



COMPASS PORTFOLIO

QUARTERLY REPORT


QUARTER 3 **2018**



OLD MUTUAL
INTERNATIONAL

Old Mutual International (part of Quilter plc, a leading provider of wealth management solutions) provides you with access to the Compass Portfolios (Portfolios), a range of risk-targeted portfolios managed by the multi-asset business of Quilter plc.

The table below lists the Old Mutual International Isle of Man and Old Mutual International Ireland products that provide access to these Portfolios and the corresponding Compass Portfolio name.

FUND NAME		
	<p>Old Mutual International Isle of Man (OMI IM)/Ireland (OMI IE) Compass Portfolios</p> <p>Available through the Managed Capital Account, Executive Wealthbuilder Account and European Capital Account.</p>	<p>Old Mutual Compass Portfolios</p> <p>Available through Old Mutual International Isle of Man/Ireland Portfolio Bonds.</p>
RISK RATING		
HIGH RISK	OMI IM/OMI IE Compass Portfolio 5	Old Mutual Compass Portfolio 5
	OMI IM/OMI IE Compass Portfolio 4	Old Mutual Compass Portfolio 4
	OMI IM/OMI IE Compass Portfolio 3	Old Mutual Compass Portfolio 3
LOW RISK	OMI IM/OMI IE Compass Portfolio 2	Old Mutual Compass Portfolio 2

The Old Mutual Compass Portfolios are the underlying funds for the Old Mutual International Compass Portfolios.

Please visit our website www.oldmutualinternational.com/compassportfolios for further information on how to access these Portfolios through an Old Mutual International product.

Investing can be complex, which is one of the reasons why Old Mutual International only sells its products through financial advisers. We recommend that you speak to your financial adviser if you have any questions, or if there is anything in this report which you need explained further. We have included a glossary on page 17.

A NOTE FROM YOUR PORTFOLIO MANAGERS



The third quarter was one of mixed fortunes for equity investors as the ‘bifurcation’, or division, we’ve witnessed between the strength of the US economy and its tech-dominated stock markets and those of other countries continued to grow. This was underlined in the quarter when on 22 August the bull market in US stocks hit a new all-time record of 3,452 days. Just two weeks later, the MSCI Emerging Market Index entered bear market territory having fallen by more than 20% from its 26 January high.

During the period, both Apple and Amazon passed the \$1 trillion valuation mark while the biggest index shake up in a generation, which saw the creation of a new communications services sector, helped to drive record trading volumes which also supported the US market.

Emerging markets continued to struggle during the quarter due to a combination of President Trump’s escalating trade tariffs; the enduring strength of the US dollar which benefited from another measured hike in US interest rates during the period; a slowdown in Chinese credit expansion; a rising oil price – thanks partly to US sanctions against Iran; and a host of local issues.

Both Turkey and Argentina suffered major runs on their currencies during the period due to a failure to address the mounting financial crises that have broken out there. With their currencies plummeting, local companies with high US dollar debts naturally came under significant pressure. Meanwhile, South Africa’s economy slipped into recession even while its leaders pressed ahead with a poorly thought out land grab; Brazil suffered further political turmoil in the run up to its elections as a leading candidate was stabbed and China came under mounting pressure from US trade sanctions and the continued failure of both sides to find common ground.

Meanwhile, lacking the robust economic data seen in the US, European markets were tossed to and fro during the quarter by worries as to the mounting trade war and the emergence of a new anti-European coalition after yet another divisive Italian election. The UK was similarly buffeted by Brexit angst with sterling continuing to sink. During the period, the FTSE All-Share Index fell to its lowest level for six months while European stock markets hit five-month lows.

The continued leadership of US stock markets presents opportunities, especially as the latest round of deficit-stretching US budgets and tax cuts amounts to one of the biggest stimulus packages seen during a period of economic expansion for 50 years or more. However, President Trump’s willingness to spend could well be what hastens the next US recession, which many commentators, including the International Monetary Fund, believe could arrive as soon as 2020.

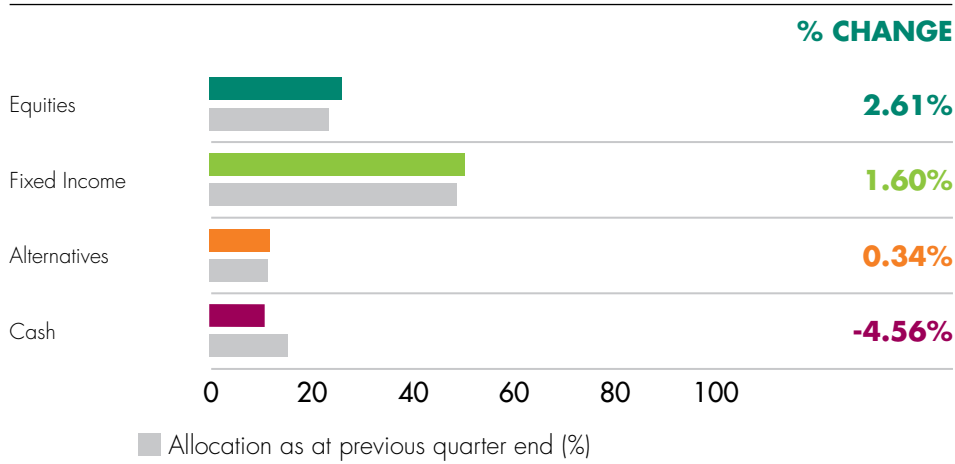
In the meantime, the outlook for inflation looks broadly balanced, despite a surprise uptick in UK inflation levels in the last month, and we remain comfortable with our overall positioning.

Regards,

ANTHONY GILLHAM (left in picture) **and SACHA CHORLEY**
PORTFOLIO MANAGERS

SUMMARY OF COMPASS PORTFOLIO 2

ASSET ALLOCATION BREAKDOWN



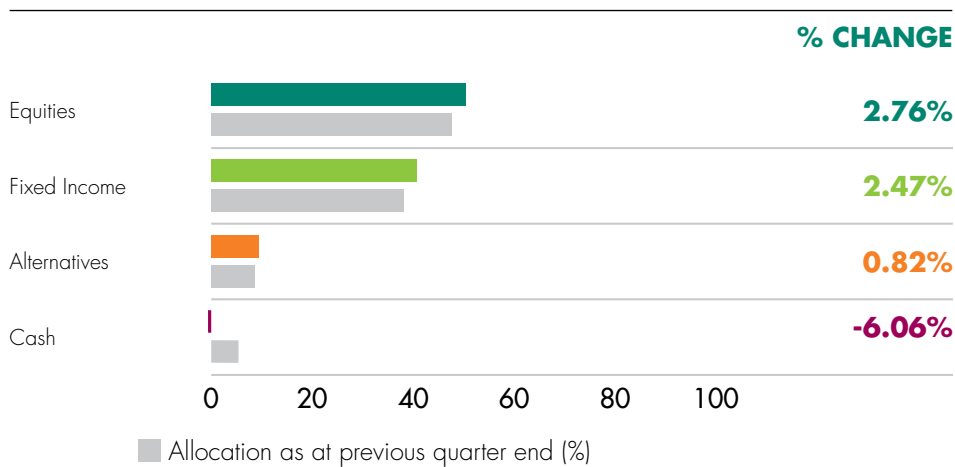
THE COMPASS PORTFOLIO'S PERCENTAGE GROWTH TO MONTH END PERFORMANCE AS AT 30 SEPTEMBER 2018

Holding	3 months	6 months	1 year	3 years	5 years	Since launch	Launch date
Old Mutual Compass Portfolio 2 - A (AUD) Hedged Accumulation Shares	0.50%	-0.20%	0.10%			4.70%	14/10/2016
Old Mutual Compass Portfolio 2 - A (EUR) Hedged Accumulation Shares	-0.10%	-1.60%	-2.60%			-0.80%	19/04/2016
Old Mutual Compass Portfolio 2 - A (GBP) Hedged Accumulation Shares	0.20%	-1.00%	-1.50%			1.50%	19/04/2016
Old Mutual Compass Portfolio 2 - A (SGD) Hedged Accumulation Shares	0.40%	-0.50%	-0.50%			3.50%	19/04/2016
Old Mutual Compass Portfolio 2 - A (USD) Accumulation Shares	0.60%	-0.10%	0.20%			5.10%	19/04/2016

Where a fund invests in securities designated in a different currency to the currency of the Old Mutual International product or where an underlying fund is denominated in a different currency, investments may rise and fall purely as a result of exchange rate fluctuations. Past performance is not necessarily indicative of future performance. Any prediction, projection, or forecast on the economy, securities markets or the economic trends of the markets is not necessarily indicative of the future performance. The value and any income accruing to the investments, if any, may fall or rise. An investment is subject to investment risks, including the possible loss of the principal amount invested. Exchange rates may cause the value of overseas investments to rise or fall. Source: Factset. © Morningstar. All Rights Reserved. All information as at 30 September 2018 unless otherwise stated. Performance net of charges displayed relates to the underlying Portfolio as provided by Quilter Investors. Due to rounding and the use of the derivatives – financial instruments that derive their values from other underlying assets – the allocations may not add up to 100%.

SUMMARY OF COMPASS PORTFOLIO 3

ASSET ALLOCATION BREAKDOWN



THE COMPASS PORTFOLIO'S PERCENTAGE GROWTH TO MONTH END

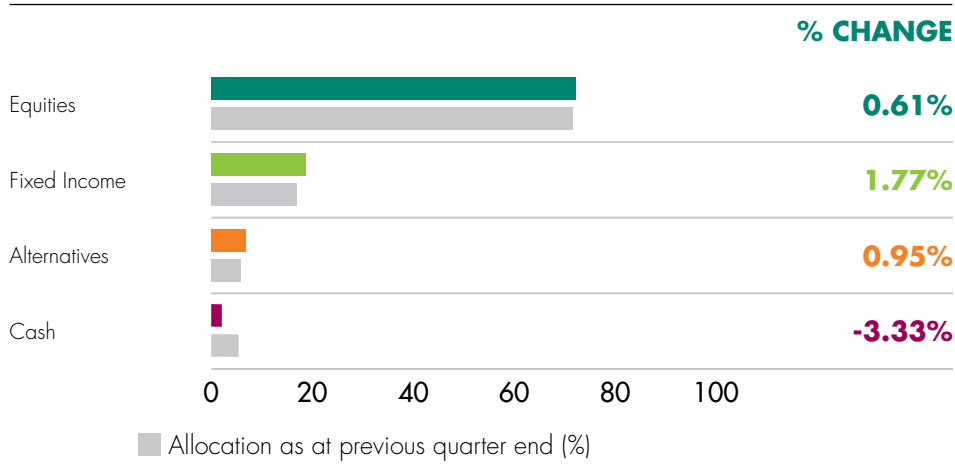
PERFORMANCE AS AT 30 SEPTEMBER 2018

Holding	3 months	6 months	1 year	3 years	5 years	Since launch	Launch date
Old Mutual Compass Portfolio 3 - A (AUD) Hedged Accumulation	1.20%	0.50%	1.40%			10.40%	14/10/2016
Old Mutual Compass Portfolio 3 - A (EUR) Hedged Accumulation Shares	0.50%	-0.80%	-1.20%			5.00%	19/04/2016
Old Mutual Compass Portfolio 3 - A (GBP) Hedged Accumulation Shares	0.90%	-0.20%	-0.20%			7.20%	19/04/2016
Old Mutual Compass Portfolio 3 - A (SGD) Hedged Accumulation Shares	1.10%	0.30%	0.90%			9.60%	19/04/2016
Old Mutual Compass Portfolio 3 - A (USD) Accumulation Shares	1.30%	0.70%	1.60%			11.30%	19/04/2016

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SUMMARY OF COMPASS PORTFOLIO 4

ASSET ALLOCATION BREAKDOWN



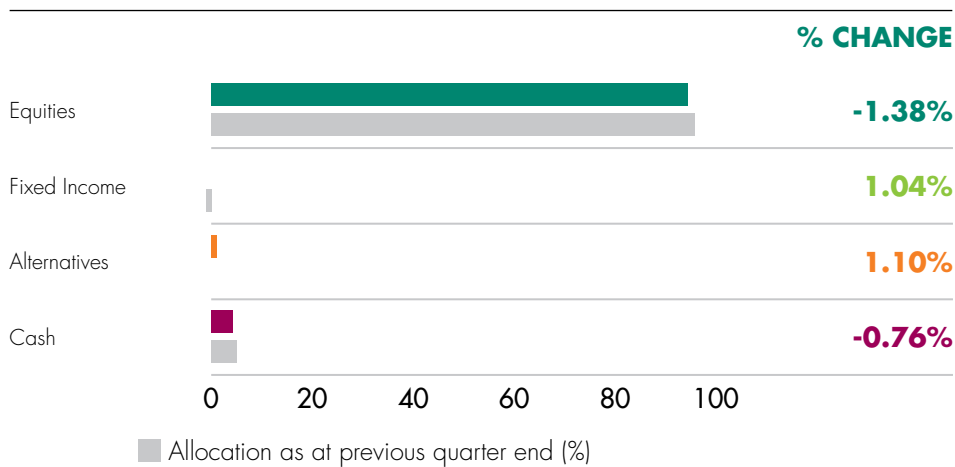
THE COMPASS PORTFOLIO'S PERCENTAGE GROWTH TO MONTH END PERFORMANCE AS AT 30 SEPTEMBER 2018

Holding	3 months	6 months	1 year	3 years	5 years	Since launch	Launch date
Old Mutual Compass Portfolio 4 - A (AUD) Hedged Accumulation	2.00%	1.30%	3.20%			16.50%	14/10/2016
Old Mutual Compass Portfolio 4 - A (EUR) Hedged Accumulation Shares	1.30%	0.00%	0.60%			11.20%	19/04/2016
Old Mutual Compass Portfolio 4 - A (GBP) Hedged Accumulation Shares	1.60%	0.60%	1.60%			13.10%	19/04/2016
Old Mutual Compass Portfolio 4 - A (SGD) Hedged Accumulation Shares	1.80%	1.10%	2.70%			15.90%	19/04/2016
Old Mutual Compass Portfolio 4 - A (USD) Accumulation Shares	2.00%	1.60%	3.60%			18.00%	19/04/2016

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SUMMARY OF COMPASS PORTFOLIO 5

ASSET ALLOCATION BREAKDOWN



THE COMPASS PORTFOLIO'S PERCENTAGE GROWTH TO MONTH END

PERFORMANCE AS AT 30 SEPTEMBER 2018

Holding	3 months	6 months	1 year	3 years	5 years	Since launch	Launch date
Old Mutual Compass Portfolio 5 - A (AUD) Hedged Accumulation	2.90%	2.30%	5.90%			23.60%	14/10/2016
Old Mutual Compass Portfolio 5 - A (EUR) Hedged Accumulation Shares	2.30%	1.00%	3.20%			18.00%	19/04/2016
Old Mutual Compass Portfolio 5 - A (GBP) Hedged Accumulation Shares	2.50%	1.50%	4.10%			19.80%	19/04/2016
Old Mutual Compass Portfolio 5 - A (SGD) Hedged Accumulation Shares	2.80%	2.10%	5.40%			22.70%	19/04/2016
Old Mutual Compass Portfolio 5 - A (USD) Accumulation Shares	3.00%	2.60%	6.40%			25.30%	19/04/2016

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HOLDINGS WITHIN THE COMPASS PORTFOLIOS

Holding name	Fund manager (where applicable)	Asset type	Compass Portfolio 2	Compass Portfolio 3	Compass Portfolio 4	Compass Portfolio 5
EQUITY			26.30%	50.44%	72.34%	94.57%
ASIA PACIFIC (INC JAPAN) EQUITY			3.99%	7.62%	12.28%	15.07%
AUSTRALIAN EQUITY EXPOSURE		DERIVATIVE	0.00%	0.00%	0.00%	0.37%
BAILLIE GIFFORD JAPANESE INCOME GROWTH	BAILLIE GIFFORD	COLLECTIVE	1.54%	1.39%	2.13%	2.64%
BLACKROCK JAPAN EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.01%	0.43%	1.61%	2.66%
HERMES ASIA EX-JAPAN EQUITY	HERMES	COLLECTIVE	0.70%	1.29%	2.08%	3.11%
JAPANESE EQUITY EXPOSURE		DERIVATIVE	-0.58%	0.00%	0.00%	0.00%
OM ASIAN EQUITY (OMGI)	OLD MUTUAL	COLLECTIVE	0.37%	1.15%	2.78%	2.49%
QUILTER INVESTORS JAPANESE EQUITY	SCHRODER	COLLECTIVE	0.15%	0.20%	0.21%	0.10%
SCHRODERS ASIA - GLOBAL DYNAMIC EQUITY MANDATE	SCHRODERS (ASIA)	COLLECTIVE	0.80%	1.48%	1.49%	1.46%
SCHRODERS JAPAN - GLOBAL DYNAMIC EQUITY MANDATE	SCHRODERS (JAPAN)	COLLECTIVE	0.65%	1.19%	1.20%	1.18%
USONIAN JAPAN VALUE	USONIAN	COLLECTIVE	0.35%	0.49%	0.78%	1.05%
EMERGING MARKETS EQUITY			2.08%	4.59%	6.47%	8.86%
BLACKROCK EMERGING MARKETS EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.55%	1.34%	2.20%	2.93%
BLACKROCK LATIN AMERICA OPPS	BLACKROCK	COLLECTIVE	0.11%	0.24%	0.50%	0.67%
OLD MUTUAL GLOBAL EMERGING MARKETS	OLD MUTUAL	COLLECTIVE	0.26%	0.78%	1.04%	2.05%
QUILTER INVESTORS EMERGING MARKETS GROWTH	JPMORGAN	COLLECTIVE	0.52%	1.03%	1.54%	2.03%
WELLS FARGO - GLOBAL DYNAMIC EQUITY MANDATE	WELLS FARGO	COLLECTIVE	0.64%	1.19%	1.20%	1.17%
EUROPEAN EQUITY			9.95%	6.29%	9.53%	11.85%
AEGON NV		DIRECT EQUITY	0.03%	0.06%	0.18%	0.20%
ASML HOLDING NV		DIRECT EQUITY	0.03%	0.06%	0.16%	0.19%
AXA		DIRECT EQUITY	0.08%	0.16%	0.43%	0.50%
BANCO SANTANDER S.A.		DIRECT EQUITY	0.07%	0.14%	0.27%	0.34%
BASF SE		DIRECT EQUITY	0.06%	0.12%	0.33%	0.39%
BLACKROCK CONTINENTAL EUROPEAN EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.01%	0.01%	0.01%	0.01%
COMPAGNIE DE SAINT-GOBAIN SA		DIRECT EQUITY	0.04%	0.09%	0.25%	0.29%
CONTINENTAL AG		DIRECT EQUITY	0.04%	0.08%	0.23%	0.26%
DNB ASA		DIRECT EQUITY	0.06%	0.09%	0.10%	0.15%
ENEL SPA		DIRECT EQUITY	0.03%	0.06%	0.15%	0.18%
EUROPEAN EQUITY EXPOSURE		DERIVATIVE	-1.00%	-1.61%	-2.76%	-2.98%
GEBERIT AG-REG		DIRECT EQUITY	0.04%	0.09%	0.24%	0.28%
HENKEL AG		DIRECT EQUITY	0.03%	0.05%	0.16%	0.19%
HERMES INTERNATIONAL		DIRECT EQUITY	0.04%	0.08%	0.22%	0.26%
JPM EUROPE DYNAMIC EX UK FUND – GLOBAL DYNAMIC EQUITY HOLDING	JPM EUROPE DYNAMIC EX UK	COLLECTIVE	0.60%	1.12%	1.12%	1.10%
L'OREAL SA		DIRECT EQUITY	0.05%	0.10%	0.28%	0.33%
LVMH MOET HENNESSY LOUIS VUITTON		DIRECT EQUITY	0.04%	0.08%	0.22%	0.26%
MUNICH REINSURANCE COMPANY		DIRECT EQUITY	0.05%	0.08%	0.09%	0.14%
NESTLE SA-REG		DIRECT EQUITY	0.06%	0.13%	0.36%	0.42%
NOVO NORDISK A/S CLASS B		DIRECT EQUITY	0.05%	0.10%	0.29%	0.34%
OLD MUTUAL EUROPE EX UK SMALLER COMPANIES	OLD MUTUAL	COLLECTIVE	0.60%	1.17%	1.16%	1.45%
QUILTER INVESTORS EUROPE (EX UK) EQUITY	HENDERSON	COLLECTIVE	0.44%	1.07%	1.14%	1.24%
QUILTER INVESTORS EUROPE (EX UK) EQUITY INCOME	SCHRODER	COLLECTIVE	0.00%	0.05%	0.00%	0.00%
QUILTER INVESTORS EUROPEAN BEST IDEAS	QUILTER INVESTORS	COLLECTIVE	0.62%	1.28%	2.37%	3.56%
ROCHE HOLDINGS		DIRECT EQUITY	0.07%	0.14%	0.39%	0.45%
SAP SE		DIRECT EQUITY	0.06%	0.11%	0.30%	0.35%
SKF AB		DIRECT EQUITY	0.04%	0.07%	0.20%	0.24%
TELENOR ASA		DIRECT EQUITY	0.03%	0.06%	0.15%	0.18%
TOTAL SA		DIRECT EQUITY	0.06%	0.11%	0.31%	0.36%
WELLINGTON EUROPE – GLOBAL DYNAMIC EQUITY MANDATE	WELLINGTON	COLLECTIVE	0.58%	1.07%	1.07%	1.05%
ZURICH INSURANCE GROUP AG		DIRECT EQUITY	0.05%	0.08%	0.09%	0.13%
GLOBAL EQUITY			7.25%	9.39%	13.02%	16.99%
BLACKROCK NATURAL RESOURCES GROWTH & INCOME	BLACKROCK	COLLECTIVE	0.72%	0.41%	0.31%	0.28%
CASH & PORTFOLIO OVERLAY - GLOBAL DYNAMIC EQUITY	CASH & PORTFOLIO OVERLAY	COLLECTIVE	0.00%	-0.01%	-0.01%	-0.01%
OM GLOBAL EQUITY INCOME	OLD MUTUAL	COLLECTIVE	2.87%	2.55%	4.38%	5.52%
POLAR CAPITAL FINANCIAL OPPORTUNITIES	POLAR CAPITAL	COLLECTIVE	0.15%	0.30%	0.58%	1.24%
POLAR CAPITAL FINANCIALS INCOME INC	POLAR CAPITAL	COLLECTIVE	0.15%	0.31%	0.60%	1.30%
POLAR FIN OPPORTUNITIES FUND - GLOBAL DYNAMIC EQUITY HOLDING	POLAR FIN OPPORTUNITIES	COLLECTIVE	0.06%	0.12%	0.12%	0.12%
QUILTER INVESTORS GLOBAL BEST IDEAS	QUILTER INVESTORS	COLLECTIVE	1.91%	3.12%	4.45%	5.98%
WELLINGTON DURABLE COS - GLOBAL DYNAMIC EQUITY MANDATE	WELLINGTON GLOBAL	COLLECTIVE	1.40%	2.58%	2.60%	2.55%

HOLDINGS WITHIN THE COMPASS PORTFOLIOS (CONTINUED)

Holding name	Fund manager (where applicable)	Asset type	Compass Portfolio 2	Compass Portfolio 3	Compass Portfolio 4	Compass Portfolio 5
EQUITY (CONTINUED)						
NORTH AMERICAN EQUITY			10.15%	21.95%	30.08%	41.03%
3M CO		DIRECT EQUITY	0.11%	0.27%	0.50%	0.60%
ALPHABET INC		DIRECT EQUITY	0.11%	0.28%	0.50%	0.61%
ALTRIA GROUP INC		DIRECT EQUITY	0.10%	0.25%	0.45%	0.54%
AMERICAN EXPRESS		DIRECT EQUITY	0.06%	0.09%	0.10%	0.15%
AMERICAN INTERNATIONAL GROUP		DIRECT EQUITY	0.05%	0.08%	0.08%	0.13%
AMGEN INC		DIRECT EQUITY	0.07%	0.18%	0.32%	0.39%
APPLE INC		DIRECT EQUITY	0.12%	0.28%	0.51%	0.62%
BLACKROCK NORTH AMERICAN EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.01%	2.26%	4.58%	5.67%
BNY MELLON US EQUITY INCOME	BNY MELLON	COLLECTIVE	0.53%	1.05%	1.60%	1.99%
BOEING COMPANY		DIRECT EQUITY	0.20%	0.47%	0.85%	1.03%
BRANDYWINE - GLOBAL DYNAMIC EQUITY MANDATE	BRANDYWINE	COLLECTIVE	1.16%	2.15%	2.17%	2.13%
DSM - GLOBAL DYNAMIC EQUITY MANDATE	DSM	COLLECTIVE	0.77%	1.42%	1.43%	1.41%
EATON CORP		DIRECT EQUITY	0.09%	0.21%	0.38%	0.47%
GAP INC THE		DIRECT EQUITY	0.04%	0.10%	0.18%	0.22%
INTUIT INC		DIRECT EQUITY	0.16%	0.39%	0.70%	0.85%
INVESCO LTD		DIRECT EQUITY	0.06%	0.14%	0.26%	0.32%
JPM US EQUITY INCOME	JPMORGAN	COLLECTIVE	0.00%	0.00%	0.00%	0.00%
JPMORGAN CHASE & CO		DIRECT EQUITY	0.05%	0.08%	0.09%	0.14%
LAPIDES - GLOBAL DYNAMIC EQUITY MANDATE	LAPIDES	COLLECTIVE	0.57%	1.05%	1.05%	1.03%
LSV - GLOBAL DYNAMIC EQUITY MANDATE	LSV	COLLECTIVE	1.14%	2.11%	2.13%	2.09%
MARSH & MCLENNAN COMPANIES		DIRECT EQUITY	0.13%	0.28%	0.45%	0.57%
MEDTRONIC PLC		DIRECT EQUITY	0.09%	0.22%	0.40%	0.48%
NEWELL BRANDS INC		DIRECT EQUITY	0.04%	0.10%	0.19%	0.23%
NIKE INC -CL B		DIRECT EQUITY	0.07%	0.16%	0.29%	0.35%
PERSHING SQUARE HOLDINGS	PERSHING SQUARE	COLLECTIVE	0.52%	1.08%	1.80%	1.67%
QUILTER INVESTORS US EQUITY GROWTH	JPMORGAN	COLLECTIVE	0.54%	0.52%	1.30%	4.40%
S&P GLOBAL INC		DIRECT EQUITY	0.23%	0.51%	0.87%	1.08%
SCHRODER - GLOBAL DYNAMIC EQUITY MANDATE	SCHRODERS (US)	COLLECTIVE	1.55%	2.87%	2.89%	2.84%
SCHRODER US MID CAP	SCHRODER	COLLECTIVE	0.88%	2.02%	3.10%	6.06%
US EQUITY EXPOSURE		DERIVATIVE	0.38%	0.60%	-0.36%	1.42%
VALERO ENERGY CORPORATION		DIRECT EQUITY	0.06%	0.14%	0.26%	0.32%
VISA INC-CLASS A		DIRECT EQUITY	0.12%	0.29%	0.52%	0.63%
WALGREEN CO		DIRECT EQUITY	0.07%	0.16%	0.29%	0.36%
WELLS FARGO & COMPANY		DIRECT EQUITY	0.04%	0.11%	0.20%	0.24%
UK EQUITY			-0.11%	0.60%	0.96%	0.77%
BARCLAYS		DIRECT EQUITY	0.04%	0.07%	0.07%	0.11%
BLACKROCK UK EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.01%	0.01%	0.01%	0.01%
OLD MUTUAL UK EQUITY INCOME	OLD MUTUAL	COLLECTIVE	0.06%	0.08%	0.12%	0.21%
OMGI UK - GLOBAL DYNAMIC EQUITY MANDATE	OMGI	COLLECTIVE	0.40%	0.74%	0.75%	0.73%
QUILTER INVESTORS EQUITY 1 (OMGI)	OLD MUTUAL	COLLECTIVE	0.02%	0.01%	0.01%	0.01%
TECHNIPFMC PLC		DIRECT EQUITY	0.07%	0.15%	0.28%	0.34%
UK EQUITY EXPOSURE		DERIVATIVE	-0.71%	-0.45%	-0.28%	-0.64%
FIXED INCOME			50.71%	40.74%	18.80%	00.00%
CORPORATE BONDS			22.40%	14.46%	7.19%	00.00%
MIRABAUD CONVERTIBLE BONDS EUROPE (USD HEDGED)	MIRABAUD	COLLECTIVE	0.41%	0.26%	0.23%	0.00%
QUILTER INVESTORS BOND 1 (TWENTY FOUR)	TWENTYFOUR	COLLECTIVE	3.36%	2.27%	1.01%	0.00%
QUILTER INVESTORS BOND 2 (FIDELITY)	FIDELITY	COLLECTIVE	0.00%	0.00%	0.00%	0.00%
QUILTER INVESTORS BOND 2 (FIDELITY)	FIDELITY	COLLECTIVE	4.02%	1.70%	0.83%	0.00%
QUILTER INVESTORS BOND 3 (JPM)	JPMORGAN	COLLECTIVE	2.69%	1.77%	0.78%	0.00%
QUILTER INVESTORS HIGH YIELD BOND	THREADNEEDLE	COLLECTIVE	0.74%	0.49%	0.24%	0.00%
WELLINGTON GLOBAL CREDIT PLUS (USD HEDGED)	WELLINGTON	COLLECTIVE	9.37%	6.14%	2.96%	0.00%
WELLS FARGO US HIGH YIELD	WELLS FARGO	COLLECTIVE	1.81%	1.83%	1.13%	0.00%
EMERGING MARKET DEBT			3.58%	2.15%	1.20%	00.00%
ASHMORE EMERGING MARKETS SHORT DURATION	ASHMORE	COLLECTIVE	2.31%	1.53%	0.91%	0.00%
MEX BONOS DESARR FIX RT 6.5% 10/06/2021		BOND	0.77%	0.26%	0.13%	0.00%
OM LOCAL CURRENCY EMD	OLD MUTUAL	COLLECTIVE	0.50%	0.36%	0.16%	0.00%

HOLDINGS WITHIN THE COMPASS PORTFOLIOS (CONTINUED)

Holding name	Fund manager (where applicable)	Asset type	Compass Portfolio 2	Compass Portfolio 3	Compass Portfolio 4	Compass Portfolio 5
FIXED INCOME (CONTINUED)						
GOVERNMENT BONDS						
EURO GOVERNMENT BOND EXPOSURE		DERIVATIVE	-1.34%	-0.64%	-0.31%	0.00%
GOVERNMENT OF ITALY 0.950% 01/03/23		BOND	0.15%	0.09%	0.04%	0.00%
INTER-AMERICAN DEVELOPMENT BANK 5.500% 23/08/21		BOND	0.12%	0.09%	0.06%	0.00%
TSY INFL IX N/B 0.75% 15/02/45		BOND	0.08%	0.14%	0.08%	0.00%
UK GOVERNMENT BOND EXPOSURE		DERIVATIVE	-0.58%	-0.30%	-0.41%	0.00%
US GOVERNMENT BOND EXPOSURE		DERIVATIVE	9.56%	16.05%	5.43%	0.00%
US TIPS 0.125% 15/07/26		BOND	0.23%	0.27%	0.14%	0.00%
US TREASURY 0.125% 15/04/20		BOND	4.68%	2.43%	1.52%	0.00%
OTHER FIXED INCOME						
CATCO REINSURANCE OPPORTUNITIES C	CATCO	COLLECTIVE	0.37%	0.31%	0.19%	0.00%
JANUS ABSOLUTE RETURN INCOME	JANUS HENDERSON	COLLECTIVE	1.56%	1.01%	0.51%	0.00%
M&G OPTIMAL INCOME	M&G	COLLECTIVE	2.50%	1.60%	0.61%	0.00%
OLD MUTUAL COCOS	OLD MUTUAL	COLLECTIVE	1.35%	0.38%	0.60%	0.00%
PIMCO INCOME	PIMCO	COLLECTIVE	0.48%	0.24%	0.12%	0.00%
PIMCO UNCONSTRAINED	PIMCO	COLLECTIVE	0.86%	0.50%	0.25%	0.00%
SEQUOIA ECONOMIC INFRASTRUCTURE	SEQUOIA	COLLECTIVE	0.53%	0.23%	0.11%	0.00%
SEQUOIA ECONOMIC INFRASTRUCTURE C	SEQUOIA	COLLECTIVE	0.00%	0.00%	0.00%	0.00%
WELLS FARGO SHORT-TERM HIGH YIELD	WELLS FARGO	COLLECTIVE	4.17%	1.72%	1.46%	0.00%
ALTERNATIVES						
COMMODITIES						
ISHARES DIVERSIFIED COMMODITY SWAP	BLACKROCK	COLLECTIVE	0.49%	0.36%	0.24%	0.00%
OTHER ALTERNATIVE (INC HEDGE FUNDS)						
AQR GLOBAL RELATIVE VALUE	AQR CAPITAL MANAGEMENT	COLLECTIVE	2.09%	1.64%	1.00%	0.00%
BOUSSARD & GAVAUDAN	BOUSSARD & GAVAUDAN	COLLECTIVE	0.50%	0.37%	0.24%	0.00%
CZ ABSOLUTE RETURN ALPHA	CZ	COLLECTIVE	1.29%	0.94%	0.62%	0.00%
HIGHBRIDGE MULTI STRATEGY	BLUECREST	COLLECTIVE	1.02%	0.74%	0.50%	0.00%
IPM SYSTEMATIC MACRO	IPM	COLLECTIVE	1.62%	1.46%	1.02%	0.00%
MYGALE EVENT DRIVEN	MYGALE	COLLECTIVE	1.15%	0.76%	0.50%	0.00%
OLD MUTUAL STYLE PREMIA ABSOLUTE RETURN (USD HEDGED)	OLD MUTUAL	COLLECTIVE	1.26%	0.95%	0.63%	0.00%
OLD MUTUAL UK SPECIALIST	OLD MUTUAL	COLLECTIVE	1.92%	1.43%	0.95%	0.00%
PRIVATE EQUITY						
HARBOURVEST GLOBAL PRIVATE EQUITY	HARBOURVEST	COLLECTIVE	0.28%	0.55%	0.86%	1.10%
PROPERTY						
AEW UK LONG LEASE REIT	AEW	COLLECTIVE	0.38%	0.28%	0.18%	0.00%
CASH						
CASH			11.00%	-0.64%	2.11%	4.34%
TOTAL			100%	100%	100%	100%

The structure of the Compass Portfolios provides access to the skills of managers in the institutional or corporate market as well as access to managers who are already available to individual investors through retail funds. Managers that we select in the institutional market are asked to manage a mandate (essentially this is simply a written agreement with us on how we want our investment to be managed on our behalf) – this allows us to control the investment boundaries, including the types of investment and the level of risk we want the manager to take. By tailoring the mandate we can also ensure each manager focuses on the areas where we think they are most skilled – giving them the best chance to outperform. These mandates may be held as Quilter Investors funds.

Cash may include settled cash on deposit in various currencies. Where there are investments in derivatives, the holdings value of derivative contracts may be expressed on a notional basis to give a clear indication of the exposure each derivative contract is providing to the portfolio. As a result of expressing the derivatives in this manner, the cash total will include a cash offset (as if the derivative contract has been closed) which may cause the cash total to be understated compared to the actual cash held on deposit by the portfolio at each reporting point (a negative value may occur).

¹ Exposure held through the Old Mutual Compass Portfolio 2's position in the Quilter Investors Global Dynamic Equity Fund (QIGDEF). The QIGDEF is a multi-manager fund in which the Old Mutual Compass Portfolios invest in order to obtain core exposures to global equities (company shares). The QIGDEF is comprised of the Global Dynamic Equity Mandates and Holdings' entries listed in the table above. This approach enables the Old Mutual Compass Portfolios to gain the required exposures to global equities in a more efficient manner than buying exposure to the individual investments held within the QIGDEF separately. It also enables the Old Mutual Compass Portfolios to gain exposure to investment strategies that would otherwise be inaccessible. Overall, the exposure to the QIGDEF represents 10.32% of the Old Mutual Compass Portfolio 2 as at 30 September 2018.

² Exposure held through the Old Mutual Compass Portfolio 3's position in the Quilter Investors Global Dynamic Equity Fund (QIGDEF). The QIGDEF is a multi-manager fund in which the Old Mutual Compass Portfolios invest in order to obtain core exposures to global equities (company shares). The QIGDEF is comprised of the Global Dynamic Equity Mandates and Holdings' entries listed in the table above. This approach enables the Old Mutual Compass Portfolios to gain the required exposures to global equities in a more efficient manner than buying exposure to the individual investments held within the QIGDEF separately. It also enables the Old Mutual Compass Portfolios to gain exposure to investment strategies that would otherwise be inaccessible. Overall, the exposure to the QIGDEF represents 19.09% of the Old Mutual Compass Portfolio 3 as at 30 September 2018.

³ Exposure held through the Old Mutual Compass Portfolio 4's position in the Quilter Investors Global Dynamic Equity Fund (QIGDEF). The QIGDEF is a multi-manager fund in which the Old Mutual Compass Portfolios invest in order to obtain core exposures to global equities (company shares). The QIGDEF is comprised of the Global Dynamic Equity Mandates and Holdings' entries listed in the table above. This approach enables the Old Mutual Compass Portfolios to gain the required exposures to global equities in a more efficient manner than buying exposure to the individual investments held within the QIGDEF separately. It also enables the Old Mutual Compass Portfolios to gain exposure to investment strategies that would otherwise be inaccessible. Overall, the exposure to the QIGDEF represents 19.22% of the Old Mutual Compass Portfolio 4 as at 30 September 2018.

⁴ Exposure held through the Old Mutual Compass Portfolio 5's position in the Quilter Investors Global Dynamic Equity Fund (QIGDEF). The QIGDEF is a multi-manager fund in which the Old Mutual Compass Portfolios invest in order to obtain core exposures to global equities (company shares). The QIGDEF is comprised of the Global Dynamic Equity Mandates and Holdings' entries listed in the table above. This approach enables the Old Mutual Compass Portfolios to gain the required exposures to global equities in a more efficient manner than buying exposure to the individual investments held within the QIGDEF separately. It also enables the Old Mutual Compass Portfolios to gain exposure to investment strategies that would otherwise be inaccessible. Overall, the exposure to the QIGDEF represents 18.88% of the Old Mutual Compass Portfolio 5 as at 30 September 2018.

Source: Quilter Investors, as at 30 September 2018. Due to rounding and the use of derivatives – the allocations may not total 100%.

COMMENTARY AND ANALYSIS FOR COMPASS PORTFOLIO

EQUITIES

MARKET OVERVIEW

For the second quarter in a row, robust economic data and strong company earnings drove US stocks to significantly outperform their peers. By late August, US stock markets had powered through a new record for the longest sustained bull market in their history. Japan was the only other developed market to make worthwhile gains over the quarter, thanks to a weakening yen, solid company earnings, a temporary respite in trade fears and the re-election of Prime Minister Shinzo Abe, the committed economic reformer.

In Britain, the FTSE All-Share Index lost ground as sterling was battered by Brexit. European stock markets delivered modest positive returns, despite rising anxieties about Italy's new anti-establishment coalition government.

By contrast, emerging markets were ravaged by a combination of trade war angst, a resolutely strong US dollar (which increases debt servicing costs), slowing credit growth in China, a rising oil price and a host of other idiosyncratic problems. These ranged from full-blown economic crises in Turkey, Argentina and Venezuela to the sudden collapse in economic growth and talk of an ill-considered 'land grab' in South Africa and the stabbing of a Brazilian presidential candidate, which added further to the melee of its elections.

With the US mid-term elections fast approaching, President Trump continued to escalate his policy of US protectionism with China once again drawing most fire. In July, the US imposed a 25% tariff on \$34 billion of Chinese products; by August it had added tariffs to a further \$16 billion of Chinese goods and by September it had introduced a 10% tariff on a further \$200 billion and was threatening the same for the remaining \$267 billion of Chinese goods sold in the US. A delay in implementation of the September move helped Asian markets to briefly rally.

In sector terms, it was once again the US technology and healthcare sectors that did most of the heavy lifting thanks to strong earnings' numbers. However, not every US company has shared in the recent prosperity, with US oil and materials' stocks paying the price for Mr Trump's trade war over the quarter.

It was a different picture in Europe where energy and industrials' stocks were among the top performers. Although trade tensions with the US eased slightly, Europe's auto-makers continued to struggle as did telecom, banking and consumer staple stocks.

In the UK, the FTSE All-Share lost 0.8% with fears of a bumpy Brexit impacting smaller, more domestically-focused stocks while larger, more international companies, especially mining companies and financial stocks, were punished for their exposure to emerging markets. Meanwhile, a falling currency, undemanding valuations and the availability of cheap money has triggered a wave of overseas bids for UK companies.

In Asia, China's stock markets and its currency continued to recoil in the face of ever escalating US trade sanctions while India's stock market also delivered a small negative return, although other markets in the region, such as Australia, Malaysia, Taiwan and Thailand, all made modest ground.

(All return figures rounded to one decimal place.)

PERFORMANCE ANALYSIS

Despite the upheaval seen in stock markets, the equity portion of the Compass Portfolios delivered a modest positive return during the quarter.

With the US in the ascendancy over the quarter, our exposure to US equity markets was the single largest contributor to positive returns over the period. Consequently, our options-based exposure to the S&P 500 Index was one of the top performing holdings for the Compass Portfolios 3, 4 and 5.

The Merian Global Dynamic Equity Fund* was the top contributing equity fund of the period, thanks to its healthy exposure to US equities. Other US equity investments such as the Schroder US Mid-Cap Fund, Pershing Square Holdings, and the BNY Mellon US Equity Income Fund were also all among the top contributors to returns over the period. The Quilter Investors US Equity Growth Fund, managed by JP Morgan Asset Management, was also a top performer for the Compass Portfolio 5.

The Quilter Investors Global Best Ideas Fund was also among the top performing equity holdings in the quarter.

Despite the decline of the wider UK equity market, the FTSE 100 Index made modest progress during the quarter thanks chiefly to its oil stocks which benefited from the continued rise in oil prices. An options-based exposure to the Index was another positive contributor to portfolio returns over the period – especially for the Compass Portfolio 2 which has a significantly lower weighting to equities than the other funds in the range.

The Compass Portfolios 4 and 5, which have the highest weighting to equities, also made worthwhile gains on a number of their direct equity holdings with the US drugstore chain Walgreen Boots and the supermarket Kroger both among the top contributors for the quarter.

The biggest detractor from returns to the equity portfolio was from the MSCI Emerging Market Index futures we held as the market declined during the period. The Euro Stoxx 50 options we held also lost ground.

Meanwhile, a number of our equity fund holdings also delivered up losses to the portfolio over the period. The Merian Global Emerging Markets Fund was another costly holding as was our passive exposure to North American equities (including Canada) from BlackRock.

The Compass Portfolios 4 and 5 also suffered small losses related to some of their direct equity holdings including Ingenico, the French electronic payments specialist, the fashion retailer Gap and the US bank Wells Fargo.

* During the third quarter, Old Mutual Global Investors changed its name to Merian Global Investors.

COMMENTARY AND ANALYSIS FOR COMPASS PORTFOLIO (CONTINUED)

CHANGES TO THE PORTFOLIO OVER THE QUARTER

Over the quarter, we took the opportunity to modestly increase the equity exposure in the Compass Portfolios 2, 3 and 4 with the largest increases seen in the more conservative portfolios. By contrast, Compass Portfolio 5, which was almost 96% invested in equities at the outset of the quarter, saw this weighting trimmed by a little less than 1%. In general, the majority of these increases went towards additions to our US, Japan and emerging market allocations while we trimmed our European exposure slightly at the portfolio level.

Part of this process saw us introduce a new position in the Quilter Investors US Equity Growth Fund, managed by JP Morgan Asset Management, while adding further to our existing weighting in the BNY Mellon US Equity Income Fund. Elsewhere, we also made small additions to our holdings in the Merian Asian Equity Income Fund and the Hermes Asia ex Japan Fund.

Besides these adjustments, the chief activity in the equity portfolios over the period was to utilise our newly-enhanced stock screening capabilities to thoroughly restructure our 20-stock portfolios of direct European and US equity holdings (see below).

Activity	Fund name	Manager	Rationale
Buy	Quilter Investors US Equity Growth Fund	JP Morgan AM	We introduced a new position in this fund from a leading US equity manager as part of moves to increase our allocation to the US market.
Add	BNY Mellon US Equity Income Fund	BNY Mellon AM	We added to our existing position here as part of moves to increase our allocation to the US market.
Buy (European equities)	Aegon, ASML Holding, Axa, BASF, Continental, Enel, Henkel, Hermès International, L'Oréal, LVMH, Roche Holding, Saint Gobain, SAP, SKF, Telenor, Total.	Direct	The latest refinements to our direct equity investment process allow us to screen quality stocks on the basis of defensive, growth and contrarian attributes. They also include an optimisation process based on company report and accounts that generate scores for return on equity, leverage and earnings volatility. Utilising these tools, we introduced 16 new European holdings to the portfolio over the quarter.
Buy (US equities)	Alphabet, Altria Group, Apple, Boeing, Eaton Corp, Intuit, Invesco, Medtronic, Newell Brands, TechnipFMC, Valero Energy, Wells Fargo.	Direct	Utilising our newly-refined equity screening process, we introduced 12 new US holdings to the portfolio over the quarter.
Sell (European equities)	Air Liquide, Amadeus IT, ArcelorMittal, Bayer, BMW, Beiersdorf, Bureau Veritas, Essilor International, Heineken, Inditex, Ingenico Group, Kuehne + Nagel, Publicis Groupe, Sodexo, Vinci.	Direct	Utilising our newly-refined equity screening process we dispensed with 15 European holdings in favour of more attractive opportunities for our 20-stock portfolio.
Sell (US equities)	Cisco Systems, Colgate-Palmolive, Kroger, Marriott, McDonald's, Oracle, PepsiCo, Praxair, Stryker, Union Pacific, United Technologies, Verizon Communications.	Direct	Utilising our newly-refined equity screening process, we dispensed with 12 US holdings in favour of more attractive opportunities for our 20-stock portfolio.

PORTFOLIO MANAGER'S OUTLOOK

There seems little prospect of the US economy surrendering its leadership over its peers in the coming quarters. US consumer confidence is currently the highest it's been since 2000, small business optimism is at a 40-year high while unemployment is at a 50-year low.

However, the risks are rising. We're clearly in the late stages of the current business cycle in the US, and the current recovery can't continue indefinitely. For one thing, the tidal wave of \$1 trillion in repatriated corporate profits that Mr Trump's tax breaks triggered has helped to underwrite a record year for US company buybacks, dividends and capital expenditure. This flood should have washed out of company results by next year when the US government will need to address the cost of Mr Trump's tax give away. Shortly after, other changes to company tax rules will also come into force, making life more challenging at the margins for US companies.

We're also slowly approaching the end game in Mr Trump's trade war with China. In January 2019, the current 10% tariff on \$200 billion of Chinese goods becomes 25% with another \$267 billion of Chinese goods already in the crosshairs. If signed into law, this last segment could prove especially painful for the US as it's likely to impact the technology supply chain more than previous rounds. This will add further to the problems facing the US technology elite, many of which could well fall foul of the tighter sector regulation that is already in the works.

Meanwhile, the truculent populist coalition now leading Italy has just as much potential to wound the EU as a poorly managed Brexit.

At the same time, economic growth remains robust and interest rates are rising on both sides of the Atlantic. This implies that government bond yields need to rise further and with yields on US treasuries already well past 3%, it is becoming far more likely that bond yields start to attract marginal equity investors.

So far, this cycle has managed to avoid many of the excesses of the previous cycle. Even with signs that the US tech and healthcare sectors may be surrendering their market leadership in favour of more defensive companies, we remain alert for any signs of a flagging US economy.

COMMENTARY AND ANALYSIS FOR COMPASS PORTFOLIO (CONTINUED)

FIXED INCOME

MARKET OVERVIEW

During the third quarter, government bond yields rose which means their prices fell and they delivered modest losses to most investors. This was due to strong economic data, especially in the US which in September saw its eighth consecutive interest rate rise since the end of 2015, taking the target range for the federal funds' rate up another 0.25% to 2% - 2.25%.

Prices briefly rallied in August due to a short-lived period of safe-haven buying brought on by worries over emerging markets such as Turkey and Argentina, heightening trade anxieties and anti-establishment rumblings from Italy's new coalition government, but not sufficiently to prevent investor losses.

The Bank of England also raised UK interest rates to 0.75% during the quarter, despite a poor first quarter for the economy. While sufficient to push up the yield on 10-year gilts, the move did nothing to support sterling, which declined so much over the period that sterling investors in US Treasuries enjoyed modest positive returns (even though dollar investors suffered small losses).

Meanwhile, the yields on Italian government bonds jumped to a four-year high as Italy's new populist government raised temperatures with a proposed budget that increases its much-watched fiscal deficit.

Corporate bonds fared better than their government equivalents. High-yield bonds predictably outperformed during what proved to be a 'risk on' period for markets with US high-yield bonds delivering more for sterling investors than most stock markets over the period. US investment grade bonds also delivered more than 2% to sterling investors which was significantly ahead of the more modest returns from European issues, while UK corporate bonds delivered a small loss.

Among emerging market bonds, hard currency sovereign and corporate bonds made positive returns, but local currency-denominated bonds lost ground amid a turbulent period for emerging market currencies in general.

PERFORMANCE ANALYSIS

Despite government bond markets generally losing value over the quarter, our fixed-income exposure delivered a modest positive return to the Compass Portfolios 2, 3 and 4 where we maintain a weighting to such assets.

Our alternative fixed-income holdings were especially rewarding thanks to strong performance from the M&G Optimal Income Fund and positive returns from the PIMCO Unconstrained Bond Fund and the Janus Absolute Return Income Fund, both of which were introduced to the portfolio over the period. Meanwhile, our alternative income holdings also delivered a modest positive return thanks to consistent performance from the Catco Reinsurance Opportunities Fund, the Wells Fargo Short-Term High Yield Fund and the Merian Financial Contingent Capital Fund.

Among the top contributors to portfolio performance was the Quilter Investors Bond 2 Fund, an investment grade bond mandate managed by Fidelity Investments. Our high yield holdings were also among the top contributors thanks to the Wells Fargo US High Yield and the Wellington Global Credit Plus funds.

Our emerging market government bonds exposure was also positive thanks to strong returns from our increased position in the Ashmore Emerging Markets Short Duration Fund and the Mexican government bonds we hold being sufficient to outweigh losses from the Merian Local Currency Emerging Market Debt Fund.

Our exposure to high-yield bonds was especially rewarding thanks to strong returns from the Quilter Investors Bond 1 and Bond 3 funds, which are managed by TwentyFour Asset Management and JP Morgan Asset Management respectively, and the Wells Fargo US High Yield Fund.

Losses to the fixed-income portfolio were mostly restricted to our direct government bond holdings and to the Merian Local Currency Emerging Market Debt Fund, which lost ground over the period.

CHANGES TO THE PORTFOLIO OVER THE QUARTER

For the Compass Portfolios 2, 3 and 4, we took the decision to trim our total exposure to cash and short-dated government bonds to increase the weighting to both equities and fixed-income assets.

In the fixed-income portfolio we added slightly to our weighting in alternative fixed-income assets with a new position in the PIMCO Unconstrained Bond Fund. This replaced the Merian Absolute Return Government Bond Fund, following the departure of its previous managers, Adam Purzitsky and Paul Shanta, and the merger of the fund with another in the same stable. We also took the opportunity to add a new position in the Janus Henderson Absolute Return Income Fund.

In the alternative-income segment, we instigated a new position in the Sequoia Economic Infrastructure Income Fund, thanks to an excellent track record of income generation. The new arrival replaced the SQN Asset Finance Income trust, which we removed from our portfolios after disappointing performance.

Our chief activity in the government bond sphere was to take up a new position in Italian five-year bonds. Although we showed good discipline by disposing of the position shortly after the quarter end, it was lucrative nonetheless thanks to strong moves in the Italian market and an attractive level of income – especially after gains on hedging the return from euros to sterling.

Elsewhere, we increased our existing position in the Ashmore Emerging Markets Short Duration Fund thanks to the attractive characteristics now being displayed by this part of the market while in the high-yield portfolio we introduced a new position in the Quilter Investors High Yield Bond Fund. The latter is managed by Columbia Threadneedle Investments and helps to replace our previous holding in the Pareto Nordic Corporate Bond Fund, which we removed from the Compass Portfolios after losing faith in the quality of the company's credit research process.

COMMENTARY AND ANALYSIS FOR COMPASS PORTFOLIO (CONTINUED)

Activity	Fund name	Manager	Rationale
Buy	PIMCO Unconstrained Bond Fund	PIMCO Investment Management	We selected this fund as a replacement for our existing position in the Merian Absolute Return Government Bond Fund thanks to a solid track record that's built on PIMCO's proven research capabilities.
Buy	Sequoia Economic Infrastructure Income Fund	Sequoia Investment Management	Thanks to its excellent track record of income generation, we added this Fund while still at an attractive price.
Buy	Quilter Investors High Yield Bond Fund	Columbia Threadneedle Investments	This fund offered a reassuring level of manager expertise and a strong performance track record at a time when we were keen to bolster our high-yield bond exposure.
Buy	Italian government 5-year bonds	Direct	We took advantage of the significant moves in Italian bond market yields seen over the quarter as a result of anxieties generated by Italy's new populist government.
Add	Ashmore Emerging Markets Short Duration Fund	Ashmore Group	We bolstered our previous weighting here as part of a broader move to increase our emerging market bonds exposure thanks to the increased opportunities we now see in this part of the market.
Sell	Merian Absolute Return Government Bond Fund	Merian Global Investors	We sold out of this position following the company's decision to merge the fund with the Merian Strategic Absolute Return Bond Fund during the quarter and the subsequent departure of its co-managers Adam Purzitsky and Paul Shanta.
Sell	SQN Asset Finance Income	SQN Asset Finance	We chose to dispense with this listed fund, which specialises in equipment leasing and asset finance investment, after its performance disappointed and our analysis failed to uncover any signs that it was likely to improve in the near future.
Sell	Pareto Nordic Corporate Bond Fund	Pareto Asset Management	We elected to dispose of this holding after a prolonged period of poor performance caused us to lose faith in the quality of the manager's credit research process.
Reduce	Wells Fargo Short-Term High Yield Fund	Wells Fargo Asset Management	We trimmed our position in this US mutual fund as part of moves to reduce our total exposure to alternative income strategies.

PORTFOLIO MANAGER'S OUTLOOK

Considering the backdrop of strong growth, rising inflation and rising interest rates in the US, returns from bonds haven't been nearly as bad as they might have been. However, in a rising interest-rate environment, bonds naturally look vulnerable and we expect to see yields continuing to rise to better reflect the economic backdrop.

Even so, with the prospects for equity markets finely balanced, any significant miss in US earnings' numbers or an escalation in the trade tensions could see investors returning to the relative safety of bond markets.

COMMENTARY AND ANALYSIS FOR COMPASS PORTFOLIO (CONTINUED)

ALTERNATIVES

MARKET OVERVIEW

Alternative investing is a broad church. It covers the widest range of asset classes from areas such as commercial property and infrastructure through to private equity and hedge funds. The latter invest in all kinds of different markets but, thanks to their use of derivative contracts, they can pursue all manner of different strategies. Many of these strategies focus on generating returns that have a low correlation to those of equity or bond markets or on delivering consistent, positive returns whatever the investment environment.

For this reason, the performance of our allocation to alternatives will vary between individual holdings depending on the underlying assets in which they invest and the efficacy of the individual manager's approach in the prevailing market conditions.

PERFORMANCE ANALYSIS

During the quarter, we added slightly to the alternatives weighting in the Compass Portfolios. However, the two portfolios with the highest weighting to alternatives, namely Compass Portfolio 2 and 3, suffered a modest loss from their allocation while Compass Portfolio 4 and 5 both enjoyed a small positive return from their smaller allocations.

Among the top contributors of the period was the new position we introduced in the Harbourvest Global Private Equity Fund, which subsequently saw its discount to net asset value (NAV) improve notably. When this fund was introduced to Compass Portfolio 5, it became the first alternative holding in the portfolio.

Among the worst detractors from performance was the AQR Global Relative Value Fund, which is held in the Compass Portfolios 2, 3 and 4. The fund employs generic risk premia strategies to extract returns from asset markets; however, the continued underperformance of value and other mainstream premia strategy has resulted in the fund consistently losing ground. We are troubled by the magnitude of such losses which call into question the strength of the model employed by its manager, Merrill Lynch. As such, we are actively reviewing the size of our position in the fund and the possibility of replacing this strategy with a cheaper, more successful approach to the same strategy.

It was a similar story with the IPM Systematic Macro Fund and, to a lesser extent, the CZ Absolute Return Alpha, both of which are held in the three lower risk Compass Portfolios.

By contrast, the Merian Style Premia Absolute Return Fund, which employs a similar 'alternative beta' approach to the AQR fund, was among the best performers in the alternatives portfolio over the quarter. The Mygale Event Driven Fund was another notable positive performer over the period thanks to the high levels of merger and acquisition activity now in evidence in markets around the world.

CHANGES TO THE PORTFOLIO OVER THE QUARTER

There were minimal changes of note to the alternatives allocation during the second quarter. The Compass Portfolio 2 maintained a weighting of just over 11.5% during the period while the more risk-tolerant funds in the range similarly maintained their own, successively smaller, allocations to alternatives (with the exception of Compass Portfolio 5 which has no allocation to alternatives).

Activity	Fund name	Manager	Rationale
Buy	Harbourvest Global Private Equity Fund	Harbourvest Partners	Cognisant of pricing anomalies in the private equity sector and the fact that the Compass Portfolios had yet to invest in this area of the market, we opted for this very well-established manager while its main fund was still attractively priced.

PORTFOLIO MANAGER'S OUTLOOK

The alternative managers we select are chosen on the basis that their funds are either uncorrelated to market direction or that they are correlated to a specific market that we are otherwise unable to access; commodities are a good example of this as is the private equity market.

Consequently, the outlook for our alternatives holdings will depend on the precise nature of the sector they target and the strategies they employ. More broadly, the rising levels of dispersion across stocks and sectors and the sudden return of volatility to asset markets should help to lift performance for our alternative managers as such events help to create the strategic opportunities upon which they rely.

GLOSSARY

Investing can be complex, which is one of the reasons why Old Mutual International only sells its products through financial advisers. In this glossary we have explained some of the terminology used in this report. We recommend that you speak to your financial adviser if you have any questions, or if there is anything in this report which you need explained further.

ALTERNATIVE BETA

Alternative beta is a term for a kind of risk that investors face and is used to refer to a type of investment strategy. Investors who try to profit from alternative beta investing expose themselves to risk in different markets than those using traditional strategies.

DERIVATIVES

Financial instruments that are, in effect, legal contracts between several parties, which derive their values from other underlying assets.

DISCOUNT TO NET ASSET VALUE (NAV)

Discount to net asset value (NAV) is a pricing situation that occurs when a fund's market trading price is lower than its net asset value. Discounts can occur in times where the market has a pessimistic future outlook on the underlying mutual fund holdings.

MANDATE

An investment mandate is a general philosophy or list of restrictions or permissions about how a pool of capital can be invested or put to work.

RISK PREMIA

Risk premia is the return in excess of the risk-free rate of return an investment is expected to yield; an asset's risk premia is a form of compensation for investors who tolerate the extra risk, compared to that of a risk-free asset, in a given investment.

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