LIBERO BALANCED FUND QUARTERLY UPDATE - Q2 2018

JULY 2018 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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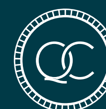


QUILTER CHEVIOT

LIBERO BALANCED FUND - Q2 2018

OVERVIEW

- Your fund's return over the second quarter of 2018 was +5.78%, just over 100bps ahead of the peer group's return of +4.89%. The MSCI WMA Private Investor Balanced Index returned +5.35%.
- During the quarter, your fund enjoyed strong absolute performance driven by our overweight position in global equities.
- Since launch (31st March 2011) your fund has returned +62.8% which places it within the 2nd quartile of the average balanced fund in the UK as defined by the IA Mixed Investment 40%-85% Sector (+59.52%).

FUND PERFORMANCE (TO 30 JUNE 2018)

	3 months %	1 year %	Since launch %
Libero Balanced Fund	5.78	5.24	62.80
IA Mixed Investment 40%-85% Shares Sector Average	4.89	4.85	59.52
MSCI WMA Private Investor Balanced Index	5.35	6.81	76.94

Launch Date 31st Mar 2011. B Accumulation share class performance, inclusive of charges, in GBP with net income reinvested. The performance of other share classes may differ. Source: Financial Express 30/06/18. Sector referred to is the IA Mixed Investment 40%-85% Shares Sector Average. **Past performance is not a guide to future performance and future returns are not guaranteed.**

MARKET REVIEW

Financial markets lost momentum towards the end of the quarter after recovering strongly from the end-March lows, with technology and energy stocks keeping the S&P 500 bubbling in the US, whilst the European markets fell. After a good start to the year, emerging markets have lost their shine and are down just over 4% in 2018.

Economic data continues to show the global economy growing at a healthy pace with minimal inflation risk. Activity accelerated in Q2 and our expectation of 3.4% GDP growth is on track to be achieved in 2018. However, while the US growth spurt might continue, the OECD composite leading indicator suggests the global cycle has peaked, explaining why financial markets have become more sensitive to interest rate 'normalisation', 20% rise in Brent crude to $79 and escalating trade tensions. The initial 25% US tariffs on $50bn of Chinese capital and goods took effect at the beginning of July.

The US is out-performing with activity re-accelerating in Q2 as the fiscal stimulus boosts net incomes and investment in business equipment. Although exports are growing strongly, improving consumer confidence is expected to increase demand for imported goods and widen the trade deficit. Higher productivity is helping to contain unit labour costs, despite the Federal Reserve forecasting a fall in unemployment towards 3.5% later this year. Confidence in the economy has emboldened the Fed to signal that interest rates will rise faster with 3% likely by early 2019. The prospect of higher rates and repatriation of corporate cash flows appears to be outweighing the deteriorating twin deficits and has helped boost the dollar, especially against emerging market currencies.

China is also performing strongly, albeit the pace is slowing and there are the usual concerns about sustainability. The economy may not be immune to slowing global trade and increased tariffs. Most other emerging economies are growing in line with expectations but are being buffeted by slowing trade volumes, generally tighter financial conditions and a stronger dollar as cash is repatriated to the US.

Economic activity in Japan rebounded in Q2 as a result of improved net exports, consumer spending and business investment. However, in real terms wages are static so GDP is likely to revert to trend (around 1%) and loose central bank policy will continue. The main downside surprise has been the Eurozone where over-optimism after last year's strong performance and slowing global trade have resulted in GDP estimates being lowered to 2%. Improving real disposable incomes has helped stabilise the UK economy but 1.3% estimated GDP significantly lags other advanced economies. Export growth is slowing despite sterling having weakened by just over 3% to $1.32 since the start of the year. With ultra-low interest rates, the savings rate at a near record low and a highly leveraged housing market, any government stimulus has to come from fiscal policy - hence the rise in government spending. The Brexit negotiations have made little progress with frustration evident across a range of businesses and a drop in consumer confidence. The Bank of England has also revised its guidance to reflect economic reality and there is now only a 60% chance of a rate rise in August.

FUND MANAGER COMMENT

During the period, we continued to reduce our exposure to UK equities while increasing exposure to U.S., Asian (ex Japan) and Emerging Market equities. The **Sands US Growth Fund** continues to perform very well given its high exposure to US technology companies.

We introduced a new holding in **Tesco**. We are now more confident on Tesco post the Booker deal, which we view to be transformational, and their recent results confirm sales and margin growth are on track. Our positive investment case is based on: 1) self-help measures coming through; 2) the transformational Booker merger; and 3) attractive valuation. Tesco is transforming from a recovery play into a growth play, which should warrant a re-rating. The stock trades on a forward p/e ratio of 15.4x, a discount to its 10 year average. The shares offer a prospective dividend yield of 3.2%.

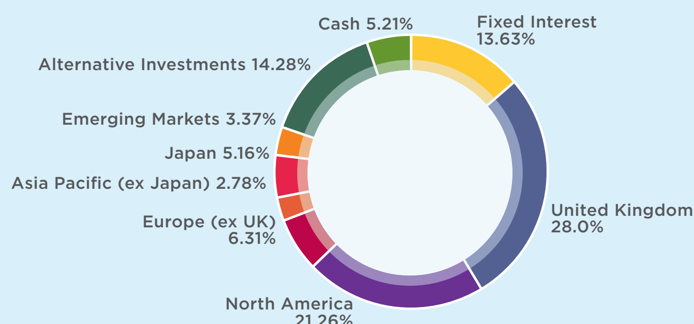
Another new purchase was the **Franklin Templeton UK Smaller Companies Fund**. Having sold our holding in the River & Mercantile UK Smaller Companies Fund, following the departure of the manager, we are keen to retain some exposure to smaller companies. The fund is led by Richard Bullas, who has managed the fund since 2012 and has generated strong outperformance since taking over. Richard is supported by co-PM, Dan Green, alongside the broader Franklin Templeton UK Equity team. The fund has a core growth philosophy and

profile, which they separate out to include areas including 'Quality Growth', 'Undervalued & Overlooked' and 'Cyclical & Recovery', though remain highly skewed towards Quality companies (e.g. no Mining). They tend to run a 45 stock portfolio with a current bias to Information Technology, whilst steering away from the squeezed UK Consumer and the lower growth profile of Real Estate. The fund's AIM weighting is currently around 40%, which is towards the upper end of their range, though they have no particular aversion to AIM as a market. The fund has shown strong performance under Bullas and is currently c. £330m in size; they will revisit this at £600m to assess capacity. The average market cap of the fund is c. £650m, and the dividend yield is c.1%. We reduced positions in **Glaxo SmithKline**, **Lloyds Banking Group**, and **Diageo** to help fund these new purchases.

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

ASSET ALLOCATION

Fixed Interest	13.63%
UK Equities	28.00%
North America	21.26%
Europe (ex UK)	6.31%
Asia Pacific (ex Japan)	2.78%
Japan	5.16%
Emerging Markets	3.37%
Alternative Investments	14.28%
Cash	5.21%

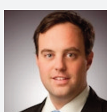


OUTLOOK

The threat of protectionism is likely to dominate headlines over the summer and with institutional investors holding low cash balances, a meaningful market setback is possible. However, the economic backdrop and favourable financial conditions should mean another good year for global corporate earnings with prospective valuations for most major markets, in line with longer-term averages. This may partly reflect the de-rating that takes place as interest rates and inflation rise in the maturing phase of an investment cycle, but could be anticipating that estimates will be trimmed after the half-year reporting season, as a result of the stronger dollar and management caution about trade tensions. Nevertheless, offsetting these risks is the strong corporate cash position that could mean higher dividends or share buy-backs as the capex cycle peaks.

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 £22.8bn (as at 31 March 2018).
- Performance driven investment process with track record from 1995.
- Our investment managers have an average of 19 years' investment experience.



William Buckhurst - Investment Director

William joined the company in 2006, having previously worked at UBS Wealth Management and Laing & Cruickshank. He manages discretionary portfolios for private clients, trusts, and charities, and is the co-manager of the Libero Balanced Fund and the Climate Assets Fund. He also sits on Quilter Cheviot's Collective Funds Committee. He is a member of the Chartered Institute for Securities & Investment and a graduate of Newcastle University.

Alan McIntosh - Chief Investment Strategist

Alan began his career as a fund manager in 1982 at Scottish Life, followed by Municipal Mutual and BZW Investment Management. He joined Credit Suisse Asset Management in 1994 as UK Market Strategist, before moving in 1999 to Laing & Cruickshank Investment Management, where he ran the Model Portfolios and was Senior Equity Strategist. Alan continued in this role at UBS Wealth Management following their acquisition of Laing & Cruickshank in 2004, and was appointed Executive Director. He joined Cheviot in 2006 as Chief Investment Officer. In December 2012 Cheviot merged with Quilter to form Quilter Cheviot where he became Chief Investment Strategist.

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