Issue 2 January 2017

CHARLES STANLEY INVESTMENT CHOICES NEWS

Inflation
Friend or Foe?

Fund Diversification
Should you put all your 'investment eggs' in one basket?

Absolute Return Funds
Investing for all market conditions

Investing in Global Market
We consider alternatives to the UK

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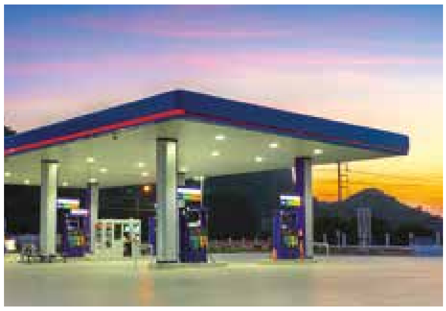
CHARLES STANLEY Investment Choices

What's inside?



Need help?

If you would like to discuss the investments described in this newsletter, or need help completing the application forms, please get in touch - we're here to help!

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How to invest

Please turn to the back cover to find out how to invest.

Fund Focus:

We have highlighted the following funds in this newsletter.

- **Jupiter Absolute Return Fund** - Page 9
- **Vanguard LifeStrategy 60% Equity Fund** - Page 11
- **M&G Global Dividend Fund** - Page 13
- **Liontrust Special Situations Fund** - Page 15

For more information on these and other funds, please contact us.

A note from your editor...

Mark Feely
General Manager

May I take this opportunity to first wish you all a belated happy, and what I hope will be, a prosperous New Year.

The anticipated increase in the UK inflation rate will undoubtedly be highlighted in the media over the coming months. The official line from the Bank of England is that rates will peak at 2.7% during 2017 but some commentators suggest they could exceed 4%. Of course, the eventual outcome could be worse or better than the Bank of England expects but what is not in question is that inflation will increase throughout 2017!

Our focus for this edition is to highlight the need to protect against the effects of inflation and once again emphasise the benefits of long-term investing – see *Investing for the Long Term* on pages six and seven. Ensuring that your savings are protected from the ravages of inflation is vital if you're planning for the future. To do so requires an acceptance that you need to take some financial risks to achieve this. There are many options for you to consider but to assist we have selected four funds which cover a range of risk profiles. It is worth noting that stock markets historically have prospered when inflation is on the rise.

Before I sign off, one last piece of news for you. Cofunds have now been acquired by the AEGON Group and you will start to notice their logo appearing on some of the communications you receive. We view this as an extremely positive move and one that will improve the services that Cofunds provides over the coming months. If you have any questions regarding this please do not hesitate to give us a call.

Good luck with your investing!

Mark.

Inflation

- friend or foe?

Inflation is something most of us are aware of and is something we unfortunately cannot avoid. Whether we like it or not it eats away at the spending power of the pound in our pocket without us really noticing. Sure, we all see the figures in the media but how many of us really know what effect it has?

The chart below shows the annualised inflation rates for the last 25 years. Looking at each year in isolation this does not tell us a lot but cumulatively the effect on your spending power is relentless. For each £1 you spent in 1995, you would need to spend £1.80 today!

UK Inflation Rate History 1995 - 2015

Source: Office for National Statistics

"When inflation increases other areas of the economy are affected as well"

What is meant by the term "purchasing power"?

When the costs of producing goods increases this will generally feed through into the economy in the form of inflation. An uptick in costs can arise from a number of different areas ranging from wages to the cost of transportation – oil prices might be on the rise for example which directly impacts what it costs to physically move goods from A to B. When this happens either the companies that are selling the product absorb those increased costs (which can't go on forever) or the price of the product is increased directly impacting you as the consumer. In other words the pound in your pocket will buy less of the same product than it would have done before the price went up. Your pound is still physically a pound but the ***purchasing power*** has been reduced.

Why is inflation important?

When inflation increases other areas of the economy are affected as well – this can include interest rates and salaries for example. Higher take home pay means that consumers have a choice – either to spend or save. Choosing the option to spend increases demand, feeding back into the production cycle increasing the profits for the manufacturers and allowing expansion plans to go ahead. If the consumer saves the extra income they receive, this increases the money in circulation that the banks can use to fund other projects such as mortgage lending.

Should I be concerned about inflation?

The simple answer is yes. Over the last 20 years, taking into account inflation, your purchasing power has been shrunk by nearly a half. It is also worth bearing in mind that this has been during a time when inflation levels have been historically lower – for example in the 1970's and 1980's annual inflation rates regularly hit double figures.

Over the last couple of years, the annualised inflation rate has been extremely subdued, flirting with negative territory on occasion during 2016. However, following the BREXIT referendum and the pound falling in value (resulting in the cost of imports into the UK rising), the Bank of England has forecast that consumer price inflation is expected to rise to 2.7% by November 2017. In November 2016 this was recorded as 0.9%. No matter what the inflation rate is, unless your savings are increasing at a similar rate the purchasing power of your money will reduce (see previous explanation). Where inflation begins to gain a foothold, central banks often use interest rates as a tool to keep inflation in check which is often of benefit to investors that have cash deposits or Cash ISAs. However, the Bank of England has already stated that they feel that due to the economic uncertainty created by the result of the BREXIT referendum that they have no plans to raise interest rates currently.

Protect your savings from the ravages of inflation

Whether you currently hold your savings in cash or in the stock market (or a mixture of both), ensuring that your ***purchasing power*** is protected is essential in enabling your financial goals to be met. Over the course of the following pages are some suggestions of funds that could help you achieve this.

If you have reservations about investing in the stock market, take a look at the graph on pages six and seven – *Investing for the long term*. It may provide some reassurance.

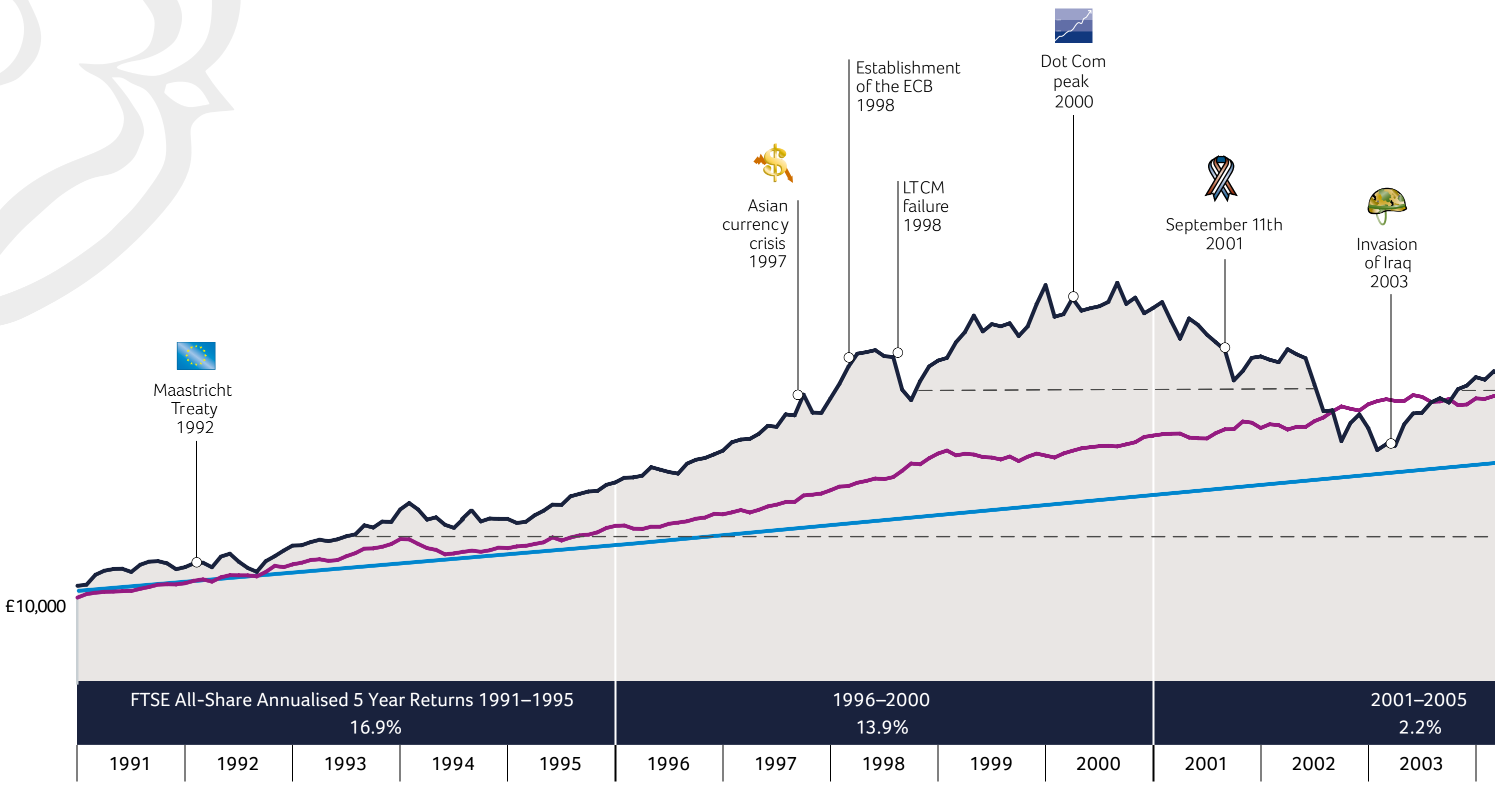
What do I do next?

If you identify a fund within this magazine that could meet your needs, please complete either the enclosed ISA or ISA Transfer application and return to them to us at CS Investment Choices. If you want to invest outside of an ISA please call us for an application form.

Should you wish to discuss any aspect of the funds highlighted or have a question relating to your existing portfolio and want to find out more about how CS Investment Choices can help, please don't hesitate to call us on **01482 861455.**

Investing for the Long Term

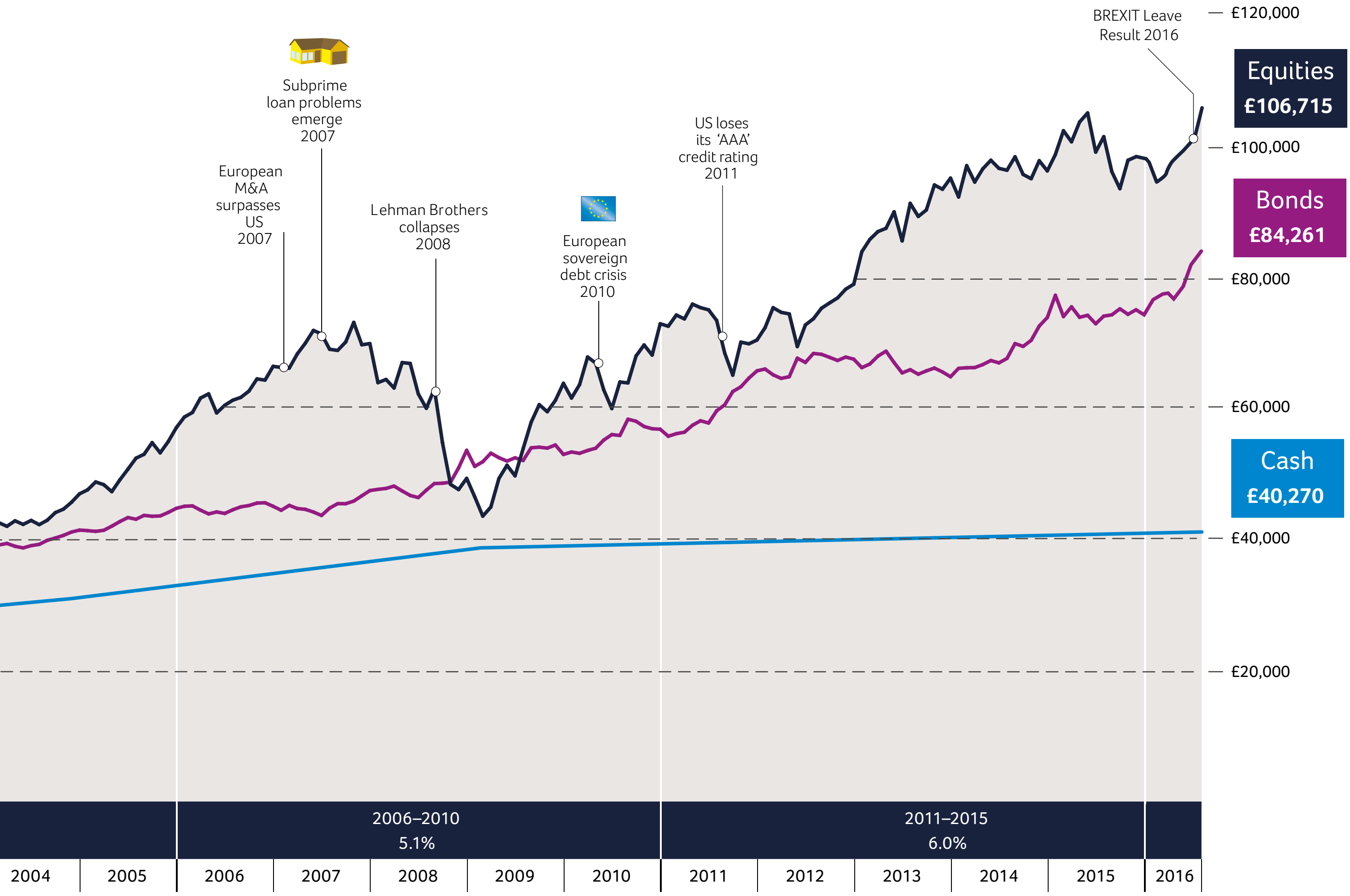
Despite volatility, markets have appreciated over time.



Financial markets can be volatile and downturns as well as upturns are part of equity investing. But short-term declines should not detract from the potential of the stock market to help investors meet their goals. In fact, short-term market declines underline the case for a long-term approach to investing.

Of course, the investment choices depend on an investor's specific circumstances, goals, attitude to risk and investing time horizon. This will influence how much money is allocated and, if appropriate, how much of this is invested in growth-oriented equities. All financial investments involve an element of risk, so the value of your initial investment cannot be guaranteed and the historical performance of markets is not a guide to future returns.

The chart shows that even with market volatility, an investment in the FTSE All-Share Index 25 years ago would have grown to more than **ten times** its original value by August 2016.



Source: Thomson Reuters Datastream. All data from 31 December 1990 to 31 July 2016. The information provided is for illustrative purposes only and is not meant to represent the past or future performance of any particular investment. It is not possible to invest directly in an index. Equities are represented by the FTSE All-Share Index (total return). Bonds are represented by the FTSE Actuaries UK Gilts All Stocks Index (total return). Cash is represented by three-month LIBOR rates. All returns are in sterling terms and are based on monthly closing prices of the respective indices.

Absolute Return Funds

Investing for all market conditions?

It's a brilliant concept isn't it – investing in a fund that can provide a positive return regardless of the prevailing market conditions. If that is the case, why isn't everyone investing in this area? Primarily this is due to the complex nature of Absolute Return Funds generally. After all, as Warren Buffett said *"never invest in something you don't understand"*.

A history lesson

Many of us will be familiar with the phrase "hedge your bets" not surprisingly as it has been in use since the 1600s. Back then, the phrase had a distinctly agricultural link as it referred to an actual hedge that fenced off a piece of land with the aim that the risk of losing the land to other "interested parties" (the law was not as robust in those days!) would be reduced . Today, when you "hedge your bets" the result should be that you protect yourself against loss by supporting more than one possible result.

Hedge Funds

The concept of 'hedging' is used today in all walks of life. Over the past twenty years investors will have become increasingly aware of the existence of "Hedge Funds" which are often referred to as Absolute Return Funds. Hedge Funds have been part of the investment landscape for over 50 years and although they do include some high risk investments, the original concept was to reduce risk through 'hedging' bets so that investors were less exposed to market volatility. They were however, generally only available to wealthy and investment savvy individuals or, more recently, pension funds and were considered inaccessible to retail investors.

In 2004 a regulatory change permitted fund managers to adopt similar strategies that the Hedge Fund Managers had been employing for a number of years. The result was that a number of Absolute Return Funds were launched leading to the establishment of the IMA Absolute Return sector in 2008.

How has the sector performed?

As an investor looking from the outside in the perception of an Absolute Return Fund would be one of consistency with not too much excitement along the way – a boring fund that you could rely on to act as a foundation for a portfolio. Unfortunately, this could not be further from the truth as many Absolute Return Funds are extremely volatile. As with any investment fund the degree of risk that a manager can build into their stock selection process is dependent upon the investment mandate they have. Some have a more swashbuckling approach, with the resulting performance more akin to a fund that invests primarily in shares. There are others that take a more conservative approach and some that fall somewhere in between.

In our view, Absolute Return funds exist to provide stability and consistency for an investor – they are certainly marketed in that way! The fund we have selected is on our preferred list of funds and is one that has performed in line with how we would expect Absolute Return funds to behave since the appointment of James Clunie in 2013.

> "Never invest in something you don't understand"
>
> Warren Buffett

Fund Focus

Jupiter Absolute Return Fund

Looking at the performance chart in isolation any investor would question the logic of investing in a fund that had underperformed in its sector for a number of years. In fact performance was so poor following the fund launch back in 2009 that investors actually lost money – not what you would expect from an Absolute Return Fund when investment markets generally were rallying following the financial crisis a year earlier.

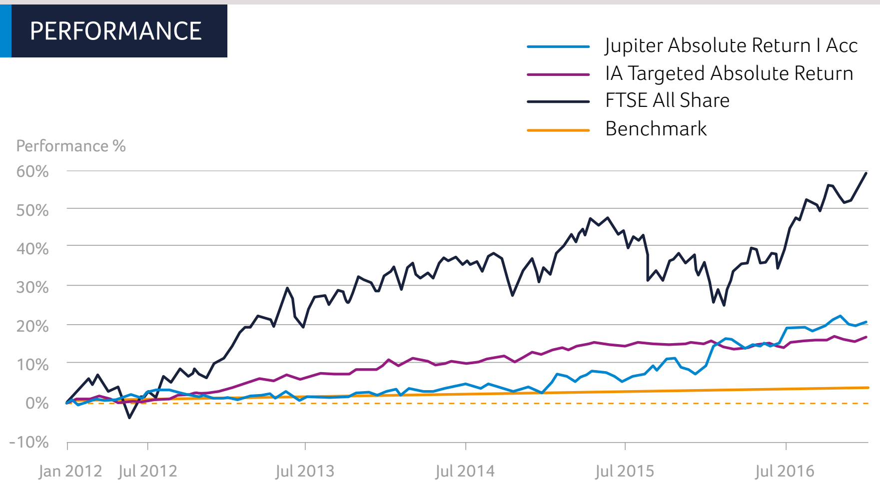
Following this period of underperformance in 2013 James Clunie was brought in to assume stewardship of the fund. James had worked previously at Murray Johnstone (Head of Asset Allocation); Aberdeen Asset Management (Head of Global Equities) and Scottish Widows Investment Partnership (Investment Director of Equities) gaining the experience necessary to manage absolute return style funds.

Upon arrival James immediately set about restructuring the fund following which performance began to slowly improve to a point where returns are now above the long term average for the sector. The fund has a very simple target of beating returns in excess of cash which at the moment is not particularly challenging bearing in mind the low returns currently being offered for cash based investments. However, from the graph it is clear that James is exceeding his targets by quite a considerable margin and, unlike other similar funds in the sector, he is doing this without taking too much risk.

Typically James has around 70 holdings in his portfolio. Approximately 70% are invested for a period of 2-3 years with the other 30% invested in areas where James feels there is the potential for short term gains that will benefit the fund. There is also the flexibility to invest in other types of assets such as gilts and Exchange Traded Funds (ETF's) should the opportunity arise. Although the mandate of the fund allows holdings to be drawn from around the world, James tends to be biased in favour of the UK.

Unlike many absolute return funds, this fund is keenly priced with assets still at a manageable level and no performance fee. As such we believe that it is a good option for those looking for a relatively cautious means of diversifying their portfolio.

PERFORMANCE



4/01/2012 - 3/01/2017 Source: FE Analytics

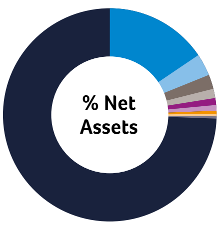
Discrete Annual Performance as at 31/12/2016

	0-12m	12-24m	24-36m	36-48m	48-60m
Jupiter Absolute Return I Acc	+10.2	+5.9	-0.2	+2.2	+0.9
IA Targeted Absolute Return	+1.1	+2.4	+2.8	+6.3	+3.4

REGIONAL ALLOCATION

as at 30/11/2016

United Kingdom	15.45%	Germany	0.85%
Japan	3.32%	Canada	0.81%
Russia	2.20%	Denmark	0.36%
Norway	1.32%	Spain	0.20%
Australia	1.05%	Others	74.44%



Source: Funds Library

FUND FACTS

Fund Size	£694m
Fund Type	Unit Trust
Classification	Accumulation
Launch Date	14/12/2009
Yield	0%
Ongoing Charges Figures*	0.87%
Initial Charge	0%
Annual Management Charge	0.63%
Combined Cost for CS Investment Choices Clients	1.47%

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Never put all your investment eggs in one basket

- or should you?

If there is one message that is constantly drummed into those of us investing for the long term, it is **"don't put all your eggs in one basket"**. In other words, invest in a number of different products, be it cash with the bank or shares for example, but do not pile into one investment vehicle exclusively. This very sensible approach does introduce another headache for both novice and experienced investors though because there is so much choice available. Even experienced investors often struggle to select an investment vehicle that is suitable. Choice often leads to indecision and eventually inertia with the result that investment decisions are never made

Solving the investment dilemma

If you talk to an investment expert and ask what is the optimum number of funds you should hold to ensure your investments are diversified sufficiently, the typical answer will be between 10 and 16. Each of these funds will be diversified to a degree by investing into different assets, such as bonds and shares, but how they perform will depend very much on the skill of the fund manager and investment team behind the stock selections. This degree of involvement has a cost attached and of course there is no guarantee that the fund manager will always make the right choices! If you want to avoid relying on a fund manager and to remove some of the cost of investing, you may want to consider a low-cost tracker fund where the components are selected using a computer programme.

DIY Investing

When selecting a tracker fund to invest into (e.g the FTSE All-Share) your investment returns are reliant on the performance of that index – arguably exposing your investments to an unacceptable level of risk. To ensure the necessary diversification it would be necessary to invest in a range of tracker funds – but then we would be back to square one again requiring investors to make a choice. Realising this, Vanguard Investments, launched their *LifeStrategy* range of funds in the UK in 2011 designed to remove that obstacle.

The *LifeStrategy* funds are basically a basket of different tracker funds which invest in shares and bonds from around the world. Each *LifeStrategy* fund holds a set percentage of shares, ranging from 20% to 100% with any balance invested into various types of bonds. The percentage of shares is selected at outset and is kept at that level by automatic rebalancing, requiring no involvement from the investor.

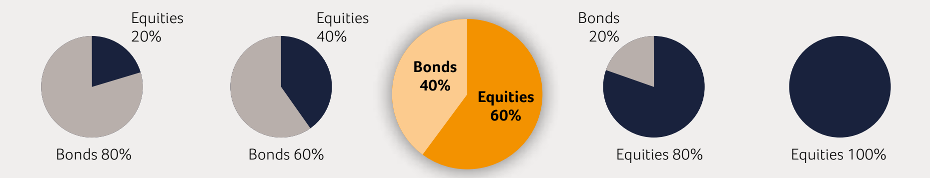
The idea is that you take a look at the different splits in assets, weigh up what level of exposure you want to shares and then pick one from the range available. It

really is DIY investing at its simplest with the added advantage of being able to easily change your strategy as your personal circumstances change through life – you might for example want to reduce your exposure to shares the older you get in which case you would simply switch to a version with a higher bond exposure.

We do not have enough room to review all five of the *LifeStrategy* funds available in this article and have therefore selected the *LifeStrategy 60% Equity Fund* as an example but please feel free to call us to discuss the other options in more detail.

Vanguard LifeStrategy™ Options

Vanguard LifeStrategy™ 20% Equity Fund	Vanguard LifeStrategy™ 40% Equity Fund	Vanguard LifeStrategy™ 60% Equity Fund	Vanguard LifeStrategy™ 80% Equity Fund	Vanguard LifeStrategy™ 100% Equity Fund



For shorter-term investing (3-5 years) and investors with less tolerance for risk	For medium to long-term investing (5+ years) and investors with a moderate tolerance for risk	For longer-term investing (10+ years) and investors with a higher tolerance for risk

Fund Focus

Vanguard LifeStrategy™ 60% Equity Fund

We have selected this version simply because it is the middle option of the five funds available providing a 60% exposure to shares. If you want a true *Goldilocks* fund (i.e. neither too hot nor too cold!) you could divide your investment between this fund and the 40% Equity version to provide a true 50/50 split between bonds and shares.

The decision as to which version to invest into will very much depend upon your own attitude to risk, how much volatility you are prepared to accept and how long you want to invest for. Investors with a longer time horizon would probably want to look at the higher equity exposure options

How has the fund performed?

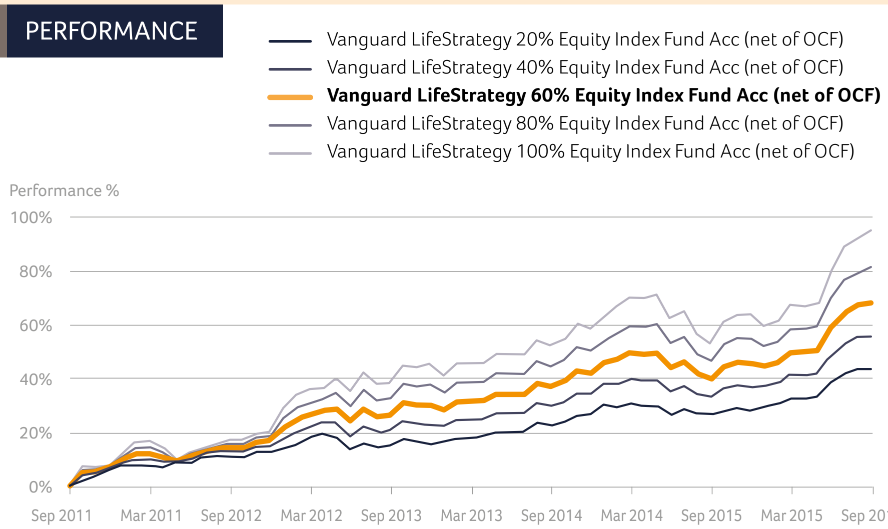
The funds celebrated its 5th anniversary in 2016 and, although past performance is no guarantee of future returns, during each of those years the results were positive with 2016 being the most successful to date.

As noted in the breakdown of the allocation of assets, the fund invests in a variety of Vanguard's index trackers, providing access to thousands of international shares and bonds across the major markets.

With an Ongoing Charges Figure of just 0.24%, automatic rebalancing and built in diversification, the fund is ideal for investors who want to take a *hands off* approach to investing.

Putting all your eggs in one basket might not be a bad idea after all!

PERFORMANCE



Cumulative % Growth , GBP, 30/09/2011 - 30/09/2016 Source: Vanguard Investments UK Limited

Discrete Annual Performance as at 31/12/2016

	0-12m	12-24m	24-36m	36-48m	48-60m
Vanguard LifeStrategy™ 60% Equity Acc	+18.3	+2.5	+9.4	+11.1	+9.3
IA Mixed Investment 40-85% Shares	+12.9	+2.7	+4.9	+14.5	+10.0

FUND FACTS

Fund Size	**£1941m**
Fund Type	**OEIC**
Classification	**Accumulation**
Launch Date	**23/06/2011**
Yield	**1.33%**
Ongoing Charges Figures*	**0.24%**
Initial Charge	**0%**
Annual Management Charge	**0.24%**
Combined Cost for CS Investment Choices Clients	**0.84%**
Dividend Date	**31/05/2017**

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

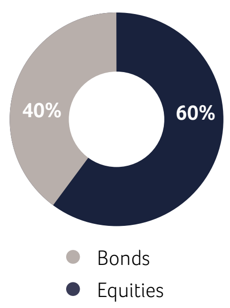
ASSET ALLOCATION

Underlying Funds

Vanguard® FTSE Developed World ex-UK Equity Index Fund	**19.3%**
Vanguard® UK Government Bond Index Fund	**6.0%**
Vanguard® FTSE UK All Share Index Unit Trust	**15.2%**
Vanguard® US Equity Index Fund	**14.0%**
Vanguard® UK Investment Grade Bond Index Fund	**3.4%**
Vanguard® UK Inflation-Linked Gilt Index Fund	**3.5%**
Vanguard® FTSE Developed Europe ex-UK Equity Index Fund	**3.9%**
Vanguard® Emerging Markets Stock Index Fund	**4.3%**
Vanguard® Japan Stock Index Fund	**2.3%**
Vanguard® Pacific ex-Japan Stock Index Fund	**1.2%**
Vanguard® UK Gilt UCITS ETF	**0.1%**
Vanguard® Global Bond Index Fund	**19.3%**
Vanguard® Euro Investment Grade Bond Index Fund	**0.8%**
Vanguard® Euro Government Bond Index Fund	**1.8%**
Vanguard® Japan Government Bond Index Fund	**1.3%**
Vanguard® US Investment Grade Credit Index Fund	**1.9%**
Vanguard® US Government Bond Index Fund	**1.7%**

Source: Vanguard Investments (UK) Limited – 31/10/2016

Target Weighting



Invest in global markets

and benefit from diversification.

The Bank of England has forecast that by the end of 2017 the UK inflation rate will hit 2.7% and it does not expect it to fall back to its 2% target until 2020.

Inflation has not been high up on the "worry list" for a couple of years primarily because it has been so low – the UK even flirted with negative inflation recently. Even at such low levels however, it still eats away at the value of the pound in our pocket. Ensuring that our savings returns at least match the rate of inflation is the challenge for all investors.

How we do this is the big question. As we mentioned in our *Inflation – Friend or Foe* article, leaving all assets as Cash in a bank or building society is not the best of strategies if you want to keep pace with the rate of inflation. UK interest rates are at their lowest level since records began at 0.25% and are unlikely to increase by any great degree in the near future. Uncertainty surrounds the UK economy following the result of the BREXIT referendum with the Bank of England stating that it will make changes to the UK base rate as appropriate to help stimulate the economy if necessary – this could include a further cut rather than an increase. Diversifying into other areas of investment should help cushion any shocks caused by changes to the base rate or inflation rate.

Consider alternatives to the UK

20 years ago the options for investors were a considerably less than they are today. The world was a very different place and companies that are household names now were still no more than an idea. There was no Facebook (2004) or Google (1998) for example but now many of us couldn't imagine our lives without them. The popularity and convenience of the internet has transformed how companies trade with their customers. Prior to its availability exports will have been challenging and expensive for any company attempting to establish themselves. The online revolution has enabled many companies to promote their products around the world without committing valuable resources to do so, becoming successful in their own right.

Globalisation is a term you will often see quoted in the media and it refers to how the world has become increasingly interconnected as a result of increased trade and cultural exchange. Investors can take advantage of this by using one of the global based funds that are now available. Many of these will also offer an income in excess of the returns from a deposit account or Cash ISA for example although of course the income is variable and the capital is not guaranteed.

Reinvest Dividends

For any fund that does pay a dividend, reinvesting these back into the fund can help to future proof your savings from the effect of inflation. For example if the dividends received are 3% for the year and the eventual inflation rate is 2%, the value of your savings will be increasing in real terms. There is also the added benefit that the underlying value of your funds could potentially increase (although they can fall as well!) which will provide an additional boost to help with the battle against inflation.

Dividends are perhaps the most important feature when investing in shares, but they are sometimes overlooked. Not only do they form an integral part of the overall return, but companies whose earnings and dividends rise over time are likely to have strong performing share prices too. It is that capacity to increase dividends that is a key attraction to fund managers when selecting shares to buy.

Fund Focus

M&G Global Dividend Fund

The potential to increase their dividends is one of the attributes that Fund Manager, Stuart Rhodes looks for when considering purchasing any company share. So much so, that you will not find this fund listed in the Global Equity Income sector; it is instead listed in the Global Sector because Stuart does not want to be constrained by how much a company currently pays as a dividend and is more interested what it will pay in the future.

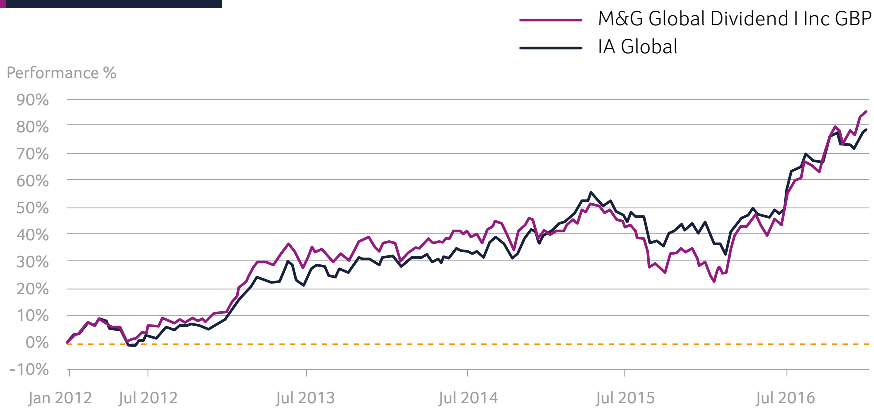
Stuart splits his portfolio into three "buckets".

- **Quality** - companies that have a disciplined and reliable growth strategy that can thrive no matter what is going on in the wider economy. This includes defensive areas such as pharmaceutical companies.
- **Assets** - economically sensitive businesses whose earnings are less consistent but should increase over time. These can include energy or commodity companies for example.
- **Rapid Growth** - companies whose pace of expansion (and dividend growth) has the potential to surge thanks to strong growth in a new market or product line. This is usually the smallest of the three components but differentiates the fund from others.

Since the launch of the fund in 2008, Stuart's philosophy of backing companies that grow their dividends while avoiding those whose distributions are high but don't grow or shrink has been generally successful. At outset, the fund's yield was 3.6% and since then he has been able to increase the distributions by in excess of 6% per year on average.

Despite a difficult couple of years, the increasing level of income coupled with Stuart's ability to outperform in both rising and falling markets make this fund an attractive proposition for investors requiring a rising income.

PERFORMANCE



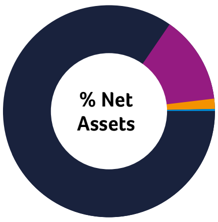
4/01/2012 - 3/01/2017 Source: FE Analytics

Discrete Annual Performance as at 31/12/2016

	0-12m	12-24m	24-36m	36-48m	48-60m
M&G Global Dividend I Inc GBP	+40.8	-6.8	+3.1	+24.2	+11.9
IA Global	+23.3	+2.8	+7.1	+21.7	+9.4

ASSET ALLOCATION

International Equities	**84.60%**
UK Equities	**13.71%**
Money Market	**1.68%**
Cash & Equivalent	**0.02%**



Source: Funds Library

FUND FACTS

Fund Size	**£6374m**
Fund Type	**OEIC**
Classification	**Income**
Launch Date	**18/07/2008**
Yield	**2.8%**
Ongoing Charges Figures*	**0.91%**
Initial Charge	**0%**
Annual Management Charge	**0.75%**
Combined Cost for CS Investment Choices Clients	**1.51%**
Dividend Dates	**28/02/2017** **31/05/2017** **31/08/2017** **30/11/2017**

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

How well known products can help beat inflation

Over the course of 2017, inflation is going to go up and in this magazine we have provided a few suggestions as to how you can manage your savings to stay ahead of the "inflation curve". Another option is to consider investing in funds that buy shares in companies that are not adversely affected by price increases (or decreases for that matter). Companies that benefit from this are said to manufacture or supply goods and services that have "pricing power".

What is "pricing power"?

Warren Buffett, whose quotes we use quite often in the magazine summed up pricing power very nicely when asked to assist with the Financial Crisis Enquiry Commission in the US back in 2011.

"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business."

If a company is able to provide a service or product that is either unique or something that consumers find very difficult to do without, it will be able to benefit from pricing power. For example companies that are involved in the oil business (production or distribution) tend not to be adversely affected if the price of their product goes up. We still need to be able to buy the fuel that powers our cars and homes no matter what the economic climate is like. There are also certain unique products provided by companies which, due to personal tastes, some parts of the population cannot do without.

The Marmite Incident

This was quite a big new story in October of last year and is a clear example of a company possessing *pricing power* through the value of its brand.

Following the results of the BREXIT referendum the value of the pound dropped significantly. The immediate impact of this was that importing materials and foodstuffs was more expensive with some companies wanting to pass this increase onto the consumer so that the profits were not adversely affected. When Unilever (manufacturer of *Marmite*) announced that the price of *Marmite* would be increasing by 12.5%, Tesco refused to pass on this cost to the consumer and would not absorb the cost itself. The stand-off led to the brief absence of Marmite from the supermarket's shelves.

Whilst Unilever, could not agree with Tesco for the price to be raised, Morrison's did relent and the price was increased by the full 12.5%. Their view was that customers would prefer to be able to buy *Marmite* rather than not at all – a clear example of *pricing power* in action.

Identifying companies that benefit from pricing power requires complex analysis – one fund in particular that does this very well is the *Liontrust Special Situations Fund.*

Fund Focus

Liontrust Special Situations Fund

Launched in 2005, the fund has been managed by Anthony Cross since outset. Julian Fosh joined Anthony as co-manager in 2008 and both have the same investment philosophy – identify companies with long-lasting advantages that allow them to defy competition leading to a higher level of profitability than expected.

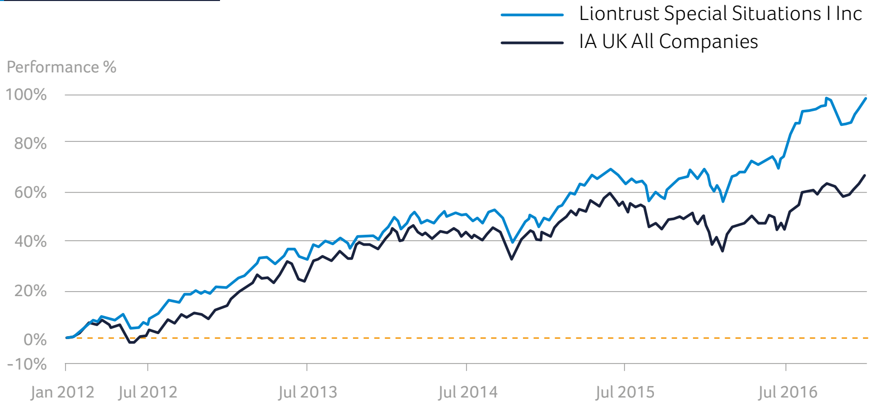
Many fund managers will naturally look for shares that are undervalued when considering them for inclusion in their portfolio however, rather than obsessing about valuation Stuart and Julian focus on finding the right type of business. They believe that the companies most likely to succeed over the long term tend to possess certain strengths which competitors find hard to replicate. Ownership of *intellectual property* – strong brands, copyrights or patents – is a major attraction for them along with strong distribution channels or recurring revenues that allow continual reinvestment and development to maintain their edge over the competition. Not allowing your competitors to gain a foothold in the market allows greater control over pricing.

As Stuart and Julian point out, *pricing power* not only insulates a company from competition, it also allows it to cope better with inflation. A company can pass on some or all cost inflation rather than having to absorb it through a reduction in profit margins, meaning investors can potentially seek sanctuary from the effects of inflation in companies possessing this ability. Investing in these companies has been a successful approach as can been seen from the performance of the fund since launch (+300% as at 30.11.2016) when compared to the sector average (+100% as at 30.11.2016).

Stuart and Julian seek out businesses with *pricing power* in all parts of the market, including smaller companies which can be more risky. The total number of holdings tends to be between 40 and 60 which can lead to higher levels of volatility as any one of them can have a greater impact on performance, both positively and negatively.

An uncomplicated and successful investment approach has led to some excellent returns and it is the belief of our research team that further outperformance is possible in the future.

PERFORMANCE



4/01/2012 - 3/01/2017 Source: FE Analytics

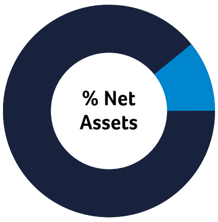
Discrete Annual Performance as at 31/12/2016

	0-12m	12-24m	24-36m	36-48m	48-60m
Liontrust Special Situations I Inc	+15.8	+13.9	+1.9	+21.2	+23.6
IA UK All Companies	+10.8	+4.9	+0.6	+26.2	+15.1

ASSET ALLOCATION

UK Equities	89.42%
Cash and Equivalent	10.58%

Source: Funds Library



FUND FACTS

Fund Size	£2147m
Fund Type	Unit Trust
Classification	Income
Launch Date	10/11/2005
Yield	1.82%
Ongoing Charges Figures*	0.88%
Initial Charge	0%
Annual Management Charge	0.75%
Combined Cost for CS Investment Choices Clients	1.48%
Dividend Dates	31/07/2017

*The ongoing charges figure will include the cost of investment management and administration, plus other costs of running the fund, such as fees for custodians (organisations that hold the assets safely for the investment managers), regulators and auditors. It will not include stamp duty, which is payable when buying shares in investment trusts, nor any performance fees. However, these fees will be published separately on the Key Investor Information Document.

Grassington,
Yorkshire Dales
National Park.

How to invest

1. **Identify the fund(s)** you wish to invest into – feel free to call us to discuss these funds in more detail.

2. **Complete the ISA and/or the ISA Transfer application form** enclosed and return them to us in the pre-paid envelope provided. Alternatively, logon to your account online or call us with your debit card details. If you want to invest monthly please also complete the Direct Debit Mandate attached to the ISA application form.

3. Should you wish to invest outside of an ISA please either contact us for an application form or download one from our website at **www.csinvestmentchoices.co.uk**. You will find them in the *Important Documents* section under the *Investing with us* tab on the menu bar at the top of the screen.

Get in touch

If you would like to discuss the investments described in this newsletter, or need help completing the application forms, please get in touch - we're here to help!

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Important Information

This document is a marketing communication. The information does not constitute advice or a personal recommendation or take into account the particular investment objectives, financial situations or needs of individual investors. If you are unsure as to whether an investment or a pension is suitable for you, please seek professional financial advice.

Investors should also be aware that past performance is not a reliable indicator of future results and that the value of investments and the income from them may fall as well as rise. The capital invested is therefore at risk and the amount realised may be less than the original sum invested. Investments should be considered for the medium/long term (5 years or longer).

Before you invest and for your own protection, please ensure you have read carefully the documents enclosed with this publication (the Cofunds application and other documents).

It is recommended that you also review the available product literature. On receipt of your application, where relevant, a Key Investors Information Document (KIID) will be sent to you (if you have a valid email address it will be emailed), containing further specific information on each of the funds in which you wish to invest. If you are investing online, the Funds Key Features/KIID will be available at the point of purchase.

For funds that invest overseas, exchange rate variations may cause the value of your investments to rise or fall. Investments in certain funds, including emerging markets, specialist geographical areas, smaller companies and specialist sectors (such as technology and ethical stocks) tend to be more volatile. Where a fund's objective is to provide income and the income is paid out, there can be a reduced potential for capital growth, especially over the medium to long term. The level of income payments can vary and where a bond fund's running yield is greater than the redemption yield, this may erode capital.

Some funds invest in higher risk fixed interest securities, known as sub-investment grade bonds. These bonds have a low credit rating and higher risk of default than investment grade bonds. This means that there is an increased risk that the value of your investment could fall. The tax treatment of investments and pensions depends on individual circumstances and may be subject to change in the future. Fund switches outside of an ISA wrapper constitute a realisation for capital gains tax purposes.

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