CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q3 2021

OCTOBER 2021 - FOR EXISTING INVESTORS ONLY

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

CLIMATE ASSETS FUND (B-SHARE, ACC) – Q3 2021 - OVERVIEW

- Over the third quarter of 2021, the fund's return was +3.62%, ahead of the IA Mixed Investment 40%-85% Sector, which returned +1.33%.
- Whilst equity markets have made reasonably steady progress since January, bonds have been more volatile and fixed interest was the largest detractor of returns during the period.
- Since launch (1st March 2010), the fund has returned +173.13% which places it within the 1st quartile of the average balanced fund in the UK as defined by the IA Mixed Investment 40%-85% Sector (+118.27%).

FUND PERFORMANCE (TO 30 SEPTEMBER 2021)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Acc	**3.62**	**13.05**	**173.13**
IA Mixed Investment 40-85% Share Sector	1.33	16.63	118.27

Launch Date 01/03/2010. 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 30/09/2021. **Past performance is not a guide to future performance and future returns are not guaranteed.**

MARKET REVIEW

Global equity markets saw some profit taking in September after reaching new all-time highs earlier in the month following strong Q2 corporate results. Widespread reports of supply chain disruptions, skill shortages and rising energy costs increased concern that the spike in inflation may prove less transitory than previously thought and could lead to central banks raising interest rates sooner than expected.

Although equity markets have made reasonably steady progress since January, bonds have been more volatile. Faced with a more serious inflation problem than anticipated, interest rates in the UK could rise before QE is unwound - with the UK 10 year yields up to 1% over the quarter. While these changes are small in absolute terms, yields across most maturities are now higher than they were two years ago with conventional bonds producing negative returns over Q3 and year-to-date. Corporates have held up better as have index-linked with real yields remaining low.

The Federal Reserve has sought to reassure markets that its exceptionally accommodative policy will be withdrawn gradually, with an announcement expected in November. Assuming the programme is completed by mid-2022, a first US rate rise is possible by the end of next year. The European Central Bank has also signalled subtle changes to future policy that are likely to reverse negative rates.

Estimates for global GDP growth of just under 6% in 2021 have been reasonably stable over recent months despite widespread disruption to supply chains and a resurgence in Covid infections. Global growth next year is expected to be c.4% before reverting to long-term averages in 2023. However, reversion to the norm is not factoring in rising inequality and growth imbalances. Slowing global growth can be observed in marked contrast to increasing concerns on inflation, particularly above the 2% target adopted by many central banks. In most economies, rising food and energy costs are the main drivers with Europe experiencing additional pressures from the surge in natural gas prices and emerging markets from a sharp rise in agricultural commodities. A deceleration in Chinese growth suggests that inflationary pressures are also likely to ease across Asia. While many price increases can be seen as transitory and the result of pandemic supply bottlenecks, others may be more persistent as climate change and weather extremes present challenges for the global food chain. However, the greatest inflation uncertainty is labour costs. Notably, if companies across a range of sectors begin to report a shortage of skilled workers, wage pressures are inevitable.

FUND MANAGER COMMENT

As long-term investors, we continue to favour well managed companies with structural growth drivers underpinned by regulation, consumer demand and a focus on the energy transition. With this in mind, the Fund has proved resilient due to its diversified portfolio which invests across a wide range of asset classes and international markets, with a strong stock selection continuing to add value.

During the period, we locked in some of the profits made in US healthcare and instrumentation provider **Medtronic**, after a strong share price performance underpinned by good operational progress, better than expected quarterly results and raised guidance. We divested several of our corporate bonds to align the fixed interest duration of the fund with that of the market, including the A2D 4.75% due in 2022 and the National Grid 1.375% due in 2026. We used the proceeds to initiate positions in the **Anglian Water 6.625%** and the **Thames Water 6.75%** bonds due in 2029 and 2028 respectively.

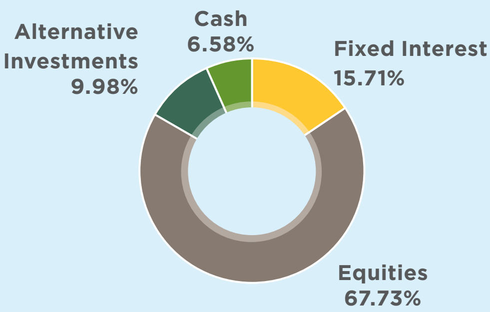
European equities were the largest positive contributor to returns during the quarter, with healthcare group **Novo Nordisk** and electric and electronics supplier **Schneider Electric** as standouts. Despite currently possessing a high valuation on a historical basis, we continue to view Novo Nordisk as a high-quality company with good cash discipline underpinned by a growing franchise in diabetes-related products. Schneider continues to be a top pick in European industrials with a strong guidance upgrade and a recently announced shares buyback. North American equities also contributed, underpinned by good share price performance from instrumentation group **Thermo Fisher** and water sanitation company **American Water Works**. Allocation to alternatives was a nil contributor to returns during the quarter.

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

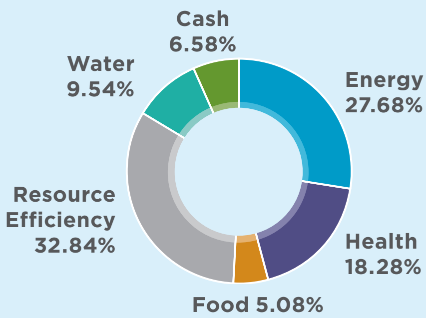
OUTLOOK

The market background remains broadly supportive, and we are not expecting interest rates or bond yields to rise significantly in absolute terms. We think that GDP of c.4% in 2022 is consistent with a 20% EPS growth rather than the 10% currently in analysts' estimates. Nevertheless, given equity valuations are already stretched, we will be keeping a close eye on liquidity conditions and real interest rates.

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 over £27 billion (as at 30 June 2021).
- Performance driven investment process with track record from 1995.

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Claudia Quiroz - Lead Fund Manager

I have 20 years of experience in Sustainable, Ethical and Responsible Investment and 12 of those are with Quilter Cheviot where I have worked since 2009. I am the Lead Fund Manager of our award-winning sustainable investment strategy, the Climate Assets Fund. I also manage investment portfolios on behalf of private clients, pensions, trusts, offshore bonds and charities with a focus on sustainable investment.
My investment experience and qualifications have led me to be a Chartered member of the Chartered Institute for Securities & Investment.

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Caroline Langley - Fund Manager

I have over 16 years of experience in the private client industry and 14 of those are with Quilter Cheviot where I have worked since 2006. I manage private client portfolios (taxable accounts, ISAs and JISAs, trusts, SIPPs, small charities and offshore bonds) working with clients directly or alongside advisers. I am also Deputy Fund Manager for the award-winning Climate Assets Fund. My investment qualifications and experience have led me to be a Fellow of the Chartered Institute for Securities & Investment (CISI).

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