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

Quilter Investors

Compass Portfolios

Monthly commentary – Review of January 2024

Marcus Brookes
Chief Investment Officer

Our market summary

The recent pace of equity market gains slowed in January as markets took stock after a very strong fourth quarter of 2023. Global equities delivered a modest 0.6% return, with **developed markets** outperforming **emerging markets**. Despite a major earthquake, Japan was the top-performing regional equity market. It jumped 4.6% amid strong investment inflows. Meanwhile, China's ongoing market rout helped pull emerging market equities down 4.6% with similar losses across Asian markets. Global bond markets were almost flat for US dollar-based investors following a spectacular end to 2023.

Equity markets

The **US Federal Reserve** (Fed) kept interest rates on hold when it met at the end of a month spent attempting to cool expectations of imminent interest-rate cuts. Although US equities gained a modest 1.6%, this was sufficient for major indices to hit all-time highs following a nine-week winning spree that started in late October. The **Magnificent Seven mega-cap** tech stocks notably outperformed once more in January, accounting for the lion's share of US index gains.

Hopes of an early interest-rate cut from the European Central Bank (ECB) dissipated when European inflation jumped to 2.9% in December (from 2.4% in November) with the ECB keeping interest rates unchanged at its January meeting. Meanwhile, Europe's equities squeezed out a 0.3% return against a backdrop of contraction in its manufacturing sector. Tech and communication stocks led the field, while sectors such as utilities and real estate retreated.

The UK was the worst performing developed market in January. It declined 1.4%. A small uptick in UK inflation to 4% in December helped to cool the UK equity market, as did the Bank of England's messaging to dispel expectations of early interest-rate cuts. Tech, consumer, and healthcare stocks generally outperformed energy, materials, and financials. UK **large cap** stocks outperformed, despite a flurry of overseas bids for UK smaller companies.

China was unable to stem the losses arising from the collapse of its property sector and ongoing deflation. Global investors continued to sell-off Chinese equities with the local market down 10.6%. This dragged on **emerging market** equities which fell 4.6%. Elsewhere, Chile was the worst performer due to problems in the mining sector and a weak Chilean peso. The likes of Poland, Peru, Mexico, and Taiwan all outperformed the index, but still delivered losses.

Fixed income

Global bond markets gave back a little of the gains they delivered at the end of 2023, as investors re-calibrated the timing, but not the likely magnitude, of expected interest-rate cuts from central banks. **US Treasuries** and broader global bond markets held up relatively well with a modest decline of 0.2%, while **high-yield corporate bonds** ground out a modest gain of 0.1%.

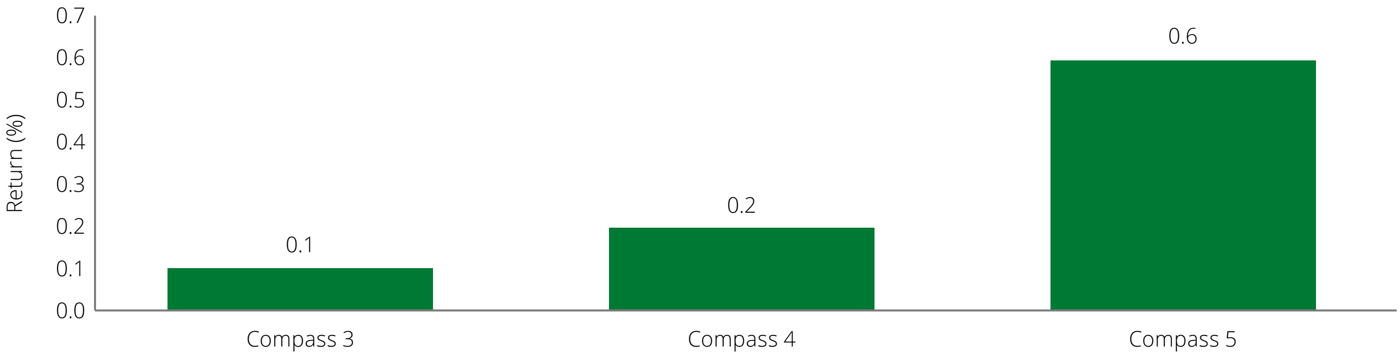
Source: Quilter Investors as at 31 January 2024. Total return, percentage growth in US dollars except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index; developed market equities by the MSCI World Index; US equities by the MSCI 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 Bloomberg Global High Yield (US dollar hedged) Index.

Performance review

The Compass Portfolios generated modest gains ranging from 0.1% for the Compass 3 Portfolio, to 0.6% for the Compass 5 Portfolio. While our equity and bond holdings made ground, our alternatives exposure detracted from returns. The Sands Capital US Select Growth Fund was among the top performers while Asian market holdings suffered with the Fidelity China Consumer Fund down over 20%. Our fixed-income holdings returned modest gains with **credit** holdings outperforming **government bonds**.

Sacha Chorley
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performaznce to end of January*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*
Compass 3	**0.1**	**0.1**	**6.3**	**0.1**	**18.6**	**26.9**	**6.3**	**-6.0**	**0.2**	**9.1**	**8.7**
Compass 4	**0.2**	**0.2**	**8.6**	**3.8**	**29.8**	**44.6**	**8.6**	**-6.5**	**2.2**	**12.6**	**11.0**
Compass 5	**0.6**	**0.6**	**11.6**	**5.1**	**38.0**	**62.3**	**12.8**	**-8.9**	**3.4**	**16.3**	**12.9**

Source: Quilter Investors as at 31 January 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 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.

Portfolio activity

The main change over the period was a reduction in our exposure to **high-yield bonds**. Valuations here now look stretched, which makes the potential future (or forward) returns now look less favourable relative to equities. Hence, we reduced our exposure by selling down our positions in the Hermes Unconstrained Credit and the Premier Miton Financials Capital Securities funds, which are held in the Compass 3 and Compass 4 Portfolios.

Investment outlook

We believe the global economy is still on course to experience a **soft landing** as inflation trends back down towards more manageable levels, for both central bankers and consumers, and employment levels and wage growth remain, if anything, more robust than anticipated. The ongoing divergence between a US economy that's motoring ahead, while Europe and, most notably, China, sputter due to underwhelming growth, is broadly priced into equity markets. This makes US equities look expensive in comparison to cheap, but unpopular, European, and Chinese shares.

1. What if we're too optimistic?

If the current benign outlook declines as the delayed effects of last year's interest-rate rises begin to bite, for both consumers and companies, this would result in lower corporate earnings. This could ultimately lead to fast, and deep, central bank rate cuts to stave off recessions. This would be good for **government bonds** but challenging for equities and other risky assets.

2. What if we're not optimistic enough?

Earnings announcements showed signs of earnings growth in January. This, along with continued wage growth, supports another year of reasonable economic growth. If this scenario results in central banks keeping interest rates higher than expected, for longer than expected, it will undermine **government bonds**, but equities should still push further ahead supported by their strong earnings.

3. Higher inflation would be the greatest surprise

Currently, the most troubling scenario for the portfolios would be a surprise escalation in inflation, perhaps due to supply-chain disruptions, higher energy prices, or heightened demand from consumers enjoying real (meaning post-inflation) wage growth. This would mean 'higher for longer' interest rates, which would hurt bond markets and possibly undermine equities, if corporate costs start to rise steeply.

Thank you for investing with us

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

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 3600, 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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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.

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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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