CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q3 2018

OCTOBER 2018 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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CLIMATE ASSETS FUND (B-SHARE, ACC) – Q3 2018 - OVERVIEW

- Over the third quarter of 2018, your fund returned +3.06%, ahead of the peer group's and the benchmark's return of +1.41% and +1.63% respectively.
- Your fund delivered a strong absolute and relative performance during the quarter, driven by the US equities overweight and strong stock selection across all regions.
- Since launch, (1 March 2010) your fund has returned +105.85%, 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 (+79.94%).

FUND PERFORMANCE (TO 30 SEPTEMBER 2018)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Accumulation	3.06	5.16	105.85
IA Mixed Investment 40%-85% Shares Sector Average	1.41	5.35	79.94
MSCI WMA Private Investor Balanced Index	1.63	7.00	101.02

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 30/09/2018. **Past performance is not a guide to future performance and future returns are not guaranteed.**

MARKET REVIEW

Strong global growth, especially in the US, has provided a supportive backdrop for equities and other risk assets. Global trade tensions, Brexit negotiations, and political instability in the US and Europe have increased volatility across most asset classes. The gradual withdrawal of quantitative easing and gentle rise in US interest rates has resulted in modestly higher global bond yields, with bond yields having risen more for companies than governments, and more for short-term debt than longer-term debt.

With the exception of the depreciation of the Chinese renminbi, currencies have traded within a narrow range. Commodity prices have weakened on reduced Chinese demand with the exception of oil where adherence to OPEC production quotas, new sanctions on Iran and supply disruptions have resulted in Brent rising to $82, which is 20% higher than the start of the year.

Cuts in corporation tax and changes to regulation have provided a multi-year boost to US equities. However, the performance differential against other markets will likely narrow from here. UK economic activity continues to lose momentum with uncertainty around Brexit negotiations adversely impacting business investment and consumer confidence. It seems increasingly likely that no deal will be reached and thus temporary arrangements will be needed to ensure the flow of goods, capital, services and labour.

Global dividends have been well covered, and in many cases bumper profits have been accompanied by share buybacks and improved management discipline on capital expenditure. Merger and acquisition activity has picked up on the back of improved business confidence. Share price increases have lagged corporate earnings this year as investors discount the prospect of slowing growth in 2020 and beyond, meaning forward valuations are towards the lower end of their 12 months range. In our view, companies with visible growth prospects and strong free cash flow continue to outperform value opportunities.

FUND MANAGER COMMENT

The best investment returns for the three-month period come from US and Japanese equities, where economic activity has been above trend, leading to very strong gains in corporate profitability. Europe and the UK have lagged and emerging markets have suffered a small setback as investors repatriated monies to the US and a few countries with challenging external debt levels have suffered from US dollar strength.

With that in mind, regional allocation and stock selection continued to benefit the fund's performance during the quarter, with North American equities as the largest positive contributor, followed by Japanese equities. At the stock level, the largest positive contributors were American companies **Xylem** (water technology), **Thermo-Fisher** (analysis & instrumentation) and **Union Pacific** (railway transportation). Recycling packaging provider **DS Smith** (United Kingdom) and automation & robotics specialist **Kion** (Germany) were the largest negative contributor to the fund's performance.

- Xylem provides products and services for water and wastewater applications addressing the full water cycle: collection, distribution, use and disposal. Its products include water and wastewater pumps, treatment and testing equipment, valves, heat exchangers and dispensing equipment. It is set to benefit from urbanisation, environmental regulation and replacement of ageing infrastructure.
- Thermo Fisher is the largest supplier of analytical instruments and equipment products around the world. Its product portfolio includes technologies for mass spectrometry, sample preparation and informatics as well as air and water quality monitoring and process control testing products. Thermo has a high US and environmental testing China exposure, as well as best product breadth relative to other analytical equipment suppliers.
- Union Pacific is one of largest railroad companies in the US, transporting industrial goods and commodities from the West and Gulf Coasts. The company has a leading position in this highly concentrated industry with a well-diversified commodity mix. It is set to benefit by the fact that rail freight is significantly cheaper than any other transport as well as more environmentally friendly.

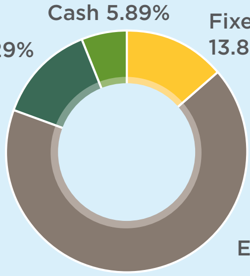
During the period I marginally reduced our exposure to equities by selling Dutch based environmental consultancy **Arcadis**, as despite recent management changes, the legacy issues continue. Disappointingly, the new team has failed to deliver any visible improvements, with a lack of order book growth as well as slower than expected margin recovery. The stock has been an underperformer for an extended period of time and I now feel there are better opportunities elsewhere. I have used the proceeds to increase the fixed interest exposure via new investments in the **BUPA 2% and Motability 4.375% bonds** due in 2024 and 2027 respectively. Both bonds are investment grade, sterling denominated and have an attractive yield spread compared to a Gilt of equivalent maturity. After locking-in dividends, I also reduced our exposure to the Alternative Investment asset class by selling our holding in the **Greencoat Renewables Fund**.

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

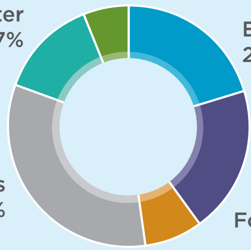
OUTLOOK

The current year is shaping up to be another bumper year for corporate profitability and prospects for 2019 are also looking good. Cuts in corporation tax and changes to regulation have provided a multi-year boost to US equities but the performance differential against other markets will likely narrow from here. With that in mind, I continue to favour risk assets over bonds or cash, based on valuations, global growth and corporate profitability. However, I remain extremely mindful of short-term risks, namely an escalation of the trade tariffs dispute, further pressure on emerging markets and ongoing political risk regarding Brexit uncertainty. International markets appear to offer a better range and depth of investment opportunities for sterling based investors, which sits very well with the Climate Assets Fund as the portfolio is naturally overweight international equities.

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.

CONTACT DETAILS

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