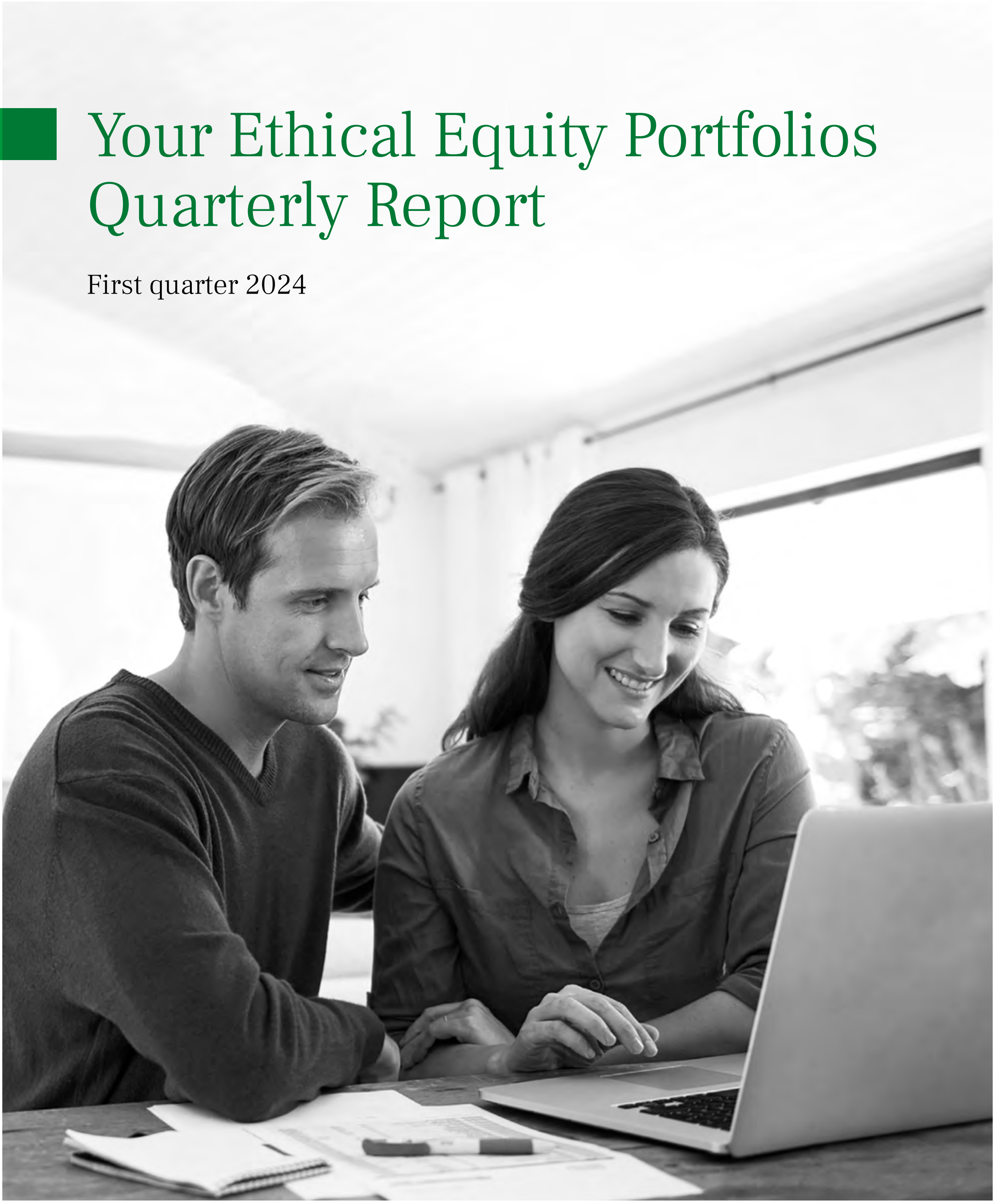
UK: Suitable for retail and professional clients.

Quilter Investors

Your Ethical Equity Portfolios Quarterly Report

First quarter 2024



What your report covers

- Our market summary
- Your performance review
- Your performance summary
- Portfolio changes
- Investment outlook
- Important information

To aid in your understanding, definitions for the terms that appear underlined are hyperlinked, and can be found in the glossary at the end of the document.

Marcus Brookes
Chief Investment Officer

Our market summary

Strong company earnings, improving economic data and broadly easing inflation, saw global equities leap 9.3%. Developed markets notably outperformed emerging markets with AI-related stocks continuing to generate great interest, especially in the US. Even so, Japan was the top-performing regional equity market. Against a backdrop of robust economic gains and changing expectations as to the timing of interest-rate cuts, government bonds declined while corporate bonds were mostly flat.

Equity markets

Despite downward revisions to the expected pace of US interest-rate cuts, US equities surged 11.4% over the quarter on the back of robust corporate earnings and resilient economic numbers. The Magnificent Seven were especially prominent. The best returns came from the communication services, energy, technology, and financials sectors. Meanwhile, more interest-rate sensitive sectors, such as real estate and utilities, struggled.

European equities trailed those in the US and Japan but still delivered a 7% gain. As in the US, tech stocks led the field thanks to the ongoing exuberance for all things AI. Stocks in the financials, consumer discretionary and industrials sectors also prospered against a backdrop of steadily improving economic data and declining inflation, which boosted cyclical stocks. Stocks in the utilities, consumer staples and real-estate sectors trailed.

The UK equity market trailed once more. It returned 3.7%, partly due to its high weighting to value stocks during an ongoing rally in growth stocks. The mood was further spoiled by data showing the UK economy fell into a technical recession in the second half of 2023 as consumer spending struggled in the face of higher inflation and interest rates. Cyclical stocks, such as financial, industrial and energy companies, generally outperformed.

Emerging markets gained 3.4%. Despite leaping 9% in February, Chinese equities finished the quarter down 1.3%. Peru was the top performer. Like Columbia, it benefited from interest-rate cuts. Conversely, Turkey performed well after recent rate hikes, which were welcomed by investors as a return to conventional monetary policy. Taiwan and India also outperformed. While Korea, South Africa and Brazil all trailed, Egypt was the worst performer.

Fixed-income

UK gilts trailed other government bonds. They declined 1.9% in the face of elevated UK service inflation and wage growth, and the Bank of England reiterating that UK rates would need to remain restrictive until inflation returned to target. US Treasuries fell 1%. The US Federal Reserve (Fed) kept rates on hold but, by the end of the quarter, markets were pricing-in just three US rate cuts in 2024, down from a forecast six rate cuts at the start of January.

Source: Quilter Investors as at 31 March 2024. Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. The performance shown for global equity markets is represented by the MSCI AC World Index; developed markets by the MSCI World Index; US equities by the MSCI USA Index; European equities by the MSCI Europe ex UK Index; UK equities by the MSCI United Kingdom All Cap Index; UK smaller companies by the MSCI United Kingdom Small Cap Index; emerging markets by the MSCI EM (Emerging Markets) Index; Chinese equities by the MSCI China Index, US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK gilts by the ICE BofA UK Gilt Index; and sterling corporate bonds by the ICE BofA Sterling Corporate Index.

Claudia Quiroz
Fund Manager

Your performance review

The fund returned 6.8% during the first quarter of 2024, trailing its peer group, the Investment Association (IA) Global sector, which gained 7.8%. This underperformance was driven by our regional allocation. Relative to the MSCI World Index, the fund was underweight to both North American and European markets, which saw sizeable gains over the quarter. The fund ended the period in the third quartile of its sector peer group but still remains comfortably in the first quartile of the IA Global sector over one, three and five-year time periods.

Resource efficiency still racing away

Our best performing theme in the first quarter was, once again, resource efficiency. This was notably underpinned by our technology sector holdings. At the stock level, the top contributors to returns were the US chipmaker Nvidia, the Japanese measuring instrumentation manufacturer, Horiba, and the world's largest independent manufacturer of microchips, Taiwan Semiconductor Manufacturing (TSMC).

Electric shock

The Spanish renewable energy company EDP Renováveis, was among the worst performers of the period as reported revenues came in lower than expected, due to lower electricity prices and escalating project costs arising from delays in its Colombian operations. We added to our position in this pure-play renewables operator in the previous quarter, and we remain confident in its expertise.

Your performance summary

The Quilter Investors Ethical Equity Fund's growth over year to end of March

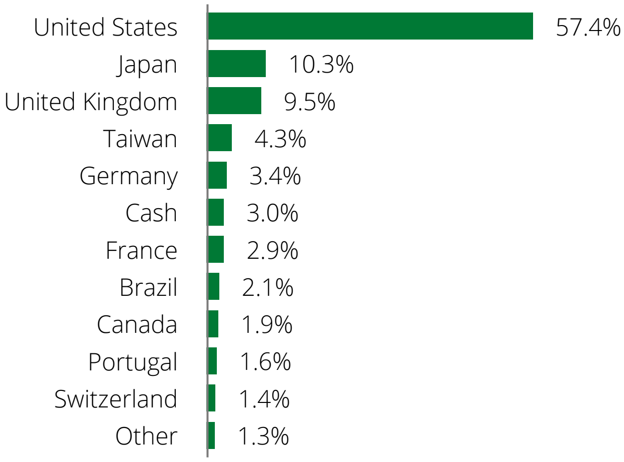
	2023 - 2024	2022 - 2023	2021 - 2022	2020 - 2021	2019 - 2020
Ethical Equity Fund	**22.1**	**-0.2**	**14.8**	**42.9**	**-5.2**
Benchmark	22.6	-0.7	14.9	39.9	-6.0

The Quilter Investors Ethical Equity Fund's growth to end of March

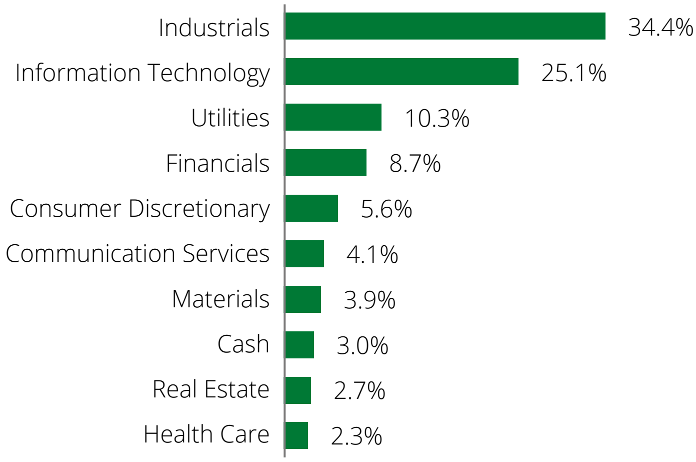
	3 months	6 months	1 year	3 year	5 year	Since launch
Ethical Equity Fund	**6.8**	**18.1**	**22.1**	**39.9**	**89.5**	**229.1**
Benchmark	9.9	17.2	22.6	39.9	84.0	272.2

Source: Quilter Investors as at 29 March 2024. Total return, percentage growth, net of fees, rounded to once decimal place of the R (GBP) accumulation units. The fund launched on 18 February 2013. The benchmark was the FTSE Environmental Opportunities All Share index from 18 February 2013 to 30 November 2015, the FTSE World index from 1 December 2015 to 30 December 2023, and the MSCI World Index from 31 December 2023 to 29 March 2024.

Country allocation



Sector allocation



Portfolio changes

The main changes made to your portfolio over the last quarter are shown below.

New and increased holdings

T-Mobile

Using sale proceeds, we initiated a new position in the US telecoms company T-Mobile, which operates the third-largest wireless network in the US and holds a 30% market share. After increased investment in its network and coverage, T-Mobile is gaining traction and enticing customers away from key competitors. We see it as the best US 5G network, but one that still offers better share-price value than others.

Relx

We initiated a new position in the UK analytics and decision-making tools provider Relx. It offers structural growth opportunities thanks to its range of sophisticated, information-based products, which aim to help companies make better decisions. We like its business scale, which underpins a significant competitive advantage for the company, and its recent shift to a digital model.

Canadian Pacific Kansas City Railway and East Japan Railway

Canadian Pacific is the best-in-class US railroad thanks to a recent merger making it the only railroad running a single-line service in Canada, Mexico, and the US. As rail is four times more fuel efficient than trucking and produces 75% fewer greenhouse gasses, we expect to see the conversion to rail freight accelerate. Elsewhere, we added to East Japan Railway in the expectation of increased margins.

Palo Alto Networks

The US cybersecurity specialist, Palo Alto Networks, is now the biggest in the market following its acquisition of Cisco's cyber business. It stands to benefit greatly from the advent of cloud computing, digital transformation, and AI.

Removed and reduced holdings

Intermediate Capital Group and AptarGroup

We disposed of our position in the UK alternative asset manager Intermediate Capital Group. Elsewhere we decided to part with the US drug-packaging specialist AptarGroup, which was harshly penalised when it missed sales forecasts late in 2023.

Investment outlook

After falling substantially from its peak, US inflation has levelled out to remain in a range of 3% to 4%. The fact that it's remained above the Fed's 2% target explains why we've yet to see an interest-rate cut. The Fed has now kept US interest rates at a 22-year high of 5.25% to 5.50% since June 2023, while the Bank of England has maintained its base rate of 5.25%, a 16-year high, since August 2023.

Changing focus

Lately, investors' laser-focus on monetary policy has eased with more attention now on economic survey data that support the prospect of a soft landing. It's now two years since the Fed and other central banks embarked on aggressive rate-tightening, but most economies have fared far better than expected. The US was the world's fastest-growing advanced economy in 2023, delivering 2.5% GDP growth.

Markets in buoyant mood

Because major economies have so far avoided sharp contractions, without the need for monetary support, central bankers have bided their time, letting today's high interest rates eat away at inflation. Consequently, should economic activity suddenly deteriorate, central banks are in a position to act swiftly, having kept their powder dry so far. Meanwhile, market conditions remain positive, despite changing interest-rate expectations and the mounting geopolitical risks on the horizon.

Favourable backdrop for investors

Overall, we see the current backdrop as a favourable one for investors. Inflation is falling and central banks are still likely to start cutting interest rates this year. Although these expected cuts will probably come later than initially anticipated and be far fewer in number than the market was pricing-in at the start of the year, this is due to the better-than-expected economic backdrop, which continues to support equity markets.

Glossary

Corporate-bonds
Corporate bonds are bonds issued by companies. They are generally riskier than government bonds, so corporate bonds normally offer higher interest rates (or yields) to compensate for the additional risk.

Cyclical-companies
Cyclical companies are those whose fortunes are closely linked to the economic cycle. This means their revenues generally rise during periods of economic growth and fall during recession.

Emerging-markets
Emerging markets are developing economies that are in the process of transitioning into becoming developed markets by evolving their industries, infrastructure, and political and legal systems.

Gilts
Gilts is the name given to bonds issued by the UK government.

Government-bonds
Government bonds, also known as sovereign bonds, are bonds issued by governments.

Growth-stocks
Growth stocks tend to be younger companies that derive their value from the rate at which they're expected to grow their future earnings. Generally, they pay limited dividends as they reinvest their profits to grow their businesses.

Magnificent-seven
Magnificent Seven is a term used to describe Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia and Tesla. They are also referred to as mega-caps.

Monetary-policy
Monetary policy refers to the tools and actions, such as interest rate changes, that a central bank can take to influence borrowing costs and money supply in its economy.

Treasuries
Treasuries are US government bonds. They are issued by the US Treasury.

Value-stocks
Value stocks tend to be well-established, mature businesses. They are companies whose share price is low relative to their value. Consequently, value stocks are among those with the highest dividend yields.

Thank you for investing with us

Keep an eye out for your next Quilter Investors Ethical Equity Fund quarterly report available in July.

Want more updates about your portfolio?

Please visit our website at ***www.quilter.com*** for all the latest news, views, and portfolio information.

Your financial adviser is on hand to discuss anything related to your investment decisions or the suitability of the products mentioned in this document.

If you are a financial adviser and you have any questions or want to find out more about our solutions, please speak to one of our investment directors on +44 (0)207 167 3700, email us at ***enquiries@quilter.com***, or visit our website at ***www.quilter.com***.

Important information

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

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