CLIMATE ASSETS FUND (B-SHARE, ACC) – Q3 2017 - OVERVIEW

• Your fund’s return over the third quarter of 2017 was +1.38%, in line with the return posted by the FTSE UK Private Investor Balanced Index of +1.34%.

• Good stock selection and allocation to global direct equities continue to benefit the fund’s performance and reflects continued optimism towards further global economic growth.

• Since launch (1st March 2010) your fund has returned +95.75% 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 (+70.81%).

MARKET REVIEW

Synchronised global growth, low inflation, favourable financial conditions and higher corporate profits have supported risk assets for much of 2017. Global growth forecasts have been marginally upgraded during 2017 with GDP now expected to rise 3.1%. In the industrialised economies, 2.1% growth continues to be eclipsed by 4.5% in the emerging world. The pickup in global trade and investment, as well as robust business sentiment surveys, suggests global GDP could be 3.3% in 2018. Despite unemployment at multi-year lows, globalisation of the supply chain and product/process innovation is still dampening inflation with CPI expected to rise marginally to 1.6%.

Boosted by anticipated personal and corporate tax cuts and hurricane-related government spending, the US is on track to expand 2.2% this year and 2.7% in 2018. The surprise this year has been the broad-based recovery in the Eurozone which is now catching-up with the US. Like Japan, the region is benefitting from the cyclical upturn in global trade - exports should increase 4.6% year-on-year - as well as a strong rise in domestic construction and investment. Private consumption is steady rather than spectacular which suggests euro strength may constrain exports next year.

Meanwhile, the German election result has weakened Chancellor Merkel’s position, with a coalition increasing the likelihood of further sizeable fiscal stimulus and criticism of European Central Bank (ECB) quantitative easing. Negative bond yields out to seven years are having an adverse impact on the financial stability of small unprofitable German banks. The ECB is due to announce tapering plans and possibly a first interest rate hike in late October.

FUND MANAGER COMMENT

During the period, we kept asset allocation changes to a minimum, apart from marginally increasing our exposure to European equities at the expense of the US. Many areas of the stock market continue to look fairly priced, thus we are mindful that when companies do hit a bump in the road, the market is taking a very unforgiving view. As such, in a less certain environment we remain disciplined to lock in profits and invest in strong business models and companies with leading market positions.

Stock selection continued to benefit the fund’s performance during the quarter, with European equities as the largest positive contributor to the fund’s performance, followed by North American and UK equities. At the stock level, the largest positive contributors were Kingspan (Ireland, building insulation), Philips (Netherlands, healthcare supplies) and Arcadis (Netherlands, infrastructure consultancy). German healthcare provider, Fresenius, was the largest negative contributor to fund’s performance.

Fresenius shares were weak as its new acquisition, generic drug maker Akorn, reported lower quarterly sales figures than expected. Akorn’s revenue decline appears product specific, rather than due to broader pricing pressure currently being experienced by smaller peers. Fresenius management suggested this decline was expected and has been built into the initial FY18 guidance they communicated at the time of the acquisition, which we believe to be realistic. We continue to like Fresenius and think that investors’ concerns are now priced in.

We initiated a new position in German KION Group. We like the fact that the company is set to benefit from the increasing spending in warehouse automation, driven by e-commerce and the need to optimise and rationalise complex supply chains across most industrial sectors, to offer productivity gains and reduce costs.
KION builds and supports logistic solutions to optimise material handling and information flow within warehouses, distribution centres and factories across many industries. It is a leading provider of warehouse automation, forklifts and industrial trucks across the world. It enjoys leading market positions, particularly in Western Europe and the US, as well as an increasing presence in China. We also like Kion’s growing capability on real time and knowledge-based logistic software, as this is the next generation technology in warehouse management and control software to deploy mobile robotics.

It is worth noting that after a few months in the doldrums, gold enjoyed a good quarter, partly because of escalating geopolitical tension between America and North Korea. We maintain a 5% exposure to physical gold ETFs as a protection against event risk and the opportunity for un-correlated returns.

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

OUTLOOK

The corporate operating environment is favorable with profitability, helped by recovering energy and commodity prices, expected to rise 15% this year and 10% in 2018. In contrast to recent years, more companies are benefiting from revenue growth, as higher nominal GDP boosts sales and reduced reliance on cost cutting. Having said that, the cycle has reached the stage where profit margins continue to expand, helped by slowing inflation and subdued wage growth. As such, we remain mindful that any earnings disappointment would be taken very badly by the markets. At 17 times forward earnings, equities are not compelling but they are not at extreme levels either. Attractive dividend yields mean equites still look good value against bonds. Our equity preferences evolve with the business cycle, however we remain focused on companies with strong balance sheets and free cash flow that can enhance returns through dividend increases and share buy backs.

### ASSET ALLOCATION

<table>
<thead>
<tr>
<th>Alternative Investments</th>
<th>Cash</th>
<th>Fixed Interest</th>
<th>Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.64%</td>
<td>2.49%</td>
<td>12.95%</td>
<td>69.92%</td>
</tr>
</tbody>
</table>

### INVESTMENT THEMES

<table>
<thead>
<tr>
<th>Water</th>
<th>Cash</th>
<th>Energy</th>
<th>Resources</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.63%</td>
<td>2.49%</td>
<td>18.11%</td>
<td>34.53%</td>
<td>8.39%</td>
</tr>
</tbody>
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### 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 £21.8bn (as at 31 March 2017).
- 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 Old Mutual Ethical 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 15 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.

WILLIAM BUCKHURST - Fund Manager

William joined the company in 2006, having previously worked at UBS Wealth Management and Laing & Cruickshank. He manages discretionary portfolios for private clients, trusts, and charities, and is the co-manager of the Libero Balanced Fund and the Climate Assets Fund. He also sits on Quilter Cheviot’s Collective Funds Committee. He is a member of the Chartered Institute for Securities & Investment and a graduate of Newcastle University.

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