CHARLES STANLEY Direct

Charles Stanley Direct Preferred List

With over 8,500 investments to choose from, selecting a fund, investment trust or ETF for your portfolio can be daunting. To help narrow down the field to a more digestible number of ideas, we have created our

Preferred List

How our Preferred List is chosen

Our Preferred List highlights what we consider to be good-quality options for new investment in each of the major sectors.

Charles Stanley's Collectives Research Team carries out comprehensive and continuous coverage of a wide range of funds, including detailed analysis of returns, and hundreds of face-to-face meeting with managers each year.

We try to make sure chosen funds excel in our four "Ps", People, Process, Performance and Price. The team looks a key characteristics such as risk, investment style, sustainability, governance, charges, operations, inflows/outflows and the ability to accept new money.

The final list combines actively managed unit trusts and investment trusts, which aim to perform better than the benchmark, as well as a selection of passive funds or 'trackers' that aim to follow an index closely.

We have our customers' best interest at heart, and our selection process is entirely independent. All have been chosen on merit rather than commercial reasons.

Our approach combines data analysis with human experience and knowledge. Looking at past performance only tells you so much. We aim to identify the key factor or 'edge' of a fund. This might be that it does something differently or better, or in the case of passive funds it might be the lowest charges available.

Funds and trusts on our Preferred List are:

- Designed to provide a helpful shortlist of options for investors to pick from
- Aimed at those doing their own research and seeking ideas for exposure to certain sectors or areas as part of a diversified portfolio
- Either 'actively' managed funds, aiming to perform better than their benchmark over the long term, or 'passively' managed funds aiming to track their index as closely as possible at low cost

Performance analysis

The actively managed funds and investment trusts on our Preferred List are all managed by individuals or teams who we believe can generate outperformance over the longer term. We look closely at the past performance record of a manager throughout their career, though that's only part of the story. It is important to gain a full understanding of how a fund is managed, why it has performed the way it has and what conditions it will likely perform best in going forward.

Often it is difficult to separate luck from skill over short periods. For instance, the approach of certain managers means they are more likely to outperform in rising markets. Others tend to protect capital better during less favourable conditions. Sometimes managers can end up being 'in the right place at the right time' rather than displaying genuine skill.

Digging deeper through attribution analysis (looking in detail at what has added to or detracted from returns) can help build a picture of how and where the fund manager has the best skills, helping us put performance into perspective. Our specially designed screen generates new ideas for our research but does not reveal the name of the fund initially – only its characteristics – to make sure our decisions are not biased.

We are agnostic on the active versus passive funds debate, viewing passive as the default option in the absence of a genuinely strong reason to use an active fund. Many investors wish to use passive funds in their portfolios for reasons of simplicity or cost, and we include a range of these on the list. Covering the major investment areas, they are chosen to provide acceptable tracking error versus their benchmark, as well as their transparency and value for money.

Our Four P's:

People

How experienced is the manager / team? Is the size, structure and quality of the team sufficient and how does it compare to others? How is the manager paid and is it aligned with customers?

Process

What are the manager's key skills? Is the investment process well-defined, repeatable and sustainable? Is it consistently applied? How are environmental, social and governance (ESG) factors embedded? Is the type and capacity of the fund appropriate to the asset class, the liquidity of the underlying investments and the process?

Performance

To what extent can historic performance be attributed to manager skill or exposure to a particular bias or style? Could similar performance be achieved at lower cost via a passive fund? How does the manager think about and control risk? Can this fund perform well in the future and what might be the biggest impediments?

Price

Are the charges and costs reasonable and competitive in the context of the type of strategy and fund? Does active management work well in this area or asset class or is a low-cost passive approach a more viable alternative?

Cost assessment

In a potentially lower return world, there is greater focus on cost. Funds we consider to be unreasonable value for money are excluded. The total ongoing charges figure, which includes underlying transaction costs, must be not significantly higher than its peer group average. Exceptions may be made for highly specialist funds or where a confluence of factors have increased the headline figure on a short-term basis. For passive investments cost is often the key factor when assessing a fund.

'Closet trackers' – active funds that command the higher cost of active management but offer returns that are little different to a passive fund – represent the worst of both worlds. Charges erode returns at a higher rate than a tracker, yet there is limited prospect of the managers' decisions adding value to offset this.

Risk analysis

We like managers who are prepared to run high-conviction portfolios and a willingness to 'go against the grain'. However, we try to rule out funds where managers are taking too much risk to generate returns. This could be holding too few stocks in the portfolio, or because the portfolio's returns fluctuate too frequently or the changes in value are extreme.

There is no single data point more important than another in our decision making. We consider a variety of performance and risk measures when forming a view on a fund. Risk adjusted returns are important, as well as performance relative to a fund's relevant style benchmark.

However, we try not to make forecasts based on historical trends when making our decisions and encourage investors to do the same. We are wary that complex 'quant' screens used on their own inevitably end up pointing in the same direction – to what has performed well in the recent past.

Often risk is thought about as the volatility of asset price movements, but there are many other risks to bear in mind, and many factors that can influence performance. For instance, in open-ended funds strong returns often attract more assets from investors, which can in some cases reduce the potential for future returns.

This is particularly the case when a manager is operating in a niche area. A larger fund size can prevent them from investing in their best ideas, and stop them being able to buy and sell investments in a timely manner. For areas considered 'illiquid', i.e. where it is difficult, time consuming or costly to trade, we consider a closed ended structure (i.e. an investment trust) to be an appropriate option.

Regular review

We maintain regular contact with the managers of all the investments on the list, to make sure each fund continues to be managed in line with our expectations. A detailed questionnaire covering all the areas of our due diligence is sent to the manager each year for completion, and we use this as the basis of our regular review meetings, all of which are carefully recorded.

As well as having a rolling timetable of formal reviews by sector, all investments on the list are continuously monitored for any significant events. For instance, any personnel changes, closures, or large changes in assets under management are monitored. We will remove a fund if we no longer consider it a best idea within its sector over a three to five-year time frame.

Meet the team

The work of a broad team of investment professionals goes into creating our Preferred List. The list is built on the same in-depth research from Charles Stanley's Collective Research Team that provides fund ideas for Charles Stanley's other divisions including Private Client Investment Management and Asset Management.

The list is compiled and maintained by Rob Morgan, Charles Stanley Direct's Investment Analyst, with proposals for additions and removals agreed with Ross Brookes, Head of Collectives Research, and other members of the Collectives Research Team so they reflect a consensus view. It is also subject to regular scrutiny and review by senior management and senior risk and compliance personnel within the firm.

Ross Brookes,
Head of Collectives Research
Ross Joined Charles Stanley in September 2008 and was appointed Head of Collectives Research in October 2016. He holds CISI Masters in Wealth Management and has 20-years investment experience.

Ben Johnson,
Collectives Analyst
Ben joined Charles Stanley in 2016, initially as an Investment Writer before moving into the Collectives Research team. He is responsible for the selection of best-in-class managers across all asset classes for inclusion on Charles Stanley's collectives buylist. Ben graduated from the University of Southampton in 2013. He passed all three levels of the CFA Program at the first attempt.

Lynn Hutchinson,
Head of ETF and Index Solutions
Lynn started working in the City in 1992. Since joining Charles Stanley in 2013, following the acquisition of Evercore Pan Asset, she has led the passive fund research programme and is responsible for selecting both index and exchange traded funds onto the firm's preferred and covered fund lists. She holds an Investment Management Certificate.

Rob Morgan,
Investment Analyst
Rob has 20 years' experience in Financial Services having worked as a financial adviser and an investment analyst specialising in funds and other collective investments. He has attained the Diploma in Financial Planning and the Investment Management Certificate.

Adam Carruthers,
Analyst
Adam is responsible for the selection of best-in-class managers across all asset classes for inclusion in Charles Stanley's multi-asset class portfolios and in the company's collectives Preferred List. He graduated with a Masters degree in Economics from Heriot Watt University, Edinburgh, and holds the Chartered Wealth Manager designation from the Chartered Institute of Securities and Investment.

CHARLES STANLEY *Direct*

View our Preferred List

Our curated list of preferred investment ideas covering funds and investment trusts allow you to filter by investment type or sector and find options for responsible investing.

www.charles-stanley.co.uk/services/invest/diy/investment-ideas

This guide does not constitute personal advice based on your circumstances and the contents should not be considered as a personal recommendation to deal. Investment decisions in funds and other collective investments should only be made after reading the Key Investor Information Document, Supplemental Information Document and/or Prospectus. If you are unsure of the suitability of any investment please seek professional advice.

The Taxation of pensions is based on individual circumstances and may be subject to change in the future.

The information contained within this article is based on our understanding of current UK tax provisions, which is subject to change, and the benefits of which would depend on your personal circumstances.

Investors should be aware that past performance is not a reliable indicator of future results and that the price of shares and other investments, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested.

Charles Stanley & Co. Limited is a member of the London Stock Exchange, is authorised and regulated by the Financial Conduct Authority and is part of the Raymond James Financial, Inc. group of companies. Charles Stanley & Co. Limited is registered in England number 1903304. Registered office: Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY.

101.49 June 2024