CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q4 2018

JANUARY 2019 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com

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CLIMATE ASSETS FUND (B-SHARE, ACC) – Q4 2018 - OVERVIEW

- Over the fourth quarter of 2018, your fund returned -6.47%, ahead of the peer group's return of -7.89% and the MSCI WMA Private Investor Balanced Index's return of -7.44%.
- Your fund had good relative performance during the quarter, driven by asset allocation and tactical positions in fixed interest and alterative investments.
- Since launch (1st March 2010) your fund has returned +92.53%, which places it within the first quartile of the average balanced fund in the UK as defined by the IA Mixed Investment 40%-85% Sector (+65.74%).

FUND PERFORMANCE (TO 31 DECEMBER 2018)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Accumulation	-6.47	-4.36	92.53
IA Mixed Investment 40%-80% Shares Sector	-7.89	-6.11	65.74
MSCI WMA Private Investor Balanced Index	-7.44	-4.76	86.07

Launch Date 1 Mar 2010. B Accumulation share class performance, inclusive of charges, in GBP with net income reinvested. The performance of other share classes may differ. The share price performance data uses an extended track record based on the Climate Assets A-Acc (donor share) up until 24 June 2012. Source: Financial Express 31/12/2018. **Past performance is not a guide to future performance and future returns are not guaranteed.**

MARKET REVIEW

2018 was an unexpectedly challenging year for financial markets against a background of above trend global economic growth and below target inflation. The year began with financial markets in a euphoric mood as leading indicators suggested the strong growth momentum was set to continue and investors could look forward to another year of above average double-digit corporate profit growth. However, after a strong rally in January, concerns about accelerating US wages sparked the first of three separate equity market corrections in a year of tightening financial conditions, heightened volatility and losses across most major equity markets.

After some relief mid-year, investor confidence was shaken in the final months when the US Federal Reserve Chairman suggested interest rates were a long way from neutral, the US escalated trade tensions with China, the budget of the new 'populist' Italian government breached EU limits and the possibility of a 'no-deal' Brexit increased. All major equity markets were down more than 10% in the fourth quarter, reaching lows for the year around Christmas as the US President tweeted criticism of the Federal Reserve and political brinkmanship forced the US government into shutdown. All said however, the global economy was in good shape. Strong capital investment by a wide range of companies combined with stable consumption helped global GDP grow 3.2% in 2018, similar to the previous year and above the long-term average of 2.7%. The growth gap between industrialised (GDP 2.3%) and emerging economies (4.6%) narrowed marginally as US activity (2.9%) surprised on the upside, boosted by a combination of tax cuts (both corporate and personal), rising employment, reduced regulation and repatriation of overseas cash. The UK experienced a constitutional crisis over Brexit, with uncertainty over Brexit damaging business investment - and latterly consumer expenditure - which meant UK GDP growth of 1.2% was one of the lowest in Europe. Emerging economies - now 60% of global GDP on a purchasing power parity basis - grew 4.6%, similar to the previous year, with China (6.5%) and India (7.3%) once again well above average.

It was another strong year for corporate profitability with global earnings per share increasing 16%. Various one-off factors helped boost US corporate profitability (+23%) but Europe, the UK and Japan also produced increases of 10% or more while Asia and EM lagged at around 7%. Aside from the disproportionate gains in energy profits recovering from the previous oil price downturn, most sectors generated double digit increases with materials, technology and financials all close to 20%. Consumer staples, utilities and real estate were laggards but managed to squeeze out small increases. Unfortunately share price performance did not follow the same pattern in either magnitude nor in some cases direction, as the tightening financial conditions prompted investors to start discounting the next recession, derating valuations considerably.

FUND MANAGER COMMENT

When markets fall back it is tempting for investors to 'throw in the towel' and move into cash to sit out the volatility. Regrettably, the academic evidence shows that this generally fails as a strategy to protect wealth over the medium to longer term. It is almost impossible to 'time the market' like this, even though some people may claim to be able to do so. Investors who instead hold their nerve and resist the very human urge to 'do something for the sake of it' tend to achieve better results. In our view, the key to investment success is to stay on course through good times and bad. With that in mind, we continue to do our best to protect investments from the worst of these market declines. We diversify the Fund across high quality stocks and shares, and adopt a global approach rather than a simply domestic UK-only strategy.

Early in the quarter, nervousness set in across equity markets after the US Federal Reserve raised interest rates as expected but spoke quite firmly about the need to increase rates by more. At the same time, the yield on three month US Treasuries, a proxy for cash, rose above inflation for the first time in a decade. With that in mind, we started a 'tactical' position in US Treasuries by buying the **SPDR Barclays US Treasury Bond ETF** – an open ended, exchanged traded fund, domiciled in Ireland. This ETF invests in physical securities included in the index by tracking the whole US Treasuries index. It has a sterling priced share-class and is unhedged so it offers US dollar exposure.

During the period, worries about Brexit, international trade, monetary policy, bond yields and economic fundamentals added to the appeal of safe haven assets, with our holding in Gold as the largest positive contributor to the Fund's performance. As a reminder, we have exposure to gold between two ETFs to provide maximum liquidity in times of market stress – **Invesco Physical Gold** and **ETF Metal Securities**.

After a strong share price appreciation, we locked-in some profit by reducing positons in American companies **Thermo-Fisher**, and **Waste Management**. In addition, to add further diversification to uncorrelated returns between bonds and equities, we added a positon in specialist real estate investment trust (REIT), **Assura Group**.

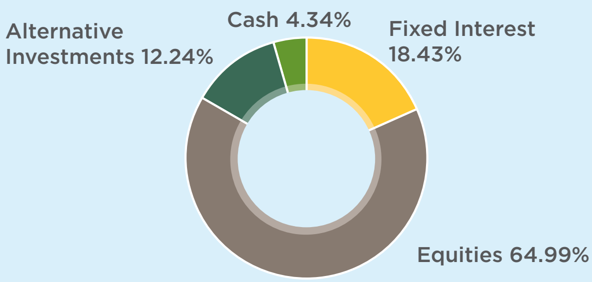
- Assura rents premises to general practitioners (GPs), whose rent is reimbursed directly by the UK Government via the National Health Service (NHS). Assura provides a secure income stream, as unlike housing associations, it is extremely difficult for any GPs' financial mismanagement to affect rent payments, in our view. The REIT develops new surgeries that cater to modern requirements, but only where GP's demand and rent have already been confirmed. Assura is set to benefit from key demographic and economic trends, including an aging population, whose need for medical care is likely to increase, the fact that the NHS is moving primary care towards the GP's domain and the need for larger and better equipped GPs' surgeries.

References to specific securities are not recommendations to buy or sell those securities.

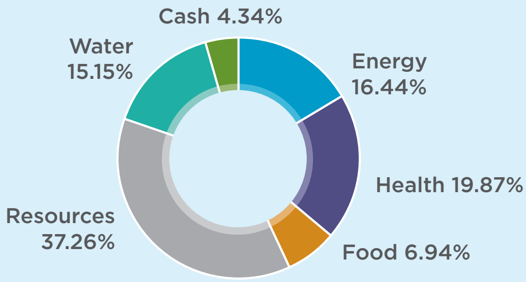
OUTLOOK

2019 begins with markets in an unsettled mood after a period of weaker than expected economic data and uncertainty over central bank liquidity support. We agree with the consensus that sees global economic activity slowing to near 3% growth but this is hardly recession territory. The main contributors will, as usual, be the US consumer and China with Japan and Europe likely to lag by a considerable margin. The lingering impact of US tax cuts will help support activity, at least in the first half of the year, as will other fiscal stimulus measures in China and to a lesser extent Europe, where austerity is being eased in France, Italy and the UK. Central banks will aim to reduce net asset purchases - including in this year the ECB - and move towards neutral real interest rates, but there is no necessity for restrictive conditions. Analyst estimates for 2019 global earnings growth of 7% (UK 5% ex-commodities) are predicated on a robust consumer, above average growth in financials and, outside the US, recovery in industrials/cyclicals which means there may be some downward revisions to come. However, after the recent market turbulence, valuations on a forward 13x price to earnings ratio are at the low end of their long-term range discounting an unusually gloomy outlook.

ASSET ALLOCATION



INVESTMENT THEMES



QUILTER CHEVIOT

- One of the UK's largest discretionary investment firms which can trace its heritage to 1771.
- The firm is based in thirteen locations across the UK, Jersey and Ireland and has total assets under management of £24.1bn (as at 30 June 2018).
- Performance driven investment process with track record from 1995.
- Our investment managers have an average of 19 years' investment experience.

Claudia Quiroz - Fund Manager
Claudia is the Lead Fund Manager of our award winning sustainable investment strategy, the Climate Assets Fund. She also manages the Quilter Investors Ethical Equity Fund and segregated portfolios on behalf of private clients, pensions and charities with a focus on sustainable investment. Claudia holds an MBA from Cass Business School in London and joined Quilter Cheviot from Henderson Global Investors in 2009. She has over 17 years' experience in Sustainable, Ethical & Responsible Investment and is a member of the Chartered Institute for Securities & Investment. At Quilter Cheviot, she sits on the International Equities Investment Committee.

Caroline Langley - Fund Manager
Caroline first trained as a Chartered Accountant at PricewaterhouseCoopers before spending two years as a consultant in their Sustainable Business Solutions team. She then begun her private client career at J O Hambro before joining the company in 2006. Caroline graduated in Human Sciences from Oxford University in 1997 and also holds a Masters degree in Environmental Technology (specialising in Global Environmental Change and Policy) from Imperial College.

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