

# Cirilium Portfolios update

February 2023



*This is the first in a series of regular updates about the changes being made to the Quilter Investors Cirilium Portfolios following the appointment of Ian Jensen-Humphreys and Sacha Chorley as portfolio managers.*

## How are you approaching the intended changes to the Cirilium Portfolios?

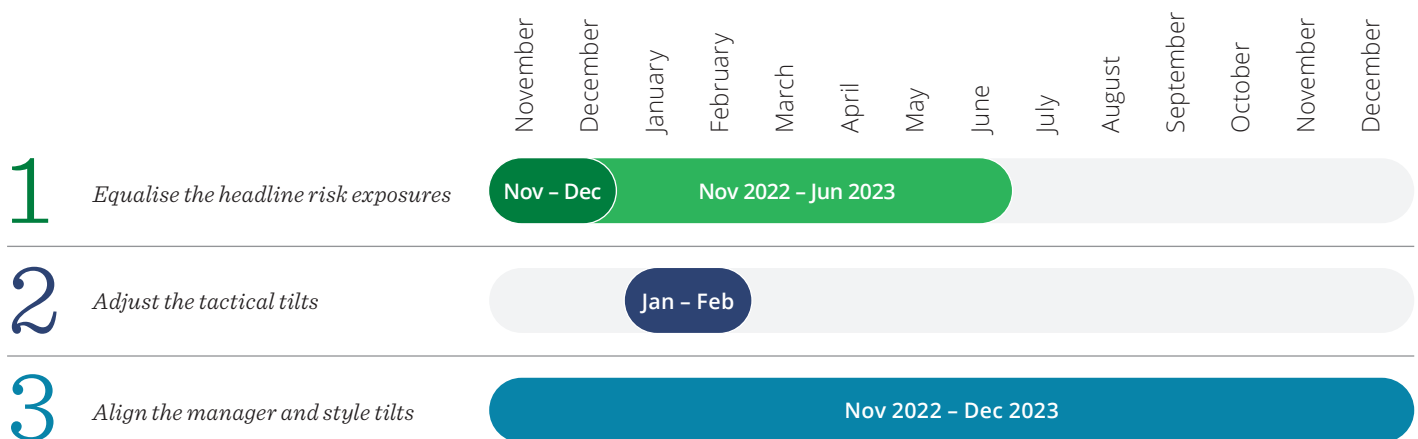
"We're taking a three-stepped approach that mirrors the broader investment process we employ in the Cirilium Blend Portfolios.

"First, we ask ourselves how much risk do we want to have in the portfolios? Part of the changes we are making is to equalise the headline risk exposures across the portfolios with those that have rewarded for us in the Cirilium Blend Portfolios.

"Second, where do we want to take that risk? We're working to adjust the tactical tilts and the underlying sub-asset class positions in the portfolios to ensure they're in line with our current views.

"Finally, step three – how do we want to implement this in the portfolios? We want to align the manager line up in the portfolios and ensure that the investment style exposures they carry are also aligned with our views."

### Estimated timeline of changes



## What progress have you made equalising the headline risk exposures ?

"When we took over the reins of the portfolios in November 2022, we identified a number of areas where allocations to certain asset classes and investment styles – such as growth stocks, small- and mid-cap equities, and high-yield bonds – were adding too much risk to the portfolios.

"We were conscious the portfolios had seen losses over the previous year, so we didn't want to simply de-risk the portfolios and potentially miss out in the event that markets rallied. Therefore, we wanted to find a way to minimise the downside in these areas if markets fell, but that also allowed us to capture as much of any upside as possible if markets rallied.

"We decided to add put options – derivatives that gives us the right to sell a specific security at a predetermined price – in mid-November to address this.

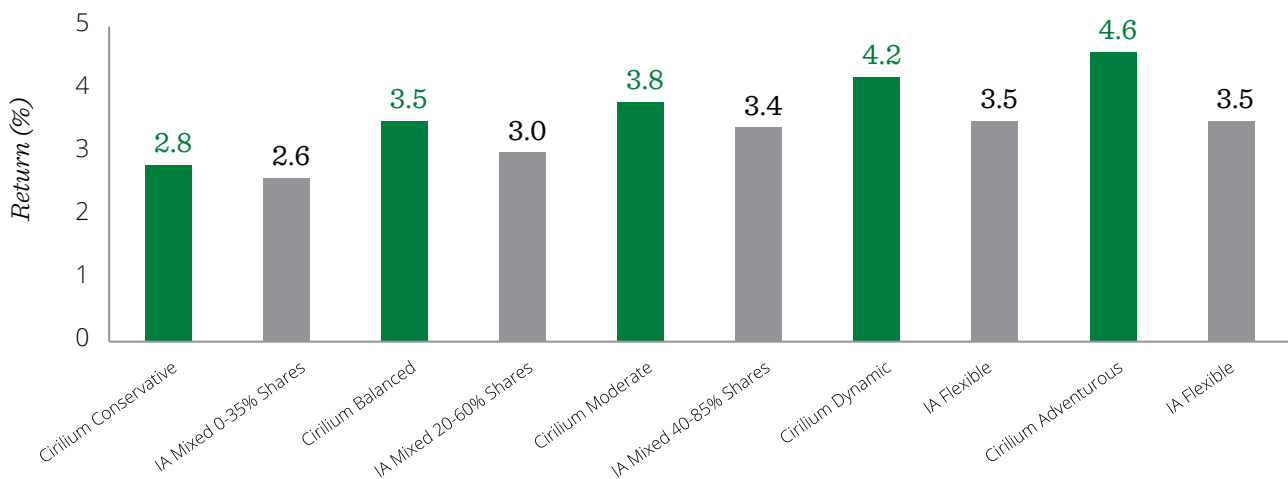
"Such contracts cost a small option premium and pay out if prices in the underlying asset class fall below where they were trading at the inception of the trade. This provides low-cost 'insurance' against some of the potential losses from such holdings if markets decline.

"However, if markets rally, the portfolios will benefit from holding the underlying assets with any such gains offsetting the relatively small cost of the option, which will expire unused.

### Have these put options worked so far?

"While we haven't made any money from the options directly, having this insurance in place has given us the confidence to remain fully invested in markets. As the chart inset shows, this has resulted in the Cirilium Portfolios comfortably outperforming their respective performance comparators since the start of the year.

"As the options will only add value in the event of a market sell-off, we actually hope we don't make any money from them! However, the downside 'cap' they provide for certain parts of the portfolios should give investors a great deal more comfort that while the portfolios continue to seek long-term growth, the risk of downside losses is now being closely managed."



Source: Quilter Investors as at 31 January 2023. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place over time period 31 December 2022 to 31 January 2023.

## What progress have you made adjusting the tactical tilts?

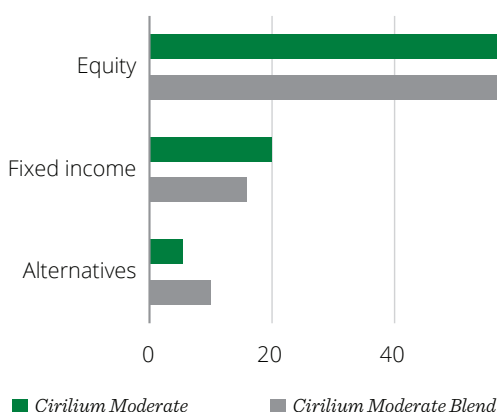
"We're currently in the process of aligning our regional equity weights, as well as our asset class exposure, with that of the Cirilium Blend Portfolios. As the chart below shows, we still have some work to do here but, thanks to our options strategy we have the breathing space we need to do this in the most effective way for our investors.

"Notably, we're in the process of increasing exposure to the UK in the portfolios while reducing exposure to the US and Japanese equity markets. We've also started to implement our thematic overweight to healthcare. This mirrors the position we've held in the Cirilium Blend Portfolios for the last two years – one that's paid off handsomely for our investors.

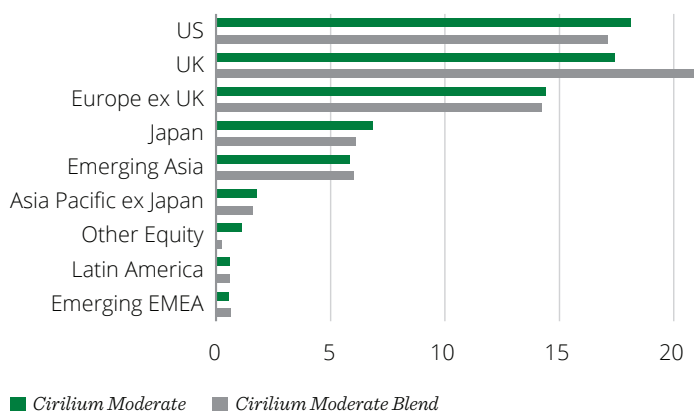
"We continue to like the 'defensive' characteristics of the healthcare sector, especially in the volatile markets we're currently seeing. Meanwhile, the long-term structural growth story in the sector makes it highly attractive in terms of potential earnings growth. Consequently, we're steadily building a core holding in the sector."

### Current portfolio positioning

#### Asset class breakdown



#### Regional equity breakdown



## What progress have you made aligning the manager and style tilts?

"When we assumed the reins of the portfolios, we inherited around 60 managers that we hadn't previously owned in the other portfolios we manage.

"It's crucial for us as portfolio managers to meet all of these underlying managers, to look them in the eye, and to understand what makes their investment process tick. That's the only way for us to judge if they belong in the portfolios going forward. Fortunately, our options positioning has afforded us the time we need to undertake this work with the proper level of detail.

"As at the end of January, we'd met 38 of the new managers, or around 60% of those to which the portfolios currently have exposures. Naturally, this is a time-consuming process and one which we expect to stretch into the latter half of the year.

"So far, we've removed two managers from the portfolios: the Allspring US Select Equity Fund and the Polar Capital Automation and Artificial Intelligence Fund. The first was a straightforward way to reduce the portfolios' small- and mid-cap bias, its growth bias, and its US bias, all in one trade.

"Meanwhile, the Polar Capital fund is another US growth strategy that no longer fits with our intended direction of travel for the portfolios. While we'll be retaining some US and growth-oriented managers from here, they'll be the ones in whom we have the greatest level of conviction and whose approach best complements the other holdings in the portfolios."

## Performance summary

	Cumulative performance					Discrete annual performance				
	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
<b>Cirilium Conservative</b>	<b>2.8</b>	<b>-6.7</b>	<b>-1.7</b>	<b>0.8</b>	<b>41.9</b>	<b>-6.7</b>	<b>0.5</b>	<b>4.7</b>	<b>5.6</b>	<b>-2.8</b>
IA Mixed 0-35% Shares	2.6	-5.4	-2.4	3.6	37.9	-5.4	0.3	2.8	7.6	-1.3
<b>Cirilium Balanced</b>	<b>3.5</b>	<b>-4.6</b>	<b>2.7</b>	<b>5.7</b>	<b>116.4</b>	<b>-4.6</b>	<b>1.5</b>	<b>6.0</b>	<b>7.6</b>	<b>-4.3</b>
IA Mixed 20-60% Shares	3.0	-3.9	2.4	9.0	76.7	-3.9	3.3	3.1	9.2	-2.5
<b>Cirilium Moderate</b>	<b>3.8</b>	<b>-3.5</b>	<b>6.7</b>	<b>9.1</b>	<b>163.3</b>	<b>-3.5</b>	<b>2.0</b>	<b>8.4</b>	<b>8.8</b>	<b>-6.0</b>
IA Mixed 40-85% Shares	3.4	-2.5	9.3	18.7	109.6	-2.5	6.2	5.5	11.9	-3.0
<b>Cirilium Dynamic</b>	<b>4.2</b>	<b>-3.9</b>	<b>8.2</b>	<b>10.3</b>	<b>172.2</b>	<b>-3.9</b>	<b>3.2</b>	<b>9.1</b>	<b>10.1</b>	<b>-7.4</b>
IA Flexible	3.5	-1.3	12.6	20.4	108.0	-1.3	6.2	7.4	11.3	-3.9
<b>Cirilium Adventurous</b>	<b>4.6</b>	<b>-3.0</b>	<b>12.4</b>	<b>13.4</b>	<b>21.4</b>	<b>-3.0</b>	<b>4.5</b>	<b>10.9</b>	<b>7.1</b>	<b>-5.8</b>
IA Flexible	3.5	-1.3	12.6	20.4	26.1	-1.3	6.2	7.4	11.3	-3.9

Source: Quilter Investors as at 31 January 2023. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place. The Cirilium Conservative Portfolio launched on 30 March 2012; the Cirilium Balanced Portfolio launched on 2 June 2008; the Cirilium Moderate Portfolio launched on 2 June 2008; the Cirilium Dynamic Portfolio launched on 2 June 2008; and the Cirilium Adventurous Portfolio launched on 1 June 2017.

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