# FUNDWATCH

Investment Managers' commentaries for Clients of Financial Discounts Direct

JANUARY 2019



## Welcome to the January 2019 edition of Fundwatch. As usual the magazine features reports and views from the managers of some of the most popular funds with our clients.

We enter the New Year with more uncertainty than we have seen for quite sometime. The second half of 2018 saw a period of volatility with global markets ending in the red over the period and the political situation both at home and in the US remaining difficult.

In the UK, Brexit continues to cause uncertainty, whilst in the US the government shut-down and tensions with China have unsettled North American markets. With the economy in China slowing down, all of this has put portfolios under pressure.

In times like these, when markets are difficult, it is important to remember that investing is for the long term and that providing your portfolio is built on sound fundamentals then there should be no need to make major changes.

It does make sense, though, to review your investment goals and ensure that they remain current and to consider whether your individual fund holdings are performing well against their peers.

If you remain uncertain, remember that you do have the ability to move some or all of your holdings into cash, while still retaining the tax-efficient status of the ISA wrapper. Online access to your portfolio allows you to do this whenever you wish with a few clicks of a mouse. If you don't currently have online access and would like to set it up then visit our website or contact customer services on the usual freephone number.

You may have noticed that we now have a social media presence. You can find us on Facebook, Twitter and LinkedIn for commentary on industry matters.

We are currently preparing the next issue of our ISA Choices magazine, featuring a selection of funds that may be appropriate for your 2019/20 ISA investment. It should reach you around the beginning of March and be on our website a little sooner.

Happy investing.

**Paul Penny**
Managing Director


**HOW TO CONTACT US**

**freephone** 08085 498477

**email** info@financialdiscounts.com

**web** www.financialdiscounts.com

**post** PO Box 85, Alton, GU34 1XS

## ABERDEEN EUROPEAN HIGH YIELD BOND

| | |
|---|---|
| Fund Managers: | **Ben Pakenham, Steven Logan and Euro High Yield Team** |
| Launched: | **01/10/2012** |
| Fund Size: | **£79m** |
| Annual Fund Charge: | **0.70%** |
| OCF: | **0.81%** |
| Current Yield: | **5.50%** |
| Distribution Frequency: | **Monthly** |

**FUND FACTS**

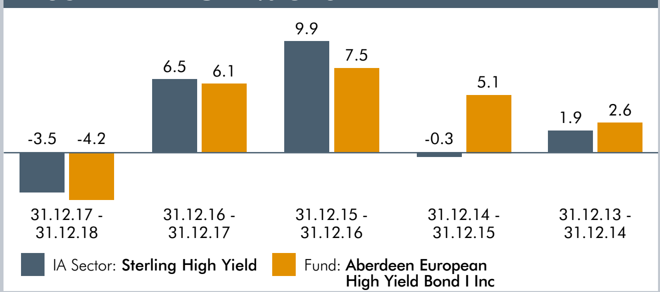
The Fund performed well in comparison to the broader market in the first nine months of 2018, benefitting from underweight positions in the autos sector and Italian credit. The overweight positioning to single B-rated credit and underweight BB-rated credits worked in the Fund's favour, as did maintaining a short duration position versus the market. The final quarter of 2018 saw a reversal of these themes. The re-pricing of the high yield market has been severe and reflects outflows, a reappraisal of the risk of some companies and a more illiquid market.

The Fund is overweight in single B-rated credit. It remains underweight in Italian credits due to a lack of attractive opportunities. The Fund maintains a short duration position versus the market; both credit curves and government curves offer little incentive to extend in tenor. The Fund is currently benefitting from overweight positions in the healthcare, telecommunications and media sectors. This is due to an environment of ageing populations, the rising use of laboratory testing, the increasing importance of data and high demand for media content. The Fund is positioned underweight in the cyclical autos, chemical and banking sectors.

Looking forward, the Fund's potential outlook is positive. The economic environment is softening, but this also means that European Central Bank monetary policy will remain supportive for longer. The European high yield market has re-priced over the past 12 months. Since the end of 2017, the average cash price in the market has declined by 10 points (to 95.5). This provides attractive opportunities not only for income, but also for capital gains.

### 6 MONTHS TO 31/12/18: FUND -3.4 SECTOR -2.2

#### DISCRETE ANNUAL % GROWTH




## ARTEMIS GLOBAL GROWTH

| | |
|---|---|
| Fund Manager: | **Peter Saacke** |
| Launched: | **07/03/2008** |
| Fund Size: | **£822m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.82%** |

**FUND FACTS**

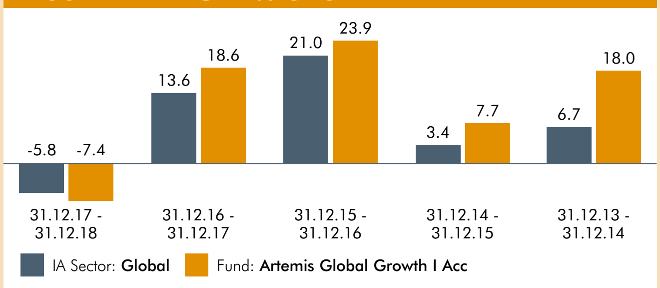
The US economy continued to perform strongly but activity weakened in China while Europe was (and is) suffering from both political strife and weakening economic momentum. The upshot was that US equities outperformed both European and emerging markets. At the sector level, performance was equally divergent. Utilities and technology stocks did well while basic resources, industrials and financials performed poorly. Growth stocks outperformed value stocks. Many of these trends were negative for the performance of the fund. Throughout the year it had a strong bias towards value stocks. It was (and still is) materially overweight emerging-market stocks at the expense of US equities. It remains underweight technology and overweight resources. On the positive side, however, we can report a long and varied list of significant stock-specific winners.

Our exposure to Europe has risen modestly at the expense of North America and emerging markets, though our principal exposures remain little changed. We are still most overweight banks, construction and now also utilities and have relatively little exposure to retail and technology. We are overweight emerging markets and Europe, slightly underweight Japan and significantly underweight North America.

The performance of high-growth stocks in the last decade was mainly driven by a re-rating of their valuations rather than by superior earnings growth. At historically rich valuations, they are vulnerable to shifts in investor sentiment. Meanwhile academic evidence strongly suggests that over the long term it pays to stick to having a bias toward value stocks and that protracted adverse environments for value investing eventually give way to prolonged periods of outperformance for value. We do not profess to know when that day will come, but are keen to maintain the fund's bias towards stocks trading on below-market valuations.

### 6 MONTHS TO 31/12/18: FUND -6.4 SECTOR -7.7

#### DISCRETE ANNUAL % GROWTH






Past performance is not a guide to future returns

## ARTEMIS UK SMALLER COMPANIES

| | |
|---|---|
| Fund Managers: | **Mark Niznik, William Tamworth** |
| Launched: | **01/09/2010** |
| Fund Size: | **£449m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.82%** |

**FUND FACTS**

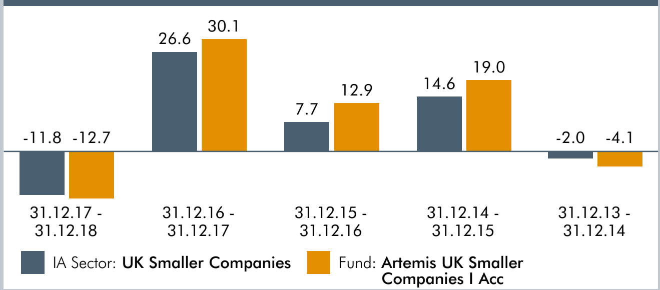
In tough markets, we would hope that our conservative approach – our preference for companies with strong balance sheets, our valuation discipline and our focus on cashflow – would enable the fund to outperform. This did, in part, play out: the fund was ahead of its benchmark in 2018. The fund got some protection from having sold many of its highly rated growth stocks (albeit too early) which were amongst the worst hit. But the fall was still painful and we are disappointed not to have done better.

We are cautious investors and we seek to preserve capital in difficult markets. In recent years the market has pushed valuations for some growth stocks to extreme levels. While we like earnings growth, our priority is to seek companies with recurring, predictable cash flows and high returns on capital. Even after the correction in the fourth quarter, valuations of most growth companies haven't fallen far enough – yet – to attract us.

Brexit makes for uncertainty. But the outlook is always uncertain and 'Brexit risk' is at least a 'known unknown' and has resulted in some very attractive valuations. In the short term, smaller companies could be volatile. But over the longer term we suspect they may prove more flexible and faster to adapt than their larger counterparts. We would hope that our fund should be relatively resilient: about 70% of our holdings are neither importers nor exporters and our portfolio has a bias to companies that are market leaders and which have little debt.

### 6 MONTHS TO 31/12/18: FUND -17.0 SECTOR -16.2

### DISCRETE ANNUAL % GROWTH




## AXA FRAMLINGTON BIOTECH

| | |
|---|---|
| Fund Manager: | **Linden Thomson** |
| Launched: | **16/04/2012** |
| Fund Size: | **£415m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.82%** |

**FUND FACTS**

The Fund had a very solid start to 2018 following some positive R&D updates for Fund holdings and a number of acquisitions with healthy premiums. Underlying sentiment improved as US tax reform looked like it may support further Mergers and Acquisitions and R&D updates appeared to open doors to transformative therapeutic advances such as gene therapy. This led to an almost record number of Initial Public Offerings, coinciding with the small and medium size company indexes hitting all-time highs. We only invested, however, in one or two of these, where we felt proof of concept had been demonstrated and believed valuation was attractive.

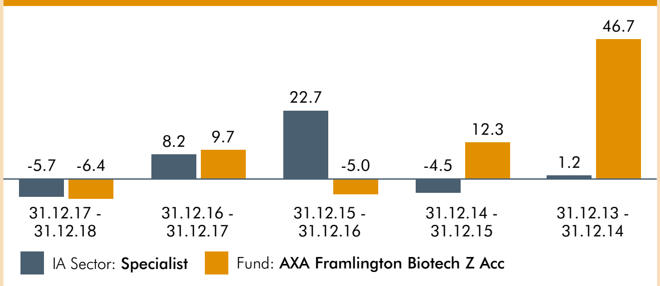
From October, biotechnology was not immune from the macro concerns that impacted the whole market. We lost the year to date outperformance and saw significant volatility, the like of which we haven't seen for some time.

Upcoming major healthcare conferences will be important to assess corporate strategic vision for 2019 while the macro environment will also test broader investor appetite for biotechnology. The vast number of new to market companies will require additional funding over the next 12-18 months and will find this difficult in a challenging environment. However, there is also expected to be some late stage R&D updates from the larger companies which, if positive, could quickly re-rate these names given current negative sentiment and valuation.

We remain positive on the fundamentals of the sector and have not seen sentiment and in many cases corresponding valuations, as low for many years. The Fund remains relatively defensively positioned, but we have been adding opportunistically to the medium size companies of the sector where companies have commercial operations, pipeline optionality and potentially compelling valuations.

### 6 MONTHS TO 31/12/18: FUND -13.0 SECTOR -5.1

### DISCRETE ANNUAL % GROWTH



## BAILLIE GIFFORD AMERICAN

FUND FACTS

| | |
|---|---|
| Fund Manager: | **Helen Xiong** |
| Launched: | **28/03/2002** |
| Fund Size: | **£1,854m** |
| Annual Fund Charge: | **0.50%** |
| OCF: | **0.52%** |

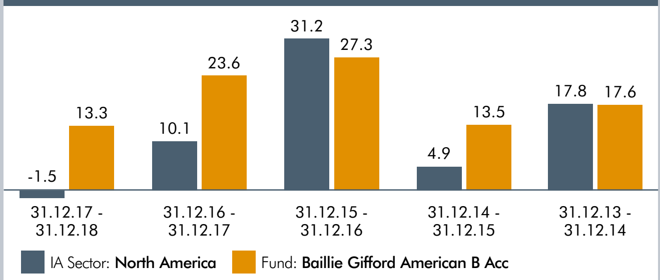
Despite the increasing volatility of the stock market in 2018, the fund performed well. As ever, we encourage investors to view fund performance within our five-year investment horizon. Nonetheless, we are very excited by the fundamental progress of the companies in the fund in 2018. These businesses are underpinned by rapid advancement in technology, enabling them to disrupt traditional business models, grow at unprecedented rates and create profound changes in society. Notable contributors to performance were Amazon, the innovative e-commerce platform and cloud computing giant; and Abiomed, maker of the world's smallest heart-pump. Among the detractors were Alnylam Pharmaceuticals, which develops drugs that 'silence' disease-causing genes; and Redfin, the customer-focused real estate broker.

Our high-conviction, bottom-up approach to portfolio construction results in a very different portfolio to any representative benchmark. Our stocks spread across several themes which we believe are driving societal changes such as 'Rise of Online Commerce' (25%), 'Transformative Treatments' (18%), 'Future of Finance' (15%) and 'Evolution of Entertainment' (12%), to name a few. However, to be clear, we don't have a target weighting for any theme and the thematic analysis is an output of our bottom-up stock-picking process.

There will be many uncertainties with the macro environment that affect market sentiment in 2019 and beyond; such topics are not our core area of expertise, nor what we are most passionate about. We believe that this is really an exciting time to be an investor in US growth companies because we're witnessing a once-in-a-generation change in the leadership of the global economy. Our sole focus is to find the exceptional growth companies in the US when they are under-appreciated and hold them for long periods of time.

### 6 MONTHS TO 31/12/18: FUND -12.7 SECTOR -6.4

### DISCRETE ANNUAL % GROWTH




## FIDELITY GLOBAL SPECIAL SITUATIONS

FUND FACTS

| | |
|---|---|
| Fund Manager: | **Jeremy Podger** |
| Launched: | **15/10/2012** |
| Fund Size: | **£2,573m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.92%** |

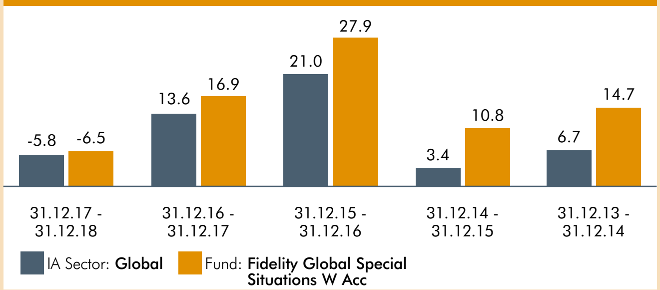
2018 has been a challenging year for global equities, bringing with it a period of heightened volatility not seen in recent years. Concerns related to slowing global economic growth, the ongoing fracas between the US and China on trade-related issues, tightening monetary conditions, geopolitical uncertainty and softening corporate earnings fuelled bouts of uncertainty. Against this backdrop, our conviction holdings in the defensive utilities and health care sectors contributed favourably to returns. In contrast, some of the more economically sensitive holdings were caught in risk-off markets. Select technology names, including AMS, Tower Semiconductor and Sumco, where we had been reducing positioning, were impacted by these factors. The move down further exacerbated by weakness in overall demand, especially in the smartphone value chain. While we continue to have exposure to technology businesses, our focus has turned more defensive and is on companies with recurring revenues & cash flows, strong pricing power, experienced & motivated management teams investing in newer technologies. Elsewhere, certain consumer holdings were weighed down by subdued operating performance and a weak business environment.

In recent months, feedback from companies has been turning negative and we have turned incrementally more cautious. We expect further volatility going into 2019, as the macro and geopolitical uncertainties that have weighed on markets continue to test sentiment, and global earnings growth slows meaningfully.

While the prospect of reduced central bank tightening, and a demonstration that companies can cope well with current conditions, could lead to some rebound in markets in 2019, it is more important than ever to be stock specific in our investment decisions and to maintain an overall balance stylistically.

### 6 MONTHS TO 31/12/18: FUND -7.4 SECTOR -7.7

### DISCRETE ANNUAL % GROWTH






Past performance is not a guide to future returns

## INVESCO UK GROWTH

**FUND FACTS**

| | |
|---|---|
| Fund Manager: | **Martin Walker** |
| Launched: | **31/03/2014** |
| Fund Size: | **£1,010m** |
| Fund Management Fee: | **0.86%** |
| OCF: | **0.86%** |

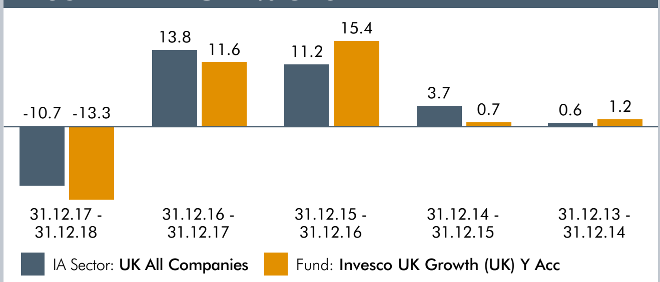
2018 was a challenging year for UK equity investors. Significant geopolitical discontent, coupled with global growth concerns, saw the FTSE All-Share Index end the year in negative territory. Value investing, the style consistently emphasised in the Invesco UK Growth Fund, remained especially out of favour, as investors instead rewarded companies with growth or disruptive characteristics. Persistent insecurity around Brexit has perturbed investors, depressing company share prices and the UK's economic outlook. In my view there are now significant pockets of opportunity across the UK equity market.

This year the UK consumer stands to benefit from anticipated wage growth in excess of inflation and an easing of public purse strings. Given this view, the fund has selective exposure to unloved UK domestic retailers. Meanwhile the fund has significant holdings in the oil sector, where management teams have succeeded in driving down costs. The fund also has significant but selective exposure to gold mining companies. Historically gold tends to perform well when equities fall. This exposure seeks to diversify the fund's return profile.

As I look further ahead in to 2019, uncertainty abounds both at home and abroad. But so too does opportunity. Where significant negativity is priced into company share prices, it may mean that only a small spark is needed to ignite the performance of companies trading at depressed extremes. I remain confident in the long-term prospects of both the UK equity market in general and the positioning of the fund in particular.

**6 MONTHS TO 31/12/18: FUND -14.3 SECTOR -13.2**

**DISCRETE ANNUAL % GROWTH**




## JANUS HENDERSON GLOBAL TECHNOLOGY

**FUND FACTS**

| | |
|---|---|
| Fund Managers: | **Richard Clode, Alison Porter, Graeme Clark** |
| Launched: | **08/10/1984** |
| Fund Size: | **£784m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.84%** |

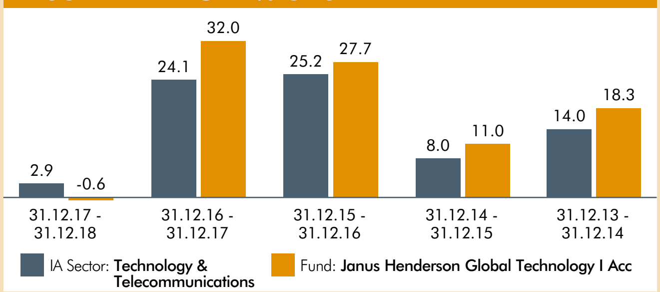
Until September 2018, high growth, high valuation stocks in some of the more hyped areas of the market outperformed. To deliver more consistent returns, we aim to navigate these areas of hype and focus on more attractively valued opportunities and throughout the year we have maintained this valuation discipline. Although the technology sector suffered in the widespread sell-off from October, it still outperformed the broader global equity market in 2018. During the year, we took active measures to avoid some of the high growth stocks on unjustifiable valuations and to cut down the fund's allocation in others as they hit our target prices.

While our focus is on analysing opportunities at a company level, we did reduce the emerging market exposure in the early part of the year due to the combination of an economic slowdown in China and the excessive valuations of many companies. The fund also moved underweight the semiconductor sector over the summer, with zero exposure to analogue semis, which subsequently entered a downcycle. We also significantly reduced exposure to commodity semiconductor stocks. In some areas where we reduced exposure, interesting valuation opportunities are emerging following the recent correction, and we are cautiously identifying some entry points on 'best of breed' names that we believe will provide attractive long-term returns for clients.

While the broader economic drivers of the recent sell-off are unlikely to dissipate in the short term, near-term expectations and valuations are becoming more reasonable and we remain constructive on the long-term outlook for technology equities. We continue to focus on high-quality companies at a reasonable price, which benefit from powerful long-term secular themes.

**6 MONTHS TO 31/12/18: FUND -10.1 SECTOR -8.1**

**DISCRETE ANNUAL % GROWTH**



## JUPITER EUROPEAN

| | |
|---|---|
| Fund Manager: | Alexander Darwall |
| Launched: | 19/09/2011 |
| Fund Size: | £5,327m |
| Annual Fund Charge: | 0.75% |
| OCF: | 1.03% |

**FUND FACTS**

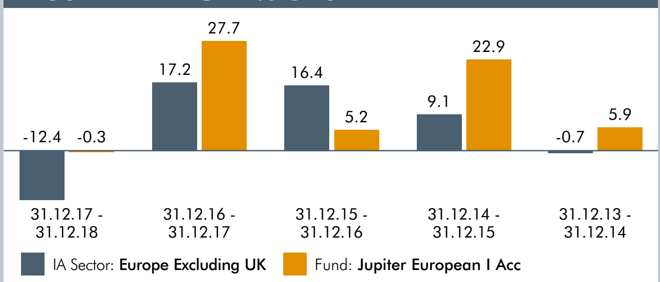
The Jupiter European Fund is positioned no differently than usual. We favour global-facing businesses with strong balance sheets, which have proven their resilience throughout the business cycle. Our holdings are dominant operators in niche areas such as digital payment services, diabetes care, specialised blood plasma products, travel reservation systems, fish farming and crop protection. These firms should be able to take advantage of the numerous growth opportunities that are to be found, regardless of the overall state of economic conditions.

In our view, the outlook for European companies providing excellent products and services to a global customer base continues to be attractive. However, this must be set against President Trump's use of trade tariffs to put America first. That could mean slower economic growth. Companies reliant on high debt levels to generate growth are also at risk from the prospect of higher interest rates.

Our approach for avoiding, as far as possible, such challenges and for capturing the rewards from the opportunities that will undoubtedly present themselves is to stick to our well-established strategy. We typically avoid companies which have a lot of fixed assets and high levels of debt. Instead, we seek to identify companies with strong, differentiated attributes which they can monetise by meeting the demands of customers and businesses with flexible assets and flexible supply chains. Such businesses, particularly those predicated on the specialised use of technology often have the ability to sidestep crude protectionist barriers. We are confident that good opportunities still abound.

### 6 MONTHS TO 31/12/18: FUND -9.1 SECTOR -11.6

### DISCRETE ANNUAL % GROWTH




## LF LINDSELL TRAIN UK EQUITY

| | |
|---|---|
| Fund Manager: | Nick Train |
| Launched: | 10/07/2006 |
| Fund Size: | £5,492m |
| Annual Fund Charge: | 0.65% |
| OCF: | 0.70% |

**FUND FACTS**

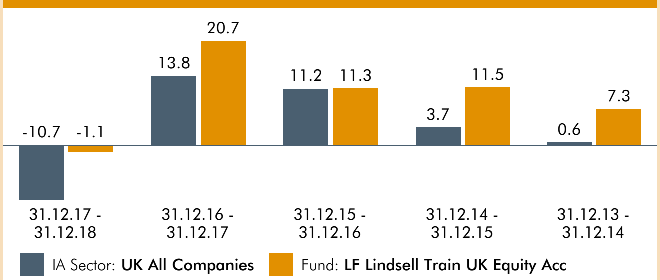
2018 was a dispiriting year for UK equity investors, plagued as we know now by economic and political uncertainty. On a brighter note, we had two takeovers to report to our unit holders – with our investments in Fidessa and Dr. Pepper Snapple bid for during the year - transactions that helped us in limiting the impact of falling markets. Key fund ideas include owners of global consumer brands, such as Burberry, Mondelez, Diageo, Heineken 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, Schroders and Hargreaves Lansdown.

We employ 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. 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 31/12/18: FUND -6.1 SECTOR -13.2

### DISCRETE ANNUAL % GROWTH






Past performance is not a guide to future returns

## LF WOODFORD INCOME FOCUS

| | |
|---|---|
| Fund Manager: | **Neil Woodford** |
| Launched: | **12/04/2017** |
| Fund Size: | **£544m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.75%** |
| Current Yield: | **6.33%** |
| Distribution Frequency: | **Quarterly** |

**FUND FACTS**

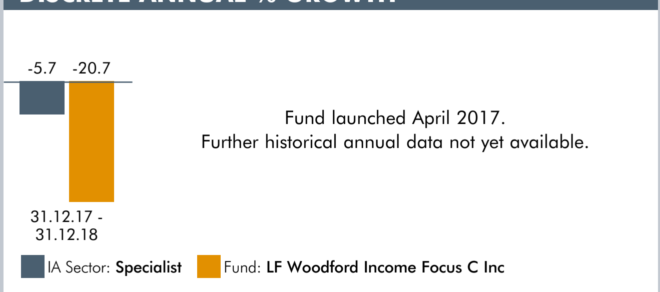
The fund endured a challenging 2018 in unfavourable market conditions. The first half was momentum-driven, with the market fixated on a narrow-band of stocks to which the fund has no exposure, such as resource-related companies and Asian-exposed banks. This came despite increasing evidence that the global economic environment was deteriorating. In the second half, reality started to catch up with markets, as concerns grew about the health of the global economy and pockets of over-valuation. Although this was helpful to performance, it was overshadowed by the market's continued negativity towards UK-exposed stocks.

Over the course of the last two years, we've seen a very attractive opportunity emerging in domestically-exposed stocks, which have been increasingly out-of-favour since the UK voted to leave the European Union. As the negotiations have progressed, uncertainty about the path of the UK's future relationship with Europe has increased. The UK has consequently fallen heavily out of favour with global asset allocators and, within the UK market, a significant gap has opened up between the performance and valuation of international-facing and domestically-exposed stocks. We have progressively increased the portfolio's exposure to the latter, selectively focusing on stocks which are pricing in a bleak scenario for the UK's future, which stands in stark contrast to the much more positive economic data that the UK is currently delivering.

The market's persistent antipathy towards UK-focused stocks is exactly the sort of market inefficiency that we exist to exploit. It's created a phenomenally attractive valuation opportunity and, although it's been painful for performance as it unfolded, we remain convinced that we'll ultimately be substantially rewarded.

**6 MONTHS TO 31/12/18: FUND -16.8 SECTOR -5.1**

### DISCRETE ANNUAL % GROWTH




## LIONTRUST SPECIAL SITUATIONS

| | |
|---|---|
| Fund Managers: | **Anthony Cross, Julian Fosh** |
| Launched: | **01/11/2010** |
| Fund Size: | **£3,943m** |
| Annual Fund Charge: | **0.75%** |
| OCF: | **0.87%** |

**FUND FACTS**

In 2018 our investment approach stood us in good stead, as investors became increasingly concerned over a range of 'big picture' factors: trade wars, rising interest rates and slowing global growth.

The Economic Advantage investment process is unashamedly bottom-up. We believe that our investments' long-term prospects are driven mostly by their ability to successfully execute growth plans and compound profits. Therefore, despite 2019 presenting another potentially turbulent year on the geopolitical front, for us it should be a case of 'business as usual'.

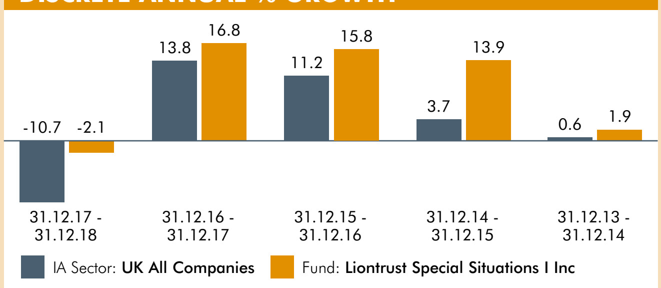
Last year, the holdings that performed best did so largely due to stock-specific reasons. For example, a feature was takeover offers for a handful of the Fund's holdings: NEX Group, Fidessa and Shire. While seeing a portfolio holding succumb to a takeover can be bittersweet, it is an experience we are increasingly familiar with – around a third of the stocks that have left the Fund since launch have been the result of takeovers.

When one of our stock picks exits the Fund, this presents an opportunity to promote from our pipeline of stock ideas. This year, we were able to add a number of new names across the market cap spectrum, from large-caps like Sage (the accounting software provider), through mid-caps such as Coats (the world's leading manufacturer of industrial threads) to small-caps like ECO Animal Health (a producer of pharmaceutical products for the animal health market).

We also view periods of indiscriminate market weakness as a buying opportunity. In the long run, buying into quality companies when others are selling can prove a fruitful strategy. This is exactly what we did during October's heavy market sell off, topping up holdings in around half the Fund's stocks.

**6 MONTHS TO 31/12/18: FUND -8.7 SECTOR -13.2**

### DISCRETE ANNUAL % GROWTH



We hope you enjoy reading and receiving Fundwatch. You can be removed from our mailing list at any time by calling us FREE on 08085 498 477, emailing us at info@finanicaldiscounts.com or writing to us at Financial Discounts Direct, PO Box 85, Alton, Hampshire, GU34 1XS.

This newsletter is for general guidance only and represents our understanding of present law and HMRC practice as at the time of publication. We cannot assume legal liability for any errors or omissions. This publication is issued by Financial Discounts Direct, a trading name of Atticus Holdings Ltd, which is authorised and regulated by the Financial Conduct Authority. All business is transacted either on an execution only or direct offer basis and products mentioned may not be suitable for everyone. Inclusion of information about a particular product should not be taken as a recommendation. If in doubt readers should obtain expert advice before taking action. Past performance is not a guide to future returns and the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate fluctuations. You may not get back the full amount invested. Performance information is on a bid to bid or mid to mid basis, net income re-invested. All investment performance statistics and fund facts are provided either by the relevant Fund Manager or by FE as at 31/12/2018 and, unless otherwise stated, pertain to the unbundled share class available on the Aegon platform. Annual charges quoted are for the fund management groups and do not include Aegon platform fee or Financial Discounts Direct service charge. The opinions expressed here represent the views of the authors at the time of preparation and should not be interpreted as investment advice. The tax treatment will depend on the format in which the funds are purchased. Cancellation rights are not available.

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

Financial Discounts Direct | PO Box 85 | Alton | Hampshire | GU34 1XS

telephone
01420 549090

email
info@financialdiscounts.com

web
www.financialdiscounts.com