FUNDWATCH

Investment Managers' commentaries for Clients of Financial Discounts Direct

FINANCIAL DISCOUNTS DIRECT

JULY 2018

The opening months of 2018 were somewhat turbulent for markets. The uncertainty surrounding Brexit continued and global tension rose as trade wars loomed large. Despite this backdrop, global markets are on the rise again in the second quarter of the year.

In the UK we have seen the closure of high street stores and big names such as Airbus and Unilever looking to move operations outside of the UK. On a positive note, however, early hints to an interest rate rise in August from the Bank of England shows an improvement in economic momentum could be on the cards.

Back in May all our Cofunds clients were moved to the new Aegon Platform. We would like to thank you all for your patience during this process and are happy to report that the initial teething issues have largely been resolved. Clearly, change always takes some time to get used to but, if you encounter anything you are unsure of, please get in touch with us straightaway. You can call us FREE on 08085 498 477 or email info@financialdiscounts.com.

In this edition we have asked the managers from some of the most popular funds held by clients to give their views on their fund's performance, positioning and outlook. You will notice that the funds included cover all four corners of the globe and are split across a variety of sectors so there should be something to interest you.

Also enclosed is the latest update of our First Class Funds list which we hope, combined with Fundwatch, gives a useful insight for your future investment planning.

Happy Investing!

Paul Penny
Managing Director

Environmentally aware

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ARTEMIS HIGH INCOME

Fund Manager:	**Alex Ralph**	**FUND FACTS**
Launched:	**07/03/2008**	
Fund Size:	**£1,310m**	
Annual Fund Charge:	**0.63%**	
OCF:	**0.69%**	
Current Yield:	**5.44%**	
Distribution Frequency:	**Quarterly**	

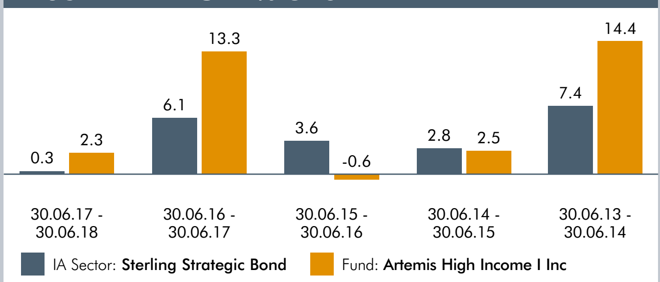
Synchronised growth throughout the global economy has prompted the market to anticipate higher inflation. The fund had been positioned for this change for some time, with little exposure to those assets most negatively affected by higher inflation and rising interest rates. Moreover, our holdings in financial bonds actually benefited from this change. The premium that issuers of financial bonds must pay to borrow relative to the government ('spreads') narrowed sufficiently to compensate for the underlying rise in yields. In addition, the rise in the oil price prompted a handsome rally in our holdings in the bonds of commodity companies. Credit curves have steepened over 2018 to date (longer-dated bonds have underperformed shorter-dated issues) so favouring short-dated issues has protected the fund from those moves.

The changing economic environment carries implications for equities as much as it does for bonds. So our approach to the fund's equity component, which currently accounts for around 15% of the fund, is changing. Shares are a good source of capital growth and income. Amid increasing inflation and given the political and economic uncertainty facing the UK, we believe shifting away from the UK market's classic 'income' stocks (which could well underperform as interest rates rise) and adopting a broader geographical reach to be appropriate.

Inflation is hard to control once at large. If inflationary expectations increase further, then government bond yields will spike higher. In that scenario, equities and high-yield bonds – indeed most asset classes – would fall. Our base-case, however, is that government bond yields will continue to rise – but in a controlled manner. That would enable the fund's high-yield bonds to produce positive returns. Increased volatility should provide us with opportunity to add to names we favour.

6 MONTHS TO 30/06/18: FUND -1.1 SECTOR -1.5

DISCRETE ANNUAL % GROWTH



ARTEMIS INCOME

Fund Managers:	**Adrian Frost, Nick Shenton**	**FUND FACTS**
Launched:	**07/03/2008**	
Fund Size:	**£6,280m**	
Annual Fund Charge:	**0.75%**	
OCF:	**0.79%**	
Current Yield:	**4.06%**	
Distribution Frequency:	**Half yearly**	

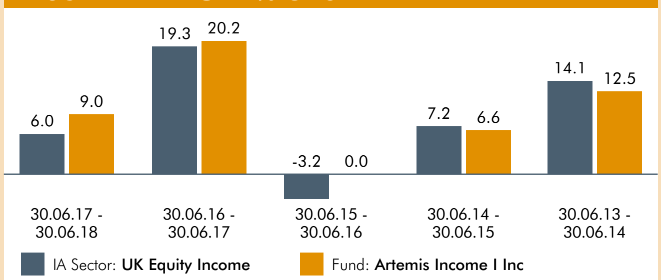
The fund performed roughly in line with the market which is particularly pleasing given the strength of the commodity sector: oil and mining stocks are less well-represented in our portfolio than they are in the UK market. We believe that having the same exposure to these areas as the index would leave an uncomfortably high proportion of our income dependent on volatile commodity prices; the revenues of these companies are cyclical and we aim to provide a steady, growing income. So although we do have some exposure here, we have significantly less than the market. Instead, rather than riding the recovery in commodity prices, our performance has been driven by stock-specific good news from individual holdings, with some of the strongest returns coming (once again) from holdings in 3i, Segro and SSP.

Alert to the necessity of understanding the ramifications of 'disruption', we are avoiding those areas of the market where complacency meets high valuation. Some consumer goods companies, for instance, are struggling to stem the declining sales of their distinctly 'retro' portfolios of brands. We continue to monitor these trends: at some stage they will have either played out or will be reflected in equity valuations.

The role of income funds has become a matter for debate of late. This has happened from time to time over the last 30 years, and typically comes at a time when returns from the sector have lagged and are dogged rather than daring – more Geoffrey Boycott than Evel Knievel; we are neither. Instead, we continue to do 'what it says on the tin': delivering lower-volatility returns with a decent yield. Understandably, this is not to everybody's taste but it will, I think, continue to play a useful role in the financial affairs of some.

6 MONTHS TO 30/06/18: FUND 4.4 SECTOR 1.7

DISCRETE ANNUAL % GROWTH



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AXA FRAMLINGTON GLOBAL TECHNOLOGY

FUND FACTS	
Fund Manager:	Jeremy Gleeson
Launched:	20/06/2011
Fund Size:	£558m
Annual Fund Charge:	0.75%
OCF:	0.83%
Current Yield:	N/A

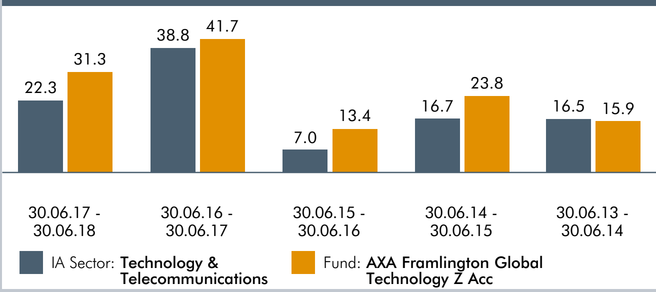
Results from technology companies were strong throughout 2017, and the most recent quarterly earnings results follow the same trend. Over the last 12 months, the fund outperformed its comparative index, the MSCI World Information Technology with performance driven by strong stock selection and positive sector allocation. Noticeable contribution came from the Software company Zendesk that provides SaaS products for organisations, and the Internet Software & Services company New Relic that has disrupted the Small & Medium Business and cloud-based markets.

The Fund is unconstrained in its approach with a bias towards small and mid-cap stocks which historically has been a rich source of alpha. Within the IT subsectors, the fund has a relative overweight to the semiconductor industry whilst being underweight in the hardware and software industries. As long term investors, we are not likely to change or adapt the portfolio according to macro-economic factors, currency moves or political events. We do not consider market timing to be as important as compared to many of our competitors and remain focused on fundamental stock selection, identifying companies with the business models and the management teams that have the ability to generate long term growth. This is a deliberate choice since we fundamentally believe that alpha should be driven by our active long-term equity stock picking skills rather than short-term trading.

As we look to the second half of 2018, within the framework of the current global economic environment, we remain positive for the technology sector, with a number of catalysts for the year ahead. Cloud computing and software as a service (SAAS) will continue to be adopted; the 'internet of things' is likely to see significant commercial success, and we will likely continue to see advances in areas of autonomous vehicles, robotics, big data and artificial intelligence.

6 MONTHS TO 30/06/18: FUND 16.9 SECTOR 12.0

DISCRETE ANNUAL % GROWTH



BAILLIE GIFFORD JAPANESE SMALLER COMPANIES

FUND FACTS	
Fund Manager:	Praveen Kumar
Launched:	02/09/1999
Fund Size:	£793m
Annual Fund Charge:	0.60%
OCF:	0.63%
Current Yield:	0.21%

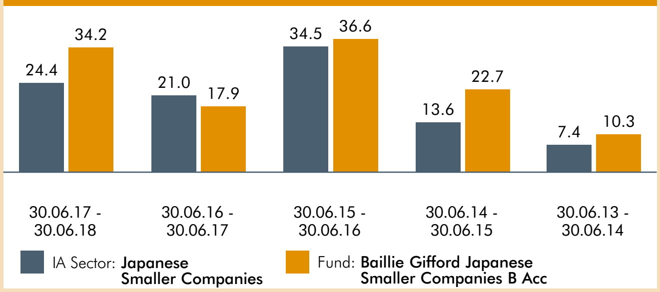
Strong performance over the last 12 months was driven by stocks from a wide range of sectors. Specialist staffing company Outsourcing is continuing to benefit from the tight labour market in Japan, has been raising prices and reported a more than doubling of profits in its most recent annual results. IRISO Electronics, which makes connectors for cars, and Optex, a leading global manufacturer of sensors for security systems and factory automation, also performed strongly. They saw robust demand for their products as car electrification and industrial automation remained strong global themes. Among the healthcare stocks in the portfolio, holding company Noritsu Koki was the standout performer. The new management team has exited the legacy photo processing business and has used the proceeds to build an impressive portfolio of potentially high growth healthcare-related companies.

We take a bottom up approach to stock picking. Having said that, approximately 30% of the fund is currently invested in online disruptors, which are taking market share from sleepy incumbents. Around 25% of the fund is invested in niche manufacturers, which have experienced strong order-flow over the past year. Approximately 15% of the fund is invested in healthcare, where we see significant growth potential for smaller companies in Japan, and 15% in specialist staffing companies, which are among the beneficiaries of Japan's tight labour market.

The combination of cyclical and structural tailwinds both in Japan and overseas is providing an ideal business environment for smaller companies in Japan. For those willing to embrace these opportunities, the long-term growth potential should be exciting. Our endeavour remains to seek out and invest in rapid growth businesses with dynamic management teams and we remain encouraged by the quality and breadth of investment opportunities that are being afforded to us.

6 MONTHS TO 30/06/18: FUND 12.6 SECTOR 6.7

DISCRETE ANNUAL % GROWTH



FIDELITY SPECIAL SITUATIONS

Fund Manager:	**Alex Wright**	FUND FACTS
Launched:	**15/10/2012**	
Fund Size:	**£3,334m**	
Annual Fund Charge:	**0.75%**	
OCF:	**0.94%**	
Current Yield:	**N/A**	

The fund generated positive returns over the 12-month period to end of June 2018, but slightly underperformed the index. Markets experienced heightened volatility in the first half of 2018, with a sharp fall seen in the first quarter. Losses were offset by a sharp rebound in markets in the three months to the end of June, as a weak sterling buoyed the UK's largest companies, which generate most of their sales in foreign currencies.

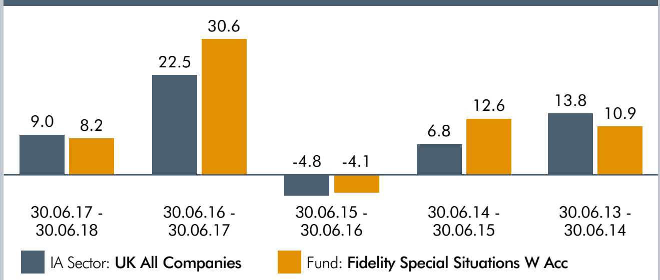
The fund's underweight stance in the resources sectors was the primary reason behind returns falling behind that of the index as commodity prices rose over the period. M&A continued to contribute to the overall performance, as the takeover of Ladbrokes Coral, which we held, by online-focused rival GVC Holdings, adding significant value over the period.

We still see a good supply of attractive investment opportunities in diverse sectors such as financial services and industrials, but as ever, remain focussed primarily on analysing individual companies. This helps us to improve focus on those elements that have the greatest impact on long-term share price returns, and reduce the temptation to become distracted by short term factors such as political rhetoric or economic uncertainty.

Despite the correction in earlier 2018, the UK market is currently trading around its long-term average valuations and the strong reflation rally has left many stocks on peak margins. While this need not be a cause for immediate concern, we believe it constrains the ability of the overall market to continue to make above average returns in the future, and leaves it more vulnerable to a shock. However, a selective approach, focussed on identifying cheap companies with improving fundamentals, stands a good chance of outperforming the market over the coming few years. The good news is that there are still many stocks that are deeply out of favour, even though a recovery is possible.

6 MONTHS TO 30/06/18: FUND 1.7 SECTOR 2.8

DISCRETE ANNUAL % GROWTH



FUNDSMITH EQUITY

Fund Manager:	**Terry Smith**	FUND FACTS
Launched:	**01/11/2010**	
Fund Size:	**£15,557m**	
Annual Fund Charge:	**0.90%**	
OCF:	**0.95%**	
Current Yield:	**N/A**	

The Fundsmith Equity Fund continued to make solid progress during the first half of 2018, despite the continued turbulence of the political and economic environment.

The portfolio has remained broadly unchanged, with only two new companies being purchased during this period and, correspondingly, two companies being sold from the portfolio.

The means that the Fund is now invested in 27 quality and resilient global companies, the majority of which can be found in the following three sectors – Technology, Medical Equipment & Devices and Consumer Staples.

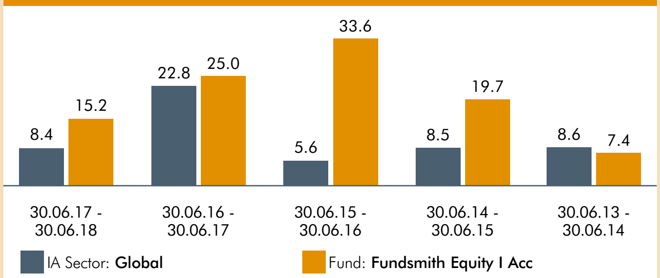
The performance of the Fund during the first half of the year was aided by the positions in the following companies – IDEXX (veterinary healthcare and technology), Microsoft, Intuit (business technology), Amadeus (travel technology) and PayPal (payment technology).

The continued decline in the value of the pound has proved to be beneficial to the performance of the Fund as it has increased the value of our overseas holdings, which represent around 80% of the Fund.

Our views on the prospects of the Fund remain the same as ever. We continue to hold shares in major, conservatively financed companies. These companies make their profits from a large number of small, everyday predictable events. We believe that this is a safe place to be if you have the patience, fortitude and liquidity to ride out the inevitable share price volatility which will occur from time to time.

6 MONTHS TO 30/06/18: FUND 7.0 SECTOR 2.2

DISCRETE ANNUAL % GROWTH



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INVESCO PERPETUAL HIGH INCOME

FUND FACTS

Fund Manager:	**Mark Barnett**
Launched:	**31/03/2014**
Fund Size:	**£9,376m**
Fund Management Fee:	**0.87%**
OCF:	**0.87%**
Current Yield:	**3.49%**
Distribution Frequency:	**Half yearly**

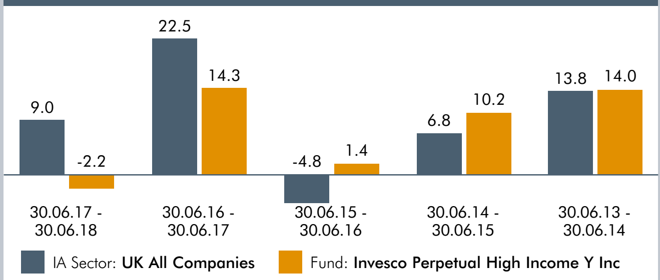
Over the past twelve months the strategy of the Invesco Perpetual High Income Fund has remained largely unchanged. Portfolio performance has been frustrated by the market's continuing favour for momentum style investing, which supports premium share price valuations for companies that are perceived to have significant growth potential or to be highly disruptive within their industries. It is our view that the notable disparity between valuation and fundamentals cannot be supported in the long-term.

The portfolio is selectively tilted towards domestically exposed companies, which reflects our belief that the negative sentiment towards sterling and domestic companies since the EU Referendum will continue to improve. The portfolio also has a large overweight position in the Financials sector, relative to the FTSE All-Share Index, which includes a heterogeneous mix of companies within Insurance, Real Estate Investment Trusts and Alternative Lenders. We also see value in the pharmaceutical sector, where we believe that company pipeline risk for new products is overstated. The portfolio also has notable holdings in the oil and tobacco sectors.

Looking ahead, we remain convinced that, in a changing global environment, the interests of investors are best served by employing a well-tested investment process which is based on fundamental company analysis and a prudent approach to valuation. The portfolio's holdings continue to be re-evaluated as we seek the best opportunities to create a sustainable flow of dividend income for investors. In is our belief that in times of extreme momentum and somewhat irrational market pricing, it is vital to remain rooted in the portfolio's fundamental investment thesis.

6 MONTHS TO 30/06/18: FUND -1.2 SECTOR 2.8

DISCRETE ANNUAL % GROWTH



INVESCO PERPETUAL MONTHLY INCOME PLUS

FUND FACTS

Fund Managers:	**Paul Causer, Paul Read, Ciaran Mallon**
Launched:	**31/03/2014**
Fund Size:	**£3,180m**
Fund Management Fee:	**0.67%**
OCF:	**0.67%**
Current Yield:	**4.96%**
Distribution Frequency:	**Monthly**

The Invesco Perpetual Monthly Income Plus Fund's key exposure over the past twelve months to 30 June 2018 have been high yield corporate bonds, subordinated financial bonds and equities.

High yield corporate bonds account for around a quarter of the fund. Some of the important sector exposures within this allocation are cable, food, retail and telecommunications. This high yield component has been relatively stable over the twelve months, both in terms of its overall weight in the fund and its composition.

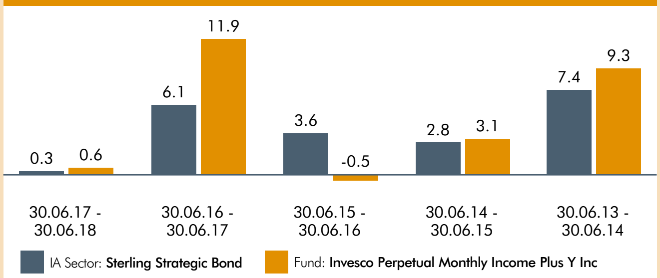
Subordinated financials have been a core part of the fund and driver of returns for many years. The majority of this exposure is subordinated bank debt with the remainder held in subordinated insurance bonds.

The fund's equity exposure is focused on dividend-oriented companies to compliment the fund's income objective. One of the key exposures is tobacco companies, where we believe a focus on pricing power, converting profits to cash-flow and product innovation should make the sector a reliable source of income. Another is the utility sector where in our view, the sector typically offers attractive dividends in what are highly regulated monopolies.

Looking ahead, we continue to focus on what we believe are good companies, trading at reasonable valuations, that adequately compensate us for the risk of investing and we will use periods of market weakness as an opportunity to build exposure.

6 MONTHS TO 30/06/18: FUND -1.7 SECTOR -1.5

DISCRETE ANNUAL % GROWTH



JANUS HENDERSON EUROPEAN SELECTED OPPORTUNITIES

FUND FACTS

Fund Manager:	**John Bennett**
Launched:	**16/01/2003**
Fund Size:	**£2,105m**
Annual Fund Charge:	**0.75%**
OCF:	**0.84%**
Current Yield:	**1.70%**

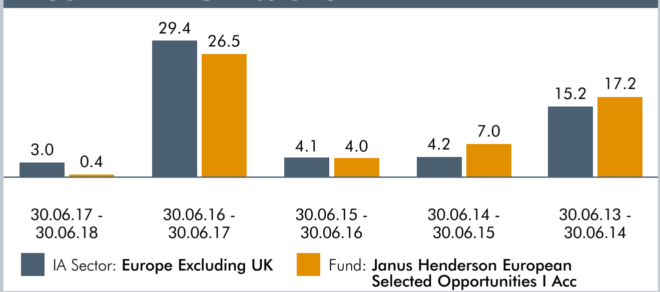
Markets do, eventually, remind us that momentum works both ways and the early weeks of 2018 served up just such a prompt, with markets seeing, in our view, a long-overdue correction in February. While European equities rebounded swiftly, there was a further sharp sell-off in June, courtesy of further disappointing economic data, undoing most of the progress from European markets in the second half of 2017.

A much welcome return to form in stock picking as well as a timely sale of the banks sector drove improved performance during the period. Investors have favoured those stocks positioned for growth, rather than those that might offer better long-term value, which has not benefited the fund at a strategic level. The fund is positioned with a long-term view of value in the market, over a horizon of three to five years, giving time for any investment rationale to fully play out. Performance was helped, however, by our decision to reduce exposure to European banking – one of the more economically sensitive areas of the market – early in 2018.

While market sentiment has cooled in recent months, a situation that normally provides an investment opportunity for value-focused investors, it seems too early to abandon a defensive mind-set. In particular, the narrow breadth of performance drivers in the US market continues to fuel uncertainty globally. The 'FAANG', stocks, as they are commonly known – represent more than 60 per cent of the year-to-date total return on the S&P500 Index. It seems likely that this leadership will be challenged, necessitating a focus on stock-specific factors and sound trading discipline.

6 MONTHS TO 30/06/18: FUND -0.2 SECTOR -0.8

DISCRETE ANNUAL % GROWTH



JUPITER INDIA

FUND FACTS

Fund Manager:	**Avinash Vazirani**
Launched:	**19/09/2011**
Fund Size:	**£1,003m**
Annual Fund Charge:	**0.75%**
OCF:	**1.07%**
Current Yield:	**0.50%**

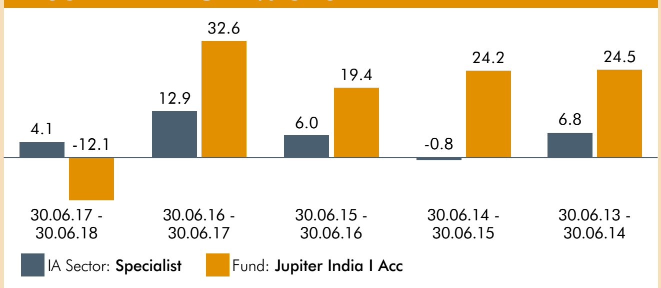
In India, over the last year we have been seeing quality at any price being favoured over value. As a result, the last 12 months have been a more challenging environment for our bottom-up, growth at a reasonable price (GARP) strategy. We maintain conviction in our underlying holdings and have used weakness in certain areas of the market as an opportunity to top up names where we now see even more attractive value.

One headwind over the last 12 months has been a shift toward large-caps due to regulatory changes to market cap classifications in India, leaving many small and mid-cap companies unfairly de-rated by the market, in our view. We are overweight in small and mid-caps relative to the index and have used recent weakness to add to higher conviction names. The outperformance of IT Services, aided by a weakening currency, has also been a headwind. We believe the growth prospects for this sector are relatively low and the industry could face a lot of disruption with the adoption of new technologies, such as cloud computing and AI. As bottom-up stock pickers, we see few companies in this sector which fulfil our GARP criteria and remain underweight. We remain overweight in areas where we see long-term growth potential and reasonable valuations, such as healthcare, travel and tourism.

Despite recent market weakness, we are optimistic about the outlook for the country. India benefits from several long-term structural growth drivers which we believe are some of the most dynamic globally. India has the youngest and most diverse world economy and is seeing rapid modernisation in the form of financial and internet penetration and key reforms which are improving the quality of life for a huge number of people.

6 MONTHS TO 30/06/18: FUND -16.4 SECTOR -0.7

DISCRETE ANNUAL % GROWTH



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LF WOODFORD EQUITY INCOME

Fund Manager:	Neil Woodford
Launched:	19/06/2014
Fund Size:	£6,148m
Annual Fund Charge:	0.75%
OCF:	0.75%
Current Yield:	3.84%
Distribution Frequency:	Quarterly

FUND FACTS

The past year has been challenging primarily as a result of unfavourable market conditions. Indeed, excluding the big six resource companies and HSBC, the UK market has been flat over the past year. That said, there have also been some stock specific issues within the portfolio which have further hindered performance, including disappointments at Provident Financial, Capita and Prothena. Our response to these situations has been disciplined and focused on fundamentals and we have maintained exposure, believing there is a meaningful opportunity to restore value as these companies recover.

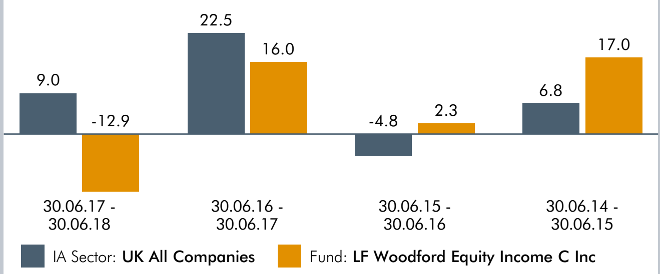
Recent market behaviour suggests that the world's economy is poised for a sustainable period of accelerated, trouble-free growth. This concerns us because this isn't the world we see. Our analysis reveals a global economy that is becoming increasingly pressured by tighter liquidity conditions. However, the UK is a rare bright spot in a world of deteriorating economic fundamentals. We are actively seeking to avoid these risks while focusing the portfolio towards opportunities where valuations are low. Currently, this means a significant exposure towards UK-focused businesses.

The fund has endured a prolonged period of underperformance and we understand the disappointment that many investors will feel. We want to reassure investors that we remain absolutely confident in the fund's prospects. We have been presented with a rare investment opportunity to buy high quality assets at very depressed valuations, and we are determined to fully capitalise on it.

In a career spanning more than three decades, I have rarely seen an opportunity more attractive than the one that exists right now, and have rarely felt more confident in what the fund will achieve from here.

6 MONTHS TO 30/06/18: FUND -7.2 SECTOR 2.8

DISCRETE ANNUAL % GROWTH



SCHRODER INCOME MAXIMISER

Fund Managers:	Nick Kirrage, Kevin Murphy, Mike Hodgson
Launched:	11/05/2011
Fund Size:	£1,204m
Annual Fund Charge:	0.75%
OCF:	0.91%
Current Yield:	7.18%
Distribution Frequency:	Quarterly

FUND FACTS

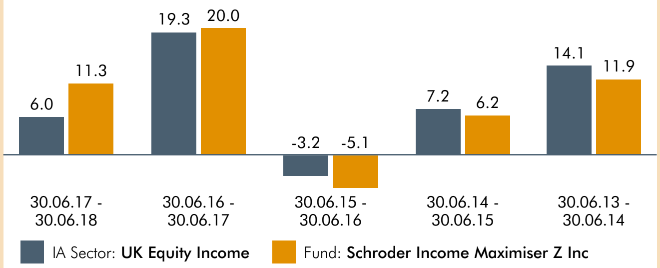
The fund has continued to deliver on its objective over the past year – meeting its 7% income target for the 12th year running in November 2017, and remaining on track to meet the target again in 2018. In performance terms, the fund has delivered strong returns over the 12 months, outperforming the UK market as a whole and ranking highly among the income peer group. Among the biggest contributors have been stocks like Anglo American, Pearson, Next, Tesco and Intel.

The fund's investment approach is distinctly contrarian, applying a long-term value strategy to produce a purely bottom-up portfolio. Within this, we seek to balance dividend yield with dividend growth and balance sheet safety – in other words, combining undervalued companies that are currently paying an attractive and stable dividend, with those that offer the potential for an attractive dividend in the future. In this way, we look to deliver returns from two sources: both the capital returns as these undervalued companies improve, and the income returns they generate through paying a growing dividend that beats inflation.

This approach means we are currently finding opportunities in the financials sector – an area that isn't currently paying high dividends, but has historically been a strong income producer and should, in our view, return to this position over time. We see opportunity both among insurers like Legal & General and Aviva, as well as banking names, such as RBS, Barclays, HSBC and Standard Chartered - where share prices have only been cheaper at the height of the systemic risk, and profitable new business is helping them to build significant excess capital. We believe that the ongoing improvement in their core businesses will warrant significant share price increases over time.

6 MONTHS TO 30/06/18: FUND 5.6 SECTOR 1.7

DISCRETE ANNUAL % GROWTH



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