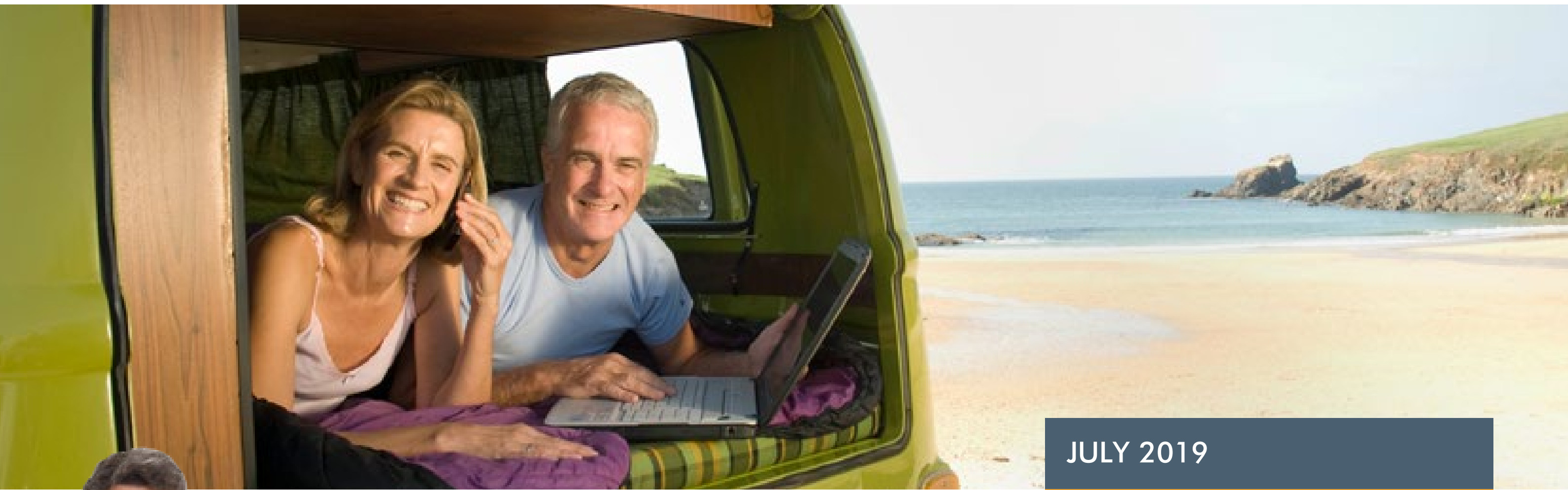
FUNDWATCH

Investment Managers' commentaries for Clients of Financial Discounts Direct

FINANCIAL DISCOUNTS DIRECT



Welcome to the July 2019 edition of Fundwatch. As usual, we feature reports and views from the managers of some of the most popular funds held by our clients.

The last few weeks have been dominated by the news in early June that Woodford Investment had taken the decision to suspend the Equity Income fund. We have asked Woodford to provide us with an update which can be read on page 6 of this magazine. Our comments can be found in the box below.

In America, talks regarding trade wars with China continue and in the UK, the fight for number 10 will undoubtedly cause fluctuations in the market. The ongoing Brexit saga adds to uncertainty and we will just have to wait patiently to ascertain what our new PM will be able to deliver.

Understandably, times like this can be unsettling for an investor, but for want of sounding like a broken record, remember that investing is for the long term. Provided that you have built your portfolio on sound fundamentals, you should not panic and there should be no need to make major changes.

If however, you remain uncertain, you have the ability to move some or all of your holdings into cash and retain the tax benefits of your ISA wrapper.

Paul Penny
Managing Director

The dealing suspension in the Woodford Equity Income Fund has caused investors understandable consternation. This unusual, though not unprecedented step is used to protect remaining shareholders though it leaves them powerless until it is lifted.

Issues here concerned underperformance, causing substantial withdrawals, alongside a high level of less liquid portfolio holdings. Income will continue to be paid out and the fund will be valued daily. Withdrawals are likely to continue upon reopening and this must be factored into the current re-structuring. A £3.5 billion fund is still substantial, but it is hard to imagine an easy future.

Woodford has previously emerged from periods of heavy criticism to confound detractors but, whether he can do so again, remains to be seen.

JULY 2019

ARTEMIS HIGH INCOME

FUND FACTS

Fund Manager:	**Alex Ralph**
Launched:	**07/03/2008**
Fund Size:	**£1,244m**
Annual Fund Charge:	**0.63%**
OCF:	**0.72%**
Current Yield:	**5.29%**
Distribution Frequency:	**Monthly and Quarterly**

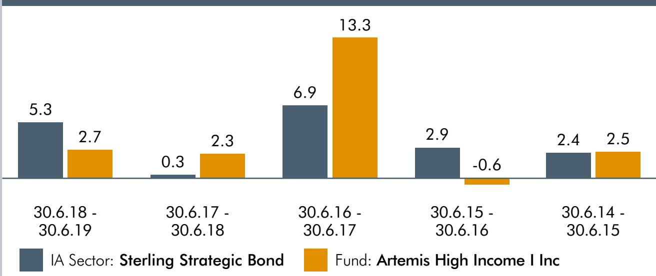
Our prime objective in managing this fund is to deliver a respectable yield. Capital growth is very much a secondary consideration. Approximately 55% of the fund's holdings are in high-yield bonds, with a further 21% in investment-grade bonds. We buy these bonds mainly for the income they pay rather than in the expectation of capital gains. And, while the fund has delivered a consistently attractive yield over the past year capital growth has been disappointing. In particular, it has lagged the rally in the high-yield index over 2019 to date. In part, this is because we have gradually turned more defensive the longer the rally has gone on.

The rebound in markets in response to a dovish turn by central banks has been so fast and so strong that investors could be forgiven for thinking the final quarter of 2018 was a nightmare rather than reality. We now feel markets might have got ahead of themselves, seemingly dismissing slower economic growth and looking instead to the potential for looser monetary policy, fiscal stimulus and trade agreements to spur a rebound.

Our feeling is that the Fed's more dovish stance, coupled with positive global trade negotiations, may indeed have extended the economic cycle. But the risks are building, particularly from hard-to-predict geopolitical change. We are, therefore, happy to maintain a somewhat defensive stance and have not chased riskier areas of the market as valuations have, in our view, become somewhat stretched.

6 MONTHS TO 30/6/19: FUND 7.0 SECTOR 6.3

DISCRETE ANNUAL % GROWTH



AXA FRAMLINGTON GLOBAL TECHNOLOGY

FUND FACTS

Fund Manager:	**Jeremy Gleeson**
Launched:	**20/06/2011**
Fund Size:	**£716m**
Annual Fund Charge:	**0.75%**
OCF:	**0.82%**

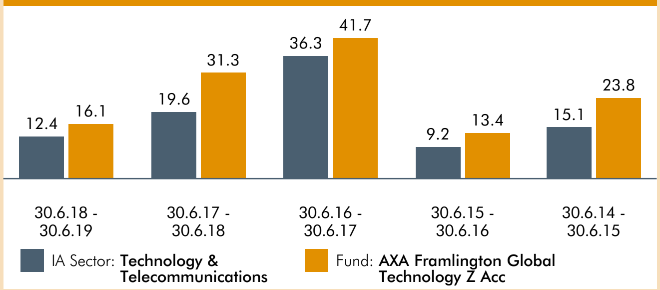
Whilst enjoying a period of strong performance, the past 12 months have been volatile. Several macro-economic concerns pressured the equity market in late summer 2018 culminating in a sell off into the year end. Subsequently in 2019, equity markets have recovered and the technology sector has led this recovery. Fundamentals have largely held up and companies have reported good results. The exception is the semiconductor sector where a combination of weakness in end markets and the impact of the US/China trade tensions have created near term uncertainty.

We remain focused on fundamental stock selection, identifying companies with business models and management teams that can generate long-term growth, and are supported by the long term themes that we have identified as the drivers of IT growth. Recently we have used the weakness driven by macro trade concerns to increase our exposure to semiconductor stocks. We maintain our exposure to small and mid-size companies, as this is where we believe a specialist sector fund can add value, by researching and analysing companies that get less attention than other market participants. In addition, the fund has broad exposure to a number of the technological innovations that are currently getting commercial adoption such as Cloud Computing, Software as a Service, CyberSecurity, Digital Payments and the Internet of Things.

The backdrop for spending on IT remains heathy and demand from enterprises and consumers is robust. We believe we are still at the early stages of adoption of innovation such as Cloud Computing, Software as a Service and the Internet of Things, and so companies associated with these technologies should continue to see strong growth in the coming years.

6 MONTHS TO 30/6/19: FUND 26.8 SECTOR 20.5

DISCRETE ANNUAL % GROWTH



Past performance is not a guide to future returns

BAILLIE GIFFORD HIGH YIELD BOND

Fund Managers:	**Robert Baltzer, Lucy Isles**
Launched:	**28/02/2002**
Fund Size:	**£640m**
Annual Fund Charge:	**0.35%**
OCF:	**0.38%**
Current Yield:	**4.00%**
Distribution Frequency:	**Quarterly**

FUND FACTS

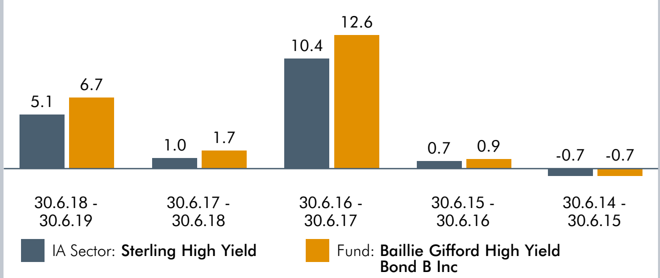
Global growth has continued to lose momentum, notably in manufacturing. This was against consensus expectations that the situation would improve as Chinese stimulus kicked in and Europe shrugged off the headwinds that had been slowing growth. The surprising reaction of markets was an assumption that central banks would respond to this slowdown with easier monetary policy. Equity and credit markets rallied on this combination of events, even though that seemed counter-intuitive. Another factor which may help to explain that reaction was falling inflation expectations. In this environment, the High Yield Bond Fund continued to perform well due to a combination of positive performance from the issuers held and avoiding some of the strugglers. Over longer periods, individual bond selection has made the most meaningful contribution to relative returns.

Recent new additions include Italmatch Chemicals, Unilabs, and Leaseplan. We sold Lycra bonds given our concerns over the increased uncertainty arising from the purchase of the business by a Chinese industrial firm.

The market appears to be overdoing the negativity on global growth. Provided there is not a significant worsening of trade tensions, or a hard UK Brexit, the easing in financial conditions brought about by rising bond prices and falling yields should support growth. If growth does indeed stabilise over the coming months, we may see some limited reversal of the recent moves. Corporate bonds have risen more than government yields. This makes sense in this environment where investors are searching for yield. However, we are fairly cautious on corporate bonds from here, on the basis that the additional compensation for taking on credit risk is lower than we would normally expect to see.

6 MONTHS TO 30/6/19: FUND 8.0 SECTOR 7.5

DISCRETE ANNUAL % GROWTH



FIDELITY SPECIAL SITUATIONS

Fund Manager:	**Alex Wright**
Launched:	**15/10/2012**
Fund Size:	**£2,895m**
Annual Fund Charge:	**0.75%**
OCF:	**0.91%**

FUND FACTS

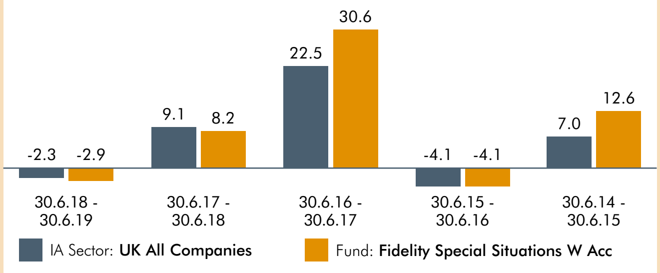
The fund has been through a challenging 12 months with Q4 2018 proving negative for relative returns. It has been a more difficult environment for the value style in comparison to growth, partly a result of a shift back towards 'lower for longer' signals from central banks, which have created a stylistic headwind for the strategy. Some stock specific disappointments in the form of Sherborne and Royal Mail have also hampered returns. On the positive side, mid-cap infrastructure company John Laing Group has been a highlight over the period. The company develops, owns and operates infrastructure assets such as toll roads and windfarms. With a growing pipeline of international development opportunities, we believe the market's perception of the company should change significantly - a company which develops infrastructure assets deserves a higher valuation than one which simply owns them.

We see a spread of value across defensive and cyclical, large and small, and international and domestic stocks. The UK market is up strongly year to date, in what seems like primarily a response to central bank guidance, with global growth remaining muted. With no parallel improvement in fundamentals, the rally has prompted a reduction in gearing for the fund.

The good news for contrarian investors is that the continuing negative sentiment towards the UK is creating an unforgiving environment, where investors' behavioural biases cause them to avoid companies in uncertain or complex situations. This results in valuation discounts for certain stocks. Our process is designed to identify the most attractive of these and build portfolios that are driven by positive change in companies and industries.

6 MONTHS TO 30/6/19: FUND 14.3 SECTOR 12.9

DISCRETE ANNUAL % GROWTH



FP CRUX EUROPEAN SPECIAL SITUATIONS

FUND FACTS

Fund Managers:	**Richard Pease, James Milne**
Launched:	**08/06/2015**
Fund Size:	**£1,764m**
Annual Fund Charge:	**0.75%**
OCF:	**0.86%**

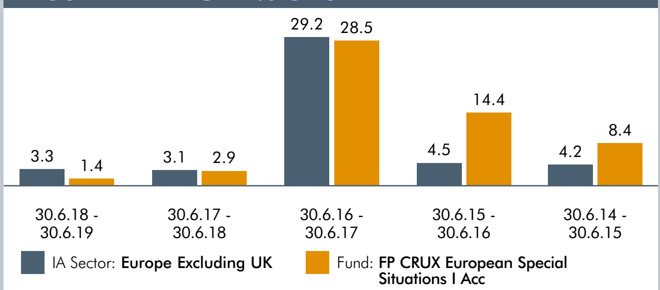
The final few months of 2018 signalled an infamously tricky time for investors as markets stumbled. It was a particularly tough time for investors in the mid-cap space where we found companies with even a relatively minor level of debt on their balance sheet were unpopular and punished by the market. The sharp recovery in the first quarter of 2019 was, in our opinion, a reaction to the market's excessive pessimism during the sell-off in Q4 2018.

Markets have stuttered over the past month or two amid a difficult macro backdrop. When the macro looks tough and the politics gets ugly markets can run scared on the back of the uncertainty. Ultimately, investor sentiment on Europe has rarely been worse and we believe this has held back stocks in the smaller and mid-cap space.

For the moment gloom over global trade, European economies and Brexit appears to be overshadowing attractive valuations and solid bottom-up business prospects but in the longer term we believe that our positions will continue to grow earnings and dividends in most market environments. We think many of our companies are well-placed either to be acquired or to acquire attractively priced bolt-on targets. Even with this uncertain background the fund has not changed its positioning and continues to favour companies that have high returns on capital, low capital needs, high recurring revenues and incentivised management.

6 MONTHS TO 30/6/19: FUND 17.1 SECTOR 16.7

DISCRETE ANNUAL % GROWTH



FUNDSMITH EQUITY

FUND FACTS

Fund Manager:	**Terry Smith**
Launched:	**01/11/2010**
Fund Size:	**£19,045m**
Annual Fund Charge:	**0.90%**
OCF:	**0.95%**

The Fundsmith Equity Fund continued to make good progress during the first half of 2019 and managed to significantly outperform its benchmark index (MSCI World) in this period. The portfolio has remained broadly unchanged with only one company (Colgate-Palmolive) being sold in the first six months of the year.

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

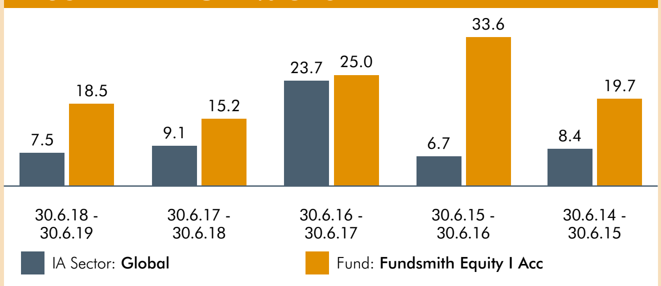
The Fund's performance during the first half of 2019 was aided by our positions in PayPal, IDEXX, Estée Lauder, Microsoft and Facebook. Only one of our companies – 3M – saw its share price fall in this period.

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 (c. 80% of the Fund).

Our views on the prospects of the Fund remain the same as ever, namely that holding shares in major, conservatively financed companies which make their profits from a large number of small, every day, predictable events, is a safe place to be if you have the patience, fortitude and liquidity to ride out the inevitable share price volatility which occurs from time to time.

6 MONTHS TO 30/6/19: FUND 24.0 SECTOR 16.8

DISCRETE ANNUAL % GROWTH



Past performance is not a guide to future returns

INVESCO MONTHLY INCOME PLUS (UK)

FUND FACTS

Fund Managers:	**Paul Causer, Paul Read, Ciaran Mallon**
Launched:	**31/03/2014**
Fund Size:	**£2,689m**
Fund Management Fee:	**0.67%**
OCF:	**0.68%**
Current Yield:	**5.28%**
Distribution Frequency:	**Monthly**

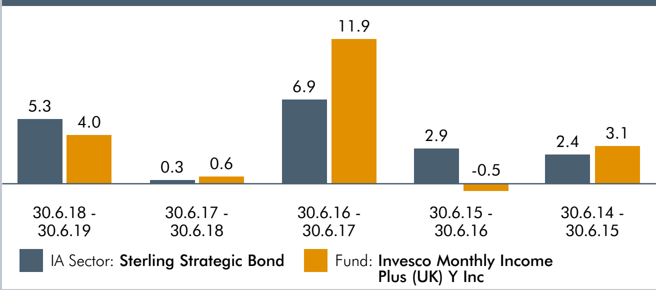
Over the 12-months to the 30 June 2019, the Invesco Monthly Income Plus Fund (UK) has delivered a positive return and maintained a competitive level of yield. The majority of the fund's return has come from bonds with corporate high yield and subordinated financials the two highest contributing areas of the fixed income market. Equities were a small detractor. Among the stocks that detracted were the fund's holdings in the tobacco sector, which were weighed down by both regulatory concerns and fears over sales volumes for next generation technologies. Helping to offset losses was positive performance from companies including Smith & Nephew and Experian.

The financial sector remains the fund's largest sectoral exposure within the corporate bond market with the largest allocation to subordinated bank bonds. A smaller allocation is held in subordinated insurance bonds. Outside of the financial sector the largest corporate bond exposures are to telecom, food and cable companies. As at 30 June 2019, 11% is allocated to equities. Exposure in this asset class is focused on financials, industrials and utility companies.

The current environment of softening economic data and accommodative monetary policy is very supportive of fixed income. However, financial markets have moved significantly in recent weeks and so valuations are becoming more stretched. We are therefore remaining cautious and have recently taken profits on some of the more credit intensive areas of the portfolio and increased the fund's allocation to liquidity (cash, government bonds and bonds maturing within 1 year). This means that we should be well placed to exploit any opportunities that do arise during any weakening of sentiment.

6 MONTHS TO 30/6/19: FUND 6.6 SECTOR 6.3

DISCRETE ANNUAL % GROWTH



JANUS HENDERSON CHINA OPPORTUNITIES

FUND FACTS

Fund Managers:	**Charlie Awdry, May Ling Wee**
Launched:	**27/07/2011**
Fund Size:	**£1,312m**
Annual Fund Charge:	**0.75%**
OCF:	**0.86%**

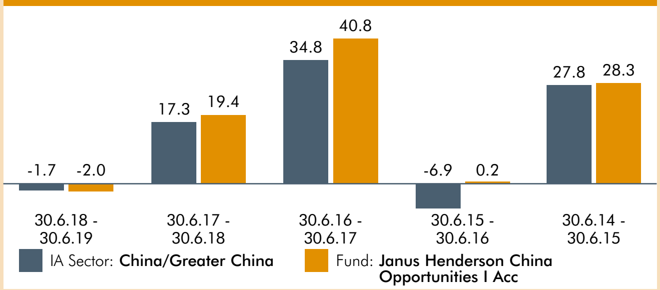
Swings in sentiment are a regular occurrence for Chinese equity markets but that observed from 2018 into 2019 was markedly dramatic. Concerns over economic growth and the ongoing trade-related fracas between U.S. and China have underpinned a continual period of volatility. Against this backdrop, the fund marginally underperformed its benchmark for the 12 months to June end. Although disappointing, we have observed a reversal in performance YTD, with the fund significantly outperforming the benchmark.

We see considerable risk that the ongoing financial reform and deleveraging campaign is again squeezing domestic Chinese economic momentum and so have a sanguine outlook for corporate profit growth with consensus estimates likely too high. We are particularly cautious about the outlook for banking shares and for many of the foreign favourite Shanghai and Shenzhen A-shares, where valuations look stretched after a period of strong performance. That said, within the 'new' Chinese economy of consumer, IT and healthcare, a number of growth stocks look comparatively more attractive having de-rated over the last 18 months. At the macroeconomic level, we are watching the yuan which has benefited from the decline in US yields and interest rate expectations. We would also caution investors that the summer is usually a volatile time in Chinese equities.

We continue to focus on identifying unexpected earnings growth at both an industry and stock level. Recent events serve to remind us of the complexity and noise in Chinese equity markets and the benefit of having experience and objectivity in the space. They also offer further opportunity to identify meaningful investment opportunities.

6 MONTHS TO 30/6/19: FUND 19.6 SECTOR 16.2

DISCRETE ANNUAL % GROWTH



LF WOODFORD EQUITY INCOME

Fund Manager:	**Neil Woodford**
Launched:	**19/06/2014**
Fund Size:	**£3,450m**
Annual Fund Charge:	**0.75%**
OCF:	**0.75%**
Current Yield:	**4.81%**
Distribution Frequency:	**Quarterly**

FUND FACTS

The performance of the LF Woodford Equity Income Fund has been disappointing for some time. This under-performance has, in part, been the product of some stock-specific issues but we have also been battling against a momentum-driven market, where a narrow band of stocks have driven market returns in a largely valuation-insensitive manner.

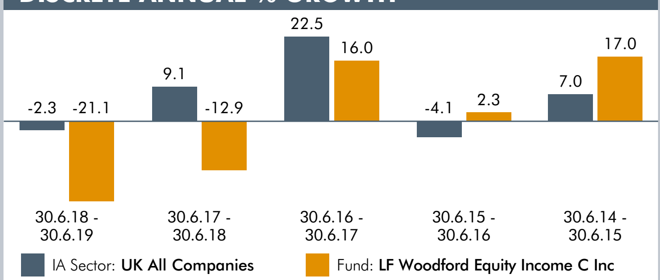
Many investors have responded to the fund's underperformance by redeeming their investments. This intensified earlier this year to the extent that we were becoming increasingly concerned the prices that we would be able to achieve in order to meet redemptions would be disadvantageous to investors.

As a result, and following discussions with us, Link Fund Solutions, the fund's Authorised Corporate Director, decided to suspend investor trading in the fund on 3 June 2019. Link is monitoring the situation on a daily basis to consider whether the exceptional circumstances that gave rise to the suspension of dealing have changed. The suspension will be lifted as soon as is practicable after these exceptional circumstances have ceased.

Prior to the suspension, we had already announced an intention to implement a shift within the fund's portfolio, away from unquoted and less liquid holdings, towards a portfolio consisting of larger, more liquid stocks. When the fund reopens, investors will therefore see a much more liquid portfolio, but one that reflects the same investment strategy. The portfolio will continue to be focused on undervalued companies, but the majority of them will be FTSE 100 and FTSE 250 index constituents. The suspension affords us time and space to execute this in a way that ensures we can achieve the best possible outcomes for investors.

6 MONTHS TO 30/6/19: FUND -12.4 SECTOR 12.9

DISCRETE ANNUAL % GROWTH



LINDSELL TRAIN GLOBAL EQUITY

Fund Manager:	**Nick Train**
Launched:	**16/03/2011**
Fund Size:	**£8,674m**
Annual Fund Charge:	**0.60%**
OCF:	**0.65%**

FUND FACTS

The fund delivered a positive return over the 12 months to end of June 2019. Stand out performers within the portfolio for this 12 month period included Walt Disney (with its unrivalled catalogue of movie and entertainment content), Diageo (for its iconic global spirits and drinks brands) and Mondelez (for its confectionary and snacks brands).

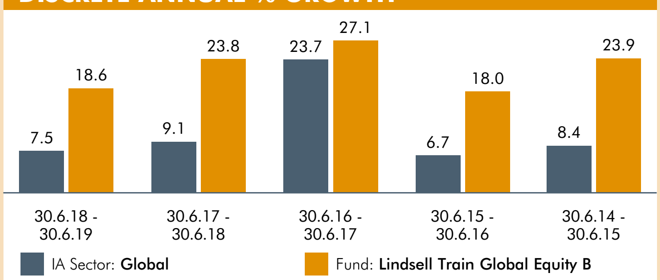
The Fund is invested in a collection of what we analyse to be exceptional companies by global standards. Key ideas include owners of global consumer brands, such as PepsiCo, Shiseido, Heineken and Unilever. We also like investing in companies that own or create media content or software to take advantage of the ongoing changes we see in technology and distribution – for example Nintendo for its entertainment content and Intuit for its accounting and tax filing services. We own several outstanding businesses which provide exposure to marketplaces, such as the London Stock Exchange, Japan Exchange Group, PayPal and eBay.

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.

Across global stock markets, we are invested in a focussed range of companies that we believe stand to benefit from the 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 and opportunities that our portfolio holdings are likely to encounter.

6 MONTHS TO 30/6/19: FUND 21.2 SECTOR 16.8

DISCRETE ANNUAL % GROWTH



Past performance is not a guide to future returns

PREMIER MULTI-ASSET MONTHLY INCOME

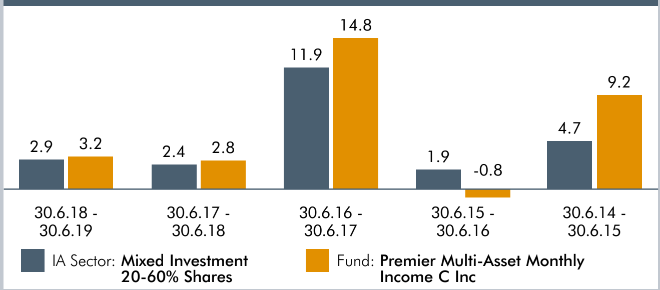
FUND FACTS	
Fund Manager:	David Hambidge
Launched:	05/01/2009
Fund Size:	£740m
Annual Fund Charge:	0.75%
OCF:	1.25%
Current Yield:	4.74%
Distribution Frequency:	Monthly

The Fund has benefited from a decent allocation to equities, though it was mainly exposure to European, Asian ex-Japan and Emerging Markets equities that contributed, as UK and Japanese equities lagged somewhat. However, many of our UK fund picks performed well, with Evenlode Income being a stand-out performer. Over the year the Fund maintained low interest rate sensitivity which protected it from the volatility in bond markets, though the lack of gilts was a headwind as yields fell more than anticipated, despite the paltry yields on offer. However many of the Fund's non-traditional bond funds performed well, such as GCP Infrastructure Income Fund. We continued to avoid daily dealt open-ended commercial property funds, while several of the specialist closed-ended funds in student accommodation, care homes and GP surgeries produced very attractive returns which contributed to performance. Several of the Fund's holdings in Alternatives, such as solar energy and infrastructure, also performed well.

We remain cautiously optimistic on equities, as valuations are still at reasonable levels, despite the strength in markets already seen this year, while US interest rates may now be reduced which should be supportive. We also believe that equities continue to offer a good level of income in many cases, in particular in the UK with the FTSE All Share providing an attractive yield, comparing favourably to gilts. As well as UK equities, we also favour Emerging Markets, European, Asian ex-Japan and Japanese equities. However we remain underweight the US where in our view valuations are still very extended, while the level of income on offer is also unappealing, and we maintain low interest rate sensitivity in regard to bond exposure.

6 MONTHS TO 30/6/19: FUND 7.2 SECTOR 8.0

DISCRETE ANNUAL % GROWTH



SCHRODER INCOME

FUND FACTS	
Fund Managers:	Nick Kirrage, Kevin Murphy
Launched:	11/05/2011
Fund Size:	£2,379m
Annual Fund Charge:	0.75%
OCF:	0.91%
Current Yield:	4.27%
Distribution Frequency:	Half-Yearly

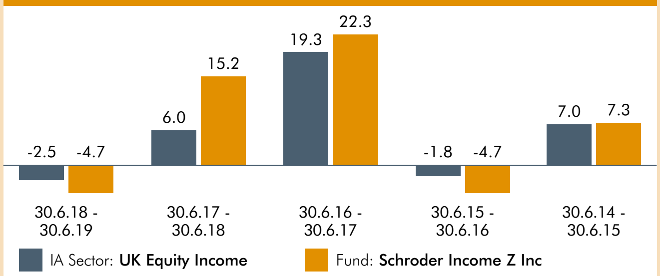
The last 12 months for the fund have been challenging as the valuation dispersion between growth and value stocks widened. We continue to take a five year view on the businesses we invest in, and always encourage clients to look at our performance with that time frame in mind.

We take a purely bottom-up approach, and believe a number of financials are currently being offered at attractive valuations including Lloyds, Royal Bank of Scotland and Barclays. These are businesses with remarkably stronger balance sheets than they had ten years ago, however much of the market remain pessimistic given the bad headlines that surround them. Being able to take a long-term view allows us to be patient and take advantage of shorter-term cynicism for the long-term benefit of clients.

We do not tend to write outlooks given the unpredictable nature of the future. We would urge investors to remember that economic and market cycles exist because of human behavioural biases. Favourable developments make people feel more comfortable. This feeling of comfort leads to risk-taking behaviour premised on optimistic assumptions. In markets, behaviours synonymous with comfort are increased use of leverage and overlooking (consciously or otherwise) or mis-appraising risk in the belief that the future will be as benign as the recent past. This is often called the paradox of tranquillity: the benign environment triggers two actions (leverage and additional risk taking), which themselves create instability. If, however, you are patient, do your analysis and only buy into undervalued businesses with strong balance sheets, limited amounts of debt and a suitable 'margin of safety', then – no matter what value's detractors say – you will give yourself a good chance of outperformance.

6 MONTHS TO 30/6/19: FUND 3.6 SECTOR 10.8

DISCRETE ANNUAL % GROWTH



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The risks associated with investing in any of the funds featured can be found in the Key Investor Information Documents (KIIDs), copies of which can be found in the Fund Hub section of our website www.financialdiscounts.com

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