CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q4 2019

JANUARY 2020 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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CLIMATE ASSETS FUND (B-SHARE, ACC) – Q4 2019 - OVERVIEW

- Over the fourth quarter of 2019, your fund's return was +1.79%, ahead of the MSCI PIMFA Balanced Index benchmark, which returned +1.39 %.
- Stock selection and regional allocation to Europe and the UK were the largest contributors to performance. North America equities detracted as sterling appreciated strongly during the quarter.
- Since launch (1st March 2010), your fund has returned +133.72% 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 (+91.90%).

FUND PERFORMANCE (TO 31 DECEMBER 2019)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Accumulation	1.79	21.40	133.72
IA Mixed Investment 40%-85% Shares Sector	2.34	15.78	91.90
MSCI PIMFA Balanced Index	1.39	16.21	116.22

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 31/12/2019. **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

Our portfolio positioning has been heavily biased towards shares for a decade. Companies have made the most of globalisation opportunities supported by an extremely favourable monetary background, resulting in strong profit gains, healthy dividend increases and share buybacks. Shareholders' returns have significantly exceeded inflation. However, the US shift towards protectionism is in danger of becoming a more widespread strategic geopolitical move, likely leading to lower levels of global economic growth as supply chain efficiencies disappear.

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.

After a strong rally in UK equites at the end of the quarter we locked in profits by reducing our position in **Assura** and **Persimmon**. We also added to **Essex Property** and initiated a new holding in industrial group **Schindler**.

Schlinder is one of the largest providers of elevators, escalators and moving walk ways in the world. Whilst the company has a large presence in the North America and Asia Pacific markets, it is a leading player in Europe, Middle East and Africa. The company's profitability is driven by new installation growth, alongside modernisation and maintenance. In the longer term, we view Schindler as well positioned to benefit from macro trends, such as urbanisation, demographic change, modernisation, energy efficiency and increasing digitalisation.

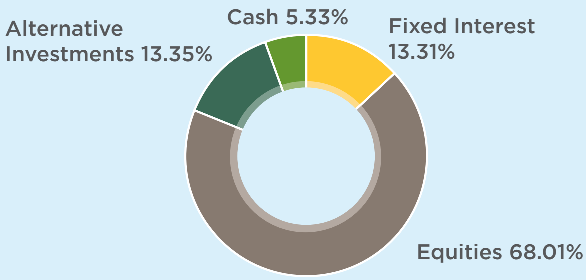
American companies Xylem, Waste Management and American Water Works were particularly strong detractors to returns during the quarter underpinned by the strong appreciation of the pound against the dollar. For the first quarter in the year, gold was the worst performing alternative investment. UK equities contributed strongly to returns followed by European equities. We ended the period with a higher allocation to cash than average and remained cautious on the sustainability of the market rally.

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

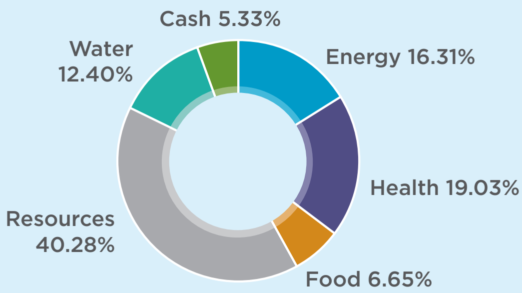
OUTLOOK

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.

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 £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.

Claudia Quiroz - Lead 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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