~ ISSUE 59 · MARCH 2025 ~

VIEWPOINT

THE MAGAZINE FOR CHELSEA INVESTORS

FEATURES:

P22-26 UK SMALLER COMPANIES

Is now the time to invest?

P28-31 A MACRO VIEW

Two experts share their thoughts on 2025

REGULARS:

WELCOME TO VIEWPOINT

Welcome to the Spring 2025 edition of Viewpoint.

Our main feature on p22 focuses on investing in UK Smaller Companies, hearing from two fund managers in this field who share their views on the sector and where they are finding opportunities now.

We also have an exciting macro Q&A feature on p28, where a fund manager and an economist give their views and predictions for 2025.

Lastly, our VT pages focus on the VT Chelsea Managed Aggressive fund.

I hope you enjoy your latest edition of Viewpoint.

DR JOHN HOLDER
Chairman,
Chelsea

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

IN THIS ISSUE

MARKET VIEW

WHY THE BIGGEST MARKET RISK IS TAKING NO RISK AT ALL

DARIUS MCDERMOTT
Managing director,
Chelsea

The old saying "don't judge a book by its cover" screams out to me when I try to summarise the investment and economic landscape in 2024.

Cast your mind back to the start of last year, when geopolitical concern was rife. War between Russia and Ukraine, as well as in the Middle East, was destabilising the global economy. There were also fears around the impact of monetary policy, with central banks unsure about whether to start cutting interest rates. When you throw in the lofty valuations for US equities and the unattractive spread on corporate bonds, you could be forgiven for thinking 2024 was a low-returning year.

The reality was very different. Global stock markets rose on the back of falling inflation and the US economy's success in avoiding a hangover from a strong post-pandemic recovery. In the end, global equities returned over 20%, while US equities rose by 25%. Even unloved UK equities returned almost 10%*.

It's a good reminder for all of us that while the idea of "buy low, sell high" may seem attractive, it is a near-impossible task! Time in the market, not timing the market, is the best way to reach your long-term goals. Yes, there are going to be volatile periods, but you are also likely to miss out on the market recoveries which drive the largest returns.

Figures from Schroders highlight this. They show that if you remained fully invested in the FTSE 250 between 1986 and 2021, a £1,000 investment would've been worth £43,595. However, the outcome would have been very different if you had tried to time your entry in and out of the market. During the same period, if you missed out on the FTSE250 index's 30 best days, the same investment would've been worth just £10,627, not adjusted for the effect of charges or inflation**.

PRO-BUSINESS BUT A GEOPOLITICAL MONSTER – WELCOME TO TRUMP 2.0

A month into 2025 and Donald Trump has now returned to the White House and is expected to have a big impact on markets for the foreseeable future. Whilst we expect some interesting policies – which will no doubt cause volatility in markets – he is undoubtedly a business-friendly president, who has already promised to cut regulation and lower taxes. We have already seen some of the benefits since he won the election in November 2024, with US smaller companies rising 5%***.

The geopolitical outlook is less clear. As at the time of writing, there is currently a ceasefire in the Middle East as well as the potential to address the ongoing war in Ukraine. However, Trump's way of negotiating can often appear aggressive and tariffs are very much the bogeyman for markets at the moment.We've also just started to see some tariffs come through – with China, Canada and Mexico as his initial targets and the EU very much on his radar.

What last year showed us is that the stockmarket can be resilient, despite some hefty challenges. That said, we would be pleasantly surprised if we got half the returns we saw in 2024, with US equities even more expensive than they were a year ago.

FIXED INCOME STILL AN ATTRACTIVE PROSPECT WHILE UK PLC CONTINUES TO LOOK CHEAP

Government bonds, and hence starting rates for most corporate bonds, are reasonably attractive, with US and UK 10-year Treasuries yielding around 4.5%. Fixed income has become a viable investment option again in the past couple of years, but the credit risk (the spread over the government bond) is not particularly attractive.

Turning to equities and a Chinese-made artificial intelligence (AI) model called DeepSeek shot to the top of Apple Store's downloads in January 2025, stunning investors and resulting in a sell-off in some of the large US tech stocks. It was a timely reminder that going all-in on a single theme can be dangerous. A balanced approach is more likely to produce smoother returns. For example, in that period, the UK market was up – indicating how different it is from the US.

That said, UK equities are still reasonably cheap on all metrics – particularly small and medium-sized companies. Even UK equity income funds, which have fallen out of favour in recent years, gave a perfectly respectable 8.7% return last year****.

My final message would be patience for investors. Last year showed us all once again that it is better to be invested over the long term and expect those bouts of volatility, than not to be invested and miss out on significant returns.

***Source:** FE Analytics, figures in pounds sterling for the MSCI World, S&P 500 and FTSE All Share, figures from 1 January 2024 to 31 December 2024 ****Source:** Schroders - The £33k cost of trying to time the market *****Source:** FE Analytics, figures in pounds sterling for the Russell 2000, figures from 5 November 2024 to 4 February 2025 ******Source:** FE Analytics, figures in pounds sterling IA UK Equity Income sector, figures from 5 November 2024 to 4 February 2025

CHELSEA ISA UPDATE

MAKE YOUR FUTURE LESS TAXING

SAM HOLDER, CFP
Operations director,
Chelsea

ISAs – THE UK'S ULTIMATE SAVINGS PRODUCT?

Good news - ISAs were untouched in the Autumn budget, making them even more attractive amid harsher CGT and pension tax changes.

WHY CHOOSE AN ISA?

Tax-free growth and income – a powerful way to build long-term wealth.

GET RICH SLOWLY

As Einstein famously said, "compound interest is the eighth wonder of the world".

Investing in equities involves risk, but the potential returns can be significant, and small investors can build sizeable tax-free portfolios. I have seen this happen many times in my 25-year career.

MAKING THE MOST OF YOUR ISA ALLOWANCE

Unsure where to invest? Perhaps explore our VT Chelsea Managed fund range. Four options for a complete investment solution, each designed for varying risk profiles and objectives: Cautious, Balanced, Aggressive and Monthly Income.

ISA DEADLINE – 5 APRIL

Your £20,000 ISA allowance runs out at midnight on 5 April – use it or lose it.

Don't forget the kids – they get a £9,000 Junior ISA allowance. Start them young and they may retire before you...

Please remember that tax treatment depends on your individual circumstances and ISA and tax rules can change.

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
- Flexible ISAs - withdraw and replace funds within the same tax year without affecting your allowance
- Investing in funds typically offers higher long-term growth potential
- No withdrawal restrictions - withdraw money at any time without penalties (investment values may fluctuate)
- Compound growth - reinvesting dividends and capital gains within an ISA allows for compounding, accelerating portfolio growth over the years
- Inheritance ISA allowance - leave your ISA pot to your spouse/civil partner

VT CHELSEA MANAGED AGGRESSIVE GROWTH

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

Since its launch in June 2017, the fund has delivered a strong return of 77%, beating the IA Flexible sector, which has returned 47%.*

The fund primarily invests in equity funds but also has exposure to property, gold, other alternative investments and a small allocation to bonds. The world around us is taken into account when positioning the fund to benefit from the best long-term opportunities. The intention is to buy favourite funds alongside top investment trust ideas. Timing a purchase to when something is out of favour, or has suffered a temporary blip, often leads to much better returns.

LONG-TERM THEMES

A good example of this is the Polar Capital Technology trust. It seems hard to believe now, but back in 2022 tech was heavily out of favour. Share prices suffered huge falls, as interest rates and inflation rose. Despite the negativity, tech companies continued to deliver strong earnings and were sitting on piles of cash. Tech was still considered to be a great long-term theme and was very likely to continue to play an ever more significant role in our lives in the future. As a result, a position in the Polar Capital Technology trust was added. The trust has a great team with a fantastic track record. Despite this, the fund was able to pick the trust up on a 15% discount. Since then, it has performed exceptionally well and the trust gained another 34% in 2024.

Another example is the fund's position in Polar Capital Biotechnology. Demand for healthcare continues to increase every year. This fund, managed by David Pinniger, continues to deliver outstanding performance. It has beaten its benchmark by over 58% in the past five years. This is another position which combines a strong theme with a great fund manager.****

A newer position in the fund is the Chikara Indian Subcontinent fund. India has been a long-running theme in the fund since it launched. India's strong demographics, high-quality companies and long growth runway make it a very attractive investment prospect. This fund focuses on domestic India and strips out those companies which get most of their earnings from overseas. The management team is held in high regard and, so far, performance has been excellent since the fund was added to the portfolio last year.

UNLOVED UK

More recently, the fund's weighting to the UK has been increased as the market has become very unloved and cheap relative to the rest of the world. The Artemis UK Select fund has been added. Managers Ambrose Faulk and Ed Legget have exceptional track records. The fund had an outstanding year in 2024, returning 25%^.

Looking forward, the best value is in UK smaller companies (see the UK smaller companies feature on p22). Smaller companies have struggled in recent years as money has continued to flow into the US mega-caps. However, the gap in valuations is wide and it looks likely that smaller companies will continue to outperform over the long term, as they have always done historically. Many great UK smaller companies are trading on very low valuations. To take advantage, a new position in Raynar UK Smaller Companies has been added. It's a new fund but managed by a very experienced manager.

IDIOSYNCRATIC TRUST OPPORTUNITIES

Last year the fund returned 16% and a number of the investment trust ideas that were initiated a few years ago have started to deliver strong performance.** One idea was Doric Nimrod Air Two (DNA2) trust, which was owned in all four VT Chelsea Managed funds, and has been one of the best performers. The trust leased seven A380 aircraft to Emirates. Whilst the A380 was loved by passengers, it was disliked by most airlines (except for Emirates). It was fuel-inefficient and difficult for airlines to fill because it was so large. Emirates placed a large order with Boeing for new 777X aircraft, which it was assumed would replace the A380s.

For these reasons the market was very negative on the A380 and the Doric Nimrod Air Two investment trust. It was assumed that once the initial leases with Emirates had ended, the aircraft would not be worth very much. Having researched the trust thoroughly, it was felt that the market was being far too negative.

We realised there was a severe shortage of airline capacity as demand rebounded after Covid. Furthermore, the 777X which was


©Official SpaceX Photos

supposed to replace the A380 had been repeatedly delayed and Boeing was struggling with many issues. This meant it was highly likely that the 777X would be delayed again.

As conviction grew, the size of the position in the funds was increased. When the leases ended, Emirates bought the A380 aircraft from the trust for more than the market expected. As a result, the trust returned another 40% in 2024, on top of very substantial gains in prior years. There is still a very similar trust in the fund - Doric Nimrod Air Three - with leases which come to an end at the end of 2025.

Two other top performers in 2024 were the Chrysalis and Schiehallion investment trusts. Both these trusts invest in fast-growing private companies before they come to the public market via an IPO (initial public offering).

In the past few years, market sentiment towards these trusts has been terrible as interest rates rose and the IPO market was effectively closed. They traded at a huge discount to their stated values. A lot of research was carried out into the underlying companies they held and some of them were doing very well. A good example of this is Starling Bank, which is the largest position in Chrysalis. The company has grown strongly and has now been profitable for 3 years in a row. Its last results showed a 51% increase in revenue to £682m and profit before tax of £301m.*** Despite this, it was felt that Starling was valued overly conservatively by Chrysalis and yet the trust itself traded at a huge discount to its stated value. Chrysalis also had other holdings which were doing well. AI fraud protection business Featurespace has now been acquired at a premium by Visa. 'Buy now pay later' provider Klarna is expected to IPO in the United States very shortly. As a result, Chrysalis was built up into the largest position in the Aggressive fund. Despite a 39% return in 2024, the trust still remains at a 35% discount to its stated value.^+

Schiehallion owns large well-known private companies, such as Space X, ByteDance (owner of TikTok) and Stripe, the big payment processing platform. The value of Space X was recently increased again as the company continues to perform well, and its network of 7,000 Starlink satellites is generating greater cashflow by providing mobile broadband internet across the world. Schiehallion should be a strong beneficiary as the IPO market re-opens. Schiehallion has no debt and large cash balances, offering an incredible opportunity. It still trades on a 20% discount today, despite a 50% return in 2024.+

The fund has many interesting ideas and opportunities. Hopefully it can build on the progress it has made in 2024 as more of the fund's ideas mature.

*FE Funds Info VT Chelsea Aggressive Growth vs IA Flexible sector total return in sterling 05/06/2017-29/01/2025. **FE Funds Info VT Chelsea Aggressive Growth total return in sterling 31/12/2023-31/12/2024 ***Starling Bank annual report https://www.starlingbank.com/investors/2024/annual-report-2024/ ****FE Funds Info Polar Capital Biotechnology total return in sterling 82.64% vs 24.54% for the Nasdaq Biotechnology index 16/01/2020-16/01/2025. ^FE Funds Info total return in sterling 01/01/2024-31/12/2024. + theaic.co.uk 24/01/2025.

VT CHELSEA MANAGED

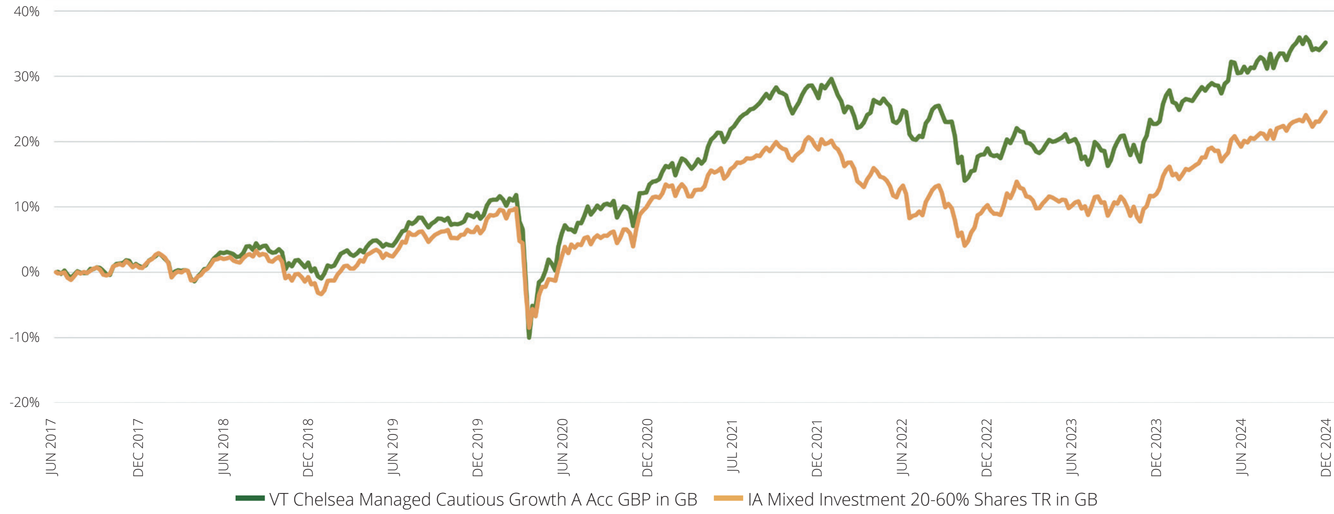
CAUTIOUS GROWTH

OUR MOST DEFENSIVE PORTFOLIO

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

KEY FACTS:	
Ongoing charges figure:	**0.92%**
Payment dates:	**30th Jun, 31ST Dec**
Indicated yield:	**3.74%**
Performance since launch:	**35.91%**
Sector average:	**25.64%**
Chelsea Risk Rating:	**4**

PERFORMANCE SINCE LAUNCH



Source: FE Funds Info 05/06/2017-29/01/2025 total return in sterling

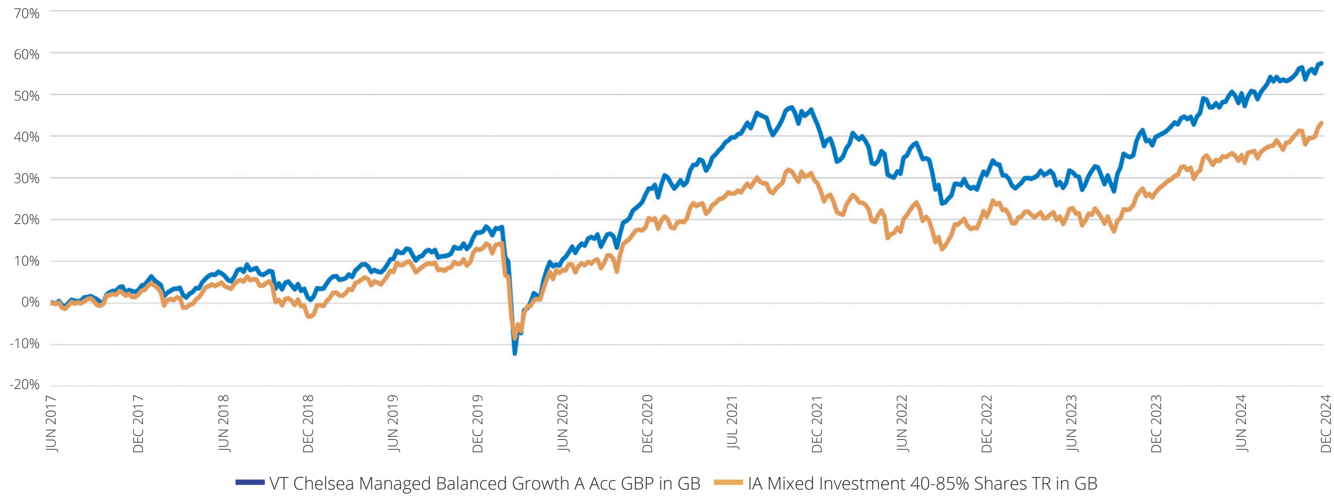
BALANCED GROWTH

OUR 'HAPPY MEDIUM' PORTFOLIO

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

KEY FACTS:	
Ongoing charges figure:	**0.76%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**57.43%**
Sector average:	**43.06%**
Chelsea Risk Rating:	**5.5**

PERFORMANCE SINCE LAUNCH



Source: FE Funds Info 05/06/2017-29/01/2025 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

OUR PUREST GROWTH PLAY

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

KEY FACTS:	
Ongoing charges figure:	**0.86%**
Payment dates:	**N/A**
Indicated yield:	**N/A**
Performance since launch:	**76.50%**
Sector average:	**46.47%**
Chelsea Risk Rating:	**7**

PERFORMANCE SINCE LAUNCH

Source: FE Funds Info 05/06/2017-29/01/2025 total return in sterling

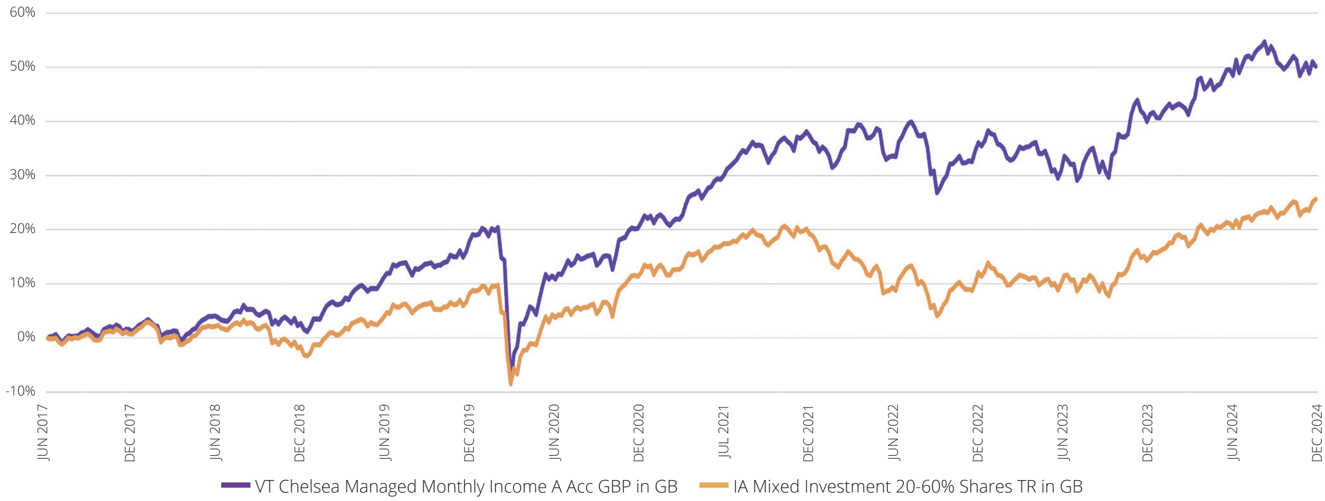
MONTHLY INCOME

OUR FUND FOR YIELD

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

KEY FACTS:	
Ongoing charges figure:	**0.72%**
Payment dates:	**Monthly**
Indicated yield:	**5.99%**
Performance since launch:	**50.18%**
Sector average:	**25.64%**
Chelsea Risk Rating:	**4.5**

PERFORMANCE SINCE LAUNCH



Source: FE Funds Info 05/06/2017-29/01/2025 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 are correct as at end of Nov 2024. Ongoing charges figures (OCFs) are correct as at 29/01/2025.

† 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

ARTEMIS UK SELECT

This fund is a concentrated portfolio of the best 40-50 stocks found by Ed Legget and Ambrose Faulks, 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)	0.82%*
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	0.95%
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	2.06%
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	0.98%
UNIT TYPE	ACC/INC

MI CHELVERTON UK EQUITY GROWTH

Fund manager James Baker puts his extensive experience of investing in small and medium-sized businesses into practice with this fund, choosing to invest the majority of the portfolio in highly cash-generative smaller companies able to fund their own growth. James is supported by co-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

NEW ENTRY

WS RAYNAR UK SMALLER COMPANIES

Philip Rodrigs is the sole manager of this UK smaller companies fund, which was launched in July 2024. The portfolio holds between 70-90 stocks and is selectively curated to balance diversification with high conviction. His stock selection emphasises high-quality firms with strong management, clear growth catalysts, and attractive valuations. Rodrigs capitalises on the overlooked nature of small-caps, targeting firms with at least £100m market cap at purchase. His approach thrives in a universe of 400+ small companies, rejecting 80% to retain only top-tier opportunities. Rodrigs' proven track record of sector-leading returns from 2006-2017 underscores his capability to deliver sustained outperformance in the UK small-cap market.

CHELSEA RISK RATING	8
ANNUAL MANAGEMENT CHARGE	0.50%#
ONGOING CHARGES FIGURE (OCF)	0.95%+
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	NEGATIVE
YIELD	-
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 27 for further details.**

EQUITY INCOME

NEW ENTRY

ARTEMIS INCOME

Artemis Income fund is a flexible, high-conviction portfolio of UK stocks, targeting a rising income and capital gain. It's run by an experienced and stable management team, who can, and do, invest up to 20% of the fund in overseas stocks. This fund has been a stalwart of the UK equity income sector for two decades and has an excellent team, a strong process and a long-term track record. The Artemis Income fund is designed to offer a diversified, eclectic mix of cashflows from different companies to ensure a sustainable and durable income. The overseas exposure has provided extra opportunities for additional returns.

CHELSEA RISK RATING	5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.80%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	3.82%
UNIT TYPE	ACC/INC

BLACKROCK CONTINENTAL EUROPEAN INCOME

Since former manager Andreas Zoellinger retired at the end of 2024, the fund is now managed by Brian Hall and Stuart Brown. This is a 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	3.29%
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)	0.92%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	2.52%
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	1.86%
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	2.88%
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	5.22%
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	2.13%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 27 for more information. For performance statistics please refer to pages 18-19.

Data sourced from FE (Financial Express) fund info for period up to 29/01/2025. Yields as at 31/01/2025 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	GOLD
YIELD	0.90%
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	0.81%
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	1.87%
UNIT TYPE	INC

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	1.65%
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	0.92%
UNIT TYPE	ACC/INC

NEW ENTRY

GQG PARTNERS US EQUITY

GQG's US Equity strategy is an unconstrained, concentrated portfolio of high-quality US companies with durable earnings. Their focus is on forward-looking quality, rather than companies that have done well historically. This view of quality allows them to strip away labels like value and growth in favour of long-term compounding. GQG's surge in popularity and reputation as a trusted asset manager is not by chance. This fund has provided stellar returns for investors since launch, and we would expect this to continue. The team's familiarity with thousands of companies and the fund's inherent flexibility allows them to be nimble and respond quickly to market opportunities.

CHELSEA RISK RATING	7.5
ANNUAL MANAGEMENT CHARGE	0.45%#
ONGOING CHARGES FIGURE (OCF)	0.55%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	SILVER
YIELD	-
UNIT TYPE	ACC

PREMIER MITON US OPPORTUNITIES

This fund brings together the talents of two managers, Hugh Grieves and Alex Knox (who has recently joined this fund), 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)	0.84%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	0.09%
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 27 for further details.

ASIA PACIFIC, JAPAN AND EMERGING MARKETS

NEW ENTRY

CHIKARA INDIAN SUBCONTINENT

This is a very high-conviction fund of 25-30 companies which focuses exclusively on domestic India to take advantage of the Indian growth opportunity. The fund ignores the large part of the Indian stock market which is not orientated to domestic India, such as pharmaceuticals, exporters and some industrial stocks. Instead, the team targets the companies with the biggest long-term domestic growth opportunities and the biggest addressable markets. They then want to hold these companies for the next 10-15 years.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	1.05%†
FUNDCALIBRE RATING	-
MORNINGSTAR RATING	NEGATIVE
YIELD	-
UNIT TYPE	ACC

FIDELITY ASIA PACIFIC OPPORTUNITIES

Singapore-based Anthony Srom manages this high-conviction fund of around 30 stocks. Higher conviction should not mean higher risk and the portfolio is carefully constructed to ensure good diversification. Stock selection is based on three factors: fundamentals, sentiment and valuation. Anthony has a contrarian instinct and understanding 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. The managers look for well-managed businesses, with a strong focus on good corporate governance. These are found through individual company research. The managers look for quality companies with barriers to entry, pricing power and sustainable growth. They also have 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. On the 1st March 2025, Helen Chen, currently co-manager on the fund, will become lead manager, and Martin will step down as lead manager to become co-manager.

CHELSEA RISK RATING	10
ANNUAL MANAGEMENT CHARGE	1.00%#
ONGOING CHARGES FIGURE (OCF)	1.09%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	1.69%
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	0.50%
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	3.63%
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	1.28%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 27 for more information. For performance statistics please refer to pages 18-19.

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^ Includes Chelsea discount.

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	-
YIELD	0.72%
UNIT TYPE	ACC/INC

GLOBAL

NEW ENTRY

BLACKROCK GLOBAL UNCONSTRAINED EQUITY

BlackRock Global Unconstrained Equity is a concentrated, high-conviction fund, targeting extraordinary companies across developed markets. It takes a long-term approach which filters out short-term noise in the marketplace. Although relatively new, it is backed by some of the most experienced and top-performing equity managers of the past decade. We think this fund has a sound philosophy and strategy. It has the added advantage of being able to access the immense resources of BlackRock, as well as being run by two top-performing managers. Alister Hibbert and Michael Constantis have delivered exceptional performance for investors throughout their careers, and we have no hesitation in backing them on this fund.

CHELSEA RISK RATING	
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.90%+
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	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.75%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	NEUTRAL
YIELD	0.51%
UNIT TYPE	ACC

RATHBONE GLOBAL OPPORTUNITIES

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

CHELSEA RISK RATING	6.5
ANNUAL MANAGEMENT CHARGE	0.75%#
ONGOING CHARGES FIGURE (OCF)	0.77%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	BRONZE
YIELD	0.32%
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)	0.60%+
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	0.27%
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 27 for further details.

FIXED INTEREST

ARTEMIS CORPORATE BOND

Manager Stephen Snowden, ably supported by his team, invests in investment grade corporate bonds in this fund, with some ability to allocate across the wider fixed income market if special opportunities arise. He takes a long-term strategic and thematic view, but will also take advantage of short-term opportunities when they present themselves. As well as assessing the wider macroeconomic picture, Stephen will do deep analysis of the fundamentals of the company behind the bond issue to ensure the portfolio can benefit from both superior stock selection, and perform in any economic climate. 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	5.03%
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	NEUTRAL
YIELD	6.63%
UNIT TYPE	ACC/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	5.90%
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	8.24%
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	4.90%
UNIT TYPE	ACC/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)	0.65%†
FUNDCALIBRE RATING	ELITE
MORNINGSTAR RATING	GOLD
YIELD	5.10%
UNIT TYPE	ACC/INC

N.B. Chelsea Risk Ratings are based on qualitative and quantitative research, not asset allocation. Please see page 27 for more information. For performance statistics please refer to pages 18-19.

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^ Includes Chelsea discount.

CORE SELECTION SPOTLIGHT

HUGH GRIEVES

Fund manager,
Premier Miton US Opportunities
Elite Rated by FundCalibre

My career in fund management coincided with the emergence of the internet as an investment theme. Just a few weeks before I began work, Netscape, the developer of the first widely used internet browser, listed on the American Nasdaq exchange. Back then it was revolutionary for a company that had never made a profit to go public, which seems quaint today. Netscape was quickly followed by Yahoo!, then the leading search engine, and soon a torrent of others followed. But within a few years, boom had turned to bust, as hype gave way to reality. Although the internet has delivered so much over the past three decades, most of the original trailblazers have crashed and burned. The experience also left a lasting impression on me and how I think about investing.

THE TORTOISE APPROACH

Rather than chase the latest investment trend which promises soon-to-be-fulfilled riches to anyone prepared to believe, I have always preferred the tortoise-inspired approach rather than the hare's. Even when the hare appears to be effortlessly far ahead, slow and steady will eventually overcome. This leads us to look for often dull and boring businesses which can consistently reinvest returns to generate additional returns year after year, each year slightly ahead of the previous year, known as compounding. These companies often have high market share, meaning they control a large portion of the market for their products or services, in reliably growing markets, face limited pressure from competitors, customers, or suppliers, and with limited requirement for capital investment to support that growth, are able to return excess capital to shareholders through dividends and share buybacks. Once we find companies like these, we patiently wait for an opportunity to make a purchase at a good price.

Markets can sometimes be irrational and occasionally make a mistake, pushing share prices too low, as well as too high, as investors react emotionally to new information. At times like these, the valuation of a company may fall to a low enough level where we believe we have a sufficient margin of safety, so that if we have made a mistake or something unexpected occurs, we can minimise any loss. But if we are right, we get the benefit of the future earnings growth for the years and years that we continue to hold the shares.

DEATH AND PESTS

One such example is our holding in Service Corp, which we originally purchased in the Premier Miton US Opportunities fund a decade ago* and have held continuously ever since. The company is by far the largest owner-operator of funeral homes and cemeteries in America. Almost as certainly as there are death and taxes, Service Corp has delivered outstanding results year after year, with little drama or excitement, as the reality of a growing population meets the limits of available space for internment. This of course is not guaranteed to continue. A more recent purchase is Rollins, the leading pest control business in America. Pest control is a 'must have' product which in America benefits from two long-term trends; people are migrating South, and bugs, with help from climate change, are migrating North. More people are meeting more bugs, which means steadily more business for Rollins.

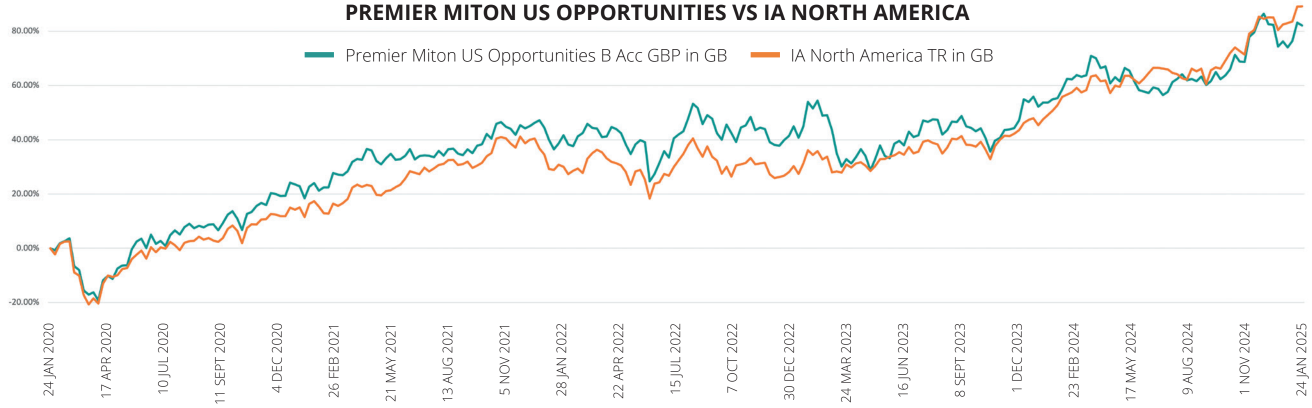
When everyone else is excited by the seemingly endless opportunities of Artificial Intelligence, reminding me of the enthusiasm for the 'information superhighway' thirty years ago, it is hard not to get swept along, especially when the S&P 500 Index is now dominated by just a handful of behemoths that are seen as AI beneficiaries. But instead, I get excited about the opportunities for our companies in the fund to continue to steadily compound one year at a time, even if they are never going to change the world tomorrow.

THE CHELSEA VIEW

We think this fund has an excellent, well-defined process, whilst its managers also have the flexibility and pragmatism to adjust the portfolio to different market environments. We like its ability to invest down the market-cap spectrum, and we also believe that the emphasis on capital-light, high return on capital businesses is a good way to invest.

Hugh is highly experienced and performance has been strong since launch in 2013. In our view this is one of the most compelling options available to investors in the IA North American sector.

PREMIER MITON US OPPORTUNITIES VS IA NORTH AMERICA



 Source: *FE fundinfo, 24/01/2020-24/01/2025, total returns, net of fees, in sterling.* ***Purchased 26/02/2015***

CHRIS ELLIOTT

Portfolio manager,

Evenlode Global Equity

Elite Rated by FundCalibre

In a recent client meeting on the Evenlode Global Equity fund, I was asked a question along the lines of 'what keeps you awake at night'. It's a good question to ask; a clarifying one. When it comes to the Evenlode fund portfolios through time, we focus on two things we can control – the quality of businesses in the portfolio, and the valuations at which we buy shares in those companies. This is the simplest explanation of a portfolio manager's profession; balancing companies' ability to grow and the risks that they face with the potential returns for investing in those companies. Over the eight years that I have been a portfolio manager, through wildly variable markets, this task has remained ever constant.

Over the past year, global market growth has been driven almost entirely by a relatively small group of US companies, focused around the semiconductor industry. These companies have delivered high earnings growth in the past two years. However, their valuations have now risen to the point that requires that these rates of growth persist long into the future. To achieve this, and justify the enormous sums being poured into constructing data centres, AI must significantly enhance productivity for users and the economy as a whole. As companies begin reporting their full year results, analysts will be focused on any developing AI revenue streams and, in particular, the capital investment of the technology giants. Any miss on expectations will likely see the share prices punished.

OUTSIDE INFLUENCES

The current investment environment is further muddied by other 'externalities' of the macro economy, such as the impact from geopolitics, the path of interest rates, and evolving challenges, including natural disasters stemming from climate change. Some industries have greater exposure to these factors than others. Capital goods, discretionary consumer purchases like cars, and financial services are naturally cyclical. Many of these factors, like the musings of Donald Trump, are difficult to predict but can have outsized impacts on the movement of markets.

KEEPING FOCUSED

Through all this noise, long-term total shareholder returns remain the ultimate signal of our success. With recent markets both highly concentrated and unstable, this heady mixture could justify some sleepless nights. On such occasions, our investment philosophy provides us with reassurance. Our strategy is founded on the principle that companies with sustained earnings growth will eventually see this performance mirrored in rising market prices. This ability to compound steadily is not based on speculative trends but on competitive advantages, which persist through both macroeconomic uncertainty and periods of volatility.

GLOBAL VARIETY

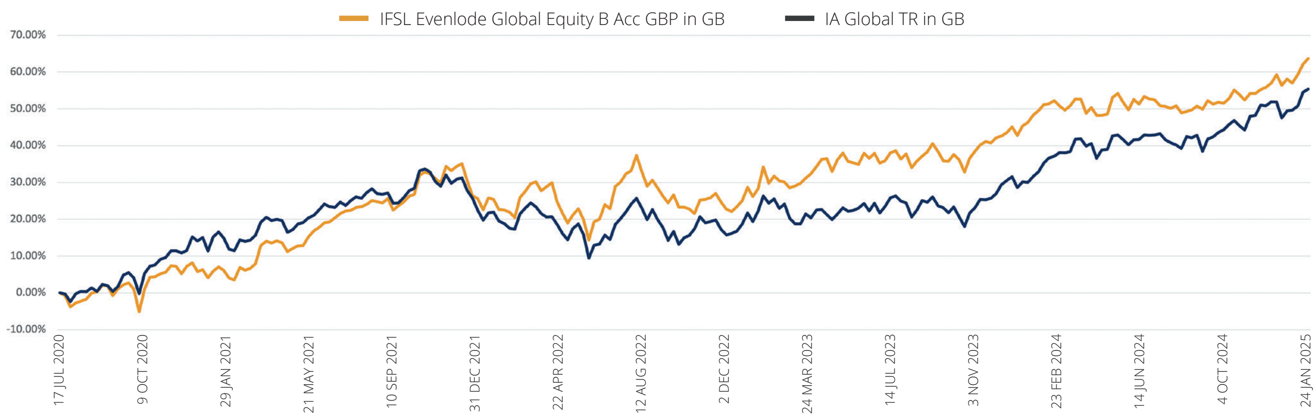
Unsurprisingly, our direct exposure to semiconductors is limited. Instead, at the time of writing, we hold many well-known American franchises with high barriers to entry like Mastercard, Alphabet, Amazon, and Microsoft, as well as lesser-known names from the US, like Verisk Analytics, Broadridge Financial, and Jack Henry. Additionally, the portfolio contains many European-listed companies across different sectors, such as business services (Informa, SGS), data & analytics (RELX, Experian), and consumer goods (Lindt, L'Oreal). These European names offer attractive growth opportunities and operate in attractive end markets where US behemoths have limited presence.

Overall, the Evenlode Global Equity portfolio companies are less economically sensitive than the average company but have also delivered above benchmark earnings growth over the past 12 months. This is despite a lack of exposure to the 'most exciting' parts of the market. We are confident that the portfolio companies will continue to compound gains steadily, without fanfare, but also without the insomnious effects of their peers. No portfolio manager gets every investment decision correct, so it is important to vigilantly monitor the businesses we do invest in – so, if I do have sleepless nights, they will be spent deepening my understanding of this fantastic group of companies.

THE CHELSEA VIEW

IFSL Evenlode Global Equity has been a success story since its launch. It has benefitted from having two very impressive fund managers. Its success has also been driven by the clear and proven investment process used by the team across its strategies, as well as the in-house software system called 'Eddie' which helps the team find these high-quality cash-generative companies that have provided consistent outperformance.

EVENLODE GLOBAL EQUITY PERFORMANCE SINCE LAUNCH



Source: *FE fundinfo, 24/01/2020-24/01/2025, total returns, net of fees, in sterling.*

THE CHELSEA SELECTION

	Elite Rating	Chelsea Risk Rating	1 YEAR % Growth	1 YEAR Rank	3 YEAR % Growth	3 YEAR Rank	5 YEAR % Growth	5 YEAR Rank	10 YEAR % Growth	10 YEAR Rank	% Yield	Fund Size(m)
UK ALL COMPANIES												
Artemis UK Select		7	32.29	1	42.33	2	76.28	1	153.60	2	2.73	3742.9
IFSL Marlborough Multi-Cap Growth		7	16.70	21	15.83	115	26.30	97	119.57	7	0.95	153.0
Jupiter UK Dynamic Equity		6	13.18	120	28.76	15	40.73	13	90.07	33	3.64	969.6
Liontrust Special Situations**		6	5.75	209	6.43	153	18.22	125	109.57	12	2.02	2724.0
MI Chelverton UK Equity Growth		7.5	7.16	203	-13.43	211	19.62	119	207.74	1	1.52	543.5
Schroder Recovery		7.5	15.02	72	20.25	92	44.53	6	78.79	73	2.96	900.9
VT Downing Unique Opportunities		7	2.17	219	-2.26	192	-	-	-	-	-	37.0
Sector Average			**12.50**	**225**	**12.96**	**219**	**20.68**	**210**	**67.08**	**181**	**-**	**-**
UK EQUITY INCOME												
Artemis Income		5	20.81	6	32.17	4	44.33	5	101.08	4	3.82	4999.3
IFSL Evenlode Income^		5	9.90	167 / 225	22.09	77 / 219	26.28	98 / 210	119.91	6 / 181	1.90	3017.7
Janus Henderson UK Responsible Income		6	9.68	55	18.79	36	23.85	41	74.85	20	4.00	552.4
Man Income**		6.5	17.20	14	34.29	2	36.43	13	122.81	1	5.22	1882.9
Montanaro UK Income Seed^+		7.5	3.16	214 / 225	-5.26	203 / 219	-0.89	201 / 210	74.18	133 / 181	3.60	437.6
Premier Miton Monthly Income	-	4	13.31	38	23.77	24	11.50	60	53.41	47	4.09	430.3
WS Gresham House UK Multi Cap Income		7.5	4.10	68	9.19	59	23.60	45	-	-	4.06	831.1
Sector Average			**13.22**	**70**	**17.84**	**70**	**25.15**	**68**	**65.12**	**58**	**-**	**-**
UK SMALLER COMPANIES												
Fidelity UK Smaller Companies		8	5.01	26	9.10	2	43.36	1	138.33	2	2.13	712.0
IFSL Marlborough UK Micro-Cap Growth		8	5.94	22	-27.26	40	-2.60	27	99.03	13	0.12	544.3
Liontrust UK Micro Cap		8	-3.64	42	-14.27	21	16.33	8	-	-	0.98	90.0
WS Amati UK Listed Smaller Companies		8	-1.65	39	-26.50	38	-17.06	40	96.20	15	1.90	259.8
WS Gresham House UK Micro Cap		8	5.86	23	-18.55	27	0.00	20	100.15	11	0.38	142.0
WS Raynar UK Smaller Companies	-	8	-	-	-	-	-	-	-	-	-	32.3
Sector Average			**5.80**	**43**	**-14.00**	**42**	**2.87**	**41**	**81.49**	**36**	**-**	**-**
STERLING CORPORATE BOND												
Artemis Corporate Bond		2.5	5.35	33	-1.17	31	6.72	13	-	-	5.03	1579.4
BlackRock Corporate Bond		2.5	2.38	90	-4.42	51	-3.14	49	22.07	20	4.61	890.7
Man Sterling Corporate Bond		3.5	14.57	1	28.54	1	-	-	-	-	5.90	1275.2
Rathbone Ethical Bond		2.5	6.10	9	-1.37	34	2.40	27	33.41	2	5.10	1963.3
Royal London Corporate Bond**		2.5	6.10	10	0.98	23	4.91	16	32.10	3	5.15	1451.1
TwentyFour Corporate Bond		2.5	5.84	18	-3.79	60	-2.94	48	21.58	23	3.42	1217.1
Sector Average			**4.65**	**96**	**-3.02**	**91**	**-2.07**	**87**	**18.61**	**69**	**-**	**-**
STERLING HIGH YIELD BOND												
Aegon High Yield Bond**		4	10.56	3	17.13	5	27.69	3	58.51	3	7.58	1023.5
Man High Yield Opportunities		4	13.66	1	14.57	7	43.16	1	-	-	6.63	851.9
Sector Average			**8.96**	**30**	**11.09**	**29**	**17.95**	**26**	**46.49**	**22**	**-**	**-**
STERLING STRATEGIC BOND												
Aegon Strategic Bond**		4	11.50	2	4.86	34	20.28	10	44.26	9	5.59	338.7
Invesco Tactical Bond (UK)		3.5	2.96	67	2.16	36	14.20	14	21.65	27	3.39	864.3
Jupiter Monthly Income Bond NEW ENTRY	-	3	8.47	14	9.88	14	23.43	4	45.43	7	6.67	312.7
Nomura Global Dynamic Bond (Hedged)		4	6.07	38	-3.32	66	5.47	44	-	-	4.90	1877.7
TwentyFour Dynamic Bond		3.5	8.73	12	6.12	30	12.14	24	39.27	13	6.69	1762.2
Sector Average			**5.77**	**86**	**2.64**	**79**	**7.00**	**70**	**27.97**	**51**	**-**	**-**
TARGETED ABSOLUTE RETURN*												
Janus Henderson Absolute Return		4	7.47	-	15.42	-	21.65	-	38.94	-	2.90	939.2
Sector Average			**6.81**		**11.92**		**17.49**		**26.81**		**-**	**-**
EUROPE EXCLUDING UK												
BlackRock Continental European Income		7	11.66	42	23.53	72	40.71	76	122.04	49	3.29	1242.0
BlackRock European Dynamic**		7	10.72	52	25.24	57	62.64	10	200.53	4	0.90	4364.1
CT European Select		7	9.36	77	24.87	65	44.73	69	137.10	24	0.81	1288.8
Fidelity European		6.5	7.39	97	30.64	21	53.08	29	162.24	8	1.25	4128.2
IFSL Marlborough European Special Situations		8	6.80	101	1.12	124	56.95	17	249.60	1	1.87	257.8
Liontrust European Dynamic		7	12.01	34	34.91	14	91.36	2	219.41	2	1.67	1702.2
Premier Miton European Opportunities		7.5	14.36	12	17.55	91	52.69	30	-	-	0.15	1217.3
Sector Average			**9.53**	**130**	**21.71**	**129**	**43.18**	**120**	**118.64**	**95**	**-**	**-**
NORTH AMERICA												
AXA Framlington American Growth		7	28.77	46	58.34	31	119.23	17	378.47	11	-	1217.2
Baillie Gifford American**		7.5	46.06	6	43.35	134	95.72	94	450.28	4	-	3473.9
Brown Advisory US Flexible Equity		7	26.58	80	55.05	51	108.21	37	324.63	23	1.02	710.5
Fidelity Index US	-	7	28.17	57	57.02	37	106.11	46	325.32	22	0.92	7130.0
GQG Partners US Equity NEW ENTRY		7.5	27.19	69	69.10	9	-	-	-	-	-	1654.4
Premier Miton US Opportunities SPOTLIGHT		7	18.82	179	34.70	174	84.33	121	281.27	67	0.09	1835.6
T. Rowe Price US Smaller Companies Equity^ NEW ENTRY		8	14.30	24 / 34	33.91	12 / 32	65.42	11 / 30	-	-	0.18	366.0
Sector Average			**23.58**	**244**	**45.78**	**231**	**89.14**	**204**	**258.22**	**128**	**-**	**-**

	Elite Rating	Chelsea Risk Rating	1 YEAR % Growth	Rank	3 YEAR % Growth	Rank	5 YEAR % Growth	Rank	10 YEAR % Growth	Rank	% Yield	Fund Size(m)
JAPAN												
◐ **JPM Japan**	-	10	19.71	2	20.65	65	35.06	30	168.98	4	0.50	822.3
Jupiter Japan Income	-	9.5	7.59	75	17.18	70	29.49	58	149.38	12	2.04	1008.7
◐ **M&G Japan**	⚑	10	13.22	14	46.25	11	65.36	8	164.67	7	1.28	3809.7
Pictet Japanese Equity Selection**	⚑	9.5	9.28	44	21.11	64	41.47	21	135.79	20	-	666.3
Sector Average			**9.25**	**100**	**22.34**	**97**	**32.23**	**89**	**120.72**	**66**	**-**	**-**
ASIA PACIFIC EXCLUDING JAPAN*												
Baillie Gifford Pacific	⚑	8.5	18.26	27	0.64	75	55.12	2	161.00	2	1.53	3022.2
◐ **Fidelity Asia Pacific Opportunities**	⚑	8	9.49	104	3.10	66	38.65	20	181.04	1	-	1357.0
Fidelity Asian Smaller Companies	⚑	10	6.14	113	18.19	28	51.35	5	114.77	17	-	939.5
Guinness Asian Equity Income	⚑	8	18.15	29	19.43	22	35.83	25	117.33	15	3.45	224.0
Invesco Asian (UK)	⚑	8	21.79	11	22.27	12	49.59	6	157.44	4	2.18	2419.5
◐ **Jupiter Asian Income**	⚑	7.5	16.39	46	32.01	1	52.95	4	-	-	3.63	1966.3
Schroder Asian Income	⚑	7.5	16.27	47	17.35	30	40.95	19	117.86	14	4.20	1249.4
◐ **Stewart Investors Asia Pacific Leaders^**	⚑	7.5	10.76	-	9.79	-	36.59	-	99.46	-	0.72	6294.5
Sector Average			**15.00**	**117**	**6.98**	**113**	**24.35**	**105**	**89.00**	**85**	**-**	**-**
GLOBAL EMERGING MARKETS												
Aubrey Global Emerging Markets Opportunities**	⚑	10	11.89	110	6.93	64	26.24	33	-	-	-	214.9
◐ **Chikara Indian Subcontinent^**	-	10	15.30	3 / 49	42.85	5 / 43	83.57	12 / 42	-	-	-	90.2
◐ **FSSA Greater China Growth^**	⚑	10	14.64	57 / 63	-13.45	20 / 59	10.84	2 / 51	104.91	3 / 36	1.69	437.5
◐ **GQG Partners Emerging Markets Equity****	⚑	10	3.34	168	15.41	23	46.80	6	-	-	-	2012.8
GS India Equity Portfolio^	⚑	10	10.28	7 / 26	34.70	10 / 25	94.16	5 / 24	195.91	3 / 17	-	3841.0
Invesco Emerging Markets ex China (UK)	⚐	9.5	12.47	99	60.83	1	27.50	29	65.17	68	1.90	241.0
M&G Global Emerging Markets	⚑	9.5	14.48	69	21.12	10	31.70	18	96.87	12	2.26	656.9
Sector Average			**12.58**	**174**	**4.46**	**161**	**13.45**	**145**	**62.10**	**103**	**-**	**-**
GLOBAL												
◐ **BlackRock Global Unconstrained Equity**	⚑	7	11.23	447	44.21	80	97.48	25			-	1421.3
Fundsmith Equity	⚑	6	12.95	408	26.65	309	56.09	227	264.70	15	-	23382.4
IFSL Evenlode Global Equity SPOTLIGHT	⚑	6	11.41	439	35.34	176	-	-	-	-	0.51	443.4
Pictet Global Environmental Opportunities** 🍃	⚑	7.5	8.46	-	25.34	-	54.39	-	191.34	-	-	5669.4
◐ **Rathbone Global Opportunities**	⚑	6.5	21.35	127	36.63	166	74.73	103	273.87	10	0.32	4270.6
Sanlam Global Artificial Intelligence	⚑	9	24.97	45	60.00	6	125.32	3	-	-	-	1340.9
◐ **T. Rowe Price Global Focused Growth Equity**	⚑	7.5	24.34	60	37.66	165	88.77	48			0.27	411.1
T. Rowe Price Global Select Equity NEW ENTRY	⚑	7	23.97	69	-	-	-	-	-	-	0.73	8.5
WS Blue Whale Growth	⚑	8	29.74	13	53.48	16	82.19	54	-	-	0.10	1282.9
Sector Average			**16.62**	**547**	**28.99**	**493**	**56.29**	**413**	**161.12**	**261**	**-**	**-**
GLOBAL EQUITY INCOME												
Aegon Global Equity Income**	-	6.5	19.79	7	42.32	8	74.90	8	205.72	4	2.27	706.3
◐ **Fidelity Global Dividend**	⚑	6	17.95	11	34.56	17	51.96	19	165.29	12	2.52	3249.0
IFSL Evenlode Global Income	⚑	6	8.29	50	22.89	41	41.98	37	-	-	1.56	1628.8
JPM Global Equity Income**	⚑	6.5	15.86	24	35.44	14	75.47	6	209.41	3	2.09	799.4
◐ **M&G Global Dividend**	⚑	7	25.16	2	44.10	7	78.07	5	202.17	5	2.88	2280.0
◐ **WS Guinness Global Equity Income**	⚑	6.5	17.34	16	40.07	9	-	-	-	-	2.13	249.1
Sector Average			**15.04**	**53**	**30.17**	**50**	**51.18**	**45**	**130.36**	**31**	**-**	**-**
MISCELLANEOUS*												
Fidelity Global Technology	⚑	10	21.83	19 / 33	58.83	11 / 33	143.66	6 / 29	647.95	2 / 13	-	20687.0
FTF ClearBridge Global Infrastructure Income	⚑	6	9.95	15 / 35	12.43	15 / 29	28.24	5 / 26	-	-	4.53	1250.9
◐ **M&G Emerging Markets Bond**	⚑	4.5	8.81	9 / 21	15.45	5 / 20	12.39	5 / 20	76.17	2 / 12	8.24	1135.2
Polar Capital Biotechnology	⚑	10	9.10	-	50.65	-	91.25	-	248.89	-	-	1576.3
Polar Capital Global Insurance	⚑	7	21.64	12 / 15	61.39	2 / 14	73.36	6 / 13	256.54	1 / 9	-	2517.5
Polar Capital Healthcare Opportunities	⚑	8	7.27	11 / 20	37.96	1 / 18	49.71	6 / 15	158.04	2 / 8	-	1507.8
VT Gravis UK Infrastructure Income	⚑	4.5	-6.11	33/35	-16.43	27 / 29	-10.82	22 / 26	-	-	6.96	539.0

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

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

⚑ **Funds that are Elite Rated by FundCalibre.**

⚐ **Funds that are on FundCalibre's Elite Radar (see FundCalibre.com for further details). FundCalibre is an appointed representative of Chelsea Financial Services.**

Source: FE fundinfo, IA (Investment Association) universe, total return from main units (unless the fund has an income mandate, in which case the income share class of the main unit has been used). All figures for period up to 29/01/2025.

Yields per annum as at 31/01/2025 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.

THE REDZONE

JAMES YARDLEY
Head of Investments,
Chelsea Financial Services

The RedZone is back once again to shine a light on funds that have failed to deliver over the past few years. We hope you use it as a chance to scan your portfolio and see if it is being held back by a select few underperformers. It also gives you a chance to scrutinize the different asset management houses and analyse whether they are delivering or falling short in providing strong performance across their product range.

In this year's edition, the serial underperformer list consists of 75 funds, across 41 different companies and 15 different sectors. These companies collective underperforming assets total over £20.45 billion, larger than the size of Jamaica's GDP.* For keen-eyed readers this is around £16 billion less than last year's list which suggests that a few funds have got their acts together.

Abrdn retains its unenviable position as the firm with the most RedZoned funds (seven), accounting for 13% of underperforming assets. It is followed by Baillie Gifford—last year's joint leader - and Marlborough, each with five funds. Premier Miton has four, while Slater and Montanaro round out the list with three underperformers. It's worth noting that although their poor periods shouldn't be treated without concern, firms like Abrdn, Baillie Gifford and Premier Miton have fewer funds in the Redzone this year. Their inclusion, alongside others on the list, reflects a persistent challenge: many have a large weighting to small- and mid-cap stocks, which continue to trail their large-cap counterparts.

The most prominent sector is once again the UK All Companies, with 22 different funds. Many of the RedZoned funds that are in the UK All Companies sector focus their investment mainly in smaller companies. Due to their de-rating compared with their larger-cap peers, it's perhaps an unfair comparison, with the UK Smaller Companies sector a better comparator for relative performance. The Global sector has the second most underperformers with 12 funds, and Asia Pacific ex Japan, with seven funds. Sectors like Global hold a staggering 558 funds, so it's not wholly unsurprising to see a few serial underperformers.

Baillie Gifford Global Discovery keeps its title as the worst performer in the Dropzone , underperforming the Global sector by a staggering 54.97% over three years. This year, only one additional Baillie Gifford fund (Japanese Smaller Companies) joins the Dropzone, down from five in the previous year. The list underscores a recurring theme: funds with smaller-company biases dominate, particularly in markets like the UK, with valuation gaps between large and small caps at historic highs (see page 22). Perhaps more pain is to come, but if interest rates continue on the path of being cut and inflation doesn't spike up, it could be the worst time to pivot away. This could be said of other RedZoned funds too; of course, some of them deserve another look, but it is always important to look at performance in context over the long term.

DROPZONE

↓ % FROM SECTOR AVERAGE

1	Baillie Gifford Global Discovery	-54.97%
2	IFSL Marlborough Global Innovation	-47.68%
3	Baillie Gifford Japanese Smaller Companies	-40.02%
4	IFSL Marlborough Special Situations	-37.37%
5	Slater Growth	-35.60%
6	abrdn UK Mid Cap Equity	-35.59%
7	SVM World Equity	-34.72%
8	WS Montanaro Better World	-31.81%
9	Barings Eastern Trust	-31.80%
10	Slater Recovery	-31.68%

*https://worldpopulationreview.com/countries/by-gdp (2024)

UK ALL COMPANIES

UK ALL COMPANIES	3 Year Growth	Diff. from sector avg
Royal London UK Opportunities	1.73%	-10.03%
Baillie Gifford UK Equity Alpha	1.11%	-10.65%
Premier Miton UK Value Opportunities	0.31%	-11.45%
BlackRock UK Special Situations	-0.55%	-12.31%
Royal London UK Mid-Cap Growth	-1.14%	-12.90%
Premier Miton Responsible UK Equity	-1.42%	-13.18%
Ninety One UK Sustainable Equity	-1.49%	-13.25%
AXA UK Sustainable Equity	-2.16%	-13.92%
CFP Castlefield Thoughtful UK Opportunities	-2.37%	-14.13%
EdenTree Responsible and Sustainable UK Equity	-2.38%	-14.14%
Liontrust UK Ethical	-5.10%	-16.86%
AXA Framlington UK Mid Cap	-6.61%	-18.37%
WS Montanaro UK Income	-6.69%	-18.45%
Unicorn Outstanding British Companies	-9.17%	-20.93%
TM Oberon UK Special Situations	-10.55%	-22.31%
MI Chelverton UK Equity Growth	-13.44%	-25.20%
Thesis Stonehage Fleming Opportunities	-15.14%	-26.90%
CT UK Mid 250	-15.33%	-27.09%
Slater Recovery	-19.92%	-31.68%
abrdn UK Mid Cap Equity	-23.83%	-35.59%
Slater Growth	-23.84%	-35.60%
IFSL Marlborough Special Situations	-25.61%	-37.37%
Sector Average	11.76%	

UK SMALLER COMPANIES

UK SMALLER COMPANIES	3 Year Growth	Diff. from sector avg
WS Amati UK Listed Smaller Companies	-26.27%	-12.15%
IFSL Marlborough UK Micro-Cap Growth	-28.85%	-14.73%
FP Octopus UK Micro Cap Growth	-33.48%	-19.36%
Sector Average	-14.12%	

UK EQUITY INCOME

UK EQUITY INCOME	3 Year Growth	Diff. from sector avg
VT Downing Small & Mid-Cap Income	4.89%	-11.13%
Slater Income	4.59%	-11.43%
Courtiers UK Equity Income	4.00%	-12.02%
MI Chelverton UK Equity Income	-1.11%	-17.13%
IFSL Marlborough Multi Cap Income	-7.64%	-23.66%
FP Octopus UK Multi Cap Income	-8.58%	-24.60%
Sector Average	16.02%	

GLOBAL EQUITY INCOME

GLOBAL EQUITY INCOME	3 Year Growth	Diff. from sector avg
Troy Asset Management Ltd Trojan Global Income	19.33%	-10.38%
Premier Miton Global Sustainable Optimum Income	7.28%	-22.43%
Sector Average	29.71%	

GLOBAL

GLOBAL	3 Year Growth	Diff. from sector avg
Stewart Investors Worldwide All Cap	13.52%	-13.28%
SVS Quercus Growth Fund	10.85%	-15.95%
Premier Miton Global Smaller Companies	10.46%	-16.34%
VT Downing Global Investors	9.27%	-17.53%
WS T. Bailey Global Thematic Equity	2.66%	-24.14%
Virgin Climate Change	0.96%	-25.84%
Jupiter Fund of Investment Trusts	-1.63%	-28.43%
McInroy & Wood Smaller Companies	-3.78%	-30.58%
WS Montanaro Better World	-5.01%	-31.81%
SVM World Equity	-7.92%	-34.72%
IFSL Marlborough Global Innovation	-20.88%	-47.68%
Baillie Gifford Global Discovery	-28.17%	-54.97%
Sector Average	26.80%	

EUROPE

EUROPE	3 Year Growth	Diff. from sector avg
WS Montanaro Europe (ex-UK) Small and Mid-Cap	7.23%	-11.97%
abrdn Europe ex UK Ethical Equity	7.08%	-12.12%
IFSL Marlborough European Special Situations	-1.47%	-20.67%
Liontrust Sustainable Future European Growth	-4.81%	-24.01%
L&G Future World Sustainable European Equity Focus	-9.87%	-29.07%
Baillie Gifford European	-11.79%	-30.99%
Sector Average	19.20%	

NORTH AMERICA

NORTH AMERICA	3 Year Growth	Diff. from sector avg
abrdn American Equity	28.17%	-17.90%
FTF Martin Currie US Unconstrained	27.17%	-18.90%
SVS AllianceBernstein Concentrated US Equity	26.78%	-19.29%
Sector Average	46.07%	

EUROPEAN SMALLER COMPANIES

EUROPEAN SMALLER COMPANIES	3 Year Growth	Diff. from sector avg
Lazard European Smaller Companies	-10.03%	-12.04%
Sector Average	2.01%	

GLOBAL EMERGING MARKETS

GLOBAL EMERGING MARKETS	3 Year Growth	Diff. from sector avg
abrdn Emerging Markets Equity	-9.98%	-13.75%
Fidelity Emerging Markets	-12.43%	-16.20%
BlackRock Emerging Markets	-14.15%	-17.92%
Sector Average	3.77%	

JAPAN

JAPAN	3 Year Growth	Diff. from sector avg
abrdn Japanese Equity	5.96%	-14.09%
Baillie Gifford Japanese	5.02%	-15.03%
Baillie Gifford Japanese Smaller Companies	-19.97%	-40.02%
Sector Average	20.05%	

ASIA PACIFIC EX JAPAN

ASIA PACIFIC EX JAPAN	3 Year Growth	Diff. from sector avg
SJP Asia Pacific	5.76%	-14.29%
WS Canlife Asia Pacific	5.55%	-14.50%
Allianz Total Return Asian Equity	-4.68%	-24.73%
Fidelity Sustainable Asia Equity	-5.70%	-25.75%
abrdn Asia Pacific Equity	-7.17%	-27.22%
FTF Martin Currie Asia Unconstrained	-11.34%	-31.39%
Barings Eastern Trust	-11.75%	-31.80%
Sector Average	20.05%	

ABSOLUTE RETURN

ABSOLUTE RETURN	3 Year Growth	Diff. from sector avg
Margetts BLENHEIM Diversified Alternatives	-1.27%	-10.68%
Sector Average	9.41%	

GLOBAL BONDS

GLOBAL BONDS	3 Year Growth	Diff. from sector avg
abrdn Global Inflation Linked Bond	-14.75%	-12.66%
CT Global Bond	-15.03%	-12.94%
Sector Average	-2.09%	

STERLING STATEGIC BONDS

STERLING STATEGIC BONDS	3 Year Growth	Diff. from sector avg
Virgin Money Bond and Gilt	-10.27%	-11.07%
BlackRock Charities UK Bond	-10.60%	-11.40%
Janus Henderson Strategic Bond	-13.55%	-14.35%
Sector Average	0.80%	

STERLING CORPORATE BONDS

STERLING CORPORATE BONDS	3 Year Growth	Diff. from sector avg
Schroder Long Dated Corporate Bond	-26.14%	-22.99%
Sector Average	-3.15%	-24.73

Funds in the DropZone. DropZone - the top 10 funds with the worst underperformance against their sector average over the course of three years.

Please read the important notice on page 2. This is a purely statistical table, featuring funds which have been 3rd or 4th quartile for three discrete consecutive years. All cumulative statistics % change bid to bid, net income reinvested, three years to 29/01/2025. Source FE fundinfo. Retail UTs and OEICs used. Whilst every effort has been made to ensure the accuracy of this information, Chelsea Financial Services takes no responsibility for any errors, omissions or inaccuracies therein.

RedZone entry requirement - three years of consecutive 3rd or 4th quartile performance. At least 10% underperformance versus the sector average. No new manager in the past 18 months.

UK SMALLER COMPANIES - THE MOST UNLOVED ASSET CLASS?

Could 2025 see the renaissance of UK smaller companies? Smaller companies in most developed markets have suffered over the past couple of years, as investors have shied away from them in light of higher interest rates and higher energy costs, which could impact their growth. However, investors had already largely deserted the wider UK market during the post-Brexit uncertainty (see chart 1). So with investors already disillusioned with the UK market, there were simply no buyers for UK smaller companies. These factors combined to make UK smaller companies one of the most unloved asset classes and UK smaller companies looking cheaper versus their large-cap counterparts than they have for 16 years (see chart 2). This leaves UK small and mid-caps currently trading close to the bottom of their 20-year trading range (see chart 3).

So, we've established they're cheap, but why would you want to buy into an asset class that others are ignoring? Put simply, a smaller company has a greater capacity to grow than a much larger one and therefore should give greater returns to shareholders. Over the longer term smaller companies tend to outperform – historically they have delivered stronger returns than larger companies. We're firm believers in the outperformance of smaller companies over the long term and we have also put our money where our mouths are and UK smaller companies feature heavily in the VT Chelsea Managed funds.

If you're going to invest in UK smaller companies, you need an experienced manager at the helm who can sort the wheat from the chaff. And who better to explain, far more eloquently than I, the reasons why now is the time to own UK smaller companies and the opportunities within that diverse sector, than two of our highly experienced managers with whom we have invested over the years.

CHART 1

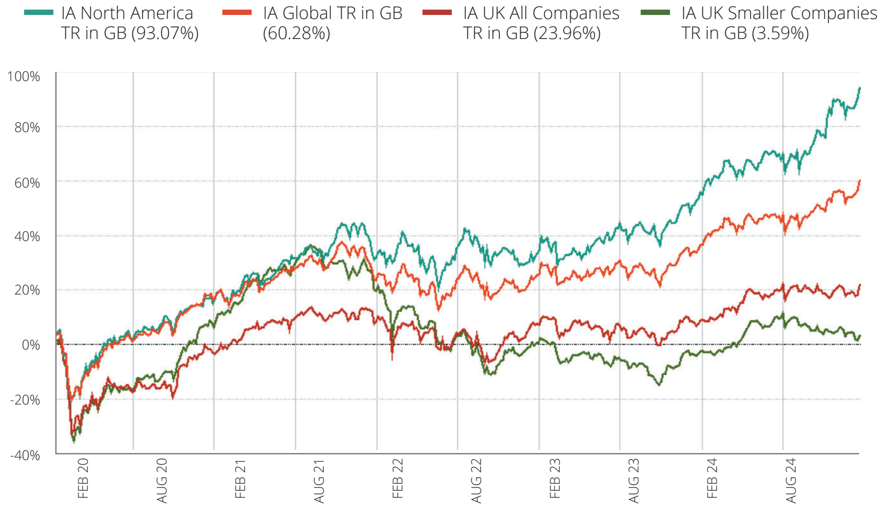


CHART 2 - UK SMALL CAPS LOOK CHEAPER THAN THEY HAVE IN OVER 16 YEARS

UK small caps versus large caps: rolling three-year relative performance

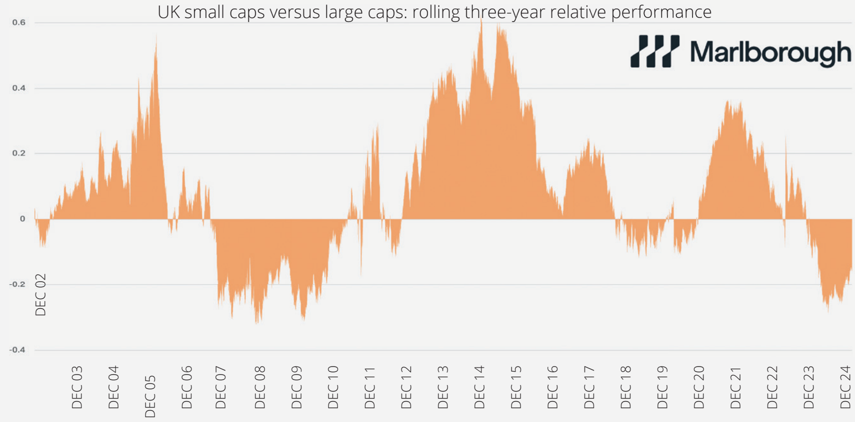


CHART 3 - UK SMID TRADES CHEAPLY VS GLOBAL COUNTERPARTS

MSCI SMID indices 12m fwd P/E

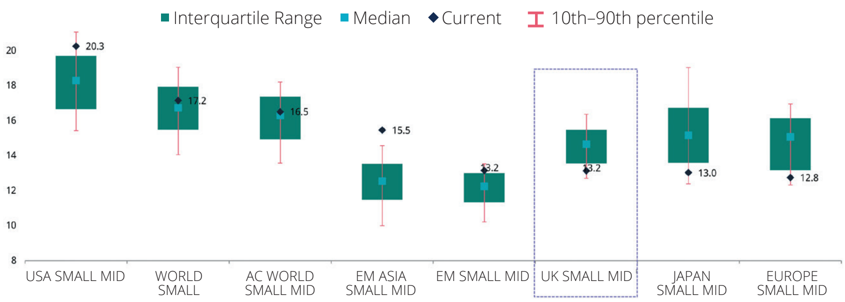


Chart 1Source: FE analytics, 31/01/2025. Chart 2 Source: Bloomberg, Marlborough. Rolling three-year relative performance of FTSE 100 versus FTSE SmallCap ex IT. **Chart 3 Source:** Schroders. Datastream, Factset, Goldman Sachs December 2024.

EUSTACE SANTA BARBARA
Co-manager,
Marlborough UK Micro-Cap Growth
Elite Rated by FundCalibre

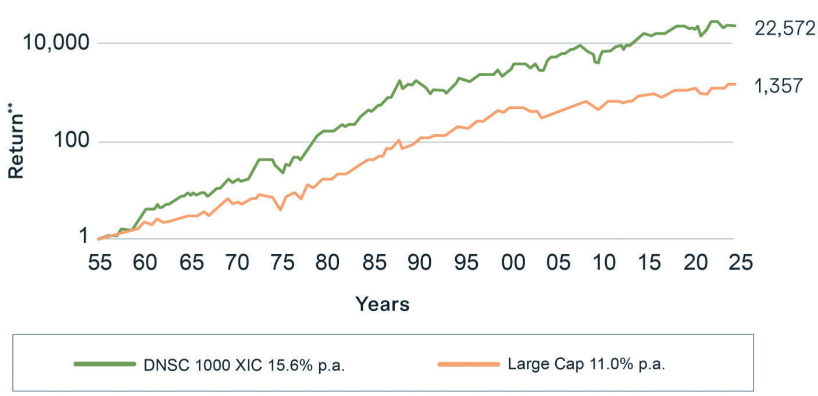
WHY WE SEE A BIG OPPORTUNITY IN UK SMALL-CAPS

When you invest in UK smaller companies, also known as small-caps, you are backing young, dynamic UK companies that are often highly innovative, with the agility to adapt quickly to seize on emerging business opportunities.

The growth prospects of these smaller companies can dwarf those of the FTSE 100 giants and, because there are fewer fund managers and analysts studying this end of the market, this potential can often be overlooked. This creates opportunities for large and experienced teams like ours to spot potential winners before others do.

Historically, the shares of UK smaller companies have significantly outperformed those of their larger counterparts over the long term, as the chart on the right shows.

Performance of UK smaller companies versus large caps 1955-2023
Cumulative return, 1955-2023



SMALL V LARGE

The Deutsche Numis Smaller Companies 1000 (DNSC 1000) index consists of the bottom 2% of companies by stock market value on the main UK stock market. This index returned annualised growth of 15.6% over the 69 years from 1955 to 2023*. This compares with a return equivalent to 11% a year by the UK's largest listed companies, as represented by the Deutsche Numis Large Cap Index, over the same period.

Past performance is no guarantee of what will happen in the future, of course. It is also worth remembering small-caps can be more sensitive to economic headwinds and their share prices can move sharply, for example, when a business runs into trouble. One of the benefits of investing through a fund, holding a spread of companies, is that it helps to manage this stock-specific risk. We currently have just over 160 stocks in our portfolio.

IS THE TIDE TURNING?

We believe there is a particular opportunity now, with UK small-cap stocks looking, in our view, significantly undervalued. These smaller companies have experienced a challenging period, with central banks around the world countering high inflation with the most aggressive interest rate raising cycle of the past 40 years.

We have also seen war return to Europe, with Russia's invasion of Ukraine causing steep increases in energy prices, and the UK has experienced a tumultuous period in politics, with 2022 seeing three different prime ministers and four Chancellors of the Exchequer.

However, interest rates now appear to be falling, inflation is close to the Bank of England's 2% target and the UK government, which was elected with a large majority, seems to have brought a degree of political stability.

While UK small-caps have been out of favour with global investors for a number of years, we see signs that this may be changing. In November, after more than three years of money flowing out of funds investing in UK shares, the direction of travel reversed and there were net flows of more than £300m into these funds (source: Financial Times, 4th December 2024).

M&A LEADS THE WAY

There is also an increase in merger and acquisitions activity, with rival

***Source:** *Deutsche Numis Indices 2024 Annual Review. Indices are excluding investment companies.*
****Based on an initial investment of £1 in 1955.*

companies and private equity houses clearly seeing value in UK companies at current valuations. In our own fund, over the past 12 months, we have seen bids for companies including Aquis Exchange, Eckoh, Loungers, Centamin, IQ Geo, Mattioli Woods, Alpha Financial Markets Consulting, GRC International, TClarke, FireAngel Safety Technology, Shanta Gold and Kin & Carta.

As stock-pickers, we see UK small-caps as a fertile hunting ground, and we hold a portfolio broadly diversified across a range of business sectors. Of course, there are areas we tend to avoid, such as the biotech sector, where outcomes tend to be binary and in-depth specialist knowledge is required. We are also less enthusiastic about sectors such as retail and hospitality, after measures announced in the Budget pushed up their staffing costs.

WHAT WE LIKE

Beyond these areas though, we see opportunities in everything from tech companies to telecommunications and the industrial sector. Many of the businesses we hold are 'growth' stocks – companies forecast to achieve strong earnings growth, and on higher valuations as a result. The share prices of a lot of these companies have suffered as interest rates have risen. This is partly because, if rates are higher, consumers are likely to spend less, hitting long-term profits. On the flip side, with rates now falling, we see good reasons to believe that these companies can reap the benefits.

Five high-growth companies we hold are: Alpha Group International, which provides companies with foreign currency services; Beeks Financial Cloud Group, which provides a cloud-based platform connecting financial institutions; Boku, which provides payment services via mobile phones; Filtronic, which makes components for telecoms systems and satellites; and Trustpilot, which is a global reviews platform.

In combination, these five companies are projected to grow their revenues by 22% and their profits by 35% each year between 2024 and 2026. This is not guaranteed, and investing in smaller companies is not without risk, of course, but we believe these businesses are strongly positioned to outperform as rates continue to fall and investors take a fresh look at their growth potential.

We are also seeing attractive opportunities among gold and silver miners, and in some classic 'value' stocks, companies that look undervalued at their current share price. In our fund, these include Stelrad Group, a leading manufacturer of radiators; and Norcros, which is a UK market leader in showers and bathroom furnishings.

Currently, we believe UK small-caps look undervalued in absolute terms, in comparison with similar companies listed on other stock markets and relative to their own historical averages. We do not think they will remain this cheap indefinitely. We believe that for investors taking a long-term view, current valuations represent a highly attractive opportunity.

THE CHELSEA VIEW

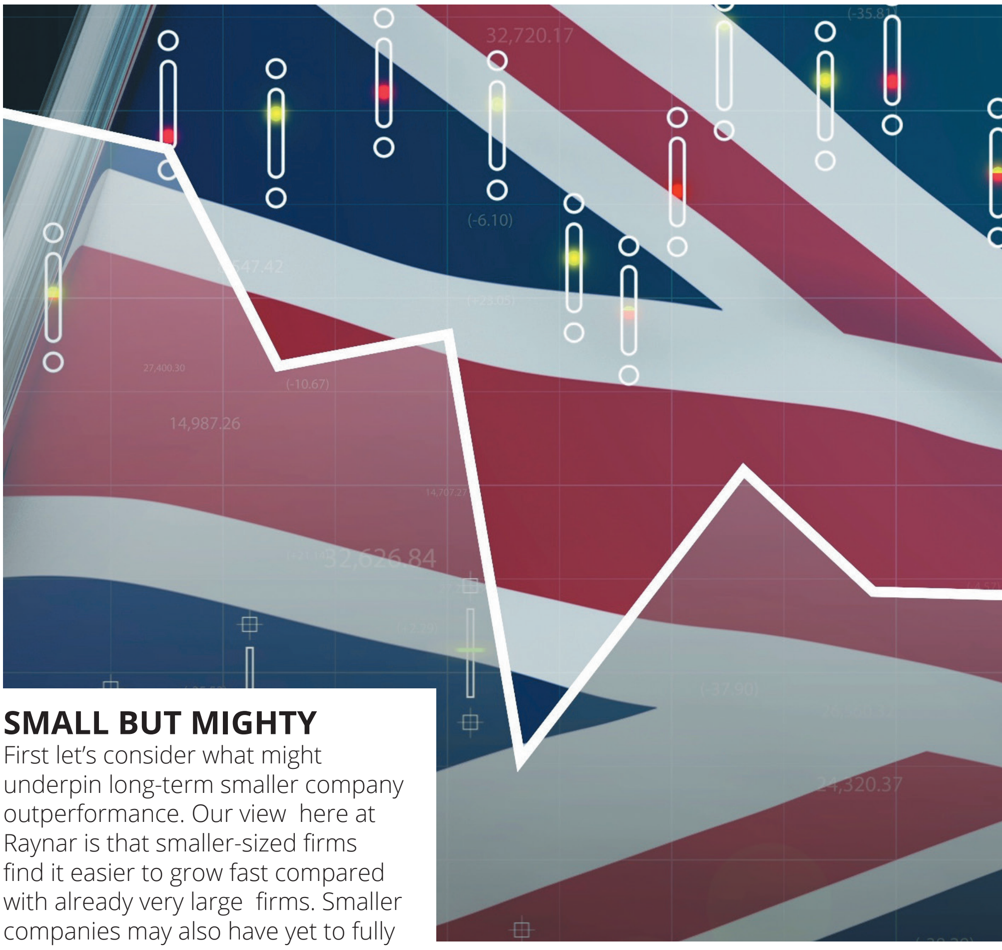
This is one of the standout funds in the sector. The team is renowned for its small-cap expertise and has delivered exceptional performance for investors over a very long period. The team has a proven capability of adding value through stock selection, as a result of company meetings and diligent research. Investors should be aware that because the fund invests in small-caps, it is sometimes subject to swings between the bid and the offer price depending on fund flows.

Chelsea Risk Rating: 8
AMC: 0.75%
OCF: 0.78%
Yield: 0.12%

PHILIP RODRIGS
Fund manager,
WS Raynar UK Smaller Companies
Elite Rated by FundCalibre

In addressing the question as to why an investor should consider an allocation towards UK smaller companies in their portfolio, the first point to note is that the asset class is not big. This may be stating the obvious, but this fact goes a long way towards explaining why many larger institutions seem to wilfully overlook the asset class – the truth of it may well be that they would be unable to offer sufficient volume to their client base, and so it is in their interest to divert attention to bigger segments. The reality is that it is simply not feasible for everybody to own UK small-caps – if they did they wouldn't be small any more! It's for that reason that I like to think of UK smaller companies as an exclusive club for those who are prepared to explore for the gems hiding in plain sight on the UK market.

Considering the UK equity market: focusing on just the largest companies and overlooking the smallest has proven to have been a case of missing the wood for the trees. A study of the UK market since 1955, by the professors of London Business School, has shown that the smallest 10% of the UK market by value has considerably outperformed the remainder of the market comprised of the largest firms. This outperformance has built up consistently over the decades, albeit this includes especially strong periods of performance after occasional periods of underperformance. I'll return to this later.



SMALL BUT MIGHTY

First let's consider what might underpin long-term smaller company outperformance. Our view here at Raynar is that smaller-sized firms find it easier to grow fast compared with already very large firms. Smaller companies may also have yet to fully exploit economies of scale – as firms grow, they tend to be able to become more efficient which expands their profit margin, accelerating earnings growth above the pace of sales growth. And yet, despite this potential for faster-than-average earnings growth, UK smaller companies are often very attractively valued compared with larger companies, by virtue of being overlooked.

The challenge is the sheer number of companies that are 'small'. There are around 400 'small' companies above £100m market capitalisation currently, compared with less than 150 in the top 90% of the UK market by value. This can seem overwhelming for managers used to limited choice amongst larger companies, whereas as dedicated specialists in UK smaller companies we welcome the opportunity a large number of diverse options brings. At Raynar we aim to compile a well-diversified portfolio of 70-90 stocks, but that means we reject four out of five stocks in the universe, leaving us with what we consider to be the cream of the crop. We prefer high-quality, well-positioned companies with strong management executing a well thought through business strategy.

Not only that, we also like to be able to identify a clear catalyst that can fuel an upward appreciation of the company's virtues.

Structurally, a well-considered investment approach can generate a much greater positive impact in a 400-strong universe than a smaller one. This is the less obvious but potentially highly rewarding aspect of our exclusive UK small-cap club – if the investment approach stands the test of time. I am in the fortunate position to be able to look back with pride at the sector leading-returns that my approach, embodied here at Raynar, has delivered for clients and I continue to strive to sustain that track record going forwards.

THE RIGHT CONDITIONS FOR SMALL-CAPS TO FLOURISH?

But will we be helped by a brighter backdrop for the asset class? I go back to the earlier point regarding occasional periods of underperformance by an asset class that has materially structurally outperformed larger UK companies since 1955. The after-effects of the

Covid pandemic and the Ukraine war on global inflation and rising interest rates did lead to an unusually long period of underperformance by UK small-caps across 2021-2023. A nadir appears to have been formed in October 2023, coinciding with a mild UK recession, which has since been followed by strong positive surprises by the UK economy. We at Raynar believe that nothing has fundamentally changed that would disrupt the features that supported the trend since 1955, and if that is the case, there is plenty of catching up left to do to return to long-term trends from relatively undervalued levels.

Much ink has been spilled as to whether the UK Government can do more to support the asset class. There are certainly things that can be done to help, so we will keep a watching brief. However, we keep in mind that all the asset class needed coming out of the 2009 global financial crisis was a period of benign economic conditions after the turmoil, akin to what we see now. UK smaller companies powerfully climbed the proverbial 'wall of worry' then, and we are optimistic regarding a similar ability for this cycle, from a similarly lowly-valued starting point.

That value has not gone unnoticed. There has been a notable degree of activity with takeover approaches for UK-listed companies of late. The deep pool of entrepreneurial talent means there are plenty more fish in the sea. And whilst that sea is a little smaller than it was, it does mean that it will take fewer fishermen joining the exclusive UK small-cap club to drive valuations and segment performance up, attracting more new listings to replace those departed.

Supporting our optimism is the increasingly robust UK consumer – a key driver of the economy. We are overweight consumer-oriented sectors, such as pub companies, as well as interest-rate sensitive sectors, such as home fittings and construction, aided by a backdrop of interest rate cuts by the Bank of England. Making way for the time being are the less dynamic sectors of healthcare and manufacturing. Finally, we have a large weighting to diversified financials, which is offering up some exceptional value in our view. Perhaps unsurprising for an overlooked sector, amongst an overlooked asset class, that is the exclusive club of UK Smaller Companies.

THE CHELSEA VIEW

Rodrigs' breadth of experience and deep knowledge of the UK small-cap market positions him well to deliver healthy returns for loyal investors over the long term. We have been very impressed by him over the years, and this has certainly been backed up in very strong performance. We believe his ability to move quickly on news and take advantage of opportunities where other managers are cautious, has been a key factor in his success.

Chelsea Risk Rating: 8
AMC: 0.50%
OCF: 0.95%
Yield: ....-

VALUATION RISK

History shows that investors have a tendency to chase past winners. It's a classic case of momentum bias — piling into assets that have already performed well, hoping the good times will continue indefinitely. The siren song of soaring stocks and record-breaking indices can cloud judgement, tempting even seasoned investors to abandon discipline in pursuit of gains. Yet beneath the surface of today's exuberant markets lies a formidable threat: valuation risk.

Human nature fuels market cycles. Investors, wired to extrapolate recent success into the future, often pile into assets long after their fundamentals justify their prices. This behaviour causes bubbles, from the Nifty Fifty mania of the 1970s to the dot-com frenzy of 1999.

Over the past two years, US equities have delivered stellar returns, outpacing most global peers. Driven by strong earnings, technological advancements, the Trump buzz and a resilient economy, the S&P 500 and Nasdaq have soared to new highs. But this surge has come at a cost — valuations have become increasingly stretched. Price-to-earnings (P/E) ratios for many leading companies are at levels reminiscent of previous market bubbles, suggesting that future returns may be harder to come by. Against this backdrop, US household allocation to equities has climbed to an all-time high, suggesting that investors large and small may be leaning precariously far out on the risk curve.

The current market environment assumes near-flawless execution from corporate America. However, history has taught us that perfection is rarely achieved. Any miss on earnings or adverse developments could trigger a de-rating.

Another underappreciated risk lies in the illusion of invincibility among today's market leaders. The list of the world's largest companies is far from static. Consider the early 2000s, when General Electric, ExxonMobil, and Cisco were among the titans of the stock market - firms now overshadowed by tech behemoths like Apple, Microsoft, and Nvidia.

ARE TODAY'S WINNERS TOMORROW'S LOSERS?

The lesson is clear: leadership rotates, and it often does so more quickly than investors anticipate. Companies that appear unassailable today can find themselves grappling with new competitors, regulatory shifts, or changing consumer trends tomorrow.

This turnover is a stark reminder: today's winners are not tomorrow's inevitabilities. Investors anchored to the "Magnificent Seven" tech stocks, which now account for over 30% of the S&P 500's value, risk considerable losses if sector dynamics shift. In a market priced for perfection, perfection is precisely what it will take to avoid a fall.

Rather than chasing winners at any price, savvy investors should focus on fundamentals, maintain balanced portfolios from various regions and asset classes, and remember that today's market darling can quickly become tomorrow's cautionary tale. By keeping an eye on valuation metrics and tempering optimism with a healthy dose of scepticism, one can navigate the inevitable ebbs and flows of the market without bearing the full brunt of valuation risk.

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.

THE OUTLOOK FOR 2025 -ANALYSIS OF THE YEAR AHEAD

The global economy is facing considerable headwinds, impacted by inflation, potential tariffs and an increasingly complicated geopolitical landscape. This makes it difficult for investors to understand the implications for financial markets. So, as 2025 gets under way, we thought you might find it interesting to hear from two professionals. We asked David Coombs, head of multi-asset investments at Rathbones, and Steven Bell, Columbia Threadneedle's chief economist, what their thoughts are on the challenges facing markets and their predictions for the year ahead.

DAVID COOMBS
Head of multi-asset investment,
Rathbones Asset Management

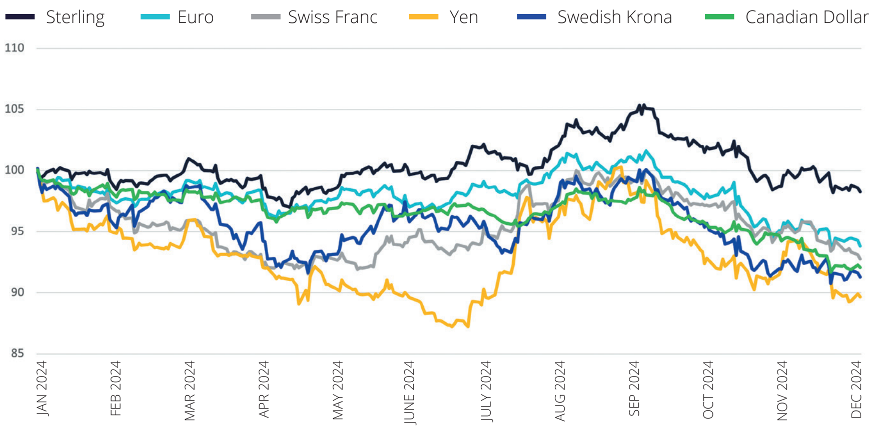
STEVEN BELL
Chief economist,
Columbia Threadneedle

Q: Could you please give our investors an overview of the macroeconomic picture for 2025?

David Coombs (DC): The US economy continues to steam ahead and this seems likely to continue into 2025, although it may start to cool as the year wears on. The big question is whether inflation will remain low enough for the US central bank to cut interest rates by the one percentage point or so that investors want to see by the end of the year (which would take it to 3.5%).

As for everywhere else, the economic situation is dire. This divergence in economic strength has already led to big shifts in currencies: a strong dollar versus virtually all other currencies. One outlier in 2024 was the pound, which actually held its own as investors became sceptical about the Bank of England's ability to cut rates as much as it suggested. Will this continue?

STERLING HELD ITS OWN AGAINST THE DOLLAR IN 2024, UNLIKE ITS PEERS
G-10 currencies against the US dollar



Source: FactSet; currencies' exchange rates against the US dollar, indexed to 100 at 31 Dec 2023, data to 31 Dec 2024

Steven Bell (SB): We expect 2025 to bring stagflation (UK), stagnation (Europe) and a goldilocks scenario (an economy that is not too hot or cold, in other words sustains moderate economic growth, and that has low inflation) in the US. In the UK, the big rise in employers' National Insurance Contributions, coupled with another big rise in the minimum wage (37% since 2021, 50% for some younger workers) will put many labour-intensive firms out of business. Those that remain will put up prices and cut headcount. Higher inflation and weaker growth presents a dilemma for the BoE, whereas consumers in Europe might just edge growth there above the gloomy consensus. Meanwhile, the goldilocks scenario looks intact for the US. In China, the property market is turning and the economy might just follow. Xi Jinping won't want to appear to have weakened in the face of Trump's anti-China policies.

Q: What are the major risks to markets in 2025?

DC: Here in the UK, the major risk is stagflation: stagnant economic growth and high inflation and unemployment. The latest quarterly GDP numbers showed the country didn't grow at all in the third quarter. Meanwhile, inflation has climbed to 2.6% as minimum wages, housing costs, utility bills and prices for package holidays, cinema tickets and pets all rose. Services – essentially anything that isn't a physical product – is the persistent problem child. At 5%, it's well above the 2% headline inflation target, likely driven by wage inflation.

If stagflation does arrive, it would make it extremely difficult for the Bank of England to cut interest rates in support of the economy, because that would worsen inflation. It would also send government bond prices lower (so yields higher) because higher inflation would mean investors demanding a greater return to offset that reduction in the value of their coupons. This would make it even harder for the already cash-strapped government to boost the ailing economy too.

For the US, the big risk is that resurgent inflation prevents the Federal Reserve from cutting rates at all. That would likely send the prices of bonds and stocks alike slumping – and not just in America.

SB: Bond markets have begun to take fright at ballooning budget deficits around the world. The move has been orderly, so far, but there is a risk that countries fall into a 'debt trap' - a negative feedback loop where markets take fright as rising bond yields push up budget deficits, via increased debt service costs, leading to a further rise in bond yields.

Central banks around the world have been remarkably successful in avoiding recession while reducing inflation. But the 'last mile' to the 2% inflation target may be a struggle and limit interest rate cuts.

President Trump raised tariffs, notably on China, in his first term without damaging equities or economies in developed markets. In his second term, he threatens to impose much bigger tariffs. Were this to turn into a full-scale trade war, the damage could prove more significant.

Q: Do you think we will see recession over the next 12 months?

DC: In the US – which is the place that matters most for global investors – no. There's simply too much cash and momentum in America right now. The economy is growing at 3%, with little sign of significant deterioration.

Everywhere else, there's a solid chance. GDP growth has already melted away in the UK. New costs for businesses and dampened confidence could easily reduce spending among companies and the public to the point where unemployment starts to rise. China probably already feels like it's in a recession (it's used to much higher growth), and I think the government will soon have to deliver some serious spending to bring it to life. As for Europe, that's in a similar boat – especially its twin economic engines. France is in a political whirlpool that's becoming a nightmare for rectifying its woeful public finances. And Germany has effectively been in recession for years, despite avoiding the two consecutive quarters of shrinking GDP that makes it official.

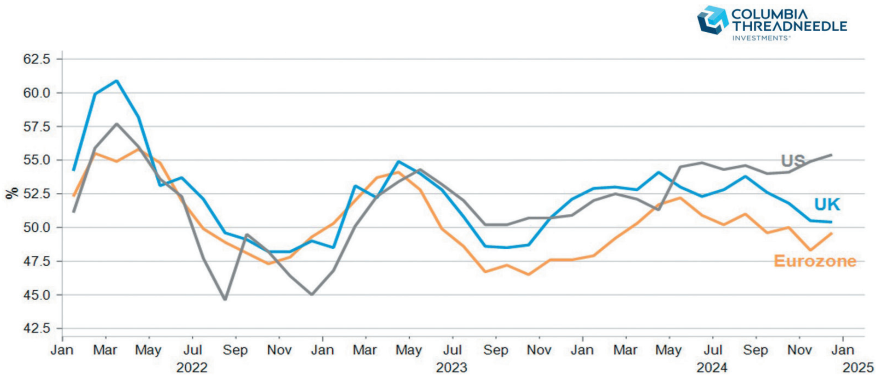
SB: Composite purchasing managers' indices are the best 'real time' indicators of economic growth, with 50 marking the divide between expansion and recession. They suggest that the eurozone and UK are flirting with mild recession. By contrast, they suggest that US growth is firm and improving. Business and consumer confidence is strong, real incomes are increasing and there is plenty of pent-up spending to come from President Biden's CHIPS and IRA Acts. The incoming President does create a great deal of uncertainty. Tariffs are likely to rise, possibly substantially, but they are likely to do more harm to growth in Europe than the US. The recent rise in bond yields has pushed mortgage rates up and this will lead to a drag on US housing but the overall picture should remain intact.

at all. Similarly, tax cuts may not be as large as some hope. But if he and "First Buddy" Elon Musk's Department of Government Efficiency manage to slash a significant amount of federal spending, the effect on inflation may be negligible.

In the UK, we most definitely are concerned about inflation (see above on stagflation). The question is how the government's increases in the minimum wage and business taxes shake out. Will businesses lay off workers, therefore reducing economic demand, which could keep inflation in check? Or will businesses retain workers and hike prices, but leave everyone squeezed? Another concern would be the government coming back for another round of increased borrowing, which would increase the flow of cash to the economy, boosting inflation while also raising lending costs for everyone. The path of UK rates depends greatly on how this plays out.

Composite Purchasing Managers' Indices

US economy strong, UK and EZ close to recession



Source: Columbia Threadneedle Investments and Bloomberg as of 09/01/2025

Q: Are you concerned about inflation and how do you see rates changing over the course of 2025?

DC: We think US inflation is likely to remain in its current band: between 2% and 3%. Not quite low enough for the central bank to call victory and not high enough to cause serious panic. Just constant low-level anxiety throughout the year. But that would leave room for the Fed to cut rates. There's a risk that the incoming government's touted policies (big tariffs on trade, big tax cuts for households and businesses, and a clampdown on both legal and illegal immigration) will send inflation higher. However, we think people are taking Trump too seriously on these areas and ignoring his ambitions for slashing government spending.

Trump often talks big at the outset, only to negotiate a compromise at the end. To that end, some of the tariffs may be much smaller or not happen

SB: We are concerned about inflation but see a good chance that inflation falls a little faster in the US, allowing slightly bigger rate cuts. UK inflation is a big worry in 2025, but should fall in 2026 back to target, as wage growth slows and government policy improves. Rates will fall in the UK but only modestly.

Q: Is the US too overvalued or do you think it has further to run?

DC: One trend that continued from 2023 into 2024 was stock market performance concentrated in just a handful of big companies, in particular the 'Magnificent Seven' tech stocks. In both of the past two years, less than 30% of constituent companies delivered a higher performance than the index itself. That's exceptionally rare – it's usually about 45-55%. That has led to a concentration of value, too: the 10 largest companies in the US S&P 500 index now account for 37% of the total.

We own many of these big companies – they're great businesses! But we have taken profits as their values have risen substantially. When stocks are highly valued and widely loved, they are much more susceptible to big falls when disappointment comes along (as it inevitably does). We think there are other strong and exciting companies in the US that are more attractively valued. But looking at the value of the headline index obscures them. We've been adding to these sorts of businesses over the past year.

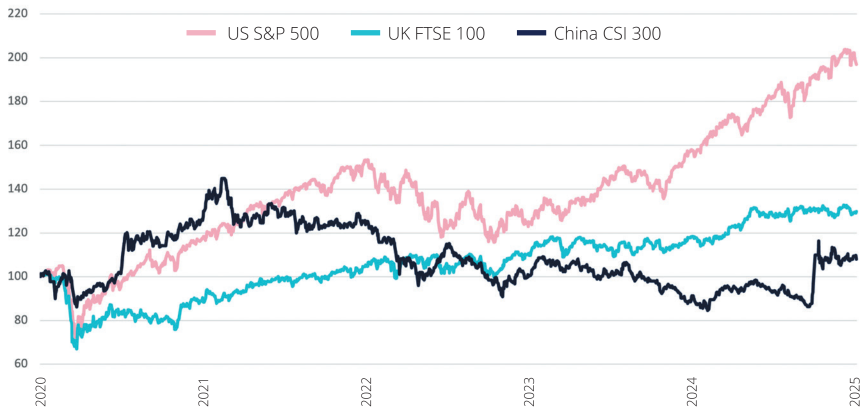
SB: Yes to both. US equities are overvalued but for good reasons (dominant companies with strong earnings prospects and high RoE) and recession risks are low. It's our most favoured market.

Q: China, on the other hand, is cheap. Is it a value trap or is this a good time to invest?

DC: It's not as cheap as it was! The CSI 300 Chinese index was one of the top-performing major stock indices last year. Up until September, when the Chinese government announced a big stimulus package (which included loans to companies to buy their own shares), the index was lacklustre to say the least. Zoom out, though, and you see that the Chinese market has done very poorly over a longer period.

China is a huge part of the global economy and often underrepresented in investment portfolios. We want exposure to this eastern powerhouse, but we're aware of the risks. You shouldn't forget that it's far from a free market: there are capital controls, strict rules for foreign operators and heavy day-to-day state influence in company management. We prefer to own Hong Kong and Western-listed companies that do business in China. We think they offer better governance and shareholder protection, ensuring that our

CHINA RALLIED BIG IN Q4, BUT STILL ONLY JUST BREAKS EVEN OVER 5 YEARS



Source: FactSet; local currency total return in five years to 31 December 2024

investments are run for your benefit, rather than for the Chinese state.

SB: The Chinese authorities are concerned about the weakness in their equity and property markets. Policy measures are just beginning to feed through to increased primary and second activity in the property market. This may be the beginning of the end of the property slump. But consumer confidence is exceptionally weak, the incoming US President is threatening tariffs on Chinese exports and there are concerns about some Chinese equities from an ESG perspective. Against this background we're not chasing the market.

Q: Which asset class/region do you think will do best over the next year? Which asset class/region would you avoid in 2025?

DC: We have sold virtually all of our high-yield bonds (those issued by riskier companies with more debt and lower-quality businesses). Because these bonds have a greater risk of defaulting, you can get a decent extra return above a government bond that matures at the same time. This extra return, called the 'spread', is extremely low after 18 months or so of heavy buying by investors. For US high-yield bonds, the spread was 2.92% at the end of the year; over the past 30 years it has averaged about 5.3%. We don't think you're getting much reward for that risk anymore.

It's always a mug's game to guess which part of the market will do best in the year ahead, yet if we had to choose, we would say that US small-cap companies are set up well. They should benefit from strong US GDP growth and Trump's plans for deregulation should help as well - red tape often helps the biggest and most established businesses as they have the scale and resources to address them without greatly harming profits.

SB: We have just closed our overweight in high yield, our last remaining overweight in bonds. We prefer equites, with the US, our most favoured market. We don't have any significant underweights.

FOR THE RISK, HIGH YIELD SPREADS AREN'T ATTRACTIVE

Source: FactSet; data 1 Jan 1998 to 31 Dec 2024; US High Yield peaks at 2,147bps on 15 Dec 2008; UK HY peaks at 2,585 on 1 Apr 2009

VENTURE CAPITAL TRUSTS (VCTs)

AN OVERVIEW

PETER HICKS
Research analyst,
Chelsea

With the tax noose tightening each year, there are fewer ways hard-up investors can wriggle free from HMRC asphyxiation. Indeed, it will come as no surprise that the tax squeeze is unlikely to relent over the coming years. The prognosis is bleak: the Treasury has told taxpayers they must endure a long winter of frozen personal thresholds, set to last until 2028-29. There is, however, one way to potentially free yourself from such despair and keep your financial hearth warm: Venture Capital Trusts (VCTs).

Investing into a VCT share offer can provide up to 30% income-tax relief; there is also no tax on dividends or capital gains. Investors must hold the shares for five years; selling shares prior to the five-year holding period can entail claw-back on the income-tax relief. When an investor has held VCT shares for more than five years, the option to sell can be facilitated by a VCT's buyback policy. Most VCTs now have buyback policies, and whilst these are never guaranteed, they can provide a good opportunity to sell shares at a reasonable price.

Another option is reinvesting dividends using a Dividend Reinvestment Scheme (DRIS), which is where reinvested dividends qualify for further income-tax relief. Whether or not an investor decides to use the DRIS option is a question of personal preference; reinvesting dividends into a VCT can create administrative headaches. This is because new share certificates are issued each time; over a number of years this can generate a lot of share certificates. It can be easier to pool dividends as cash and then use them for future lump-sum investments. Again, it's important to check if the reinvestment scheme qualifies for income-tax relief; a small number of VCTs give the option to reinvest dividends, but unlike a traditional DRIS option, these are bought on the secondary market and won't yield any further income tax-relief! Always check.

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

TAX RELIEF EXAMPLE

INITIAL INVESTMENT

£10,000

30% INCOME TAX RELIEF

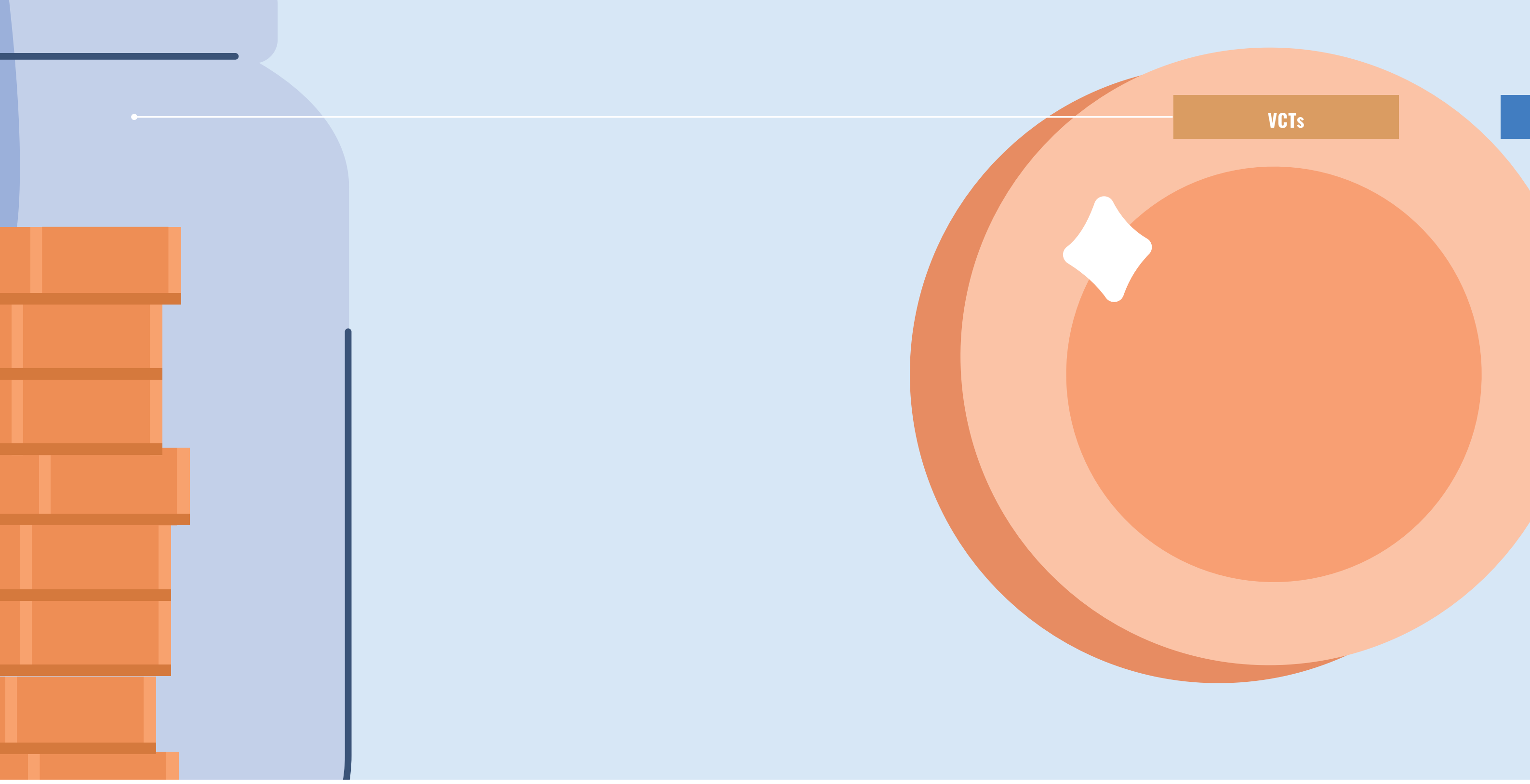
£3,000

70% EFFECTIVE INVESTMENT COST

£7,000

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 ^
Albion VCTs	Generalist	£6,000	3%	-	**0.40%**	18 March 2025
Pembroke VCTs	Generalist	£5,000	5%	**2%**	**0.375%**	4 April 2025 midday
Puma 13 VCT	Generalist	£3,000	3%	**1% for existing investors**	**0.60%**	4th April 2025 (11am)

SUPERIOR TAX EFFICIENCY

A new and further compelling reason to consider VCTs is their now relative tax-efficient superiority over pensions. Of course, it's important to consider that the investment universe of a VCT is much smaller and riskier than a pension's, but there are some appealing distinctions that now make VCTs more tax efficient.

Firstly, Rachel Reeves' recent Autumn Budget removed IHT protection on pensions from April 2027. This will put pensions inside an estate for inheritance tax purposes (just like a VCT, which has never qualified for IHT relief). This is a great shame, as IHT relief on SIPPs was arguably one of their greatest features. And apart from the tax-free lump sum on a pension, SIPPs in many ways have now become tax-deferred accounts – beyond your 25% tax-free lump sum, you will still have to pay tax on your pension income. With a VCT, all dividends are 100% tax free up to an annual allowance of £200,000: not bad at all!

Secondly – and here's why VCTs have tremendous tax-efficient potential – proceeds of shares sold after a five-year holding period can be used to buy another VCT, unlocking a further 30% of your income-tax bill. An investor cannot buy the same VCT within six months of selling shares in it, however there is plenty of choice on the market. This varies significantly from the tax-relief dynamics of a pension wrapper, where the tax-relief and investment are locked in until drawdown. The current minimum drawdown age is 55 years old, rising to 57 in 2028.

With a VCT, tax relief is not automatically reinvested (unlike a SIPP, where 20% is automatically reinvested, and then any higher-rate or additional relief has to be claimed on your tax return), but an investor could certainly consider compounding their VCT tax relief to make even larger investments in subsequent tax years, unlocking even more of their tax bill. Over a number of years a snowball to snow-boulder effect of compounded tax relief and dividends can mean significant reductions in your income-tax liability. Converting what is typically a sunk cost for most taxpayers – never to be seen again - into a lovely dividend-producing, tax-free asset.

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.

FUNDS UPDATE

JULIET SCHOOLING LATTER
Research director,
Chelsea

JUPITER EUROPEAN

GAM Investment's European equity team, led by Niall Gallagher alongside Chris Sellers and Chris Legg, will join Jupiter Asset Management this summer. Responsibility for Jupiter's current European equity range, managed by Mark Nichols and Mark Heslop, will transition to Gallagher's team next year. Gallagher's team oversaw high-profile strategies, including the GAM Star European Equity fund, which has delivered top-quartile performance in the IA Europe Ex UK sector over many years. We have kept the fund as a 'Buy' ahead of this highly successful team, that we know and like, joining.

AVIVA GLOBAL EQUITY INCOME / ROYAL LONDON GLOBAL EQUITY INCOME

This is one of the more unusual cases of fund manager changes. The highly regarded and successful Aviva equity team, which included Richard Saldanha, Francois De Bruin, and Matt Kirby, all departed in August to take over the equally successful Royal London Global Equity franchise. This came after Royal London's team left to set up their own firm earlier in the year. However, after less than one month on the job, Richard Saldanha decided to U-turn and return to Aviva, resuming management of the Aviva Global Equity Income fund, which he had led since 2013. We have placed both funds on 'Hold' pending an update from the new respective teams, due to the considerable disruption and changes affecting both funds.

NINETY ONE GLOBAL ENVIRONMENT

We have decided to downgrade Ninety One Global Environment to a 'Hold.' This follows a sustained period of underperformance, with the fund now significantly lagging its benchmark since launch. We note that the sustainable growth theme it plays has been heavily out of favour. However, we do not see any strong immediate catalysts that would drive performance, particularly with a Trump presidency and a likely reduction in supportive green climate policies. The fund also has a large allocation to China, which adds greater risk to its portfolio.

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?

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

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

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

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

1 YOUR DETAILS

Title: ☒ Mr ☒ Mrs ☒ Ms ☒ Miss Other:

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Email: Phone No:

Address:

Postcode:

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Title: ☒ Mr ☒ Mrs ☒ Ms ☒ Miss Other:

Full Name:

Email: Phone No:

Address:

Postcode:

3 FRIEND'S DETAILS

Title: ☒ Mr ☒ Mrs ☒ Ms ☒ Miss Other:

Full Name:

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WE'RE HERE TO HELP

- We're proud to offer our clients a very personal service.
- Unlike others, we're not 'online only'.
- We haven't 'outsourced our customer support function'.
- We have a team in our office in Chelsea and we 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**

Chelsea Financial Services - St James' Hall, Moore Park Road, London, SW6 2JS.
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