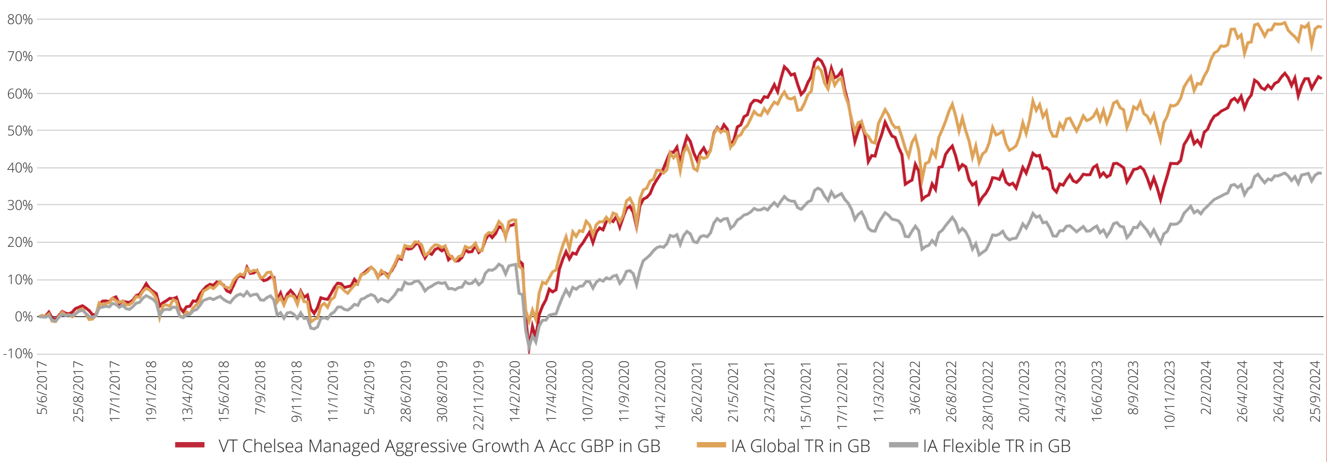
Past performance is not a reliable guide to future returns. It is essential to understand that investments can go down as well as up in value. You may not get back the amount initially invested and income payments are not guaranteed.

AGGRESSIVE GROWTH

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 than the other VT Chelsea Managed funds.

KEY FACTS:	
Ongoing charges figure:	0.88%
Payment dates:	N/A
Indicated yield:	N/A
Performance since launch:	63.90%
IA Global sector average	77.75%
IA Flexible sector average:	38.51%
Chelsea Risk Rating:	7

PERFORMANCE SINCE LAUNCH



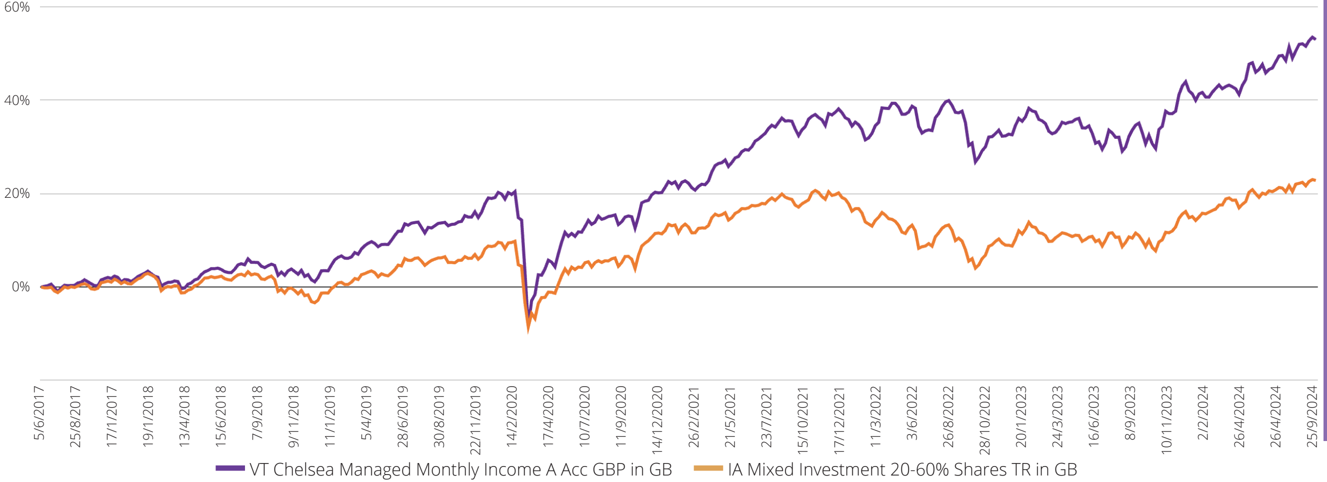
Source: FE Funds Info 05/06/2017-25/09/2024 total return in sterling

MONTHLY INCOME

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

KEY FACTS:	
Ongoing charges figure:	0.73%
Payment dates:	Monthly
Indicated yield:	5.96%
Performance since launch:	52.96%
Sector average:	22.82%
Chelsea Risk Rating:	4.5

PERFORMANCE SINCE LAUNCH



Source: FE Funds Info 05/06/2017-25/09/2024 total return in sterling

MORE INFORMATION »

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

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

Indicated yields and ongoing charges figures (OCFs) are correct as at 25/09/2024.

† 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

SPOTLIGHT

ARTEMIS UK SELECT

This fund is a concentrated portfolio of the best 40-50 stocks found by Ed and Ambrose, as they aim to combine top-down macroeconomic views with fundamental bottom-up analysis. The fund has a multi-cap approach and targets individual stocks the managers believe offer a non-consensus insight. This means the fund will never hold a stock just because it represents a significant proportion of its benchmark. In addition to this, the fund also has the ability to hold short positions in selected holdings where the managers believe a company may have negative prospects and can consequently make money from a falling share price. Ed and Ambrose have an excellent long-term track record.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%[#]
ONGOING CHARGES FIGURE (OCF)	0.82%[+]
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	2.73%
UNIT TYPE	ACC/INC

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)	0.81%[*]
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	0.9%
UNIT TYPE	ACC/INC

LIONTRUST SPECIAL SITUATIONS

This UK multi-cap fund is a 'best ideas' portfolio, encompassing any stock regardless of size or sector. However, there will usually be around 50% in small and mid-cap stocks. The managers, Antony Cross, Julian Fosh, Victoria Stevens and Matthew Tonge, 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	BRONZE
YIELD	2.07%
UNIT TYPE	ACC/INC

LIONTRUST UK MICRO CAP

Investing in Britain's smallest businesses, with a market capitalisation of less than £150m, this fund applies the team's proven 'economic advantage' investment process to micro-caps - a part of the market that tends to be under-researched. The fund was launched in March 2016 and is run by a team of five. The team undertakes detailed fundamental research, preferring to avoid simplistic screens, which they feel can be misleading. They aim to invest only in profitable companies, which must have at least one intangible asset, such as high recurring venues or a strong brand. This is a long-term, low-turnover strategy. **NB This fund carries a large bid-offer spread, currently around 4%, at the time of going to print.**

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	1.25%[#]
ONGOING CHARGES FIGURE (OCF)	1.34%[+]
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.88%
UNIT TYPE	ACC

MI CHELVERTON UK EQUITY GROWTH

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

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.75%[#]
ONGOING CHARGES FIGURE (OCF)	0.87%[+]
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	1.52%
UNIT TYPE	ACC/INC

WS 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 the 40-50 holding portfolio.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.90%[^#]
ONGOING CHARGES FIGURE (OCF)	0.96%[^+]
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.53%
UNIT TYPE	ACC/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 5 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)	0.91%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.36%
UNIT TYPE	ACC/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 mainly 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)	0.91%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.61%
UNIT TYPE	ACC/INC

IFSL 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 typically have difficult-to-replicate business models, strong market positioning 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	0.88%#
ONGOING CHARGES FIGURE (OCF)	0.88%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	2.77%
UNIT TYPE	ACC/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	-
ONGOING CHARGES FIGURE (OCF)	0.66%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.48%
UNIT TYPE	ACC/INC

MAN GLG INCOME

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.90%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	5.03%
UNIT TYPE	ACC/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	0.40%#
ONGOING CHARGES FIGURE (OCF)	0.52%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	3.60%
UNIT TYPE	ACC/INC

WS 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	0.79%#
ONGOING CHARGES FIGURE (OCF)	0.79%
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	2.06%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 25/09/2024. Yields as at 25/09/2024 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 Rothbarth took over sole charge of the fund in January 2020, after Alister Hibbert stepped down as lead manager, and he 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)	0.91%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	0.94%
UNIT TYPE	ACC/INC

CT 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)	0.79%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.77%
UNIT TYPE	ACC/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)	0.80%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	2.07%
UNIT TYPE	INC

SPOTLIGHT

LIONTRUST EUROPEAN DYNAMIC

Liontrust European Dynamic is a concentrated fund of around 30-40 holdings. The managers, James Inglis-Jones and Samantha Gleave, believe cash flow is the single most important determinant of shareholder return. They look at around 1,200 companies that have sufficient liquidity within Europe. They then create a 'Cashflow Champions Watchlist'. Stocks are ranked in order of attractiveness across two screens - a quality screen and a value screen - with the top 20% comprising the Cashflow Champions. The managers then conduct fundamental research on each company, carefully examining annual reports and accounts. This is a core European holding which will adapt the portfolio to prevailing market conditions.

CHELSEA RISK RATING	7
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.85%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	1.75%
UNIT TYPE	ACC/INC

US

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	GOLD
YIELD	1.05%
UNIT TYPE	ACC/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 and 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)	0.83%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.13%
UNIT TYPE	ACC

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 5 for further details.

ASIA PACIFIC, JAPAN AND EMERGING MARKETS

FIDELITY ASIA PACIFIC OPPORTUNITIES

Singapore-based Anthony Srom manages this high-conviction fund of around 30 stocks. Higher conviction should not mean higher risk and the portfolio is carefully constructed to ensure good diversification. Stock selection is based on three factors: fundamentals, sentiment and valuation. Anthony has a contrarian instinct and understanding investor 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	SILVER
YIELD	-
UNIT TYPE	ACC/INC

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)	1.09%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	1.83%
UNIT TYPE	ACC

GQG PARTNERS EMERGING MARKETS EQUITY

All the funds at Florida-based GQG Partners are led by founder and veteran fund manager Rajiv Jain. The fund is a concentrated portfolio of high-quality companies with durable earnings. The team emphasises the importance of future quality, rather than companies which have simply done well historically. As a result, they screen for stocks with stable financials and solid balance sheets. They also utilise a team of investigative journalists and specialist accountants to help give them an edge in examining companies.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.90%#
ONGOING CHARGES FIGURE (OCF)	1.05%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	-
UNIT TYPE	ACC/INC

JPM JAPAN

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

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.81%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	GOLD
YIELD	0.53%
UNIT TYPE	ACC/INC

JUPITER ASIAN INCOME

Well-known Asian income manager Jason Pidcock combs the Asia Pacific market in search of large companies with reliable dividends that can deliver both income and growth for investors. The fund aims to capitalise on the opportunities of today, as well as the potential of tomorrow, and the manager is not afraid to hold much more or less of certain countries than its benchmark in pursuit of this aim, with the portfolio currently having no holdings in China. The portfolio tends to have a considerable amount invested in the more developed countries in Asia, due to the importance of a reliable dividend stream. This is a reliable, more defensive fund but performance tends to be very different from its peer group and benchmark.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	-
ONGOING CHARGES FIGURE (OCF)	1.01%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	3.28%
UNIT TYPE	ACC/INC

M&G JAPAN

M&G Japan invests in Japanese firms of any size, with a bias towards small and mid-caps. The managers, Carl Vine and David Perrett, who have worked together for many years, concentrate their efforts on really getting under the skin of the businesses they look at, which adds value in an esoteric market like Japan, and leads to a concentrated portfolio of companies (typically fewer than 50 holdings) of which they have a real in-depth understanding. The fund is unconstrained with regards to the benchmark, so may deviate significantly from the benchmark's constituents. The fund has a slight value bias and has consistently outperformed under Carl's tenure.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	-
ONGOING CHARGES FIGURE (OCF)	0.49%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	1.35%
UNIT TYPE	ACC/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	0.73%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 25/09/2024. Yields as at 25/09/2024 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.

GLOBAL

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)	0.94%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	-
UNIT TYPE	ACC/INC

IFSL EVENLODE GLOBAL EQUITY

Fund managers Chris Elliot and James Knoedler scour the globe for 'quality' companies that can achieve sustainable growth over time with minimal capital reinvestment. In essence, Evenlode's investment approach revolves around identifying market-leading companies, with high cashflow returns on capital, manageable business risks, and limited financial leverage. They find that this process has led them to predominantly fish in large-cap and growth buckets. The outcome is a concentrated portfolio of between 30-50 companies.

CHELSEA RISK RATING	6
ANNUAL MANAGEMENT CHARGE	0.85%#
ONGOING CHARGES FIGURE (OCF)	0.85%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	0.56%
UNIT TYPE	ACC/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	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.77%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.35%
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)	0.61%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.29%
UNIT TYPE	ACC

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 5 for further details.

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. Income is paid in January, April, July and October.

CHELSEA RISK RATING	2.5
ANNUAL MANAGEMENT CHARGE	0.25%#
ONGOING CHARGES FIGURE (OCF)	0.37%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	4.71%
UNIT TYPE	ACC/INC

MAN GLG HIGH YIELD OPPORTUNITIES

Man GLG High Yield Opportunities is an unconstrained, concentrated global high yield bond fund, driven by individual bond selection, but guided by top-down thematic ideas. Manager Mike Scott is ably supported by a team of internal credit analysts who conduct a rigorous analysis of every potential holding and their ability to meet debt obligations. Mike is very experienced and has an excellent track record in navigating the extra risk in the sector whilst achieving above average returns. Income is paid monthly.

CHELSEA RISK RATING	4
ANNUAL MANAGEMENT CHARGE	0.60%#
ONGOING CHARGES FIGURE (OCF)	0.75%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	6.91%
UNIT TYPE	INC

MAN GLG STERLING CORPORATE BOND

This relatively new fund is managed by Jonathan Golan, one of the most exciting young bond managers around. The fund invests in bonds with a margin of safety which is achieved through rigorous credit analysis. The fund invests globally and finds many of its best ideas off the beaten path. Each bond in the portfolio has a self-help story which is typically uncorrelated to the wider economic picture. The fund favours small and medium bond issuers which may be less well understood. So far Jonathan Golan has continued his excellent performance at Schroders with this fund.

CHELSEA RISK RATING	3.5
ANNUAL MANAGEMENT CHARGE	0.46%#
ONGOING CHARGES FIGURE (OCF)	0.63%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	6.07%
UNIT TYPE	ACC/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. Income is paid in February and August.

CHELSEA RISK RATING	4.5
ANNUAL MANAGEMENT CHARGE	-
ONGOING CHARGES FIGURE (OCF)	0.68%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	6.85%
UNIT TYPE	ACC/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)	0.75%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	4.50%
UNIT TYPE	INC

RATHBONE ETHICAL BOND

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 20 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)	0.67%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	4.90%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 5 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 25/09/2024. Yields as at 25/09/2024 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

ED LEGGET

Fund manager,
Artemis UK Select
Elite Rated by FundCalibre

Time flies. I've been the manager of the Artemis UK Select fund for almost nine years. A lot has changed in that time – we've had Brexit, a pandemic and six different prime ministers. Amid all that change, however, the principles that my co-manager Ambrose Faulks and I apply to running the fund have remained consistent. And I believe the returns we've generated amid all this political and economic turbulence have endorsed that approach.

DARE TO BE DIFFERENT

So, what exactly do we do? It might be easier to start by saying what we don't do. Most importantly, we don't invest in a company simply because it is big. Some of the UK's largest companies – such AstraZeneca, Unilever and Diageo – don't currently feature in our fund at all. Instead, we invest our clients' capital in a focused list of our 'best ideas'. That means we currently have investments in 45 companies. Some of them – Barclays and NatWest, for example – are household names. But others, such as 3i (a private equity company that owns a majority stake in Action, one of Europe's fastest-growing discount retailers) or Morgan Sindall (a construction company well-placed to profit from the new government's focus on building social housing), may be less familiar. What unites them is our belief that they have the potential to deliver exceptional returns over the next three years.

To generate exceptional returns, we need to find insights that other investors have yet to fully grasp. To help find those differentiated ideas, Ambrose and I spend part of our time performing painstaking analysis of balance sheets and cashflow statements. And we spend part of our time ensuring we understand the economic environment in which companies operate. But we also want to talk to their managers. We're fortunate to work for a business that built its reputation on investing in the UK stock market. That means companies are usually happy to talk to us; along with our colleagues on the wider Artemis UK equity team, we hold around 450 company meetings each year. At their best, those meetings give us unique insights. A casual aside can reveal fruitful avenues for future analysis – it might point us towards a change in the outlook for a company's suppliers, its rivals or for an adjacent industry that the wider market has yet to recognise.

AIR TRAVEL ANALYSIS

For example, the Artemis UK Select fund has longstanding investments in airlines such as Jet2, Ryanair and IAG. Naturally, we talk to their managers pretty regularly. And, as the world began to emerge from the pandemic and international travel resumed, they told us they were seeing strong demand for flights but that long waiting lists for new aircraft meant they were struggling to add capacity.

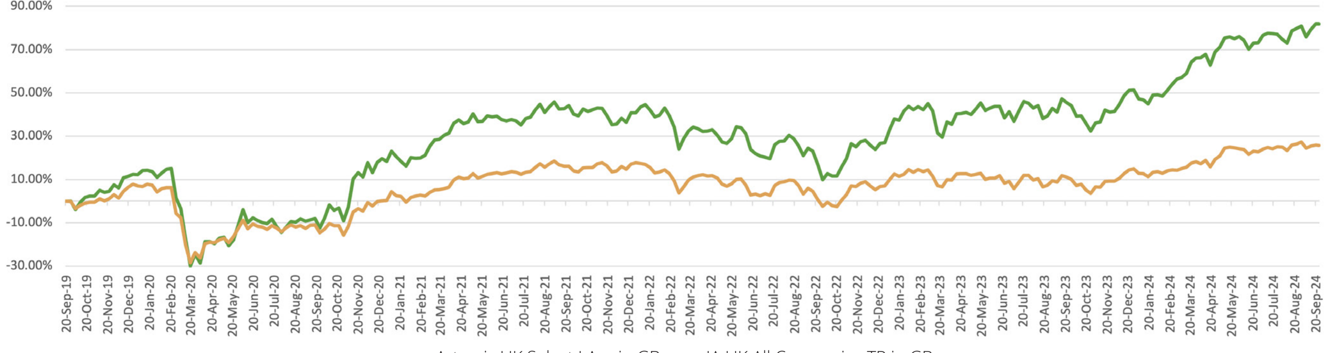
That dynamic (growing demand meeting static supply) gave us a clear, positive signal about the outlook for air fares and so for those companies' profits. But it also suggested that the outlook for companies, such as Rolls-Royce or Melrose, who make the spare parts and service the engines that allow those airlines to keep their older aircraft flying for longer, merited further investigation. We subsequently bought shares in both companies.

What next? It is possible that none of the companies mentioned above will still be in our fund nine years from now. All being well, the wider market will have rewarded their rising profits with significantly higher share prices. And it may be that another six prime ministers will have come and gone. But whatever else has changed, I suspect that talking to companies, finding differentiated ideas and applying that process consistently will remain the foundations of exceptional long-term investment returns.

THE CHELSEA VIEW

The fund's high-conviction approach and flexibility in stock selection make it an attractive choice for investors who are comfortable with higher levels of risk in pursuit of substantial long-term gains. However, investors should be prepared for potential drawdowns during periods of market stress. This fund is well suited for those seeking high reward potential but willing to accept greater volatility.

5-Year performance



***Source:** *FE fundinfo, 27/09/2019 to 27/09/2024, total returns, net of fees, in sterling.*

CORE SELECTION SPOTLIGHT

JAMES INGLIS-JONES AND SAMANTHA GLEAVE
Fund managers,
Liontrust European Dynamic
Elite Rated by FundCalibre

The Liontrust European Dynamic fund aims to deliver capital growth over the long term (five years or more) by investing in European equities identified by the Cashflow Solution investment process. This process, which has been applied to the fund since its launch in 2006, focuses on companies' historic cash flows and how these are generated and invested. The process has evolved over the past decade to hone in on the best examples of attractively valued, cash-generative companies.

CASH FLOW IS KING

The process is based on the belief that companies run by conservative managers focused on delivering good cash flow perform significantly better than companies run by aggressive company managers making large cash investments today to chase over-ambitious future growth targets.

Our starting point has always been the application of two core cash flow ratios to the European stock universe. Only the top 20% of this ranked universe – the Cashflow Champions Watchlist – qualify for investment in the fund.

We then carry out fundamental analysis of the Watchlist, rating each stock across four secondary cash flow scores based on detailed analysis of companies' reports and accounts.

In combination with analysis of key proprietary market regime indicators, we can then tilt the portfolio towards certain cash flow characteristics and style factors, depending on the prevailing investment environment.

A FLEXIBLE APPROACH

The fund has adopted a range of style biases since secondary scores were introduced to the investment process a decade ago, adding dynamism by allowing the team to respond flexibly to the investment environment at any given time. For the first five years or so of the secondary scores' application, cash-generative companies with growth characteristics were a mainstay of the fund, with exposure of around 50%.

But as stock markets tumbled at the start of 2020 due to Covid-19, all our proprietary market regime indicators were signalling the need to re-shape the portfolio towards a heavy emphasis on unloved value stocks. These value stocks rose from about 10% of the portfolio to around 50% at points during 2022. Stocks with high forecast of growth were looking overvalued and vulnerable, so we trimmed this exposure. This underweight exposure to high forecast growth stocks and large position to unloved value companies was rewarding.

THE CHELSEA VIEW

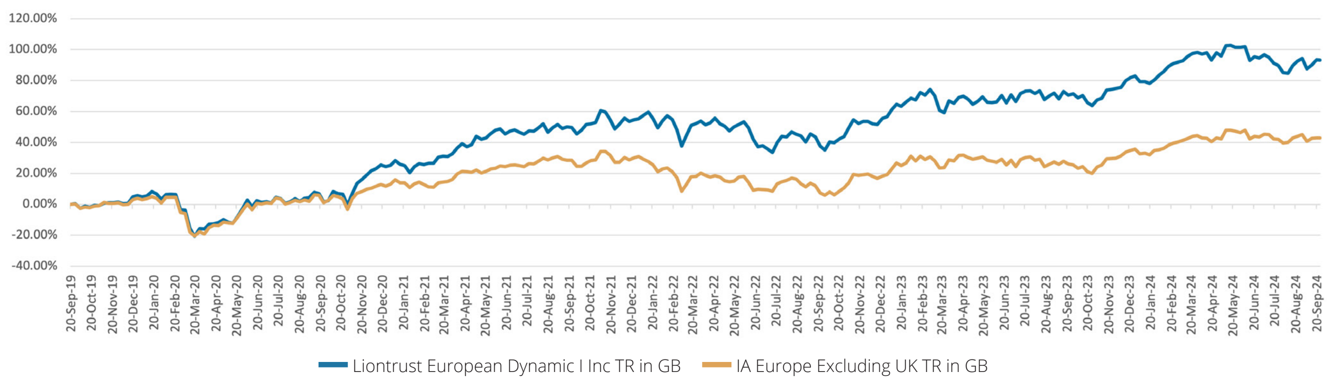
We are very impressed not just by the management team of this fund, but also its rigorous process and collaborative approach that has helped contribute to stellar long-term performance. The fund benefits from having a flexible investment style with the ability to rotate towards value or growth depending on where the managers see the most opportunity

Over the past year or so, the style leadership of the market has been more balanced and we have repositioned the fund to reflect this. This means that shorter-term fund performance has been driven by stock-picking returns to a greater extent than the style tilt.

The fund's standout holdings recently have included both growth-style stocks and more value-oriented companies. The former includes Danish pharmaceutical group Novo Nordisk – a leader in diabetes care whose growth has recently stepped up a gear or two, due to successes in the weight-loss market – while among the latter is UniCredit, which has seen its profit margins on interest income boosted by rates staying higher for longer than expected.

Looking forward, we remain positive on our outlook for European markets and continue to find lots of companies in Europe that are attractively valued, cash-generative companies.

5-Year performance



***Source:** *FE fundinfo, 27/09/2019 to 27/09/2024, 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 SPOTLIGHT		7	26.11	2	26.03	32	86.61	1	141.04	2	2.73	£2,601.3
IFSL Evenlode Income		5	9.00	213	17.33	90	24.91	132	126.14	5	2.77	£3,272.2
IFSL Marlborough Multi-Cap Growth		7	15.68	65	-12.69	193	24.67	135	117.13	7	0.90	£172.7
IFSL Marlborough Special Situations		7.5	13.96	98	-30.07	218	13.46	184	87.16	43	1.22	£659.8
Jupiter UK Dynamic Equity		6	11.47	178	31.37	9	41.55	26	93.72	33	3.21	£1,094.0
Liontrust Special Situations		6	11.04	185	0.85	150	27.24	121	116.59	9	2.07	£3,310.0
MI Chelverton UK Equity Growth		7.5	16.41	48	-18.69	209	43.98	19	-	-	1.52	£643.6
Schroder Recovery		7.5	13.32	113	27.79	29	46.37	13	83.23	51	3.05	£906.4
Slater Growth		7	11.99	167	-22.24	214	24.00	138	103.64	19	1.35	£726.5
VT Downing Unique Opportunities		7	18.61	29	-11.28	187	-	-	-	-	-	£41.1
Sector Average			**13.97**	**227**	**7.96**	**221**	**27.85**	**209**	**70.28**	**180**		
UK EQUITY INCOME												
Artemis Income		5	19.39	8	29.00	14	43.41	12	95.54	7	3.82	£4954.9
Janus Henderson UK Responsible Income		6	18.97	11	19.36	45	36.58	28	93.56	10	3.80	£548.6
Man GLG Income		6.5	18.12	16	34.83	6	46.97	7	125.40	1	5.03	£1,853.4
Premier Miton Monthly Income NEW ENTRY	-	4	18.09	17	29.23	13	27.21	53	59.61	45	4.11	£442.9
Rathbone Income		5	12.09	66	21.04	38	31.13	46	75.43	29	4.41	£664.1
Montanaro UK Income Seed^		7.5	17.21	41/227	-11.05	189/221	22.96	173/209	97.41	48/180	3.60	£522.8
WS Gresham House UK Multi Cap Income		7.5	15.94	34	13.19	57	54.77	1	-	-	4.04	£884.4
Sector Average			**15.06**	**76**	**19.39**	**75**	**33.56**	**73**	**62**	**61**	**-**	**-**
UK SMALLER COMPANIES												
Fidelity UK Smaller Companies		8	16.19	26	8.32	1	64.42	3	152.01	1	2.04	£828.0
IFSL Marlborough UK Micro-Cap Growth		8	11.96	37	-35.35	43	15.14	30	93.86	21	0.11	£639.5
Liontrust UK Micro Cap		8	12.08	35	-15.06	12	53.51	4	-		0.88	£113.7
Thornbridge WS Raynar UK Smaller Companies NEW ENTRY	-	8	-	-	-	-	-	-	-	-	0.00	-
WS Amati UK Listed Smaller Companies		8	6.19	44	-32.76	41	4.17	42	114.22	10	1.76	£362.5
WS Gresham House UK Micro Cap		8	11.99	36	-19.16	21	21.84	20	106.20	15	0.53	£171.2
Sector Average			**15.62**	**47**	**-20.10**	**46**	**22.61**	**45**	**88.27**	**40**	**-**	**-**
STERLING CORPORATE BOND												
Artemis Corporate Bond		2.5	11.67	21	-4.10	32	-	-	-	-	4.71	£1,561.8
BlackRock Corporate Bond		2.5	10.28	47	-5.58	40	0.43	39	31.77	9	4.51	£1,069.4
Man GLG Sterling Corporate Bond		3.5	25.58	1	26.30	1	-	-	-	-	6.07	£1,119.1
Rathbone Ethical Bond		2.5	12.26	17	-4.85	34	5.94	20	40.36	3	4.90	£2,018.4
Royal London Corporate Bond		2.5	12.60	12	-1.98	22	6.89	14	41.76	2	5.22	£1,396.2
TwentyFour Corporate Bond		2.5	11.28	9	-8.94	49	-2.80	42	-	-	3.42	£1,217.1
Sector Average			**10.19**	**96**	**-5.96**	**93**	**-0.20**	**88**	**26.32**	**69**	**-**	**-**
STERLING HIGH YIELD BOND												
Aegon High Yield Bond		4	14.70	7	12.49	5	27.47	3	53.90	3	7.46	£748.6
Man GLG High Yield Opportunities		4	17.84	1	11.98	6	50.39	1	-	-	6.91	£679.6
Sector Average			**12.44**	**29**	**6.27**	**29**	**17.36**	**25**	**41.65**	**22**	**-**	**-**
STERLING STRATEGIC BOND												
Aegon Strategic Bond**		4	22.78	2	2.68	36	22.51	8	43.92	12	4.01	£306.1
Invesco Tactical Bond		3.5	9.45	62	4.26	28	21.54	9	32.52	29	3.37	£922.3
Janus Henderson Strategic Bond	-	3	10.88	48	-12.66	77	-3.30	65	21.13	45	3.90	£2,163.6
Nomura Global Dynamic Bond (Hedged)		4	12.74	26	-4.51	65	9.70	35	-	-	4.50	£1,710.3
TwentyFour Dynamic Bond		3.5	15.65	7	2.03	39	14.24	21	40.06	14	7.86	£1,547.5
Sector Average			**11.10**	**88**	**0.05**	**80**	**8.75**	**71**	**31.10**	**52**	**-**	**-**
TARGETED ABSOLUTE RETURN*												
Janus Henderson Absolute Return		8.52	-	12.85	-	23.14	-	41.53	-	2.80	911.7	£901.7
Sector Average			**7.90**	**-**	**9.76**	**-**	**17.28**	**-**	**27.03**	**-**	**-**	**-**
EUROPE EXCLUDING UK												
BlackRock Continental European Income		7	13.00	86	14.22	69	42.19	72	129.34	32	3.36	£1,447.4
BlackRock European Dynamic**		7	17.11	18	0.16	106	72.16	5	204.91	5	0.94	£4,444.2
CT European Select		7	15.94	34	4.93	91	48.87	40	151.09	16	0.77	£1,406.6
Fidelity European		6.5	13.56	75	22.59	21	57.82	19	170.33	7	1.28	£4474.0
IFSL Marlborough European Special Situations		8	13.94	64	-2.53	112	73.86	4	246.05	1	2.07	£293.1
Liontrust European Dynamic SPOTLIGHT		7	13.02	85	28.38	7	95.62	1	212.30	3	1.75	£1,555.7
Premier Miton European Opportunities		7.5	23.83	2	-6.20	118	62.12	12	-	-	0.15	£1,225.3
Sector Average			**13.18**	**134**	**10.37**	**131**	**44.37**	**123**	**118.40**	**96**	**-**	**-**
NORTH AMERICA												
AXA Framlington American Growth		7	20.75	125	21.79	157	103.39	14	345.18	13	0.00	£1,077.1
Baillie Gifford American**		7.5	29.51	17	-32.99	222	75.56	100	365.31	10	0.00	£2,745.1
Brown Advisory US Flexible Equity**		7	22.19	87	32.54	84	93.08	31	309.04	29	1.02	£605.8
Fidelity Index US	-	7	22.63	77	36.82	31	91.16	36	304.78	30	1.05	£6,101.0
Premier Miton US Opportunities		7	12.60	204	19.46	164	69.75	117	262.16	70	0.13	£1,671.7
Sector Average			**19.71**	**245**	**26.01**	**225**	**75.36**	**204**	**243.47**	**131**	**-**	**-**

Fund	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)
JAPAN												
Baillie Gifford Japanese**	⚑	10	6.40	70	-13.23	79	7.60	77	119.19	27	0.99	£1,382.2
(C) JPM Japan	-	10	19.07	3	-15.67	80	25.96	47	188.12	2	0.53	£873.6
Jupiter Japan Income	-	9.5	8.38	31	-0.09	61	26.73	40	158.34	8	2.04	£1,092.9
(C) M&G Japan	⚑	10	6.79	65	23.20	11	52.90	9	159.44	7	1.35	£3,579.8
Pictet Japanese Equity Selection**	⚑	9.5	6.80	61	2.46	57	34.18	20	133.36	21	-	£651.0
Sector Average			**7.53**	**99**	**1.23**	**94**	**26.69**	**90**	**120.55**	**65**	**-**	**-**
ASIA PACIFIC EXCLUDING JAPAN*												
Baillie Gifford Pacific	⚑	8.5	10.96	53	-13.74	96	60.65	2	174.68	2	1.60	£3,102.7
(C) Fidelity Asia Pacific Opportunities	⚑	8	2.36	104	-3.54	58	31.32	25	185.83	1	-	£1,489.0
Fidelity Asian Smaller Companies	⚑	10	1.09	110	14.70	14	39.84	17	122.79	15	-	£920.2
Guinness Asian Equity Income	⚑	8	8.70	68	14.20	15	25.18	39	117.67	21	3.45	£189.5
Invesco Asian (UK)	⚑	8	10.40	57	18.70	5	44.74	9	158.73	4	1.85	£2,218.9
(C) Jupiter Asian Income	⚑	7.5	20.74	1	38.74	1	59.40	3	-	-	3.28	£1,957.0
Schroder Asian Income	⚑	7.5	14.83	15	19.15	4	38.27	18	124.41	13	4.05	£1,290.6
Stewart Investors Asia Pacific Leaders Sustainability^	⚑	7.5	10.90	-	0.49	-	38.32	-	121.20	-	0.73	£6,493.7
Sector Average			**9.12**	**119**	**-1.23**	**113**	**23.17**	**104**	**93.48**	**86**	**-**	**-**
GLOBAL EMERGING MARKETS												
Aubrey Global Emerging Markets Opportunities**	⚑	10	14.85	17	-14.90	124	33.50	20	-	-	-	£245.2
Chikara Indian Subcontinent#^ NEW ENTRY	-	10	25.55	5 / 308	42.00	4 / 269	90.06	2 / 232	-	-	-	£82.7
(C) FSSA Greater China Growth^	⚑	10	-2.79	9 / 63	-20.47	4 / 58	8.23	1 / 46	102.41	3 / 35	1.83	£405.7
(C) GQG Partners Emerging Markets Equity**	⚑	10	18.21	4	13.78	11	46.06	5	-	-	-	£2,249.6
GS India Equity Portfolio^	⚑	10	29.63	5 / 25	38.99	9 / 24	117.26	4 / 22	302.60	2 / 16	-	£3,692.9
Invesco Emerging Markets ex China (UK)	⚑ (Radar)	9.5	15.35	13	59.31	1	35.53	15	40.72	87	1.94	£235.3
M&G Global Emerging Markets	⚑	9.5	9.30	71	18.25	5	31.50	24	83.34	30	2.31	£616.7
Redwheel Global Emerging Markets	-	10	-3.46	165	-19.52	145	6.96	104	-	-	-	£878.5
Sector Average			**8.24**	**166**	**-5.39**	**155**	**13.33**	**138**	**59.98**	**99**	**-**	**-**
GLOBAL												
BlackRock Global Unconstrained Equity (UK)	⚑	7	15.85	261	20.73	167	-	-	-	-	-	£1,405.8
(C) Fundsmith Equity	⚑	6	12.13	400	7.78	313	50.76	225	292.07	4	-	£23,530.7
(C) IFSL Evenlode Global Equity	⚑	6	9.59	448	19.99	174	-	-	-	-	0.56	£474.9
IFSL Marlborough Global Innovation NEW ENTRY	⚑ (Radar)	10	14.91	301	-24.19	469	53.83	199	163.75	135	0.13	£43.5
Ninety One Global Environment** (ESG)	⚑	7.5	7.81	479	-7.65	426	-	-	-	-	-	£1,443.7
Pictet Global Environmental Opportunities** (ESG)	⚑	7.5	14.80	309	6.02	347	62.86	123	216.84	44	-	£6,137.4
(C) Rathbone Global Opportunities	⚑	6.5	21.83	62	8.02	305	70.32	75	263.04	10	0.35	£3,928.0
Sanlam Global Artificial Intelligence NEW ENTRY	⚑	9	24.62	32	14.91	236	114.97	2	-	-	-	£1,082.6
(C) T. Rowe Price Global Focused Growth Equity	⚑	7.5	21.64	72	7.77	322	86.06	25	-	-	0.29	£373.7
WS Blue Whale Growth	⚑	8	28.41	13	9.17	284	64.83	88	-	-	-	£1,053.2
Sector Average			**14.81**	**539**	**11.63**	**484**	**50.42**	**409**	**151.67**	**253**	**-**	**-**
GLOBAL EQUITY INCOME												
Aegon Global Equity Income** NEW ENTRY	-	6.5	19.49	9	35.95	8	68.24	7	205.68	4	2.31	£601.1
(C) Fidelity Global Dividend	⚑	6	18.96	10	31.24	12	50.31	18	175.18	7	2.61	£3,219.0
IFSL Evenlode Global Income	⚑	6	9.00	42	13.61	43	35.25	38	-	-	2.15	£1,751.0
JPM Global Equity Income	⚑	6.5	12.76	29	31.90	10	70.56	4	205.69	3	2.18	£744.9
(C) M&G Global Dividend	⚑	7	20.13	6	30.39	15	66.35	9	161.39	12	2.48	£2,072.5
(C) WS Guinness Global Equity Income	⚑	6.5	17.08	17	37.28	7	69.01	6	202.21	5	2.06	£190.9
Sector Average			**13.62**	**52**	**24.23**	**49**	**46.94**	**45**	**125.22**	**32**	**-**	**-**
MISCELLANEOUS*												
CT European Real Estate Securities	⚑	7	26.12	-	-14.84	-	0.53	-	85.04	-	-	£18.6
Fidelity Global Technology	⚑	10	24.13	16 / 33	35.82	6 / 33	145.41	6 / 29	648.62	1 / 13	-	£18,333.3
FTF ClearBridge Global Infrastructure Income	⚑ (Radar)	6	11.24	16 / 32	17.20	14 / 29	36.40	1 / 26	-	-	4.63	£1,324.0
Jupiter Financial Opportunities	⚑	8	19.19	10 / 15	-2.09	8 / 14	26.94	8 / 13	132.66	4 / 8	1.41	£432.1
(C) M&G Emerging Markets Bond	⚑	4.5	5.05	12 / 20	6.74	4 / 20	5.08	7 / 20	74.33	1 / 12	6.85	£1,480.2
Polar Capital Biotechnology	⚑	10	19.87	-	16.14	-	100.95	-	310.57	-	-	£1,444.2
Polar Capital Global Insurance	⚑	7	18.22	11 / 15	64.19	1 / 14	62.62	1 / 13	284.61	1 / 8	-	£2,472.0
Polar Capital Healthcare Opportunities	⚑	8	22.39	1 / 20	22.25	3 / 18	64.39	4 / 14	208.40	2 / 8	-	£1,501.1
VT Gravis UK Infrastructure Income	⚑	4.5	6.80	26 / 32	-6.12	24 / 29	3.89	22 / 26	-	-	6.01	£576.6

(ESG) Environmental, social and governance (ESG) funds

(C) Funds featured in The Chelsea Core Selection (see pages 10-15).

⚑ Funds that are Elite Rated by FundCalibre.

⚑ (Radar) 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 25/09/2024.

Yields per annum as at 25/09/2024 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 unit/share class has been extended, at FE fundinfo'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. Please visit chelseafs.co.uk for full Terms & Conditions.

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.

GOING GLOBAL

After decades of increasing globalisation, we seem to be retracing our steps, but should we do the same with our investments?

We believe that investing globally has many advantages, now more than ever. A global fund will give you diversification, which can help to iron out market volatility. For instance, if you're invested across different regions it reduces the impact when one region is underperforming. This is true, not just of stock markets but also with currencies, and a global fund will naturally invest across a range of currencies. Different regions also give access to a different range of stocks. For example, if you want to invest in big tech, you need to invest in the US, not the UK.

Global funds are all quite different though, some only look at developed markets, some only invest in large-cap stocks, conversely some look at small-caps and some offer you an income. So it's important to take a look under the bonnet and choose the funds that are right for you.

We have chosen three fund managers, who each have a different take on global, and asked them about how they manage money and where they are currently finding opportunities. So take a look around the world with us....

THE HIDDEN POTENTIAL IN GLOBAL SMALL-CAPS

MATTHEW BETTS
Fund manager,
BlackRock Global Smaller Companies

DAN WHITESTONE
Fund manager,
BlackRock Global Smaller Companies

Despite the recent performance of a handful of mega-cap tech shares, over the longer-term history of financial markets, small and mid-cap (SMID) companies have consistently outperformed large-cap stocks. They have delivered an average of +2.6% per annum over large-caps historically[1]. This outperformance has been driven by fundamentals, with small-caps demonstrating higher average earnings growth than their large-cap peers.

As well as being an outperforming asset class over the long term, the SMID universe also lends itself to active stock picking. With over 4,000 companies, the small and mid-cap universe boasts a large opportunity set, while simultaneously being under-researched. For example, up to 90% of small-caps have no sellside analyst coverage[2]. Small-caps also exhibit less mean reversion, meaning leaders can multiply while laggards go bust. We think this makes small-caps a fertile hunting ground for active managers.

PHILOSOPHY

Within this vast, inefficient universe, our focus is on identifying high-quality companies we believe can deliver attractive growth over the long term. Typically, these companies have differentiated products, defensible market positions and strong management teams. They are exposed to positive industry and secular trends which allow them to grow with less regard for the economic cycle. We also place a lot of emphasis on financial strength and strong balance sheets, which means the companies we invest in are better equipped to survive tougher times. Our approach places an emphasis on high-quality, cash-generative companies that we believe are undervalued relative to their realistic growth prospects. We are not just chasing growth—we're looking for sustainable, self-funded growth that can withstand various market conditions. We find these characteristics are often underestimated in smaller companies, creating potential opportunities for long-term investors.

Our team has experience of investing in SMID-caps, both in the UK and internationally since 2004. We follow a disciplined, bottom-up investment process, rooted in our commitment to in-depth company research and our ability to leverage the full expertise of the BlackRock platform. Our access to company management teams is comprehensive, meeting over 800 companies per annum[3].

POSITIONING

Given our commitment to bottom-up stock picking, portfolio positioning is an output of many individual stock-specific decisions rather than any top-down macro views. Our emphasis on high-quality companies leads us to some sectors more than others. We typically find more opportunities in industrials, specialist financials, consumer discretionary, tech, healthcare companies and communication services (all sectors which are well represented across global small-cap indices)[4].

We are also currently finding exciting new ideas in the UK, where high quality domestic cyclicals have de-rated to historic lows[5] just as the fundamentals appear to be bottoming, and in global semiconductor capital equipment companies where capital expenditure (particularly that tied to AI) is creating demand for new leading-edge products, often supplied by smaller, niche companies. For example, BESI is a company involved in semiconductor capital equipment manufacturing. They make a range of advanced packaging machines, which are growing in importance in the semiconductor industry as leading-edge technologies focus on the adoption of chiplet architectures. BESI has a 20-year history of growing product content each cycle, but more impressively growing gross margins each cycle too, as its technology gets more advanced and crucial to the manufacturing process[6].

FUND FUNDAMENTALS

Our focus is clear: we target quality growth. We are not distracted by macroeconomic noise. Instead, we are dedicated to finding and investing in companies with the potential to become much larger over the long term. We think the global small-cap universe is a great place to find these companies and that our process has the ability to identify and potentially capture these opportunities.

The fund can offer a diversifying, high-alpha kicker that may complement a portfolio with broader global equity exposure. This segment of the market offers access to innovative companies and future leaders.

THE CHELSEA VIEW

The four-strong portfolio manager team launched the fund earlier this year. The global nature of this fund gives them a dynamic universe of companies in which to hunt for alpha. Having met the team, we feel confident that they have an opportunity to add value for investors in this space.

Chelsea Risk Rating: 8
AMC: 0.75%
OCF: 0.94%
Yield: ....-

Source: [1] *BlackRock and MSCI as at 31/03/2024 covering 01/12/1998 – 01/01/2024.* [2] *JP Morgan, 25 June 2024.* [3] *BlackRock, 31st December 2023.* [4] *MSCI World Small Cap Index Factsheet, 31st August 2024.* [5] *BlackRock Global Smaller Companies portfolio holdings.* [6] *BESI is the largest holding within the Technology Hardware and Equipment Sector.*

GLOBAL

HOW MIGHT LARGE GLOBAL COMPANIES NAVIGATE GLOBAL CHANGE?

STEVE SMITH
Investment Director,
Capital Group UK New Perspective
Elite Rated by FundCalibre

Given the scale of change in the global economy right now, it is reasonable to ask how companies might navigate these seismic shifts.

Change is constant. And the current environment is no exception. Geopolitical tensions, increasing trade barriers and bouts of equity market volatility are just some of the challenges.

At the same time, there are several transformational shifts – such as artificial intelligence (AI), health innovation and an industrial resurgence – that could provide richer and more diverse investment opportunities.

The New Perspective strategy focuses on multinational companies, which range from small and medium-sized businesses expanding beyond their domestic markets to today's large, global champions. In many ways, multinationals can be well positioned to navigate change. Often, they have strong management teams that can overcome complex problems, have access to resources and can respond quickly to competition.

In the transformational shifts we have identified, there are examples of large multinationals that hold strong market positions and could benefit from the tailwinds of change.

DISRUPTIVE FORCE OF AI

Given the multi-faceted nature of the AI ecosystem, there is no single 'correct' way to map the investable opportunities. We have aimed to distinguish between the near and longer-term opportunities.

Five areas we are focusing on include: compute (semiconductors, or the 'brains' of AI), infrastructure (cloud service providers, data centres and networks, which provide the 'plumbing'), AI model developers, software applications and, finally, the real-life and end-industry beneficiaries.

In AI, scale is an advantage. Large tech companies already have proprietary data, substantial amounts of capital, and some of the brightest engineering talent. Some also own the expensive cloud computing infrastructure necessary for training AI models. In addition, they have huge user bases to which they can sell AI products and services. While some AI startups may find success over time, the starting point for incumbents is very strong.

A NEW WAVE OF HEALTH CARE INNOVATION

The next era in pharmaceutical innovation could be transformative for health care. Breakthroughs in RNA interference (RNAi), gene therapy and gene editing are leading to highly targeted interventions to tackle a wide range of genetic disorders.

These novel treatments could address major, but largely untreated, illnesses worldwide such as cancer, obesity and cognitive impairment.

While some biotech companies are small and specialised, large pharmaceutical companies have become more disciplined in focusing on their area of expertise. We have seen how some of these large companies have been the innovators in GLP-1 treatments – the drugs to treat diabetes and obesity – and gained a first-mover advantage.

INDUSTRIAL RENAISSANCE

For the past 15 years, investors have largely ignored old-economy industrial businesses that make physical things. However, signs are emerging of an 'industrial renaissance' driven by multi-year trends such as energy security, the buildout of data centres, rising defence spending and the reconfiguration of global supply chains.

Essentially, old-economy manufacturers could become critical enablers of our future economy. For example, heavy-duty construction equipment is essential in modernising the electricity grid and powering data centre growth. The large manufacturers of this machinery generally have dominant industry positions and could capture gains from multiple years of strong demand.

These exciting areas of transformational change are reflected in the New Perspective strategy, where each investment is grounded in research and made on a stock-by-stock basis. The portfolio expresses our highest conviction investment ideas in companies with the potential to thrive on global change.

THE CHELSEA VIEW

This fund has a unique approach to active management. Having multiple managers, with a portion of the fund managed by analysts, means that the fund avoids key person risk that is inherent within the space. As such, it gives the strategy longevity as demonstrated by the 50+ year track record. This is a compelling option for those looking for large-cap global growth exposure with active management.

Chelsea Risk Rating: 7
AMC: 0.60%*
OCF: 0.68%*
Yield: ....-

**The fees are applicable to the UK version of the Capital Group UK New Perspective fund, the P units.*

A TIME FOR GLOBAL DIVIDEND STOCKS?

SAM WITHEROW
Portfolio Manager,
JPM Global Equity Income
Elite Rated by FundCalibre

In 2023 and early 2024, we witnessed a narrow stock market rally driven by excitement around artificial intelligence, led by the "Magnificent 7" stocks. Most of these stocks don't pay dividends, and now people are questioning the sustainability of this rally and whether it will broaden out. In this environment, we believe dividend-paying stocks offer a compelling opportunity. High-quality, dividend-paying companies are attractively valued compared with historical standards and are often overlooked by investors chasing the latest trends. A key characteristic of dividend-paying equities is their resilience and defensiveness. These attributes are reinforced today by global dividend payout ratios at all-time lows - a consequence of companies reducing dividends during the COVID era - leaving plenty of room for companies to return cash to shareholders. This dividend momentum is evident today, and we forecast substantial dividend growth over the next five years.

Large technology companies are initiating dividends for the first time, inflation is providing a tailwind, and payout ratios are set to rise, signalling a future where dividend growth far outstrips historical averages. This mix of attractive valuations and potential for resilient income growth makes dividend-paying equities a tremendous opportunity for investors.

OUR PROCESS

We draw insights from over 80 equity research analysts worldwide who provide long-term cashflow and dividend forecasts. This helps us build a portfolio centred on compounders - companies with an underappreciated blend of dividend yield and growth, which have historically outperformed the broader market. By also investing in high dividend growth and high dividend yield stocks, we diversify our returns and gain exposure to large-cap dividend-paying companies not typically found in equity income portfolios. The outcome is a portfolio with a higher dividend yield than the market, compounding dividend growth at a faster rate than the market.

The global equity income category offers an attractive mix of quality and value. This combination usually provides a more defensive investment experience, capturing the market upside while protecting during downturns. Despite recent market setbacks and deteriorating fundamentals, investors continue to fully price in the soft landing scenario of lower inflation and higher growth. This has created an opportunity in defensive, income-paying stocks, which, as a consequence of being overlooked by investors, now trade at attractive valuations. Currently, we are finding the best opportunities in defensive sectors like utilities and consumer staples, with our fundamental research team uncovering differentiated company insights. For example, we have strong conviction in NextEra Energy, a US utility company leading in renewable power generation. We believe the demand for renewable energy will grow significantly as data centre power consumption increases. Outside of defensive names, another high conviction idea is Shin Etsu Chemical, the manufacturer of high diameter silicon wafers essential for the production of the most advanced semiconductor chips. The company is reporting strong earnings growth and encouragingly raised its dividend payout ratio further to reward income investors.

The JPM Global Equity Income fund focuses on top income-generating ideas, leveraging our extensive equity research platform. Our strategy is simple: we look for both dividend yield and growth by investing across three categories—high dividend growth, compounders, and high dividend yield stocks.

By investing across the yield spectrum, we aim to offer a core investment experience through an equity income portfolio, providing exposure to high-quality, enduring companies with attractive and growing payouts.

THE CHELSEA VIEW

Managers Sam Witherow, Helge Skibeli and Michael Rossi bring a combined wealth of experience to the fund. Using JPM's impressive analyst bank, they take a pragmatic approach in terms of balancing 'compounders', higher yielders, and higher growth stocks in the portfolio. Since the team took over the fund, performance has been strong. The managers also pay close attention to risk, while the focus on dividend growth should give investors a growing income stream.

Chelsea Risk Rating: 6.5
AMC: 0.75%
OCF: 0.90%
Yield: 2.18%

GLOBAL EMERGING MARKETS - TIME TO REASSESS

EM equities have spent the last decade as a wallflower, while all eyes were on glittering US equities. But after a decade of neglect, they now look cheap. So is it time for EM to shine? Aubrey and M&G discuss the outlook for EM and their funds.

ROB BREWIS
Fund manager,
Aubrey Global Emerging Markets Opportunities
Elite Rated by FundCalibre

The last consistent period of outperformance for Emerging Markets (EMs) was during the first decade of this century when EM growth consistently outperformed Developed Markets (DMs). Back then, this was led by China and commodity demand. Underperformance since then can be partly attributed to the steady decline of Chinese growth, particularly since Covid. Emerging markets need a new driver, and this is coming in the form of a resurgent India, with a supporting cast including Indonesia, the Philippines, Vietnam and Brazil.

This time, we do not expect emerging market equities to be driven by the commodity cycle, as we saw last time. In fact, we expect the opposite - as Chinese demand continues to slow, and Covid-linked inflation reverses, commodity prices are falling. The key beneficiaries of this will be the emerging consumers in countries like India.

IGNORE EMS AT YOUR PERIL

In recent years, it was easy to ignore EMs as an investment opportunity, given their underperformance and the consistent returns of other assets, including US equities. But ignoring EMs ignores the prospects of three quarters of the world's population, as well as significantly more of its future population, given its relative youth, as well as much of the world's future growth opportunities.

Despite the underperformance of EM equity indices in recent years, it has been possible to make good long-term returns. Since its inception in March 2012 to 30 September 2024, Aubrey's EM Strategy has gained 195% (USD) on a net-of-fee basis versus the comparable index (MSCI TR net Emerging Markets USD) of 53%. Except for US stocks, no other major equity market has come close to this. This highlights the essential importance of an active approach to EM investing. Buying a passive index does not work over the long term.

THE KEYS TO SUCCESS

There are three key factors behind Aubrey's process. The first is to look in the right places. Each emerging economy is at a different stage of development, and consumers in these economies have varying needs and aspirations. You need to understand which sectors will likely grow fastest in each country. For example, two thirds of India's population still live in the countryside. As this rural population moves to towns and cities, the needs of people will drive rapid growth in areas like housing, retail and basic financial services. Many of the more advanced emerging economies, China included, are past this stage, and growth can only be found in the more service-orientated sectors such as healthcare, travel and technology.

The second factor is to buy the right companies. We have exacting requirements for the quality of companies in the portfolio, based on high return on equity, strong cashflow and reasonable valuations.

A final factor is to only invest our clients' money in countries which we believe are well managed. Sadly, for many of their inhabitants, there are too many which are not, and we choose to avoid these.

Today, around half of the Aubrey Global Emerging Markets Opportunities fund is invested in Indian consumer companies, which will benefit from the rapid urbanisation of the country. Modern forms of retail, such as supermarkets (Avenue Supermarkets), ecommerce (Zomato), and branded chains selling goods from apparel to jewellery (Trent), today form a tiny proportion of the market, but are just at the stage of taking off. Urban housing (Lodha Group), travel (Indian Hotels) and financial services companies also provide similar rich veins of growth. The fund is also invested in pockets of growth in China, Taiwan and Korea, as well as a smattering of quality growth businesses across SE Asia, Latin America and elsewhere.

THE CHELSEA VIEW

The fund is set up to take advantage of the fast-growing emerging market consumer opportunity and it has a refreshingly clear approach, guided by a simple but effective incorporation of political and economic factors. We like that the managers are happy to not own certain sectors and regions if they don't like them.

Chelsea Risk Rating: 10
AMC: 0.75%
OCF: 1.04%
Yield: ....-

MICHAEL BOURKE

Fund manager,
M&G Global Emerging Markets
Elite Rated by FundCalibre

After a decade of disappointing performance, EM equities, in aggregate, look cheap relative to global and US equities. China, as the dominant emerging market, has been a major factor, with concerns about the country's troubled property sector and lacklustre economic growth weighing on investor sentiment.

Policy measures have been introduced but stabilising the country's real estate market and reviving growth will take time. Overall, we see compelling value in China currently, but given the risks, we are highly selective when investing there.

Of course, there's more to EM equities than just China – it's a large and varied investment universe with a diverse range of opportunities on offer across the different economies.

The Artificial Intelligence (AI) buzz might be concentrated on US-technology firms, such as Nvidia, but innovative companies in Taiwan and South Korea are vital parts of the AI supply chain. They could well benefit from long-term adoption of AI technology, as well as an upturn in the consumer electronics cycle, driven by AI-enabled laptops and smartphones.

Elsewhere, markets in Latin America and the Middle East are dominated by natural resources companies. Meanwhile, in all regions, we see financial services companies and consumer goods and services firms, such as airlines, hotels and food companies, that are benefiting from rising wealth and increased consumption. By overlooking EM, we believe investors are missing out on many promising companies that are well placed to capture the exciting long-term trends taking place across these economies.

IMPROVING CORPORATE BEHAVIOUR

Clearly, low valuations, by themselves, are no guarantee of stock-market returns. However, they arguably offer investors a more attractive starting point. For many years, EM companies have been obsessed with growth and much capital has been wasted on unprofitable ventures. In addition, with many state-owned or family-controlled businesses in the EM universe, the interests of minority shareholders have often been sidelined.

More recently, however, we have seen a change in behaviour by both state-owned and private firms. Management teams are now demonstrating much greater capital discipline and investing more sensibly; there is a growing focus on generating returns on invested capital. Encouragingly, EM companies are also becoming more shareholder friendly: they are increasingly focused on delivering returns to shareholders in the form of dividends and share buy-backs. For example, over the past couple of years, we have seen a sharp inflection in the dividend payout ratio in China.

In South Korea, the 'Value-Up' programme seeks to encourage companies to adopt shareholder-focused policies that could help boost the value of the country's stock market.

As firms take steps to become better run and focus on profitability and delivering returns to their shareholders, we believe the fortunes of EM equities can improve significantly in the coming years.

DISCIPLINED STOCK PICKING

At M&G, we look for opportunities across the entire global EM universe, investing in companies of all sizes in all industries and countries. For more than 15 years, we have followed a disciplined value-oriented stock-picking approach that has focused purely on the fundamentals, or underlying performance, of companies.

We analyse closely company business models, assets and strategies to find companies where we think the market is underappreciating the return on capital they could achieve in 3-5 years' time. This long-term investment horizon can enable us to identify mispriced opportunities created by short-term sentiment. We also seek to construct a balanced portfolio that can cope with different market environments, by investing in four distinct types of companies with different return on capital profiles.

Our valuation-focused approach tends to lead us towards cheaper parts of the EM universe. At present, we have meaningful allocations to Brazil, South Korea and South Africa. China is the biggest individual country weight. In contrast, we have a large underweight position in India, which trades on an elevated valuation. There are opportunities here, in our view, but they are harder to find than in other markets currently.

With central banks in developed markets seemingly at the start of an interest rate cutting cycle, the environment could be about to become more favourable for EM. Looking further ahead, with a diverse universe of improving companies, as well as some of the most advanced, cutting-edge businesses globally, we believe that the outlook for EM equities is extremely bright.

THE CHELSEA VIEW

The high regard we hold for this fund has been vindicated by its excellent long-term performance. Michael's impressive track record since taking over this fund in 2018 has been aided by a well-defined process that helps provide balance to the fund. Their contrarian nature is also an attractive differentiator, with the team finding opportunities across emerging markets that other managers might miss.

Chelsea Risk Rating: 9.5
AMC: .... -
OCF: 0.77%
Yield: 2.31%

BONDS IN FOCUS:

As Bryn Jones celebrates his 20-year anniversary managing the Rathbone Ethical Bond fund, he shines a light on bond markets today.

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

Q: Congratulations on 20 years at the helm of the Rathbone Ethical Bond fund - what are the most significant changes that you've seen over that time?

A: I'd say the three biggest changes I've seen are the big advances in technology, products that support positive environmental, social and governance (ESG) principles, and ESG protocols. Together, they've shaken up traditionally staid bond markets, giving investors a much wider choice of investment strategies.

Firstly, advancements in technology have enabled bond markets to move towards electronic trading, helping to lower costs and make trading quicker and more reliable. Technology has fuelled the rise of passive – or indexed – investment strategies intended to give investors relatively inexpensive ways to gain market exposure. It is worth remembering that debt indices are weighted by debt outstanding so if you track a bond benchmark, you'll be loading up on the debt of those countries or companies with the biggest debt burdens.

Another huge change has been the massive shift towards ESG investments. When the Rathbone Ethical Bond fund first launched, it was very much a minority taste. Over the years, it's gone mainstream, as more people prioritise ESG principles. At the same time, the fallacy that sustainable investments don't generate competitive returns has pretty much been silenced.

We've also seen the emergence of much more effective ESG protocols from the regulators.

Q: Could you explain to our investors the different types of bond that are available?

A: The global bond market is by far the largest securities market in the world and comprises a huge range of bonds, offering almost limitless investment options. The two biggest categories are government and corporate bonds.

The former comprises sovereign debt issued and generally backed by a central government. It's considered 'risk free' because the governments issuing it can always (theoretically) come up with the money to repay what they've borrowed. In the real world, investors can get spooked if they think governments intend to borrow above their means and will have to issue lots of new debt to pay for their spending plans. That can drive mighty sell-offs in the bonds of the country in question (for example, when Prime Minister Liz Truss's government announced tax cuts without explaining where it would get the money to pay for them).

Companies also borrow money in bond markets and their bonds offer extra yields (known as credit spreads) over government debt to reflect the higher risk that they may not be able to pay back what they've borrowed.

Corporate bonds fall into two broad categories: investment-grade and speculative-grade (also known as high yield or 'junk') bonds. Because the latter are deemed to be at higher risk of defaulting on their debt repayments, they offer higher yields than more highly rated, investment grade companies' debt. It's worth remembering that, unlike the world of equities where companies tend to be embodied by one single security, every bond issuer will tend to issue lots of different bonds – it takes painstaking work to figure out which of them could offer the best value

Q: Can you explain why bonds have performed so poorly in recent years?

A: Yes, 2022 was a bit of an 'annus horribilis' for bond investors as high inflation and higher interest rates made the low fixed returns of bonds, issued when rates were near zero, much less attractive. But even the most tenacious equity bulls now acknowledge that the era of 'there is no alternative' to stocks is finally done. Bond yields (which run in the opposite direction to prices) rose significantly when inflation proved far stickier than had been widely expected and central banks hiked interest rates very aggressively. But the resulting huge reset in bond yields means bond investors are now being paid very attractive income yields to sit out and wait for prices to recover.

Bonds and equities fell in tandem in 2022 – but since then, we've seen bonds offer pretty powerful 'insurance' against equity risk because bond and stock prices have been negatively correlated (they've moved in opposite directions). As a result, we've seen investor appetite for bonds gain extra momentum as investors have begun to prioritise recession protection over inflation protection.

Q: Do you think interest rates will come down, and if so, when?

A: The most important factor influencing bond markets worldwide is the trajectory of US interest rates. The US Federal Reserve (Fed) fired the starting gun on rate cuts with a 50-basis-points (bps) move in September.

What may matter more than the size of this first cut is how the Fed follows it up over the rest of this year and into 2025. Inflation in the US is higher than the Fed would like, people still have some savings, the US economy continues to grow at a decent rate, and – despite a recent uptick – unemployment remains low. But the Fed obviously felt it was time to cut by 50bps. Does it really fear a looming US recession? Or was the cut more of a pre-emptive strike aimed at keeping the economy close to full employment?

Just as important as the cut itself is what the Fed told us about how it sees things from here. It's projecting that the Fed's benchmark interest rate could end up somewhere between 2.9% and 4.1% next year. That's a massive range! That shows there's quite a lot of uncertainty ahead for Fed rate-setters, and all of us.

Here in the UK, we expect to see a fairly slow and steady approach to rate cuts, as long as unemployment doesn't suddenly rise significantly. If that were to happen, we'd expect the Bank of England to cut rates at a much sharper pace.

Q: Why should investors own bonds?

A: We believe the current backdrop is pretty positive for bonds. Government bonds should be well supported by central banks' commitment to easing monetary policy and we're not expecting credit spreads to blow out without a big rise in defaults or downgrades (we think that's pretty unlikely). At the same time, the yields currently available on both interest-rate sensitive government debt and growth-oriented investment grade credit are a lot more attractive than they've been for many years. That means bond yields should offer very decent buffers against any volatility in bond prices. As we've explained above, we also believe bonds can play a vital role in broad investment strategies as a potential hedge against weak economic growth and stock market volatility.

Q: What opportunities are you finding at the moment?

A: We've picked up some very attractive bonds issued by specialist insurers that are benefiting from the boom in corporate pension schemes transferring their assets and liabilities over to such firms. We're also seeing quite a few insurance companies asking bondholders to 'tender' (sell back) some of the bonds they've issued. When issuers make tender offers, they can sweeten the deal by offering to buy them back at premium prices.

In sustainable bonds, we were proud to be one of the first investors in an innovative new World Bank Amazon Reforestation-linked Outcome bond. This ground-breaking bond is the first to link investors' financial returns directly to the removal of carbon dioxide from the atmosphere. We hope this initiative will serve as a model for future sustainable investments.

THE CHELSEA VIEW

This fund typifies stable management, with Bryn having been at the helm for nearly 20 years. 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: 0.67%
Yield: 4.90%

VENTURE CAPITAL TRUSTS (VCTs)

AN OVERVIEW

PETER HICKS
Research analyst,
Chelsea

The UK is braced for a bitter winter budget, with the Prime Minister gloomily declaring, "There is a budget coming in October, and it's going to be painful." [1] However, the good news is that it looks like VCTs will remain untouched. Indeed, the PM has insisted the Budget will not contain any measures that stifle growth[2], and any ill-advised decisions to clobber VCT investors would do just that. Moreover, the Labour Party's pre-election white paper on start up and scale-up capital recommended a commitment to VCTs, meaning any drastic changes would come as an unforeseen shock. [3]

The advantages of VCTs are clearly evidenced, both for the Treasury and the British economy. The Venture Capital Trust Association (VCTA) recorded their investee companies raising half a billion pounds of tax receipts for HMRC in 2023* [4]. VCTs are good for jobs - the workforce employed by VCTA member-backed companies has grown by 54% since 2021, and employs over 100,000 people. One notable example, Matillion, grew from 20 employees to 570 employees over a five-year period. Matillion is a holding in the British Smaller Companies VCTs. These jobs also tend to be well-paid, with average salaries of unquoted company employees being significantly higher than the UK average. [5]

PEMBROKE

Pembroke is seeking to raise £60m. This VCT specialises in high-end consumer businesses and holds a number of successfully growing companies within its portfolio. One example is Lyma, a business that sells clinic-grade anti-ageing laser technology. Lyma received £2m of investment from Pembroke for a 20% stake; Pembroke's holding is now worth £31.2m. Lyma is one of Europe's fastest-growing businesses and recently received the King's Award for Enterprise in International Trade.

Another business, Secret Food Tours, was invested in prior to the COVID pandemic at a cost of £1m, with an additional follow-on funding round of £1m. When the pandemic hit, global lockdowns prevented this hospitality food tour business from operating, and the future looked bleak. However, rather than closing the business, Pembroke strongly advised the founder – who wanted to close the company and move into anti-viral PPE sales – to mothball the business and improve the underlying technology during lockdown. This strategy proved successful, and Secret Food Tours

TAX RELIEF EXAMPLE

INITIAL INVESTMENT
£10,000

30% INCOME TAX RELIEF
£3,000

70% EFFECTIVE INVESTMENT COST
£7,000

TAX BENEFITS FROM VCTs

- ✓ INITIAL INCOME TAX RELIEF OF 30% (IF HELD FOR 5 YEARS)
- ✓ TAX-FREE DIVIDENDS
- ✓ FREE OF CAPITAL GAINS
- ✓ INVEST BETWEEN £3,000 AND £200,000 EVERY 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. Market-leading cashbacks are available, if investments are held via Chelsea for five years.

NAME OF VCT	TYPE OF VCT	MINIMUM INVESTMENT	INITIAL CHARGE	CHELSEA DISCOUNT**	UPFRONT CASHBACK	CLOSING DATE ^
Maven	Generalist	£5,000	5.50%	**4.25% new investors, 4.5% existing investor discount**	**0.50%**	4 April 2025
Pembroke	Generalist	£5,000	5%	**3% existing investors, new investors 2.5%**	**0.375%**	4 April 2025
Puma 13 VCT	Generalist	£3,000	5%	**2% for new investors, 3% for existing investors (until 31 October 2024)**	**0.60%**	4 April 2025

has flourished post-lockdown. The company is now valued at £10.6m.

A number of the underlying portfolio companies are "engaged with corporate finance advisors" (code for: they are exploring the possibility of exiting), and Pembroke has a pro-special dividend policy, preferring to pass on proceeds to investors whenever possible. This is in addition to a credible history of steady dividends - the current dividend target is 5p.

We also have a positive view of Pembroke's relatively simple performance-fee structure, taking performance fees from realised gains. Unfortunately for VCTs, this is proving to be an increasingly unusual step, however we believe this approach better aligns the interests of the management team with their investors and investee companies.

PUMA 13 VCT

Puma 13 VCT was launched in 2017 and has achieved some impressive results early on, comfortably featuring in the top of the generalist VCT sector since inception. The VCT has also scaled quickly and now has assets of over £150m; this is good for investors because the manager can do meaningfully-sized deals.

These are rare accolades for a VCT so young and worth taking notice of. Dividend payments have also followed; Puma 13 paid its first dividends in 2022, and since then has paid out a total amount of 19.5p per share. These dividends were generated from 2 exits. Pure Cremation, held for only 2 years and sold in June 2021 for £5m, gaining a 4x return, and TicTrac, exited in 2022, a health and wellness tech company, sold for a 1.9x return and realising proceeds of £3.5m.

The portfolio is concentrated, consisting of 20 qualifying businesses. These companies were targeted on the basis of their existing commercial track record. Puma 13 avoids start-ups, instead opting for businesses with paying customers who are in a position to scale-up and reach the next stage of their growth.

Portfolio examples include non-alcoholic beer brand, Lucky Saint, now a UK household name and available in over 7000 pubs, bars and restaurants. The market for non-alcoholic drinks is growing and is expected to increase 30% by 2026, being worth around $11bn in 2022.

Another recent example is Transreport, a business specialising in helping disabled and elderly people use public transport. Their Passenger Assistance technology app has been downloaded over 100,000 times and is designed to simplify the process of booking assisted train travel. Puma 13 has invested £5.4m into Transreport. The business now supports the whole of the UK rail network and is now entering the Japanese market.

MAVEN

Maven is the most defensive VCT manager of the established generalists. It is important to always recognise that all VCTs are high-risk, however Maven seeks to be on the more cautious end of the VCT risk spectrum. Compared with others, Maven invests smaller amounts of capital into each business, but over a larger spread of companies. They hold over 130 companies across their four VCTs, with between 90 to 120 holdings in each - much more than your typical generalist, which will usually hold around 50 or so businesses.

Maven has the footprint to manage a larger number of portfolio companies, with 10 regional offices employing over 100 professionals. Their presence beyond the South East means access to opportunities that are often overlooked and therefore more likely to be undervalued. They meet over 300 private company opportunities a year, avoiding first-time entrepreneurs and investing in businesses managed by people with a proven entrepreneurial track record. Scalable business models already generating in excess of £1m annual revenues are targeted, with a preference for contractual recurring revenue.

A recent string of profitable exits also belies Maven's "boring" approach: Novatus 3.6x (£10m return), MirrorWeb 3.9x (£15m return), Quorum Cyber 8.2x (£9.89 return). Of course, this does not necessarily mean big special dividends - returns could be reinvested within the VCT. However, large cash piles can create undue pressure for a VCT manager due to the 80:20 qualifying rules. This is a rule set by HMRC that ensures that 80% of a VCT portfolio is invested into smaller growing businesses. If a manager generates lots of cash from their exits, they need to be careful that they don't hold the cash for too long. After a big cash-generating exit, paying out a special dividend can be a simple way of making sure the VCT is within the investment rules set by HMRC.

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 their income, 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.

**Discounts and fees are often subject to change, please contact Chelsea Financial Services to confirm before deciding to invest.
^Subject to remaining capacity. VCT raises often sell out well before the offer closing date.

Source: [1] *The Telegraph: https://www.youtube.com/watch?v=tOX-EMJIeI0.* [2] *The Financial Times: https://www.ft.com/content/23186b14-47f0-4a50-b815-316cfe9a7dc4.* [3]*The Labour Party, Start-up Review, 2022.* [4]*VCTA, 2024.* [5]*Parliament: https://committees.parliament.uk/writtenevidence/109016/html/.*

FUNDS UPDATE

JULIET SCHOOLING LATTER
Research director,
Chelsea

JANUS HENDERSON EUROPEAN SELECT OPPORTUNITIES

Lead manager John Bennett retired this summer after over 40 years in the industry to focus his time on running Rangers Football Club, of which he's a lifelong supporter and chair of the board. Previous co-managers Tom O'Hara and Tom Lemaigre are now dual managers on this fund, having held these positions since 2020 and 2022 respectively. We do not expect any radical changes to the fund going forward but have downgraded it to a Hold while we await an update from the team.

AXA FRAMLINGTON AMERICAN GROWTH

In September, AXA announced the departure of long-serving manager Stephen Kelly who is leaving the firm next month to manage an Australian superannuation fund. David Shaw, previously co-manager of this fund for eight years, will be stepping up to take full control. Having met with David a few weeks ago, he made it clear that there won't be any significant changes to the fund. They had known each other for over 20 years and he felt their style and approach to managing money are very similar. We have kept the fund as a Buy having been impressed by David.

AXA FRAMLINGTON GLOBAL TECHNOLOGY

Jeremy Gleeson has left AXA, where he headed the tech investment team and was lead manager on the £1.3bn Global Technology fund. Gleeson, recognised for his stock-picking skills, delivered over 1,000% returns during his tenure. He has now joined Allianz to establish their new global technology team. Tom Riley, Brad Reynolds, and Pauline Llandric will manage the fund during the transition as they await the appointment of a new lead manager. Riley, who has worked at AXA for over 14 years, previously served as deputy manager of the fund. Whilst we await a meeting to assess the new finalised team, we have downgraded the fund from a Buy to Hold.

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 the time of going to print and we cannot be held responsible for subsequent changes.

WOULD YOU RECOMMEND CHELSEA?

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

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Full Name:

Email: Phone No:

Address:

Postcode:

3 FRIEND'S DETAILS

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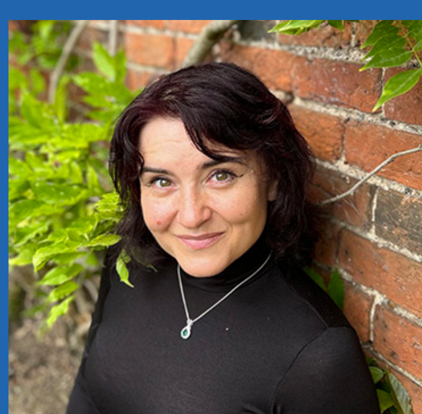
- We're proud to offer our clients a very personal service.
- Unlike others, we're not 'online only'.
- We haven't 'outsourced our customer support function'.
- We have a team in our office in Chelsea and we would be pleased to help.
- So if you need a little extra help or guidance, you can call us on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



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