FUNDWATCH

Investment Managers' commentaries for Clients of Financial Discounts Direct

FINANCIAL DISCOUNTS DIRECT

JANUARY 2020

Welcome to the January 2020 edition of Fundwatch.

We enter the new decade with a government which has a mandate to complete our withdrawal from the European Union and with a majority that will bring an end to the deadlock which has been so debilitating over the last year.

Following the election in December markets finished strongly – whether this was due to the annual 'Santa Rally' or the election result remains to be seen. In global terms, tensions continued between the US and China and, with the situation worsening in Iran, markets may be in for a bumpy ride in the short term.

The situation with Woodford is clearer now. The Income Focus fund has been taken on by ASI and is due to reopen later this year. For investors in the Equity Income fund, the first repayments should have been made at the beginning of February. All affected investors have been written to individually with the details.

The New Year is often a time where people make resolutions – so why not make one of them a review of your investments. You should review your investment goals from time to time and ensure they remain current and that your portfolio reflects this. You should also consider if your portfolio is balanced (i.e. not too much over or under exposure to particular regions or sectors) and how individual holdings are performing against their peers.

However, do remember that investing is for the long term, and that providing your portfolio is built on sound fundamentals, there should be no need to make any major changes.

A New Year bonus – reduced charges
Some good news for the New Year – with effect from December 2019, the amount you pay for our platform charge has been reduced. Over the last year we have been hard at work negotiating with Aegon, who provide the underlying technology for our platform, to reduce their charges. We have been able to secure a reduction from 0.23% to 0.20% for the first £500K held and from 0.20% to 0.18% for the next £500K held. A copy of our charges schedule is available on our website or on request from our Customer Services team.

Happy investing.

Paul Penny
Managing Director

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ARTEMIS UK SMALLER COMPANIES

FUND FACTS

Fund Managers:	**Mark Niznik, William Tamworth**
Launched:	**01/09/2010**
Fund Size:	**£556m**
Ongoing Charges Figure:	**0.86%**

The fund's performance was strong both in absolute and relative terms (it is ahead of the benchmark and peer group average). The fund benefitted from improving sentiment towards the UK and encouragingly a broad range of stocks contributed to the fund's performance. Further support came from corporate activity – seven of the fund's holdings were bid for during the period. We see this as supporting our view that there is underlying value in the fund's holdings (and in UK smaller companies more generally).

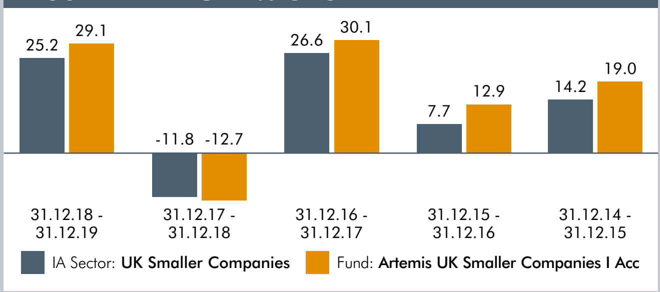
The fund remains relatively defensively positioned. We favour companies with strong balance sheets and reliable cash flows. We do not attempt to make macro bets and therefore seek to invest in a diverse range of companies exposed to a broad spread of markets. Valuations for stocks with strong growth and momentum still look stretched to us. At the other extreme cyclical stocks look cheap but carry significant earnings risk. We continue to seek 'dull but worthy' stocks in the middle, which are often overlooked.

Although sentiment towards the UK has started to recover many investors remain underweight and cautiously positioned. Valuations do not look high relative to history or other assets and, encouragingly, the majority of the fund's holdings are trading well.

Over the long term smaller companies have outperformed their larger peers by 4% p.a. – 'the small cap effect'. We believe we have a well-diversified portfolio of companies underpinned by strong cash flows and robust balance sheets. This leaves the fund well placed to weather the next downturn, whenever that might be, and to capture the long term outperformance that smaller companies have exhibited in the past.

6 MONTHS TO 31/12/19: FUND 18.1 SECTOR 12.1

DISCRETE ANNUAL % GROWTH



AXA FRAMLINGTON MONTHLY INCOME

FUND FACTS

Fund Manager:	**George Luckraft**
Launched:	**16/04/2012**
Fund Size:	**£393m**
Ongoing Charges Figure:	**0.84%**
Current Yield:	**4.50%**
Distribution Frequency:	**Monthly**

The fund achieved a return of 18.0% in 2019, which compares with the FTSE All Share index's 19.2%. The portfolio benefitted from a series of takeovers, largely from private equity or other investment funds, however this was offset by some stock disappointments.

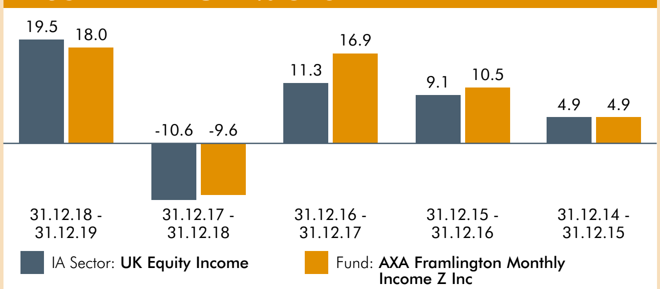
Domestically-orientated companies moved sharply better following the decisive election result, helped by a recovery of Sterling from its lows. Examples include Bovis Homes (c.58%), DFS Furniture (c.59%) and Galliford Try (c.38%). The largest positive contributor to performance was iEnergizer (c.130%), a provider of business outsourcing services. The company restarted dividend payments with the shares yielding c.25% on their purchase price. Anexo Group (c. 47%), who offer services to those involved in non-fault accidents, was strong on the back of profit upgrades.

Following the well-publicised issues of other fund managers there is increased scrutiny on liquidity. This seems to be weighing on some lower market cap companies' valuations in the AIM market. While liquidity is clearly a risk factor, there are clear benefits from lower ratings and higher yields. Reflecting these liquidity concerns and the potential opportunities from the forced sellers, the fund has had a degree of cash throughout the year which impacted performance.

The fund continues to be run on a multi-cap basis made up of internationally-focused, higher-yielding, large cap and fast growing smaller-cap stocks. We remain focused on stock selection with no strong top down view driving current positioning. There is likely to be a continuation of the trend for takeovers with three transactions currently in process in the fund. Negotiations with the EU are unlikely to be straight forward and may trigger bursts of volatility.

6 MONTHS TO 31/12/19: FUND 7.5 SECTOR 8.1

DISCRETE ANNUAL % GROWTH



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BAILLIE GIFFORD AMERICAN

FUND FACTS	
Fund Manager:	**Helen Xiong**
Launched:	**28/03/2002**
Fund Size:	**£2,492m**
Ongoing Charges Figure:	**0.52%**

The strong performance of the US stock market in 2019 has been mirrored by the fund despite ongoing trade tensions and the negative market sentiment at the beginning of the year. That said, we always encourage investors to view fund performance over a five-year time horizon.

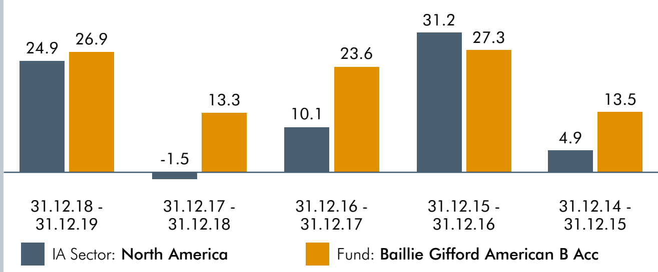
We remain enthused by the fundamental progress at many of the 42 companies in the fund as they seek to enact structural change within their industries and disrupt traditional business models. Prominent contributors to performance were Shopify, the cloud-based commerce provider; Roku, the TV streaming platform; and MarketAxess, a global bond trading marketplace. Over the year Grubhub, the online food ordering site, and Abiomed, maker of the world's smallest heart pump, have been notable detractors.

We believe that there is a strong runway for growth for the companies in the fund for many years to come and our bottom-up stock picking has led us to construct a portfolio that's very different from the index. Stock exposure is spread across several themes such as the 'Future of Commerce' (31%), 'Transformative Treatments' (16%) and 'The Battle for our Attention' (13%), to name a few. While we aren't driven by thematic selection or target weightings, our bottom-up stock picking style has led us to a strong bias towards agile innovators that are permanently altering industry landscapes.

We do not seek to predict the ever-evolving macro environment, it isn't our area of expertise. Instead, we are passionate about finding under-appreciated US companies that have a strong runway for growth and hold these for a long period of time so they can see out their vision.

6 MONTHS TO 31/12/19: FUND -0.3 SECTOR 5.2

DISCRETE ANNUAL % GROWTH



FIDELITY ASIA

FUND FACTS	
Fund Manager:	**Teera Chanpongsang**
Launched:	**15/10/2012**
Fund Size:	**£2,976m**
Ongoing Charges Figure:	**0.94%**

Fidelity Asia fund has delivered strong returns in 2019. The positive contribution stems from both rewarding security selection as well as favourable market allocation across most sectors. At country level, stock picking in China, South Korea, Taiwan and India had a noteworthy positive impact.

Deeper assessment reveals that adherence to my disciplined investment approach has created value for investors. Understanding the core of a business is a crucial and non-negotiable aspect of my discipline, as it helps me to find structural growth beyond cyclical swings in demand. The key contributors to returns are positions that have common themes of strong franchises and market leadership in the sectors they operate in - these include Kweichow Moutai, Taiwan Semiconductor Manufacturing, New Oriental Education and Technology and AIA Group. The fund has maintained conviction in these names, even during periods of adverse market sentiment.

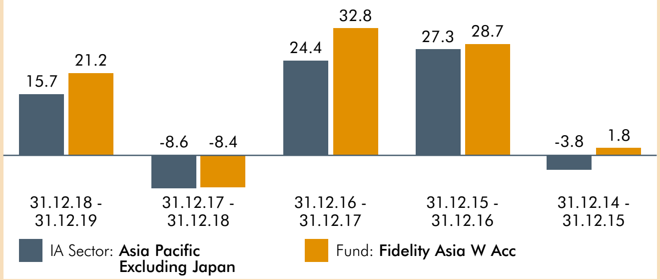
Identifying future leaders ahead of the market has also been positive - Sunny Optical Technology was a small-cap opportunity with a strong product proposition that has been fulfilling its potential to grow into significant player as smartphone cameras follow the trajectory from single to dual to tri cameras.

I believe that there is no going back on regional structural shifts that have already been set into motion. However, markets are becoming more short-term orientated amid uncertainty at political and social level as well as economic cyclicality, which in fact creates investment opportunities for long term investors.

The fund is invested in companies where improving fundamentals are not reflected in the price, growth potential not fully understood, restructuring and turnaround opportunities, and cyclical turns in certain industries.

6 MONTHS TO 31/12/19: FUND 5.1 SECTOR 1.8

DISCRETE ANNUAL % GROWTH



INVESCO HIGH INCOME

FUND FACTS

Fund Manager:	**Mark Barnett**
Launched:	**31/03/2014**
Fund Size:	**£5,721m**
Fund Management Fee:	**0.87%**
Current Yield:	**3.60%**
Distribution Frequency:	**Half-Yearly**

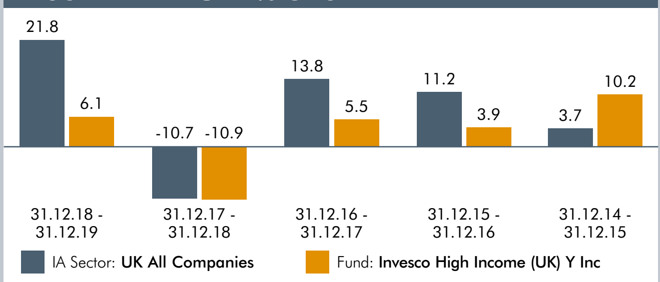
The Invesco High Income Fund (UK) delivered a positive return over the year. However, set against the strong rise of the wider UK equity market this performance is very disappointing. 2019 proved to be another year dominated by domestic political uncertainty, which weighed heavily on portfolio performance. The paralysis in Westminster perpetuated the effective 'buyers strike' seen since June 2016 – as both equity investors and companies looking to invest in their capital base continued to avoid making investment decisions. For some time, I have been convinced of the glaring valuation opportunity that lies in companies that derive their income from a UK revenue base.

The recent UK General Election result promises to bring the UK's exit from the European Union to a conclusion in 2020. We are likely to see further volatility in the coming months as we establish our future trade arrangements with the EU (and indeed the US), however, the decisive result provides much needed clarity and we can look forward to five years of stable Government.

Despite some mixed economic data, the foundations for growth in the economy are present. There is record employment in the UK, which has been achieved alongside real wage growth. Post-Brexit household economies may feel liberated. The new Government is also committed to increasing fiscal stimulus and boosting public sector pay. Taken together, I am more optimistic for the real economy in the UK and the prospects for real value creation, than many others might be. Looking ahead, at the heart of my optimism for the fund in 2020 is an unshaken belief in the valuation and income opportunities available to UK equity investors who are prepared to look beyond the near-term.

6 MONTHS TO 31/12/19: FUND 5.1 SECTOR 7.9

DISCRETE ANNUAL % GROWTH



JANUS HENDERSON FIXED INTEREST MONTHLY INCOME

FUND FACTS

Fund Managers:	**Jenna Barnard, John Pattullo, Nicholas Ware**
Launched:	**04/05/2012**
Fund Size:	**£879m**
Ongoing Charges Figure:	**0.68%**
Current Yield:	**4.10%**
Distribution Frequency:	**Monthly**

The fund performed strongly in what proved to be a favourable environment for all areas of the bond market. Unusually, both credit and sovereign bonds rallied simultaneously, while we saw one of the strongest returns from government bonds in 30 years. The main contributions to returns came from corporate bonds (high yield and investment grade) while tactical interest rate derivative trades (additional government bond exposure) also boosted return. There were no meaningful negative contributions from our top holdings, given our philosophy of sensible income investing, and zero defaults in the portfolio.

Interest rate derivatives were used to actively manage the overall sensitivity of the fund to changes in interest rates, generating a contribution to returns of 120.8 basis points*.

Given our focus on generating a sustainable income, the fund maintains a relatively high allocation to higher yielding corporate bonds. The selection of individual credits for the fund is filtered through a 'sensible income' philosophy, i.e. focusing on larger, non-cyclical companies in the developed world.

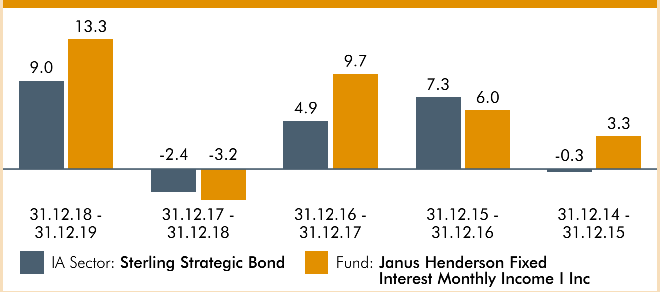
Current portfolio holdings: 45.9% high yield/38.0% investment grade corporate bonds, 6.4% sovereign bonds, 3.7% secured loans and 2.1% preference shares*. Cash holdings are of necessity for an income fund kept at a reasonably low level: cash and derivatives 4.01%*.

We continue to view the world through the lens of structural forces that anchor inflation and bond yields at low levels. However, we do not ignore cyclical reflationary impulses that run through markets from time to time. There appears a decent probability but it is hard to determine its strength or longevity. Hence, we have pared back duration to around 4.96 years*, awaiting developments but may well extend it again in the spring or summer.

*Data as at 29 November 2019

6 MONTHS TO 31/12/19: FUND 3.9 SECTOR 2.7

DISCRETE ANNUAL % GROWTH



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JUPITER EUROPEAN

FUND FACTS

Fund Managers:	**Mark Heslop, Mark Nichols**
Launched:	**24/04/2015**
Fund Size:	**£4,917m**
Ongoing Charges Figure:	**0.92%**

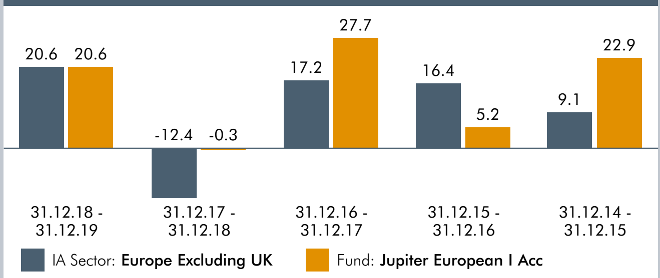
The Jupiter European Fund delivered positive, double-digit returns over the 12 months to the end of December 2019. Returns came from a broad range of holdings with global operations able to tap into faster growth in the US, Latin American and Asia. Many of the fund's best performers are dominant players operating in areas where it is hard for competitors to gain a foothold.

Our approach is to painstakingly search for companies which operate in such areas of secular growth and which also have sustainable competitive advantages. In particular, we are looking for that small number of superior businesses which, by virtue of their ability to reinvest their cash flows internally at sustainably high rates of return, are likely to deliver attractive growth rates. In our view this characteristic can persist for much longer than the short-term stock market 'thinks' - as expressed by the share price applied to those future cash flows. We are confident that our detailed and thorough process offers investors an opportunity to unearth and own a good number of such businesses.

Although the European economy is likely to remain in a low growth, low inflation environment, investors should not automatically assume that the same will be true for all European companies, although it may be quite true for many banks, utilities and car manufacturers. But what is also true is that "Europe" offers investors a wide range of businesses quite a few of which operate in areas of secular growth. Often these businesses have become successful enough to compete successfully on the global stage, allowing investors to tap into their potential for greater growth.

6 MONTHS TO 31/12/19: FUND 1.0 SECTOR 3.1

DISCRETE ANNUAL % GROWTH



L&G GLOBAL TECHNOLOGY INDEX TRUST

FUND FACTS

Index Proposition Manager:	**Dan Attwood**
Launched:	**01/11/2000**
Fund Size:	**£463m**
Ongoing Charges Figure:	**0.32%**

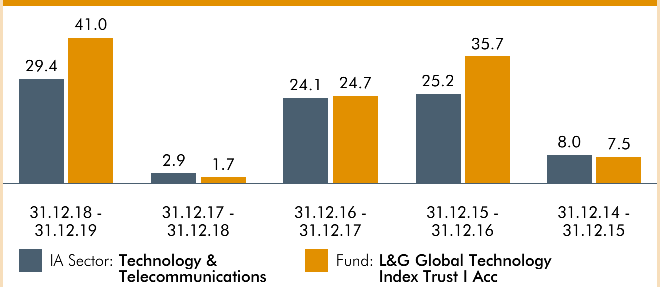
Technology shares performed very strongly during 2019, rising well ahead of broader stock markets. As an index-based fund, the L&G Global Technology Index Trust has similarly delivered robust returns. Renewed optimism over the economic outlook, driven by US-led cuts in global interest rates, boosted confidence that IT companies can continue to generate impressive earnings growth. Despite brief setbacks as US-China trade tensions escalated, optimism that a breakthrough in negotiations was within reach, potentially annulling import tariffs, and encouraging earnings reports from leading IT companies, helped the fund to end 2019 strongly.

Reflecting the weightings of the FTSE World–Technology Index benchmark, around 80% of the fund is invested in US-listed shares, with Taiwan, Korea and Japan-based companies accounting for c4%, 4% and 3% respectively. Around 88% of the fund is invested in large caps, with mid caps accounting for approximately 12%. Among the former, Apple and Microsoft each have weightings of approximately 15%, while Google-parent Alphabet accounts for c10%. Apple and Microsoft performed particularly strongly in 2019, driven by revenue growth from services such as the App Store and demand for Azure cloud services respectively.

The outlook for the IT sector remains linked to the prospects for the world economy given that tech companies' revenues typically benefit from positive economic conditions. Hence, further progress to reduce US-China trade barriers and indications that lower interest rates are boosting the global economy should be helpful for IT companies. Notwithstanding US political pressure for tighter regulation over the use of data, underlying longer-term thematic trends and ongoing innovation in high-growth areas such as connectivity and automation should remain major drivers of corporate earnings growth across the IT sector.

6 MONTHS TO 31/12/19: FUND 14.5 SECTOR 7.4

DISCRETE ANNUAL % GROWTH



LF LINDSELL TRAIN UK EQUITY

Fund Manager:	Nick Train
Launched:	10/07/2006
Fund Size:	£6,727m
Ongoing Charges Figure:	0.65%

FUND FACTS

The fund delivered strongly for investors during calendar year 2019, outperforming its benchmark at the same time. For 2019 it was companies such as London Stock Exchange, Burberry and Sage that powered our return, whilst “defensive” companies such as Diageo, Heineken and Unilever lagged the index.

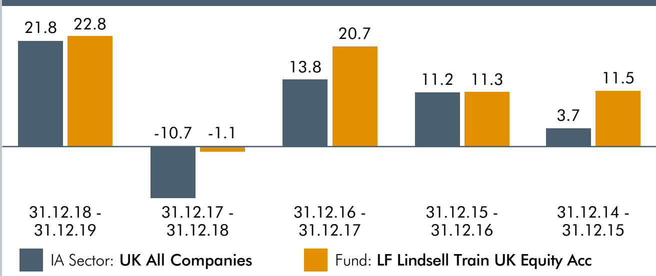
The Fund is invested in a collection of what we analyse to be exceptional companies, by both UK and global standards. Key ideas include owners of global consumer brands, such as Mondelez, Diageo, and Unilever. We also like companies that own or create media content or software to take advantage of the ongoing changes we see in technology and distribution. Finally, we own several outstanding businesses which provide proxy exposure to financial markets, such as the London Stock Exchange and Schroders.

Lindsell Train employs a particularly strategic approach in investing client capital, taking positions in a range of companies that we believe are likely to prosper over the long term. We don’t invest looking for short term gain, and have no particular wisdom or insight on where markets might be headed over the coming months. Nevertheless, we are optimistic about the long term prospects for the global economy, and it having a positive impact on the UK stock market. In particular, Technology and Emerging Markets remain two global themes with the power to create lasting wealth for investors.

Within the UK stock market, we are invested in a range of advantaged companies that stand to benefit from growing demand from emerging market consumers for everyday products. We also seek to gain exposure to companies that should be positively impacted by the internet. In our view, developments in digital will continue to present the greatest challenges that all companies are likely to encounter.

6 MONTHS TO 31/12/19: FUND 1.8 SECTOR 7.9

DISCRETE ANNUAL % GROWTH



LIONTRUST SPECIAL SITUATIONS

Fund Managers:	Anthony Cross, Julian Fosh
Launched:	01/11/2010
Fund Size:	£5,581m
Ongoing Charges Figure:	0.89%

FUND FACTS

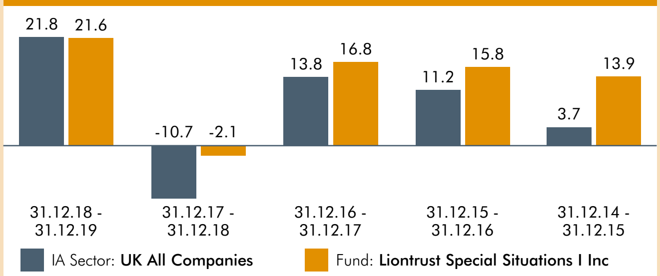
The fund performed strongly with a host of portfolio holdings registering double-digit percentage rises. Macroeconomic uncertainties persisted throughout the year, but global equity indices were able to make ground, aided by a revival of very loose monetary policy from central banks.

One of the portfolio’s largest risers was GlobalData, a provider of subscription-based data and analytics to a range of industries. It reported an 18% rise in revenues in the first six months of the year, which dropped down to a 50% improvement in adjusted profit before tax. The company expects this operational gearing from its high fixed cost base to yield “significant incremental margin” in future periods. Another portfolio highlight was Gamma Communications, a provider of voice, data and mobile communications for businesses which started 2019 by upgrading its guidance for earnings.

While we fund managers make no attempt to forecast the macroeconomic outlook, they are attentive to the current landscape via day-to-day company news flow. Regardless of the outcome of Brexit – one of the factors that has driven investor sentiment on the UK market recently – the global economic backdrop is one beset by uncertainty. During periods of market or economic uncertainty, we believe it is more important than ever to concentrate on company fundamentals rather than macro noise. The Economic Advantage investment process is unashamedly bottom-up, focusing on the identification of long-term compounders which generate profits, have solid balance sheets and positive cash flow to underpin their market valuation.

6 MONTHS TO 31/12/19: FUND 4.3 SECTOR 7.9

DISCRETE ANNUAL % GROWTH



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RATHBONE GLOBAL OPPORTUNITIES

Fund Manager:	James Thomson
Launched:	01/03/2012
Fund Size:	£1,858m
Ongoing Charges Figure:	0.78%

FUND FACTS

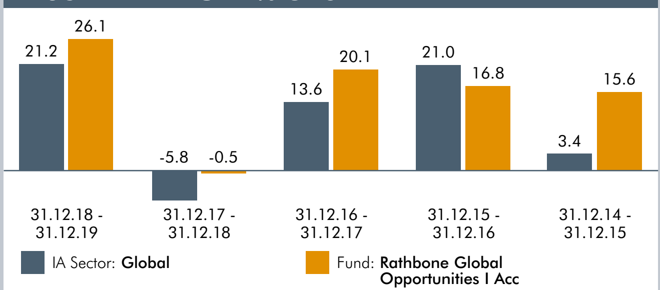
For the past year, my portfolio of 60 stocks has outperformed most of my peers because of my focus on developed markets, particularly the US where I've found innovative and sustainable growth companies at reasonable prices. Buying successful stocks in the technology, healthcare, consumer and specialist financial sectors boosted my fund, as did avoiding areas that didn't do as well, such as banks, commodities, utilities and telecoms. Avoiding the UK and emerging markets also helped improve my fund's returns.

I continue to trust in US equities because I believe that is where the earnings growth is. US companies are growing profits four times faster than the rest of the developed world. This accelerated pace is particularly acute in American technology, consumer discretionary and specialist financial sectors, which are enjoying helpful high-growth trends. Certain companies in these sectors have a seemingly permanent competitive advantage that will be difficult for rivals to replicate; this is very appealing to growth investors like me. Currently I have more exciting 'buy ideas' than space in the fund: a great situation to be in.

There are some challenges on the horizon. As recession fears have eased, investors have flocked to 'recovery' and 'value' stocks … those beaten up companies that are most economically sensitive. This shift is a headwind for a growth-focused fund, but I suspect it will soon die down. Sustaining this 'value' rally requires an enduringly strong global economy, not one with frequent false dawns. The US-China trade war was the largest impediment to growth in 2019, reducing US earnings growth by 7%-8%. I think this geopolitically fuelled trade fight will remain the biggest threat to the global economy, with Donald Trump training his crosshairs on the EU as well.

6 MONTHS TO 31/12/19: FUND 3.0 SECTOR 4.8

DISCRETE ANNUAL % GROWTH



SCHRODER UK MID 250

Fund Manager:	Andrew Brough
Launched:	08/11/2011
Fund Size:	£1,145m
Ongoing Charges Figure:	0.91%

FUND FACTS

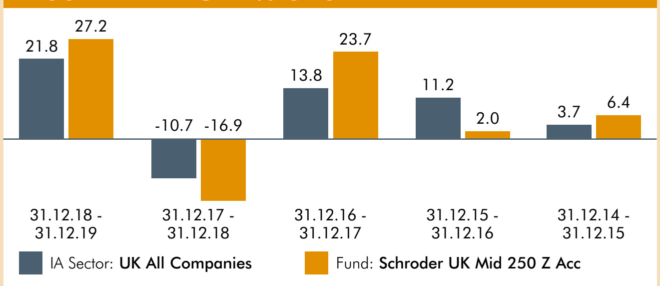
Following a challenging 2018, 2019 was a much better year in absolute terms with the fund returning 27.2%. Nevertheless, we judge ourselves on the relative performance that we provide investors and last year we did lag the index. Whilst this is disappointing, we understand the stimuli both at a stock and wider market level and believe in 2020 we can claw much of this back.

Despite underperforming, the team take comfort from the fund's performance in the last quarter of 2019 in particular. Having faced difficult market conditions all year, we as a team remained true to our process and positioning. Our fortitude was rewarded in Q4 whereby a reduction in political uncertainty, following the UK election result, saw investor sentiment in the UK improve. Over this period the fund outperformed the index by 4.1% - therefore highlighting how quickly changes in relative performance can occur.

Looking forward we have a slight bias in the portfolio towards more lowly-valued, UK domestics at the moment, where we can still find equities that are not priced for perfection. Despite the reduction in political uncertainty after the election, the market will be influenced by how trade talks with the EU play out in the coming months. Nonetheless, as a stock-picker, I embrace mispriced opportunities which arise during such periods of uncertainty as are the several private equity (PE) buyers who are finding a disproportionate number of opportunities in the UK. At a time when the majority of other investors still remain uninterested in UK equities, we share the opinion of these longer-term, experienced PE players and recognise the valuation opportunities available.

6 MONTHS TO 31/12/19: FUND 15.8 SECTOR 7.9

DISCRETE ANNUAL % GROWTH



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