LIBERO BALANCED FUND
QUARTERLY UPDATE - Q1 2019

APRIL 2019 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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QUILTER CHEVIOT

LIBERO BALANCED FUND - Q1 2019
OVERVIEW

- Your fund's return over the first quarter of 2019 was +6.90%, ahead of the peer group's return of +6.45%. The MSCI WMA Private Investor Balanced Index returned +7.70%.
- The Fund's US exposure and good stock selection contributed to the upside during the period, leaving the portfolio in a good position to benefit from improving investment conditions this year.
- Since launch (31 March 2011) your fund has returned +59.5% which places it within the 3rd quartile of the average balanced fund in the UK as defined by the IA Mixed Investment 40%-85% Sector (+58.62%).

FUND PERFORMANCE (TO 31 MARCH 2019)

	3 months %	1 year %	Since launch %
Libero Balanced Fund	6.90	3.64	59.50
IA Mixed Investment 40%-85% Shares Sector	6.45	4.30	58.62
MSCI WMA Private Investor Balanced Index	7.70	6.73	79.26

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 31/03/19. 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

Equity markets have recovered the majority of the losses incurred late last year as the Federal Reserve turned more dovish and a US-China bilateral trade agreement is in sight. The big surprise was in the bonds markets, where investors have started to discount the potential for a US recession resulting in a marked decline in yields. Continued OPEC+ production discipline also saw the Brent crude oil price recover to $68 a barrel from $54 at the start of the year.

Global growth has likely slowed in Q1 to around 3.2% from the peak of 4% this time last year – an indication that extended US/China trade negotiations are taking their toll on global trade and GDP. A loss of growth momentum wasn't unexpected but a particularly weak euro area manufacturing survey in March - showing a meaningful decline in export orders - suggested the all-important recovery in China might lag expectations. Global GDP estimates were already assuming US growth would slow to around 2.5% in 2019 while remaining well balanced across consumption and investment.

The Chinese economy is in the midst of a multi-year structural transition which has been accompanied by stop/go policy stimulus targeting job creation as much as high GDP rates. Agreement has been reached on stricter enforcement of international trade norms and China is expected to pass laws to protect the intellectual property of foreign investors.

The UK's future political and economic outlook remains unclear at the time of writing with both major political parties engulfed in polarised views. We suspect the vast majority of the electorate would likely vote for a 'sensible' compromise but this isn't on offer and even a snap election is unlikely to result in a decisive outcome.

FUND MANAGER COMMENT

We are very aware that the last ten years have been dominated by trillions of dollars of quantitative easing, whereby central banks have been printing money to stimulate economic growth. As a result, some of the signals that previously have proved useful indicators for the future of markets may no longer be reliable. This is particularly the case for yield curve inversion, where long-term bond yields dip below short-term yields. In the past this has been an early signal that a recession was on its way. We can no longer expect this with certainty, however, as quantitative easing is a new externality and may just change the outcome. While we are very aware of the yield curve inverting, we maintain our investment stance of overweight equities and underweight bonds, underpinned by reasonable valuations, in our view. As a precaution however, we maintain also our gold exposure to offer some protection in case of further market volatility.

During the period, we took profits on our tactical position in US Treasuries, by selling the holding in the Barclays US Treasury Bond ETF. We used the proceeds to add back to risk assets, by increasing our UK equity content, with particular focus on the FTSE 250 components. We started a new position in Aberforth UK Smaller Companies and added to Persimmon.

- Aberforth is a new holding within our UK smaller company allocation. The Fund is a diversified portfolio managed by an experience team of six investors from Aberforth Partners – a specialist smaller companies investment boutique. The team focusses on 'value', typically investing in 80 to 100 stocks. The Fund actively avoids AIM-listed stocks as these tend to be more growth-orientated or lower quality stocks, in their view.

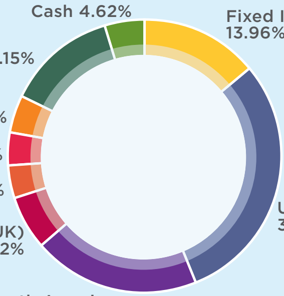
- Persimmon is one of the UK's leading housebuilders with one of the largest land banks. It is very successful at obtaining planning permission for strategic sites which are more profitable. The stock is underpinned by a 9% yield and has no exposure to the slowing London market. We also like the continuity provided by the confirmation of the CEO and its strong balance sheet with c. £1bn of cash we expect some of this to be returned to shareholders in due course.

We decided to reduce our positon in cyber security provider Sophos and sell underperforming electronic manufacturer Renishaw. While we sold Renishaw early in the first quarter, our negative investment thesis was reconfirmed later on. After reducing its profit expectations well into the quarter, Renishaw suggested the slowdown in consumer electronic demand from the Asia region would continue into next year. This underpins a very negative outlook as Asia is Renishaw's largest end market with over 40% of sales.

Our exposure to US equites produced particularly good returns during the quarter with the HSBC S&P 500 ETF and funds Iridian, Privileged and Vulcan as the largest positive contributors. After adding value during the latter part of last year, gold slipped back. At the asset allocation level, UK equities contributed strongly to returns followed by North American equities. We ended the period with a higher allocation to equites as we added risk back at the beginning of March.

ASSET ALLOCATION

Fixed Interest	13.96%
United Kingdom	30.11%
North America	19.69%
Europe (ex UK)	6.42%
Japan	3.81%
Asia Pacific (ex. Japan)	3.88%
Emerging Markets	4.36%
Alternative Investments	13.15%
Cash	4.62%



OUTLOOK

Estimates for corporate earnings have been revised down in recent months to around 5% growth from 14% last year. Company guidance and analyst estimates are positioned for an Asian and European cyclical upturn with consumer and non-bank financial sectors topping the growth tables. The strong rise in share prices and reduced earnings mean forward valuations have risen towards the upper-end of their twelve month range. In absolute terms a price/earnings multiple of 15 times is reasonable but companies must now deliver – and potentially surprise on the upside – for markets to make significant progress from current levels.

Most markets are up by double-digit amounts in 2019. However, after three months of uninterrupted gains there is a chance that a phase of consolidation maybe in order, thus we continue to favour quality and diversification across asset classes and geographical regions.

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.

CONTACT DETAILS

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Claudia Quiroz - Investment Director

Claudia is the Lead Fund Manager of the Libero Balanced and the Climate Assets Funds. She also manages segregated portfolios on behalf of private clients, pensions and charities. Claudia holds an MBA from Cass Business School in London and joined Quilter Cheviot from Henderson Global Investors in 2009. She has over 18 years' of investment experience and is a Chartered member of the Chartered Institute for Securities & Investment. Claudia sits on the International Equities Stock Selection Committee at Quilter Cheviot and she was shortlisted as the Fund Manager of the Year at the Women in Finance Awards 2018.

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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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