CLIMATE ASSETS FUND
QUARTERLY UPDATE - Q1 2019

APRIL 2019 - FOR EXISTING INVESTORS ONLY

quiltercheviot.com
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CLIMATE ASSETS FUND (B-SHARE, ACC) – Q1 2019 - OVERVIEW

- Over the first quarter of 2019, your fund's return was +8.36%, ahead of the peer group's return of +6.45%. The MSCI WMA Private Investor Balanced Index returned +7.70%.
- 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 investment conditions this year.
- Since launch (1st March 2010) your fund has returned +108.63% 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 (+76.43%).

FUND PERFORMANCE (TO 31 MARCH 2019)	3 months %	1 year %	Since launch %
Climate Assets Fund - B Accumulation	8.36	9.31	108.63
IA Mixed Investment 40%-85% Shares Sector	6.45	4.30	76.43
MSCI WMA Private Investor Balanced Index	7.70	6.73	100.39

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 31/03/2019. **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 locked in the profits we made on our tactical position in US Treasuries, by selling the holding in the Barclays US Treasury Bond ETF. We also decided to sell underperforming holding GEA Group. Despite the fact that earnings estimates have been revised down aggressively, there is no guarantee that we have seen the end of earnings downgrades.

We increased our equity content by starting new positions in German Infineon Technologies and UK Persimmon.

- Infineon provides semiconductor and system solutions to support the automotive, power management, electronics, industrial and communications sectors. The company provides power converters to the top electric vehicle manufacturers in the US, Europe and China. It also participates in the driver safety space, where it provides an increasing number of sensors needed for autonomous driving. We like Infineon's exposure to China, its largest single market generating over 25% of revenues. As key supplier to Tesla, we also see Infineon as a beneficiary of the electric car industry growth.
- 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.

Thermo Fisher, Halma and United Pacific produced particularly good returns during the quarter. After adding value during the latter part of last year, gold slipped back. North American equities contributed strongly to returns follow by European and UK equities. We ended the period with a higher allocation to equites as we added risk back at the beginning of March.

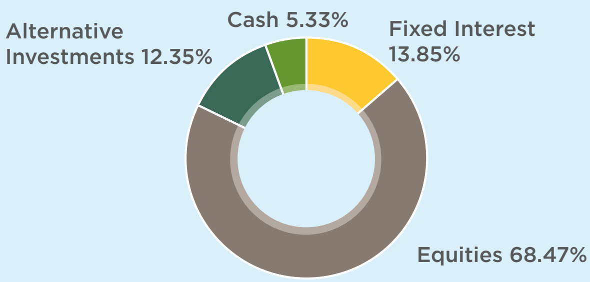
References to specific securities are not recommendations to buy or sell those securities.

OUTLOOK

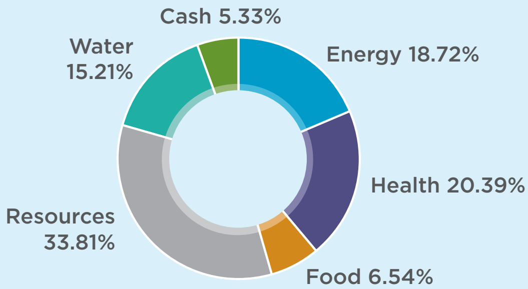
Estimates for corporate earnings have been revised down in recent months to around 5% growth from 14% last year. Company guidance and analyst estimates are positioned for an Asian and European cyclical upturn with consumer and non-bank financial sectors topping the growth tables. The strong rise in share 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.

ASSET ALLOCATION



INVESTMENT THEMES



QUILTER CHEVIOT

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- 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 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 member of the Chartered Institute for Securities & Investment. At Quilter Cheviot, she sits on the International Equities Investment Committee.

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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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