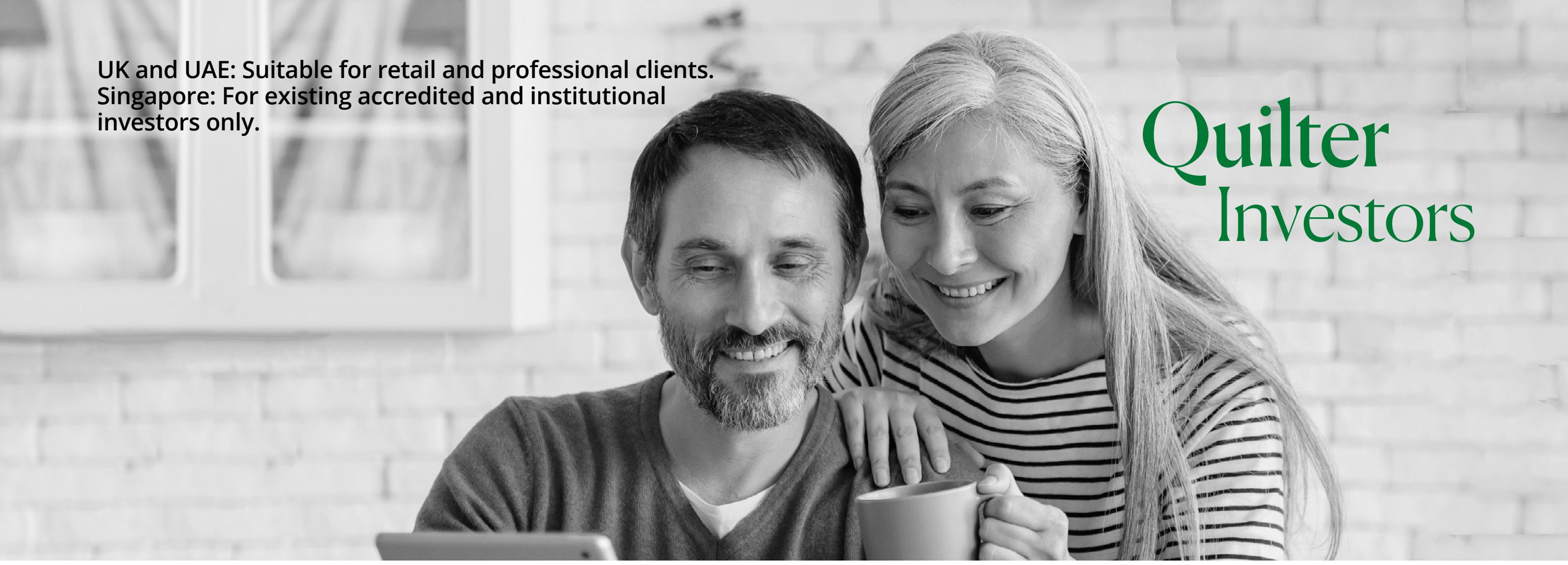

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Quilter Investors

Compass Portfolios

Monthly commentary – Review of February 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Although all asset classes made gains in January, it was a different story in February with only UK equities generating a positive return. All other regional equity markets declined as did government and corporate (issued by companies) bonds. While the latest data showed inflation to be slowing, any hopes of a swift easing in interest rates were dashed by the central banks. Despite headline inflation visibly waning, central bank policymakers cautioned that interest rates are likely to head higher than expected.

Equity markets

US equities (company shares) were down by 2.4% over the month. The US Federal Reserve (Fed) raised interest rates by 0.25% while acknowledging that inflation appeared to be slowing. The Fed also indicated that rate rises would continue in the short term and that its 'terminal rate' (the peak in US rates) may be higher than originally hoped. At a sector level, technology stocks were more resilient than of late, while energy stocks were weaker.

European stock markets were down 0.9% in February, but positive for sterling investors. The European Central Bank (ECB) raised interest rates by 0.5% as inflation remained high in certain parts of the bloc. Even so, economic data for the continent continued to deliver positive surprises with most commentators expecting less encouraging numbers due to the region's proximity to the Ukraine war and its reliance on Russian oil and gas.

The UK was the top performing regional market gaining 0.2% and up higher for sterling investors. News that the UK had narrowly avoided recession in the last quarter of 2022 helped the FTSE 100 Index to a new all-time high. Energy, healthcare, and telecoms companies outperformed, partly due to the strength of the US dollar, while some more domestically-focused stocks also benefited. Meanwhile, the Bank of England raised interest rates by 0.25%.

After a positive start to the year, emerging market equities fell 6.5% in February. This was in large part due to negative investor sentiment surrounding China, following its 'spy balloon' debacle which, once again, raised tensions with the US. Chinese equities fell by 10.4% during the month. India and Poland were two of the stronger performers, while Brazil continued to stall.

Fixed income

Global bond prices fell (meaning their yields rose) in February as markets re-evaluated the outlook for interest rates. Following more interest-rate hikes and guidance from central banks, markets grappled with the prospect of interest rates remaining higher for longer. This saw US Treasuries (US government bonds) decline by 1.2%. European bond markets performed better on the back of improving economic data.

Total return, percentage growth in US dollars. Each return figure is represented by an appropriate market index.

Sacha Chorley
Portfolio Manager

Performance review

The Compass Portfolios delivered modest losses ranging from 1% for the Compass 3 Portfolio to 1.4% for the Compass 5 Portfolio over the month. After the strong rally in January, risk assets took a step back in February as concerns as to higher interest rates and weaker corporate earnings sapped investor risk appetite.

Equity market weakness accounted for the majority of the losses suffered by the Compass Portfolios, but all asset classes – with the exception of cash – were weak. That said, our fixed-income and alternatives holdings performed better than our equity positions in February.

Performance summary (%)

	Cumulative performance						*Discrete annual performance*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*28 Feb 22 - 28 Feb 23*	*28 Feb 21 - 28 Feb 22*	*28 Feb 20 - 28 Feb 21*	*28 Feb 19 - 29 Feb 20*	*28 Feb 18 - 28 Feb 19*
Compass 3	-1.0	2.8	-6.5	6.1	5.0	18.2	-6.5	-1.4	15.1	1.9	-2.9
Compass 4	-1.1	3.6	-7.1	12.0	10.1	31.7	-7.1	-0.1	20.8	2.2	-3.9
Compass 5	-1.4	4.4	-9.5	15.9	11.8	41.9	-9.5	0.5	27.4	1.3	-4.8

Source: Quilter Investors as at 28 February 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

Underlying managers outperform

Most of our underlying managers, irrespective of region or investment style, outperformed their respective benchmarks helping to soften losses in several areas. The biggest contributions came from our more defensive managers. The Wellington Durable Enterprises Fund declined 1.9% but outperformed the MSCI AC World Index by 0.9%, while the growth strategy, the Sands Global Leaders Fund, also outperformed its benchmark by 0.3%.

UK and Europe outperform the US

Both UK and continental European markets outperformed their transatlantic cousins over the month, while the weakness of the US dollar in February boosted returns from assets denominated in sterling or euros. Consequently our holdings in these regions were among the top performers in February with the Quilter Investors Europe ex UK Equity Fund, managed by Janus Henderson, delivering a 1.5% gain to US dollar-based investors.

Healthcare underwhelms

Our overweight to the healthcare sector was a small detractor from returns as the sector fared worse than broader equity markets due largely to the impact of rising interest rates. The global healthcare sector declined 4.3% in February while the MSCI World Index fell just 2.4%. Even so, our higher-quality equity manager AllianceBernstein outperformed the sector by around 1.1% over the month, which helped to stem losses here.

Currency exchange rates impact investments in other countries. If the currency of the investment rises compared to sterling, this adds to returns; if it falls, this reduces returns.

How our fixed income holdings performed

Rising interest rates hurt bond holdings

Fixed-income markets struggled over the period as unexpectedly strong economic data triggered a market re-pricing of interest-rate expectations. In the US, markets are now expecting interest rates to be above 5% in a year's time; at the end of January, the same expectation was for 4.5%. Given this, bond yields generally rose (meaning their prices fell) which delivered losses for our fixed-income holdings. Meanwhile, our corporate bond (issued by companies) holdings struggled versus broader bond markets but returns were still modestly positive, with riskier credit managers in particular outperforming their benchmarks.

Credit is another term for corporate bonds.

How our alternative holdings performed

Inflation strategies struggle

Although they declined overall, our alternatives holdings helped to mitigate losses by outperforming equity markets. Returns across strategies varied. Our alpha and carry strategies delivered well, with funds like Celsius QMS and the Mygale Event Driven Fund both delivering positive returns over the month. Elsewhere, our inflation-linked strategies were the weakest with both real-asset holdings, such as HICL Infrastructure, and our commodity exposure via the WisdomTree Enhanced Commodity ETF, underperforming equity markets, which undermined their diversification benefits during the month.

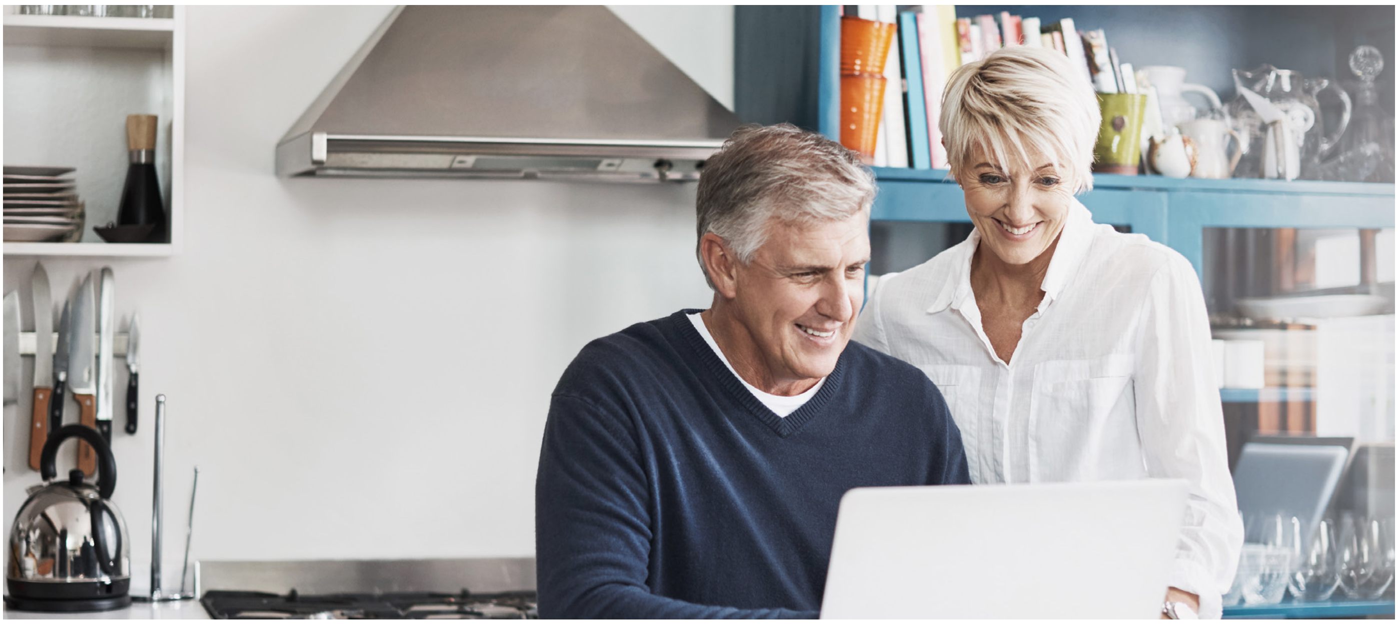
Inflation-linked strategies aim to deliver returns that rise in line with inflation. Such strategies include commodities-based approaches as well as 'real assets' such as infrastructure or property strategies.

Portfolio activity

Although the Compass Portfolios strategic asset allocation (SAA) was already light on government bond exposure, the substantial decreases in yields (meaning their prices rose) in January provided an opportunity to decrease exposure at the beginning of February. This was rewarded through the month with Treasury yields moving from 3.4% at the end of January to closer to 4% by the end of February (meaning their prices fell significantly).

Elsewhere, we also introduced a higher-yielding money market fund as today's high interest-rate environment presents the opportunity to generate greater returns from our cash holdings at very low risk.

The strategic asset allocation (SAA) is our long-term model asset allocation. It establishes how much of each portfolio should be invested in different asset classes such as equities, bonds, property, alternatives and cash.



Investment outlook

After our stance of cautious optimism through 2022, we have turned slightly more pessimistic as some of the data in the corporate world are indicating lower earnings; this typically means weaker share price returns on a forward-looking basis. However, some economic data remain surprisingly resilient.

Currently, we're focusing on the three key questions below to help us adjust the portfolios to deliver the best outcomes for our investors in the coming months.

1. Are activity levels peaking?

The labour market in the US remains remarkably robust with healthy wage growth supporting consumption; similar pictures can be seen in most major economies. However, there are weaker signs from economic activity surveys, weaker business demand for industrial goods and increasing corporate layoffs. Our base case is now for a gradual slowdown after the high economic growth rates of 2021, but we're also watching for signs of something potentially more harmful.

2. How quickly will inflation fall?

Many of the factors that drove inflation to the highs we saw in 2022 are unwinding. For example, freight costs and many commodity prices have fallen back to the levels we saw prior to the Ukraine invasion. But 'stickier' components such as housing or services costs are continuing to rise. This leads us to believe that interest rates will go still higher before they start to relent.

3. When will companies return to growth?

The latest earnings season showed a decline in aggregate corporate earnings, which is a signal for weaker forward returns. As we progress through the months ahead we will be looking for signs that corporate earnings are once again on the up, regardless of whether this comes from increased revenue, due to stronger demand, or through the stout defence of company margins.

Earnings seasons are quarterly. They are the periods when listed companies release their financial data including information on company revenues, sales, profits and margins as well as more granular details of the underlying business, its liabilities and its forecasts for future revenue growth.

Thank you for investing with us

Keep an eye out for your next Compass Portfolios quarterly reports in April.

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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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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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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