UK: Suitable for retail and professional clients.
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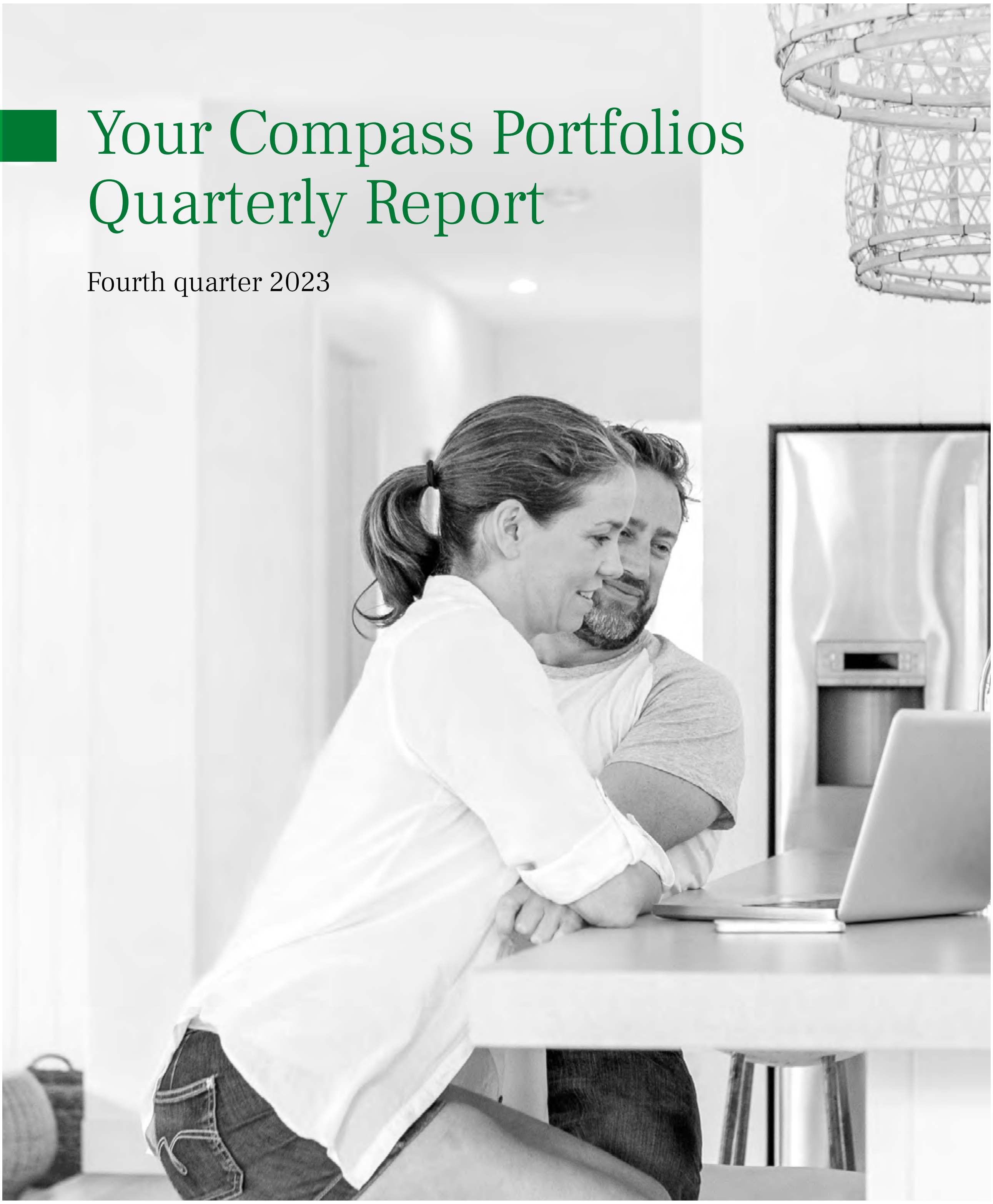
Quilter Investors



Your Compass Portfolios Quarterly Report

Fourth quarter 2023

What your report covers

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

Marcus Brookes
Chief Investment Officer

Our market summary

In November, signs of falling inflation in the US, Europe, and UK triggered the best month for global equities since the news of a covid vaccination broke three years ago. By mid-December, the rally was given further impetus by the US Federal Reserve's (Fed) surprise pivot from maintaining interest rates to pencilling-in cuts in the year ahead. Developed market equities significantly outperformed emerging markets to gain 11.5%, while bond markets enjoyed their best quarter for more than two decades.

Equity markets

Buoyed by rising expectations of US interest-rate cuts in the face of consistently falling inflation numbers, US equities enjoyed their strongest quarter since 2020. They surged 12% over the quarter to finish the year at close to record highs. The surprise Fed pivot further boosted the rally, with interest-rate sensitive sectors such as technology and real-estate stocks leading the market while energy stocks gave back some of the gains from the previous quarter.

Europe was the top-performing regional market as investors ignored a looming recession in Germany and declining economic data to focus on falling inflation numbers. Euro area annual inflation fell to 2.4% in November after starting the year at 8.6%. Led by real-estate, technology, industrial and materials stocks, European equities jumped 12.4% over the quarter, catapulting the region from being one of the year's underperformers, to being one of its leaders.

UK equities trailed other regions to return 7.8%. However, UK smaller companies substantially outperformed larger stocks. They benefitted most from expectations that UK interest rates had peaked while sterling strength undermined larger UK companies, which generate the majority of their revenues overseas. As elsewhere, technology and real-estate stocks were prominent, while energy and defensive stocks trailed.

Currency strength is when a currency, such as sterling, rises relative to another currency. If a sterling investor holds a US dollar investment, and sterling rises relative to the US dollar, the return from the investment will decrease.

Emerging markets underperformed developed market equities to deliver 7.9%. Chinese equities were among the worst performers, they declined by 4.2%. Meanwhile, Taiwan and South Korea surged on the back of renewed demand for technology stocks, which feature prominently in their respective indices. India also performed strongly alongside markets such as Brazil, Egypt, Mexico and Poland. Meanwhile, crisis-hit Turkey was the worst performer.

Fixed-income

Falling US inflation data, followed by the Fed's surprise pivot in mid-December, from its 'higher-for-longer' narrative to considering interest-rate cuts, delivered the strongest quarter for global bond markets in over 20 years. US Treasuries (US government bonds) jumped 5.7%, broader global bond markets gained 6% while higher-risk, global corporate bonds (issued by companies) gained 7.5%.

Source: Quilter Investors as at 31 December 2023. Total return, percentage growth in US dollars except where shown, rounded to one decimal place. The performance shown for developed market 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; UK smaller companies by the MSCI United Kingdom Small 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 bonds by the Bloomberg Global Aggregate (USD Hedged) Index.

Your performance review

Sacha Chorley
Portfolio Manager

The Compass Portfolios delivered strong returns, ranging from 6.6% for the Compass 3 Portfolio, to 10% for the Compass 5 Portfolio. The greatest gains went to those portfolios with the highest level of equity exposure.

Although portfolio returns were primarily driven by equity markets, with the strongest returns coming from smaller-cap and growth-oriented managers, all asset classes contributed positively.

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

	2022 - 2023	2021 - 2022	2020 - 2021	2019 - 2020	2018 - 2019
Compass 3	10.2	-14.2	6.4	8.0	13.8
Compass 4	13.6	-16.6	10.5	10.7	18.3
Compass 5	17.4	-21.3	14.7	13.4	22.2

The Quilter Investors Compass Portfolios growth to end of December

	3 months	6 months	1 year	3 years	5 years	Since launch
Compass 3	6.6	4.6	10.2	0.6	23.7	26.8
Compass 4	8.1	5.7	13.6	4.7	37.2	44.4
Compass 5	10.0	6.6	17.4	6.1	47.1	59.6

Source: Quilter Investors as at 29 December 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.

How our equity holdings performed

Growth resurgence

After the declines of September and October, markets rebounded strongly through November and December with growth-oriented stocks leading the way in every market. The portfolios benefitted through holdings in growth funds such as the Sands Capital US Select Growth Fund, which outperformed its benchmark by 9%. However, value-oriented holdings, such as Brandes US Value, detracted from returns.

Divergence between regions

Growth expectations in the US continued to improve while policy changes in China saw renewed weakness in that market – notably towards the end of December when an announcement on tighter controls of gaming stocks led to falls in big Chinese stocks such as Tencent and Alibaba. For this reason, Asian and global emerging market funds were among the weaker performers. They delivered an average of 7%, while developed equities gained more than 13%.

Small-cap stocks come racing back

Although they performed well, the Magnificent Seven cohort of US mega-cap tech stocks didn't dominate the leader board in the same way as in the first three quarters of the year. For once, the broader US equity market outperformed. Smaller companies did especially well after being mauled earlier in 2023. This helped the Premier Miton US Opportunities Fund to outperform both the broader US market and smaller companies indices over the quarter.

Small-/mid-/large-/mega-cap refers to the market capitalisation (market cap) or size of a given stock. This is literally its size as a company based on the total value of all the shares it has issued.

How our fixed-income holdings performed

Bond markets off to the races

Bond markets enjoyed their best quarter for two decades thanks to softening inflation numbers in November and a surprise pivot by the Fed in December. Consequently, our fixed-income holdings delivered strong gains. The cream of the performance came from our higher-risk, corporate bond (issued by companies) holdings, which form the bulk of our fixed income exposure. Our overweight position to higher-yielding corporate loans was especially rewarding, in particular, through our allocation to the Premier Miton Financial Capital Securities Fund, which benefitted from its holdings in bank capital assets.

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

How our alternative holdings performed

Interest-rate sensitive holdings bounce

Our alternatives holdings delivered aggregate gains with the best returns coming from infrastructure and renewables holdings such as The Renewables Infrastructure Group (TRIG), which strongly rebounded thanks to the prospect of interest-rate cuts. The improved sentiment helped the extensive discounts in such sectors to narrow, generating returns of around 10% over the quarter. Elsewhere, the Allianz Fixed Income Macro Fund was another standout performer thanks to its manager taking advantage of the fall in bond yields (meaning their prices rose) while also adding incremental returns through inflation and currency-related positions.

An investment trust 'discount' is when the share price of an investment trust is worth less than the net asset value (NAV) of its underlying portfolio. When the opposite is the case, it is said to trade at a 'premium'.

Portfolio changes

Early in the quarter, we bought government bonds, ending our underweight relative to our strategic asset allocation (SAA) model. This enabled the portfolios to benefit from the subsequent fall in government bond yields (meaning their prices rose). Although we re-introduced the underweight in early December, we reversed this position following the Fed's surprise pivot in mid-December. Overall equity risk remained in line with our SAA with an overweight to high-yield bonds maintained throughout the period. A small hedging position in the yen was opened in October and closed at a profit in December. Late in the quarter, we initiated a small position in energy transition equity funds and upgraded our commodity exposure.

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

New and increased holdings

Schroders Global Energy Transition Fund

This position implements our new tactical overweight to energy transition equities. The Schroders team is experienced in energy investing, especially in purer-play energy transition businesses. The team combines backgrounds in both traditional and alternative energy, which should mean it can assess new investments cynically. This is important as it needs to avoid the 'story' stocks.

L&G Multi Strategy Enhanced Commodity ETF

The fund offers an enhanced commodity exposure in two ways. Firstly, the cost of holding positions is reduced by intelligent positioning on each commodity futures curve. Secondly, the strategy re-weights the commodities it holds according to where there are likely to be the most possible returns, based on the shape of the futures curve.

Removed and reduced holdings

WisdomTree Enhanced Commodity Fund

The WisdomTree Fund was sold to invest in the L&G strategy, which we think stands to provide stronger returns over time.

Lyxor US$10Y Inflation Expectations ETF

The Lyxor fund was removed from the inflation sleeve of the alternatives portfolios in order to re-allocate to real-asset holdings where the upside case seemed more favourable given the change in interest-rate expectations.

Investment outlook

The story of last year was one of a recession that never happened. Although economic growth in the US unexpectedly accelerated in the third quarter, the general trend has been for softening, but still positive real growth. Inflation has also been slowing steadily and approaching central bank targets, which gave Fed chair Jerome Powell the confidence to open the door to rate cuts at the Fed's December meeting. This contributed to a bumper final quarter for both equity and bond markets, leaving US equities close to all-time highs. Investors drove home for Christmas with renewed optimism, a widespread acceptanc that a 'soft landing' for the US economy was likely, and confidence that central banks would soon ride to the rescue with interest-rate cuts.

1. Our thoughts

Last year, we were sceptical of recession forecasts due to the lagging impact of interest-rate hikes on the real economy and robust US growth momentum that was supported by a strong labour market. We see several possible paths ahead, but now the Fed has indicated its inclination to cut interest rates to protect growth, we believe the risk of a material recession has been reduced. However, the path lower in inflation will not be as smooth as many have come to hope.

2. Great expectations

The bond market currently expects almost six US interest-rate cuts from the Fed in 2024, with expectations for Europe and the UK not far behind. We worry that market pricing may have got ahead of itself creating the risk of near-term disappointment, particularly if inflation were to surprise with another rise. Although economic growth is slowing, it's still positive, and the Fed has made it clear its next move is likely to be a cut, so the backdrop looks reasonably supportive.

3. Tempered optimism

We remain much in line with our strategic asset allocation (SAA) model with small overweights to risky assets through high-yield bonds, which typically perform well in the kind of 'muddle through' economic environments like the one we expect to see from here.

Thank you for investing with us

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

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 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 Funds invest principally in other collective investment schemes. The Funds may be more than 35% invested in Government and public securities. These can be issued by other countries and Governments. The net asset value of the Fund may have high volatility due to the nature of the asset class invested.

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

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Additional Information (UK):

The ICAV is registered for public sale in the United Kingdom. An investor should read the Key Investor Information Document(s) ("KIID") before investing in any sub-fund of the ICAV. The KIID and the prospectus can be obtained from www.quilter.com in English. Certain paying and/ or information agents have been appointed in connection with public distribution of the shares of the ICAV in certain jurisdictions.

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.

Additional Information (Singapore):

The Funds are only notified as restricted schemes by MAS and are not allowed to be offered to the Singapore retail public. This marketing document shall be construed as part of an information memorandum for the purposes of section 305(5) of the Securities and Futures Act, Cap. 289 of Singapore (the "SFA"). Accordingly, this marketing document must not be relied on or construed on its own without reference to the information memorandum. This marketing document is not a prospectus as defined in the SFA and accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply.

This document has not been registered as a prospectus by the MAS, and the offer of the shares is made pursuant to the exemptions under Sections 304 and 305 of the SFA. Accordingly, the shares may not be offered or sold, nor may the shares be the subject of an invitation for subscription or purchase, nor may this marketing document or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made

(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.

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