UK: Suitable for retail and professional clients.
Singapore: For existing accredited and institutional investors only.

Compass Portfolios

Monthly commentary – Review of August 2023

Our market summary

Global equity markets retreated 2.3% in August with both developed and emerging equity markets in decline. This was partially due to the ongoing economic slowdown in China and its knock-on effects for global manufacturing sectors. Meanwhile, uncertainty as to the direction of US interest rates soured investor sentiment with rate-sensitive sectors such as technology and consumer staples being especially impacted.

Marcus Brookes
Chief Investment Officer

Equity markets

Conjecture over the direction of monetary policy weighed heavily on US equities in August which led to a 1.7% decline. Markets had assumed that the US Federal Reserve's (Fed) monetary tightening cycle had climaxed in July, but minutes released from the meeting highlighted a mix of opinions from within the Fed, casting doubt over the immediate direction of interest rates. As a result, technology stocks tumbled and dragged markets lower.

A mixed bag of eurozone economic data saw European equities fall by 3.9% in August. Annual inflation figures were resilient, although core inflation, which omits food and energy prices, fell. Meanwhile, business activity figures reached a 33-month low. This left the European Central Bank with much to consider ahead of next month's interest-rate decision meeting.

Increasingly negative economic data and market sentiment impacted UK equities, leading to a 4.0% loss. Inflation remained stubbornly high, with the Bank of England (BoE) moving to increase interest rates once again. UK interest rates rose to 5.25% with the BoE warning that rates may need to stay higher for longer to bring inflation back to its target range of 2%. The UK energy sector was the only outlier; it delivered a positive gain in August.

Egypt, Hungary, and Turkey were the only positive contributors in what was a challenging month for emerging market economies. Negative sentiment stemming from China's economic malaise and the potential ramifications of US interest rates remaining higher delivered a 6.1% drop to emerging market equities. China's disappointing 're-opening' and its imploding domestic property sector had a heavy impact; Chinese equities were down by 9.0%.

Fixed income

In a notable development, the credit rating agency Fitch downgraded the US from Triple-A, the highest rating, to Double A+. Fitch cited the nation's increasing debt and an "erosion of governance" as its key rationale. The US announced ambitious borrowing plans in August which sparked a brief rise in US Treasuries (US government bonds) before they retreated to deliver a loss of 0.6%. Meanwhile, global corporate bonds (issued by companies) fell by 0.4% while high-yield bonds dipped by 0.2%.

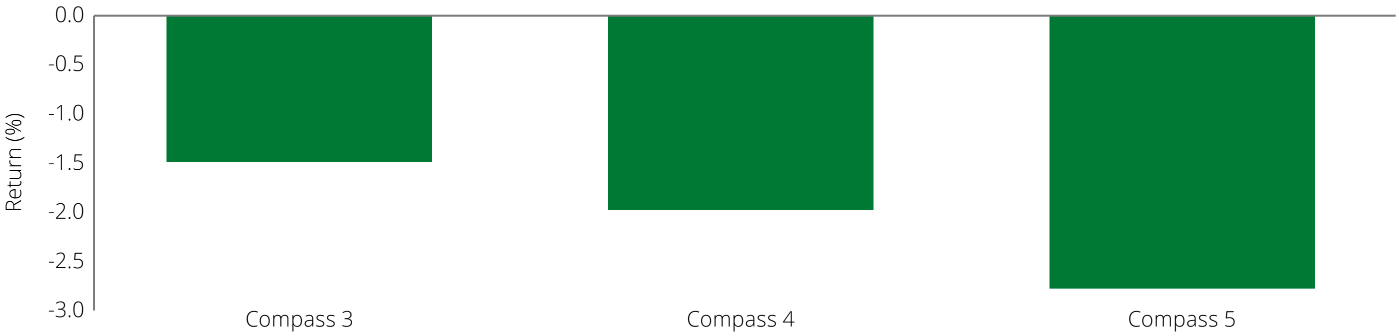
Source: Quilter Investors as at 31 August 2023. Total return, percentage growth in US dollars except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI World Index; US equities by the MSCI USA Index; European equities by the MSCI Europe ex UK Index; UK equities by the MSCI United Kingdom All Cap Index; emerging markets by the MSCI EM (Emerging Markets) Index; US Treasuries by the ICE BofA US Treasury Index; global corporate bonds by the Bloomberg Global Aggregate - Corporate (USD Hedged) Index; and global high-yield bonds by the Bloomberg Global High Yield (USD Hedged) Index.

Sacha Chorley
Portfolio Manager

Performance review

The Compass Portfolios delivered muted loses of between 1.5% and 2.8%, with the higher-risk portfolios suffering most due to their higher equity exposure. Global equities struggled in August as concerns as to weaker economic growth, particularly in China, coincided with stronger data from the US suggesting that interest rates would stay higher than previously expected. Consequently, our equity allocations delivered the biggest losses although the relative outperformance from most of our equity managers helped to mitigate this somewhat. Within the Compass 3 and Compass 4 portfolios, our fixed-income holdings provided some useful diversification by outperforming equities. Meanwhile, our alternatives allocations generated positive gains thanks chiefly to strong performance from our 'macro' strategy holdings.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of August*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*	*2018 - 2019*
Compass 3	-1.5	6.2	5.5	4.2	9.5	22.2	5.5	-14.5	15.5	6.5	-1.4
Compass 4	-2.0	8.6	8.0	9.9	16.6	38.0	8.0	-16.2	21.5	9.3	-2.9
Compass 5	-2.8	11.4	10.6	12.5	20.6	51.4	10.6	-20.6	28.0	11.9	-4.2

Source: Quilter Investors as at 31 August 2023. Total return, percentage growth, net of fees, rounded to one decimal place of the A (USD) Accumulation shares. The Old Mutual Compass Portfolios were launched on 19 April 2016 as a sub-fund of Merian Global Investors Series PLC and were merged on 7 June 2019 into the Quilter Investors Compass Portfolios. The performance history shown includes the performance of the of the Old Mutual Compass Portfolios from 19 April 2016 to 7 June 2019 until the portfolios merged.

Portfolio activity

Activity focused on maintaining the portfolio's desired targets over the month, with no changes to our ***tactical asset allocation*** views. There was one disposal from the portfolio, the JPM US Opportunistic ***Long-Short*** Equity Fund, which was removed following news that the fund is to merge into another vehicle following a spell of disappointing performance. This fund was held within an alternatives allocation with the proceeds being re-allocated across our existing holdings.

Investment outlook

The global economy has continued on a trajectory that implies a 'soft landing' or 'muddle through' environment: growth is slowing (but not too severely) while inflation is falling, but slower than most of us would like. Consequently, we don't see many compelling opportunities at current market levels, where valuations are neutral and profit growth uncertain. Therefore, we are positioned fairly cautiously, close to our ***strategic asset allocation*** (SAA), with high cash weightings. Meanwhile, the notable absence of consensus as to likely market direction accounts for why many markets remain range-bound (where the price stays between a specific high price and a low price).

1. Can US consumers stay fit?

We see the US economy as being the marginal driver of global growth. This means that much will depend on US consumer confidence. The scorecard here is increasingly mixed: while US unemployment remains extremely low and job creation and wage growth are robust, especially for lower-income workers, savings rates are falling while loan and credit card defaults are rising, suggesting that many US consumers are living beyond their means.

2. Murky outlook for corporate profits

Company profits have stalled as revenue increases have been swallowed up by rising commodity and wage costs. One reason for optimism is the pick-up in capital expenditure as companies invest in reworking supply chains and 'onshoring' manufacturing. This should lead to more efficient processes, improved productivity, and more domestic jobs. However, we've yet to see the full impact of higher interest rates feeding into company financing costs.

3. 'Good news' still 'bad news' for markets

We're continuing to see an unusual paradigm where good economic data triggers a short-term sell-off in equity and bond markets due to fears it will force central banks to keep interest rates higher for longer. This will make life harder for consumers and companies, but we think it's better to be worried about too much growth, rather than too little. The counter is that greater overheating today could mean even higher rates and a harder, more painful landing in the future.

Thank you for investing with us

Keep an eye out for your next Compass Portfolios quarterly report available in October.

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***.

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The ICAV has appointed KBA Consulting Management Limited as manager of the ICAV (the "Manager"). The Manager was incorporated on 4 December 2006 as a limited liability company in Ireland under number 430897. The Manager's main business is the provision of fund management services to collective investment schemes such as the ICAV.

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Your attention is drawn to the stated investment policies which are set out in the Funds' prospectus.

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Where the shares are acquired by persons who are relevant persons specified in Section 305A of the SFA, namely:

A corporation (which is not an accredited investor (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 305 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(i)(B) of the SFA (in the case of that trust);

(2) Where no consideration is or will be given for the transfer;

(3) Where the transfer is by operation of law;

(4) As specified in Section 305A(5) of the SFA; Or

(5) As specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

QI 26364/29/4435/September 2023/SK19510