CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q2 2019

JULY 2019 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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QUILTER CHEVIOT

CLIMATE ASSETS FUND (B-SHARE, ACC) – Q2 2019 - OVERVIEW

- Over the second quarter of 2019, your fund's return was +7.56%, well ahead of the peer group's return of +4.19%. The MSCI WMA Private Investor Balanced Index returned +3.62%.
- The Fund's international exposure and strong stock selection contributed to the upside during the period, leaving the portfolio in a good position to benefit from improving US/China trade negotiations.
- Since launch (1st March 2010) your fund has returned +124.39% 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 (+83.83%).

FUND PERFORMANCE (TO 31 MARCH 2019)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Accumulation	7.56	12.34	124.39
IA Mixed Investment 40%-85% Shares Sector	4.19	3.60	83.83
MSCI WMA Private Investor Balanced Index	3.62	4.98	107.65

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 30/06/2019. **Past performance is not a guide to future performance and future returns are not guaranteed.**

MARKET REVIEW

Reduced trade tensions combined with an expectation that the US Federal Reserve would lower interest rates in response to softening economic data boosted financial markets over the quarter. Notably, many equity markets closed at or near all-time highs and for UK based investors a near 3% depreciation in sterling to $1.267 boosted the return from international markets. The fall in global bond yields in anticipation of co-ordinated central bank easing meant they also produced positive returns, especially the longer-dated conventional and index-linked gilts. Brent crude eased to $66 as excessive US oil production offset softer demand. Safe haven status helped gold rise 9% over the quarter.

The good news from the G20 meeting at the end of June was that the US and China agreed to re-open trade discussions and hold-off on a new escalation of actions. The US will loosen some restrictions on high-tech exports and China will increase purchases of agricultural products. The bad news is that uncertainty continues and there does not appear to be any progress on critical points including speed of existing tariff removal, enforcement of intellectual property transfer restrictions and the general level of trade deficit reductions. The erratic policy decisions are disrupting global supply chains and investment plans, resulting in increasing weakness in manufacturing business sentiment gauges which suggest there is further weakness to come.

Global GDP has decelerated from a peak of 4% in Q218 to just below trend at around 3% in Q219. There is still a large differential between advanced and emerging economies, albeit most face a growth slowdown. China's response to trade tariffs has been measured so far and with GDP growth in excess of 6%, the authorities appear to be coping with the latest round of softer data.

In the advanced economies, strong job growth and wage increases will have supported a rebound in US consumption in Q2 while residential and business investment remains soft, reducing estimated GDP growth to 2.6% in 2019 and 2% in 2020. Japanese growth will struggle in the face of planned consumption tax increases and could dip into a technical recession in early 2020. The Euro area exporters continue to suffer disproportionately from the slowdown in China, reduction in global trade and threat of US tariffs as well as a disruptive Brexit, although domestic economy resilience should support 1% GDP growth.

Global headwinds, the unwinding of Brexit stockpiling and ongoing uncertainty means UK Q2 GDP growth is likely to be very weak. The new Prime Minister faces the same problems as before and the threat of a no-deal to force concessions from the EU appears fanciful given the likely erosion of the 5-seat majority. This means tensions could escalate further after the summer recess and a general election with further delay to Brexit can't be ruled out. Speculators are once again shorting sterling.

Broad financial conditions are generally accommodative but central banks once again appear to be on the cusp of co-ordinated easing. The US Federal Reserve is expected to cut rates by at least 25bp in July, the ECB is likely to follow and to restart quantitative easing later in the year while the Bank of Japan will extend guidance of maintaining low rates until end-2020 and may resume asset purchases.

FUND MANAGER COMMENT

During the period, we locked in the profits we made on GCP Student Living by selling the entire holdings as we became increasingly concerned about the uncovered dividend. We also reduced our exposure to pharmaceuticals by reducing the holdings in Sanofi and Novartis. We started new positions in Essex Property and National Grid.

- Essex Property provides multi-family apartment homes along the West coast of America, North and South California, the San Francisco Bay area and the metropolitan area of Seattle. As a sector leader, Essex is underpinned by favourable demand and supply imbalance in its chosen markets, which benefit from above average population and economic growth. Additionally we like the quality of its properties as well as the presence of a strong management team that has consistently out-performed expectations. Thus, we feel its premium rating is deserved.

- National Grid owns and operates gas and electricity networks in the UK and in North-Eastern USA, where there is generation capacity. Virtually all of its businesses are subject to price controls underpinning a stable income stream, which we like. It is currently investing heavily in upgrading the aging power networks infrastructure in the UK. The US business is showing considerable improvements supported by local price rate reviews. Whilst we are underweight in utilities in the UK, Grid remains our preferred utility due to the lower revenue at risk of nationalisation.

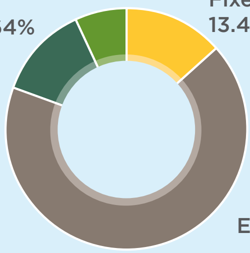
Halma, Kingspan and Waste Management were particularly strong contributors to returns during the quarter and gold continued to add value, as the best performing alternative investment. European equities contributed strongly to returns followed by North America and UK equities. We ended the period with a higher allocation to cash as we took risk off during June and remained cautious on the sustainability of the market rally.

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

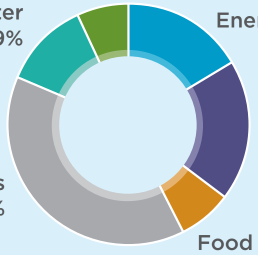
OUTLOOK

Erratic policy decisions have resulted in reduced business confidence and investment uncertainty especially in the global manufacturing supply chain. The Trump tax boost and pre-tariff stockpiling activity spike will start to fall out of the corporate profit growth comparatives through 2019 which is why estimates have reverted to trend at around 4%. But this still assumes quite an improvement in H2 - which markets have taken on trust – so there is scope for some disappointment in the forthcoming Q2 reporting season albeit there has been a surprising lack of pre-results warnings. One-year on markets remain highly correlated with trade tensions despite the difficulty of quantifying the full impact. Outside of trade and manufacturing the global economy is growing steadily, jobs are plentiful and wages rising. Thus, we continue to favour risk assets but remain particularly cautious on deploying the cash we raised during the period.

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 chartered 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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