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Quilter
Investors

Your Compass Portfolios Quarterly Report

First quarter 2024



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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 8.3%. 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 10.4% 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 6.1% 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 2.8%, 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 2.4%. Despite jumping over 8% in February, Chinese equities finished the quarter down 2.2%. 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



US Treasuries fell 0.9% in the face of robust US economic data and persistent levels of inflation. 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 the year. Global bond indices were flat while global high-yield bonds pushed 2.1% higher.

Source: Quilter Investors as at 31 March 2024. 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 AC World Index; developed market equities 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 Emerging Markets Index; US Treasuries by the ICE BofA US Treasury Index; global bonds by the Bloomberg Global Aggregate (US dollar hedged) Index; and global high-yield bonds by the ICE BofA Global High Yield (USD Hedged) Index.

Your performance review



Sacha Chorley
Portfolio Manager



As of 2 April 2024, the management and distribution of the Quilter Investors Compass Portfolios was delegated to Quilter Cheviot Europe Limited and the portfolio names changed to the Quilter Cheviot International Portfolios.

For more information please visit: [Quilter Cheviot International Portfolios | Quilter.](#)

The Compass Portfolios delivered strong gains ranging from 3.9% for the Compass 3 Portfolio, to 7.1% for the Compass 5 Portfolio. The quarter saw a continuation of the heightened levels of investor risk-appetite – the so-called ‘risk-on’ sentiment – that lifted markets at the end of 2023, following the Fed’s surprise December pivot on the US interest-rate outlook. The expectation of interest-rate cuts to come, a slew of corporate earnings reports that delivered positive surprises, and inflation remaining contained, if not fully tamed, helped numerous regional equity indices to hit new all-time highs. Our equity holdings were by far the most dominant driver of returns, but all asset classes within the Compass Portfolios contributed positively, despite broader fixed-income indices either declining or remaining flat over the quarter.

The Quilter Investors Compass Portfolios growth year by year to end of March

	2023 - 2024	2022 - 2023	2021 - 2022	2020 - 2021	2019 - 2020
Compass 3	11.1	-7.6	-0.1	30.5	-9.9
Compass 4	14.8	-9.0	1.7	42.4	-12.7
Compass 5	19.6	-11.6	2.7	54.6	-15.7

The Quilter Investors Compass Portfolios growth to end of March

	3 months	6 months	1 year	3 years	5 years	Since launch
Compass 3	3.9	10.8	11.1	2.5	20.5	31.8
Compass 4	5.2	13.8	14.8	6.3	32.1	51.9
Compass 5	7.1	17.8	19.6	8.6	41.6	70.9

Source: Quilter Investors as at 29 March 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the A (USD) accumulation shares in US dollars. 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 30 March 2024 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 30 March 2024 until the portfolios merged.



How our equity holdings performed

US markets still racing away

North American equities continued to generate the greatest part of portfolio returns, especially those holdings focused on larger-cap growth stocks. The Sands Capital US Select Growth and the Quilter Investors US Equity Growth funds were the most notable contributors here. Those managers focused on smaller companies, or those in the value stock space, such as the Brandes US Value Fund, underperformed the broader market but still delivered gains.

Long-awaited comeback: Japan

Japanese equity markets were the top performers. Buoyed by strong earnings delivery from Japanese companies, a weak yen and an improving economic backdrop, major Japanese indices hit new all-time highs during the quarter, after a 34-year wait. The yen's weakness, relative to the US dollar, moderated returns for Compass investors somewhat, but holdings such as the M&G Japan Fund still delivered a very robust 12.2% to US-dollar based investors.

Thematic funds underperform

Our energy-transition and healthcare themed holdings delivered lacklustre performance. Weak earnings undermined the energy-transition universe while the more defensive healthcare sector inevitably underperformed in the midst of a broad risk-on rally. Pleasingly, the Schroder Global Energy Transition and the AB International Healthcare funds were both able to outperform their respective benchmark indices, despite trailing broader equity markets.



How our fixed-income holdings performed

Small positions, small impact

While overall returns from our fixed-income holdings were positive, they were also modest.

Our active positions in fixed income remain small and, consequently, our active returns from this sphere were also small. Our allocations to high-yield bonds delivered the best contributions to the fixed-income portfolios. Elsewhere, our bias towards short-dated bonds detracted from returns.

Similarly, our allocation towards UK government bonds (gilts) added little over the quarter.



How our alternative holdings performed

Convexity funds shine

Our allocation to alternatives delivered positive returns in aggregate thanks, in great part, to our holdings in the convexity strategy sleeve of the portfolio. Holdings such as the AQR Managed Futures and the Allianz Fixed Income Macro funds were particular highlights over the period.

Elsewhere, tightening supply lines and rising prices in commodity markets led to gains for the L&G Multi Strategy Enhanced Commodity Fund. This helped to offset weakness from the infrastructure positions we hold in the inflation-linked strategies sleeve of the alternatives portfolios, which struggled due to the interest-rate outlook.

Portfolio changes

We reduced our exposure to high-yield bonds, reflecting what we saw as stretched valuations and less potential upside, and rotated the proceeds into existing equity positions. This saw us trim holdings such as the Federated Hermes Unconstrained Credit Fund. The Sandbar Global Equity Market Neutral Fund was the one disposal in the alternatives portfolios.

Removed holdings



Sandbar Global Equity Market Neutral

Following our research review of this holding, we decided to remove it from the Compass Portfolios due to our loss of conviction in the manager and its approach.



Investment outlook

Although we believe the global economy remains on course for a soft landing, the economic divergence between regions is becoming ever more apparent. US economic growth remains strong, whereas Europe and the UK have struggled with anaemic growth for over a year. The US is seeing a potential reacceleration in inflation that's less apparent in European and UK data (although much of this difference is down to peculiarities in housing cost measures rather than real world differences). Even so, this presents the prospect of a divergence in monetary policy. While the European Central Bank (ECB) is clearly signalling a June interest-rate cut, it's looking increasingly likely that the Fed will need to wait a little longer. In the meantime, the solid economic growth in the US should provide a significant tailwind for its equity market.

1. Real incomes improving

Over the past year or so, inflation has fallen faster than wage growth, which is improving real incomes ie income after inflation. This is gradually restoring household purchasing power and helping to insulate economies from more material economic slowdowns. But stronger demand fuels inflation, which means expectations for interest-rate cuts have been dialled back. This makes the outlook for bonds more difficult to forecast and we retain a neutral weighting here.

2. A positive backdrop for risk

We think the path of least resistance in the coming months is for equity markets to continue moving higher. Corporate earnings have remained solid and while interest-rate cuts would be an additional positive, the reason we have yet to see them is the more robust than expected growth in the US economy, which should be good for equity markets. This leads us to running a modest equity overweight in the portfolios.

3. What if we're wrong?

The biggest risk to a soft landing is that it develops into a hard landing. This would hurt equity markets, but provided we avoid stagflation, where ailing growth is accompanied by elevated inflation, bonds should perform well. However, recent economic data have raised the prospect of a re-acceleration in growth and inflation. While we think a continuation of this is unlikely, due to the delayed effects of the interest-rate rises, it's a risk that we remain aware of nonetheless.

Thank you for investing with us

Keep an eye out for your next Compass Portfolios monthly commentary available in May.

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.



Glossary

Consumer-discretionary

Consumer discretionary companies provide goods and services that consumers consider non-essential, but highly desirable if their income allows. Consequently, consumer discretionary companies tend to be the most sensitive to economic cycles.

Convexity-strategies

Convexity strategies are investment strategies that create positions where the payoff is greater than the potential loss, or that available from its benchmark. They can outperform in rising and falling markets but tend to lag when markets are flat.

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.

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.

Hard-landing

A hard landing is when a central bank, such as the Bank of England, raises interest rates to slow an economy resulting in a recession. Raising rates without causing a recession is called a soft landing.

High-yield-bonds

High-yield bonds are bonds issued by countries, companies, or institutions with lower creditworthiness who must pay greater rates of interest to compensate their bondholders for the increased risk.

Inflation-linked-strategies

Inflation-linked strategies aim to deliver returns that rise in line with inflation. Such strategies include commodities-based approaches as well as real assets such as infrastructure or property strategies.

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.

Overweight

Overweight is when a fund or portfolio holds a larger position in a particular stock, sector, region, or strategy than the index or model against which it's benchmarked. Underweight means the opposite.

Pivot

Pivot is the term used to describe when central banks turn from being hawkish, (raising interest rates to fight inflation), to being dovish, (reducing interest rates to help support the economy), or vice versa.

Short-dated-bonds

Short-dated bonds, also known as short-maturity bonds, are bonds with, generally, five years or less until maturity. They tend to be less volatile than longer-dated bonds as the principal is repaid more quickly, so can be re-invested earlier.

Soft-landing

A soft landing is when a central bank, such as the Bank of England, can successfully slow down inflation, by raising interest rates, without causing a recession. When a central bank raises rates too quickly or by too much, it can cause a recession. This is known as a hard landing.

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.



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 rates may cause the value of overseas investments to rise or fall.

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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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The prospectus, KIID, and/or other relevant offering documentation is available free of charge at: United Kingdom: Quilter Investors Limited, Senator House, 85 Queen Victoria Street, London, United Kingdom, EC4V 4AB. Other: Quilter Investors ICAV; c/o MFD Secretaries Limited, 32 Molesworth Street, Dublin 2, Ireland.

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- (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 304 of the SFA,
- (b) to a relevant person (as defined in Section 305(5) of the SFA), or any person pursuant to an offer referred to in Section 305(2) of the SFA, and in accordance with the conditions specified in Section 305 of the SFA or
- (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

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

- (a) 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
- (b) 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.