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

Quilter Investors

Compass Portfolios

Monthly commentary review of January 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Markets were upbeat in January due to improving inflation data in the US and expectations that the US Federal Reserve (Fed) may shift towards lowering interest rates later in 2023. Positive sentiment surrounding China's re-opening, following the end of its zero-covid policy, helped lead emerging market equities higher, while sectors within Europe and the UK also benefitted. Interest-rate rises from central banks remain on the cards, but at a much slower rate than witnessed throughout 2022.

Equity markets

January was a positive month for US stock markets with US equities rising by 6.6%. Improving investor sentiment continued from the last quarter of 2022, particularly regarding inflation, which continued to fall. This, paired with expectations of less aggressive interest-rate rises from the Fed, buoyed investor confidence, with growth sectors, such as technology, performing strongly during the month.

European stock markets continued their strong run with European (excluding UK) equities up by 9.4%. Europe was one of the top regional markets thanks to China's re-opening. Its luxury goods and consumer discretionary sectors (non-essential products and services that consumers tend to purchase when consumer confidence is positive) both added value. Meanwhile, inflation continued to fall, although further interest-rate rises are still expected.

The UK followed other regional stock markets higher, albeit to a lesser degree, with UK equities gaining 7.0% over the month. Better-than-expected economic data helped allay fears of a deeper recession, although growth remains muted relative to other developed economies. Domestically-focused companies were strong performers throughout January, while defensive sectors such as healthcare lagged the market.

China remained the big story for emerging markets, which continued to react positively to the former's re-opening. In January, Chinese equities rose by 11.8%, while emerging market equities gained 7.9%. Outside of China, the Czech Republic, Mexico, South Korea and Taiwan were among the top contributors to performance. Meanwhile, Brazil continued to drag on performance, due to political unrest and rising inflation.

Fixed income

Global bonds enjoyed a largely positive month in January due to improving inflation data coming out of the US and Europe, alongside expectations of less aggressive interest-rate rises from central banks. US Treasuries (US government bonds) gained 1.9% over the month, while corporate bonds in both the US and Europe outperformed their government equivalents.

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 positive returns over the month. The higher-risk portfolios fared best thanks to their greater exposure to equities, with returns ranging from 3.8% for the Compass 3 Portfolio to 5.9% for the Compass 5 Portfolio.

Performance summary (%)

	Cumulative performance						*Discrete annual performance*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*31 Jan 22 - 31 Jan 23*	*31 Jan 21 - 31 Jan 22*	*31 Jan 20 - 31 Jan 21*	*31 Jan 19 - 31 Jan 20*	*31 Jan 18 - 31 Jan 19*
Compass 3	3.8	3.8	-6.0	2.7	3.2	19.5	-6.0	0.2	9.1	8.7	-7.6
Compass 4	4.8	4.8	-6.5	7.7	7.2	33.2	-6.5	2.2	12.6	11.0	-10.3
Compass 5	5.9	5.9	-8.9	9.6	8.6	43.9	-8.9	3.4	16.3	12.9	-12.2

Source: Quilter Investors as at 31 January 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

China re-opening drives returns

In a continuation of the theme that's dominated index returns since early November, China's economic re-opening underpinned robust returns from both our emerging market and European equity allocations. The biggest beneficiaries in the Compass Portfolios included the Pacific North of South Fund, which gained 11.5%, and the Fidelity Asia Pacific Opportunities Fund, which added 11.4%.

Earnings and growth in focus

Growth strategies significantly outperformed value in January as hopes of easing interest rates helped to restore valuations while investors were also cheered by better-than-expected earnings from companies like Meta (Facebook). Hence, while the Redwheel Global Equity Income Fund delivered a modest 4.4% return, more growth-oriented exposures such as the Granahan US SMID Select Fund, gained 6.3%.

European resurgence?

European markets also outperformed in January thanks to the region's strong trade ties with a re-opening China, especially in areas such as luxury goods and automobiles. The chief beneficiary of this in the portfolios was the Quilter Investors Europe ex UK Equity Fund, managed by Janus Henderson, which rose 7%. Meanwhile, the UK-focused Liontrust UK Growth Fund delivered a more modest return of 3.2%.

How our fixed income holdings performed

Credit drives fixed-income returns

In aggregate, the fixed-income portfolios delivered positive contributions in January. Although prices improved for government bonds, our underweight position here meant some returns were foregone. However, all our corporate bond holdings performed well. This played nicely into our overall positioning where we have an overweight to high-yield bonds. During the month, the Premier Miton Financial Capital Securities and the Hermes Unconstrained Credit funds both delivered returns in excess of 3%, easily outstripping government bond markets.

When a fund is 'overweight', it holds a larger position in a particular stock, sector, or region than the index or asset allocation against which it's benchmarked. 'Underweight' means the opposite.

How our alternative holdings performed

The performance of our alternatives holdings was mixed over the month. Our long/short equity funds, such as the JP Morgan Opportunistic Long Short Fund, struggled despite the more constructive market backdrop. Our fixed-income holdings fared better with the Brevan Howard Absolute Return Government Bond Fund generating a 0.7% gain and the Allianz Fixed Income Macro Fund up 1%. It was our inflation-linked 'real asset' holdings (physical assets with intrinsic worth such as real estate, infrastructure, commodities, and precious metals) that fared the best with HICL Infrastructure and International Public Partnerships being the standouts, generating 1% and 0.7% respectively.

A long/short equity fund is a strategy based on buying, or going 'long', on equities that are expected to rise in value and selling 'short' equities that are expected to fall in value.

Portfolio activity

Activity was relatively muted during the first month of the year. Trading was focused on ensuring the portfolios remained appropriately positioned and dealing with cashflows from investors with no significant new additions to, or departures from, the portfolios.

Investment outlook

We ended 2022 with a view of cautious optimism. So far, we remain of that mind but are keenly awaiting some crucial datapoints to help us assess whether this position remains warranted. The likely paths of the labour market and inflation are key to understanding where we go from here. As investors we also want to ensure company earnings growth continues to be delivered. Interrogating the commentary from company management can be very helpful in gaining insight into the conditions on the ground in numerous industries.

1. Labour market remains robust

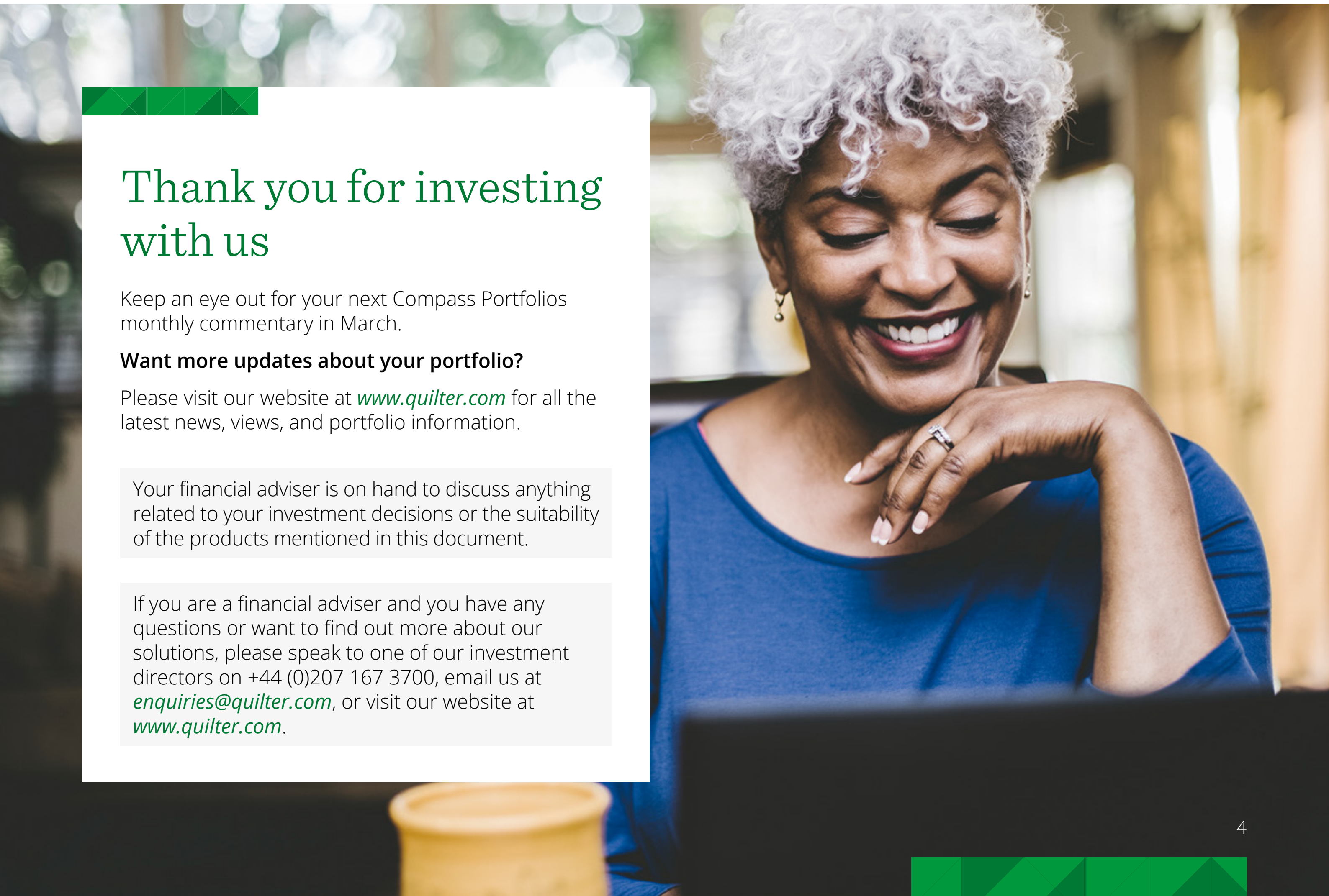
The labour market in the US remains remarkably robust with healthy wage growth supporting consumption. It's a similar picture in most major economies. However, the labour market being too strong means that central banks will need to continue to raise interest rates, potentially more than the market is currently forecasting.

2. Inflation is falling, but how far will it go?

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 levels last seen prior to the Ukraine invasion. However, 'stickier' (meaning more resilient) components of inflation such as housing and services costs are continuing to rise. This leads us to believe there's more 'upside risk' to interest rates from here (i.e. interest rates may need to rise further than is currently forecast).

3. Are companies growing?

We closely monitor company earnings news and, so far, both company revenues and earnings have continued to surprise positively. Even so, earning levels have softened in total versus previous quarters. Once the fourth quarter earnings season is complete, we will come to some conclusions as to what's driving this and what impact it's likely to have on future returns.



Thank you for investing with us

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

Want more updates about your portfolio?

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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.

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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(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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