

LIBERO BALANCED FUND QUARTERLY UPDATE - Q4 2019

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quiltercheviot.com

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QUILTER CHEVIOT

LIBERO BALANCED FUND - Q4 2019

OVERVIEW

- Over the fourth quarter of 2019, your fund's return was +2.03%, ahead of the MSCI PIMFA Balanced Index benchmark, which returned +1.39 %.
- Regional allocation to the UK and North America equities were the largest contributors to performance.
- Since launch (31st March 2011) your fund has returned 76.10% 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 (+72.53%).

FUND PERFORMANCE (TO 31 DECEMBER 2019)

	3 months %	1 year %	Since launch %
Libero Balanced Fund	2.03	18.03	76.10
IA Mixed Investment 40%-85% Shares Sector	2.34	15.78	72.53
MSCI WMA Private Investor Balanced Index	1.39	16.21	93.42

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 31/12/19. 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

2019 was one of the best years for global equities in three decades. The US Federal Reserve's monetary policy spurred an early rally which was followed by a lengthy and volatile period of consolidation as trade and recession fears increased. Later in the year US/China trade optimism combined with renewed central bank support supported a strong rally in stock markets in the final quarter as investors overcame flat corporate earnings and the never-ending uncertainty of Brexit.

While shares excelled, with Wall Street ending at new all-time highs, falling yields meant bond returns also exceeded inflation. Gold rose nearly c.20% during the year on a combination of safe-haven buying fuelled by rising geopolitical tensions and renewed quantitative easing by central banks.

The Federal Reserve supported growth by lowering interest rates three times to 1.5% and expanding its balance sheet over the year. Strong labour markets and robust consumer spending alongside lower interest rates helped to avoid a US recession. Nevertheless global growth of 2.6% surprised on the downside. The manufacturing-orientated economies suffered the most - with Japan and Europe barely expanding 1%. Despite benefitting from the reallocation of production away from China to avoid trade tariffs, most Asian countries experienced slower growth. Chinese GDP growth held up reasonably well.

Towards the end of the year business surveys were suggesting that the widespread downturn in global manufacturing was stabilising after sequential declines although a meaningful cyclical upturn appeared unlikely unless existing trade tariffs were rolled-back. Somewhat surprisingly - given near record low levels of unemployment - wage rises were well contained and while Industrialised World CPI of 1.4% surprised mildly on the upside it remained well within the 2% targeted by many central banks, allowing them to retain or expand their accommodative monetary policy with negative real interest rates in all the major economies at year-end. After another year of nominal interest rates stuck around the zero boundary politicians were under increasing pressure to consider new fiscal policy measures to avoid stagnation.

The lack of progress with Brexit eventually resulted in a UK general election in December which the incumbent Conservative Party won a decisive majority with the slogan 'Get Brexit Done'. The prevailing uncertainty throughout the year meant new investment collapsed and exports faded but strong labour markets - with record numbers employed - supported consumer spending and recession was avoided. Base rates were unchanged throughout the year at 0.75%. Speculators gradually unwound their short sterling positions in the fourth quarter even though the new PM Johnson was quick to rule out extending the transition phase beyond the end of 2020, leaving little time to negotiate well considered new trade agreements. Ongoing trade uncertainty combined with the lack of new initiatives since the 2016 referendum suggested the new government might use its majority to expand fiscal policy to introduce a whirlwind of fresh policies aimed at rebalancing the economy to offset the potential Brexit fallout.

FUND MANAGER COMMENT

Global corporate profits were unchanged in 2019 with small rises in the US and Europe offset by declines in Japan, the UK, Asia and emerging markets. Many companies showed a strong increase in earnings, notably in the healthcare, pharmaceutical, financials and software sectors which also benefitted from share buybacks. Detractors for the most part were concentrated in the energy, materials and telecom sectors. Companies exhibiting consistent 'growth' characteristics once again outperformed cheap 'value' despite some signs of rotation late in the year. Growing dividends, rather than high yield per se, was also a winning characteristic across global equities.

During the period we rebalanced positions in a number of holdings across different assets classes. We sold the holding in **Sophos**, as we no longer expected an upside to the takeover bid from US private equity group Thomas Bravo. We deployed the proceeds into UK technology company **Aveva**. We also realised the gains made from **Entertainment One** last month's takeover bid. In addition, we added a new holding in property developer **Derwent London** and food-on-the-go retailer **Greggs**.

Aveva develops and markets software to help industrial companies with the design and running of manufacturing plants and industrial equipment. We like the fact that the industrial sector is at the early stages of digitisation and has significant wastage, thus opportunities to improve efficiency. Aveva is a high quality business underpinned by a strong product portfolio with pricing power. French electric and electronic company Schneider Electric is a controlling shareholder with 60% stake, which we view as downside protection.



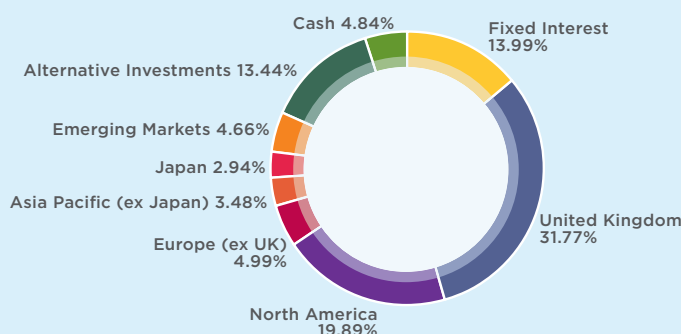
Derwent is an investor and developer of mainly office space, with a focus on the non-traditional areas of London, such as the technology belt around Old Street. The company has a track record of disciplined investing and developing creative properties that appeal to telecom, media and technology occupiers.

Greggs is a UK's leading value food-on-the-go retailer, offering attractive growth opportunities in an accelerating market. The agile management is successfully adapting to new trends like veganism, healthy eating, delivery and click & collect, to appeal to a new customer base, whilst focussing on store expansion to drive group sales and earnings.

Exposure to US equities produced particularly good returns, with the Vulcan Global Value Fund and the HSBC S&P 500 ETF as the largest positive contributors. Allocation to UK smaller companies, namely Franklin Templeton and Aberforth funds, also added significant value during the quarter. On the other hand, Royal Dutch Shell and BP were top detractors. While UK equities were the largest contributor to returns, UK fixed interest was the largest detractor. We ended the period with a higher than cycle average allocation to cash as we took risk off in the previous quarters and remained cautious on the sustainability of the market rally.

ASSET ALLOCATION

Fixed Interest	13.99%
United Kingdom	31.77%
North America	19.89%
Europe (ex UK)	4.99%
Asia Pacific (ex. Japan)	3.48%
Japan	2.94%
Emerging Markets	4.66%
Alternative Investments	13.44%
Cash	4.84%



OUTLOOK

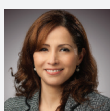
We think that 2020 will likely see a continuation of this decade long economic cycle with GDP growth stabilising around current levels. However, trade uncertainty won't disappear as a formal deal is still in the making and thus we see little scope for a significant re-acceleration in global profits although a sequential improvement should support modest equity gains in 2020. The starting valuation of sixteen times forward earnings is not extreme although it leaves little room for disappointment. While acknowledging the UK market looks very inexpensive, we continue to favour international over UK earners, reflecting the uncertainty of delivering a successful Brexit as well as the structural challenges faced by some of the long-established index heavyweights.

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 £24bn (as at 30 September 2019).
- 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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