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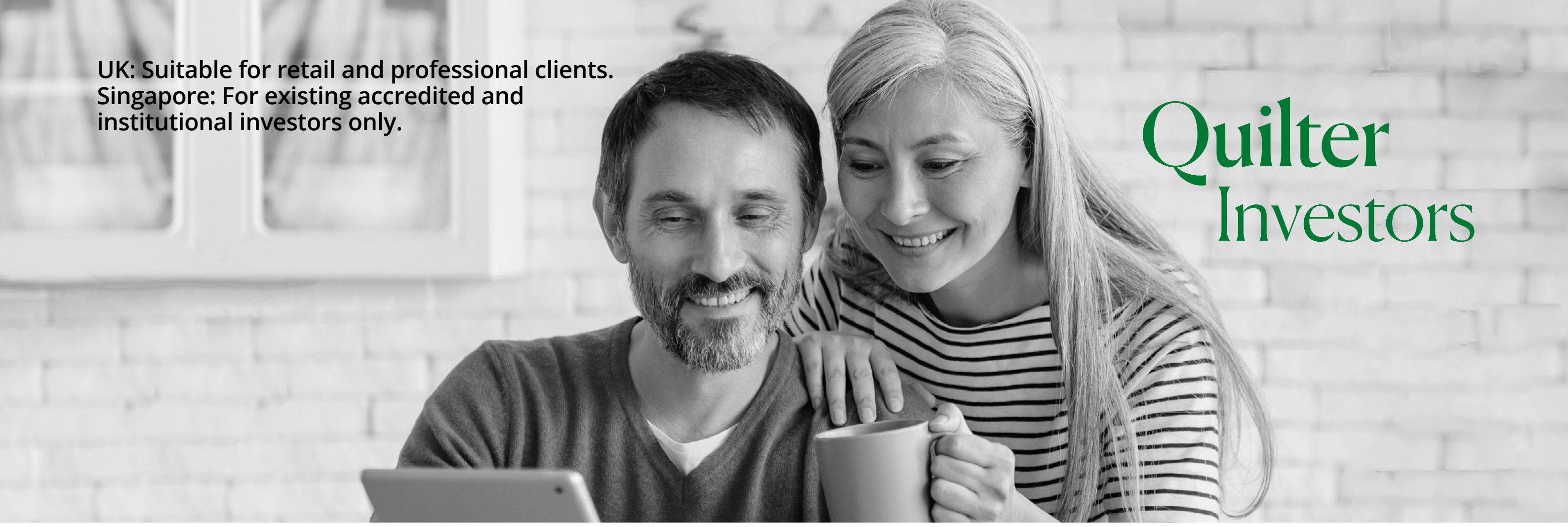

Compass Portfolios

Monthly commentary – Review of April 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Global equities gained 1.8% in April. Losses in China, which undermined Asian and emerging market equities, and a small decline in US equities due to the strength of sterling, were mostly balanced by strong returns from Europe with UK equities once again proving to be the top-performing region. Meanwhile, the banking sector continued to creak, particularly in the US, with the Federal Reserve (Fed) tempering short-term expectations for the US economy.

Equity markets

Dampened investor confidence stemming from the ongoing banking issues paired with muted economic forecasts from the Fed weighed on US stock markets, which declined 1.3%. In the banking sector, there were echoes of last month's merger between Credit Suisse and UBS as the US regulators helped facilitate the purchase of the troubled First Republic Bank by JP Morgan.

European stock markets continued their recent upswing, delivering a return of 4%. This was partly due to positive economic data showing growth for the region over the first quarter, most notably driven by Italy and Spain. Similarly, a raft of positive corporate earnings reports helped buoy stock markets, with energy and real-estate – both of which had lagged the market last quarter – bouncing back to be the top-performing sectors.

Inflation persisted as the chief concern in the UK. With both headline and core inflation remaining higher than forecast, expectations of further interest-rate hikes from the Bank of England increased. Despite this, UK stock markets rallied gaining 5.3% thanks to a pronounced rebound in financial sector stocks, which benefit from rising interest rates, and the UK's extensive exposure to energy stocks.

Negative sentiment towards China's stock market impacted emerging markets, with emerging markets equities down 1.1% in April. China's stock markets fell by 5.2%, despite improving economic numbers, due to continued tensions with the US surrounding trade and Taiwan. Turkey, one of 2022's top performers, also lost ground ahead of May's general election whilst Latin American markets generally outperformed, as did India and Indonesia.

Fixed income

Global bond markets were up 0.5% in April, having tremored in March following the well-publicised issues with some banks. Expectations surrounding continued interest-rate rises from central banks, due to persistently high inflation levels, muted performance over the period, with US Treasuries (US government bonds) returning 0.4%.

Total return, percentage growth in US dollars except where shown, rounded to one decimal place. Global equities are represented by the MSCI World Index; US equities by the MSCI US Index; European (excluding UK) equities by the MSCI Europe ex UK Index; UK equities by the FTSE All-Share Index, emerging market equities by the MSCI EM (Emerging Markets) Index; Chinese equities by the MSCI China Index; global bonds by Bloomberg Global Aggregate - Corporate (USD Hedged) Index, and US Treasuries by the ICE BofA US Treasury (USD hedged) Index.

Sacha Chorley
Portfolio Manager

Performance review

The Compass Portfolios delivered modest gains of between 0.7% and 1% in April.

Performance summary (%)

	Cumulative performance						*Discrete annual performance*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*28 Apr 22 - 28 Apr 23*	*30 Apr 21 - 30 Apr 22*	*30 Apr 20 - 30 Apr 21*	*30 Apr 19 - 30 Apr 20*	*30 Apr 18 - 30 Apr 19*
Compass 3	0.7	3.8	-2.1	13.2	7.3	19.4	-2.1	-7.9	25.5	-5.4	0.3
Compass 4	0.8	4.9	-2.2	21.5	13.6	33.3	-2.2	-8.3	35.5	-7.2	0.8
Compass 5	1.0	6.1	-2.8	27.6	16.7	44.3	-2.8	-10.4	46.5	-9.5	1.0

Source: Quilter Investors as at 28 April 2023. Total return, percentage growth, net of fees of the A USD Acc share class rounded to one decimal place. 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 funds merged.

How our equity holdings performed

European markets lead the way

European markets once again delivered the strongest returns. UK equities gained over 5.1% while continental European markets were up 4%. Although accounting for a relatively small weight in the portfolios, these holdings helped to drive performance over the month with the Liontrust UK Growth Fund delivering a gain of 5% for US dollar-based investors.

Loss mitigation helps total returns

It was our more defensive managers that tended to perform best in April. The Wellington Durable Enterprises Fund was the strongest performing holding; it outperformed its benchmark by 1.5%. Meanwhile, funds with greater exposure to riskier small-cap or aggressive growth positions, fared worst. The Sands US Growth Fund was one example; it underperformed the broader US market by some 3.5% in April.

Asia struggles

Asian markets were weak, caused by weakness in China and Taiwan in particular, possibly a consequence of an increase in Taiwan-related tensions, triggered by some provocative Chinese military exercises during the month. Funds with larger exposures here included the Quilter Investors Emerging Market Growth Fund and the Fidelity Asia Pacific Opportunities Fund, which both delivered losses over the month.

How our fixed income holdings performed

Bonds generate small gains

The broad fixed-income universe returned to a more typical level of volatility over the month with bond yields generally ending the month virtually where they had started. Corporate bonds (issued by companies) outperformed in April, and this benefitted the positioning in the Compass Portfolios. Our exposure to riskier corporate bonds was especially helpful with our high-yield bond holdings making worthwhile gains. Meanwhile, the Premier Miton Financial Capital Securities Fund rallied thanks to the continuing recovery of 'CoCo' bonds in April.

Contingent convertibles (CoCos) are bonds mainly issued by European banks. The issuing bank has the option to convert them from bonds into equity to help improve their capital buffers in times of stress, which makes them riskier for holders but leads to a higher yield. They are also referred to as alternative Tier 1 capital notes (AT1s).

How our alternative holdings performed

Mixed performance across strategies

Returns from our alternatives holdings were mixed over the month with most positions delivering only modest returns. Our holdings in the infrastructure space were the best performers in April. Returns here ranged between a small loss of around 1% and a strong gain of 4%. The top performer was the Hipgnosis Songs Fund, which rallied over 7%. Meanwhile, the losses suffered in the portfolio were also modest. The worst performer was the Allianz Fixed Income Macro Fund, which declined by 1.4%.

The Hipgnosis Songs Fund is a UK investment trust which pays investors an income derived from the licensing of musical intellectual property rights.

Portfolio activity

We started building a new position with a specialist US equity value manager. The Brandes US Value Fund has been added to enhance the active manager line up and to benefit from the investment philosophy employed by Brandes. The position was introduced towards the end of the month, and we will continue to build it over the course of May. This will largely be through the sale of the smart-beta iShares Edge MSCI USA Value ETF.

Investment outlook

Investment markets are, broadly, in 'wait and see' mode. Over the past year, central banks have delivered a series of rapid interest-rate increases to try to bring inflation back to more palatable levels. Although these rate hikes now appear to be mostly behind us, their impact has yet to be fully felt as it will take time for them to work their way through the system via higher mortgage and borrowing rates. The question is whether they will be sufficient to reduce inflation without simultaneously inflicting too much harm on the broader economy.

1. Inflation is high and 'sticky'

US inflation has been the most responsive to higher interest rates. The headline rate of US inflation has so far fallen from around 9% to 5%, although this is still well above the Fed's 2% target. Meanwhile, 'core inflation' has hovered between 5.5% and 6.5% for the past year. The picture in the UK and Europe is less encouraging; inflation here remains stubbornly high and will likely need to break materially lower to aid further equity market gains.

Core inflation is a measure of the rise in prices, which excludes the (more volatile) changes in the price of food and energy. It is most often calculated using the consumer price index (CPI), a measure of prices for goods and services.

2. The job market remains strong

Central banks are also concerned as to an overheating jobs market which could drive higher wage growth and embed still higher inflation (even though more money in the pockets of consumers generally means better economic growth). The labour market has started to cool but will need to moderate further to ease such concerns. In the meantime, with US wage growth now above inflation, this will hopefully start to alleviate the 'cost of living crisis', in the US at least.

3. A telling season...

The recent downturn in corporate profits had caused us to be more cautious on equities this year. Consequently, we're focused on the first quarter results season to see if this was merely a blip, or the start of a more worrying trend. A return to corporate profit growth would support the case for additions to our equity exposure while further falls would leave us happy to maintain the high cash weighting currently in the Compass Portfolios.

Thank you for investing with us

Keep an eye out for your next Compass Portfolios monthly report in June.

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

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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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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.

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