

Cirilium Portfolios update

8 March 2023



This is the second in a series of regular monthly 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?

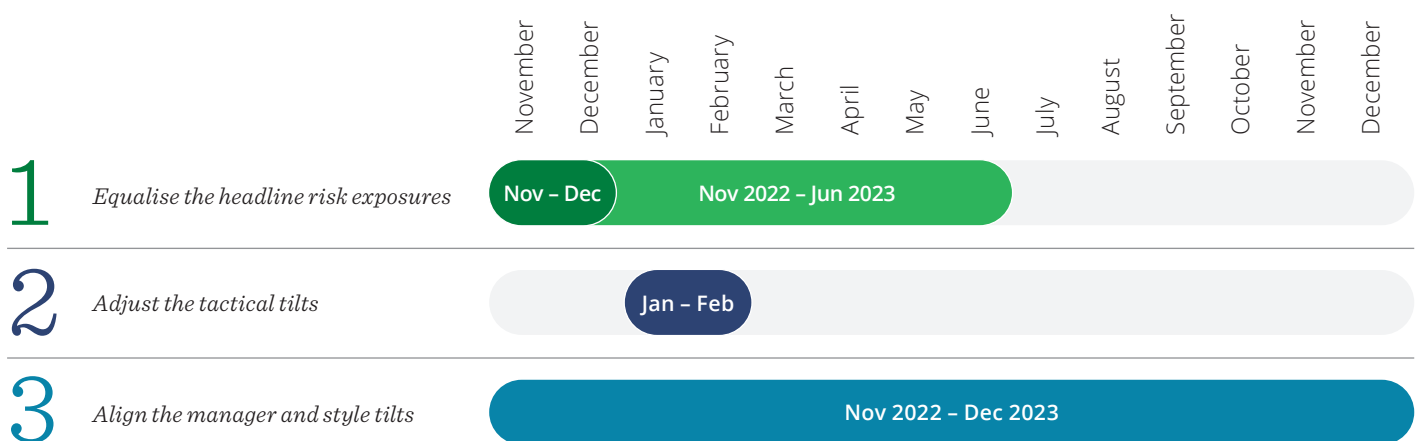
"We're taking a three-stepped approach that mirrors the broader investment process we employ in the Cirilium Blend Portfolios.

"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 across the portfolios?

"We're currently in the process of aligning the asset class and regional equity market exposures in the Cirilium Portfolios with those of the Cirilium Blend Portfolios.

As the above chart shows, we still have some work to do here. However, the options strategies that we implemented when we took over the Cirilium Portfolios in November mean that we have the breathing room to do this when market pricing is most advantageous – we're not forced sellers of any specific managers or holdings."

What progress have you made adjusting the tactical tilts across the portfolios?

“The most notable aspect of this re-weighting process are our moves to increase the UK equity exposure in the Cirilium Portfolios while reducing our exposure to the US and Japanese markets.

As part of this process, we have reduced the overweight to ‘growth’ in the Cirilium Portfolios by introducing more value exposures. Similarly, have added more large-cap quality growth into the portfolios while actively reducing the portfolios’ exposure to smaller company strategies.

Japanese equities

Among other moves, we have sold our holding in the Usonian Japan Value Fund, which has a small and mid-cap bias, something we’re actively reducing in the portfolios.

The proceeds of the sale went into a new position in the M&G Japan Fund. This is a manager that we hold in the Cirilium Blend Portfolios and we have a strong conviction in its investment process. The fund takes an all-cap, value-biased approach, which includes a high level of active engagement with the companies in which it invests.

UK equities

Another manager we added to the Cirilium Portfolios in February was Liontrust. We introduced a new position in the Liontrust UK Growth Fund as part of our moves to reduce the current underweight to UK equities.

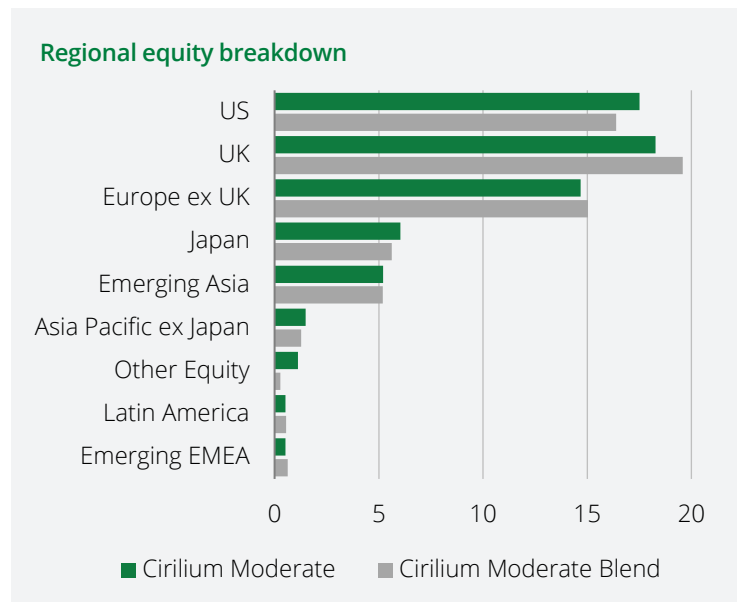
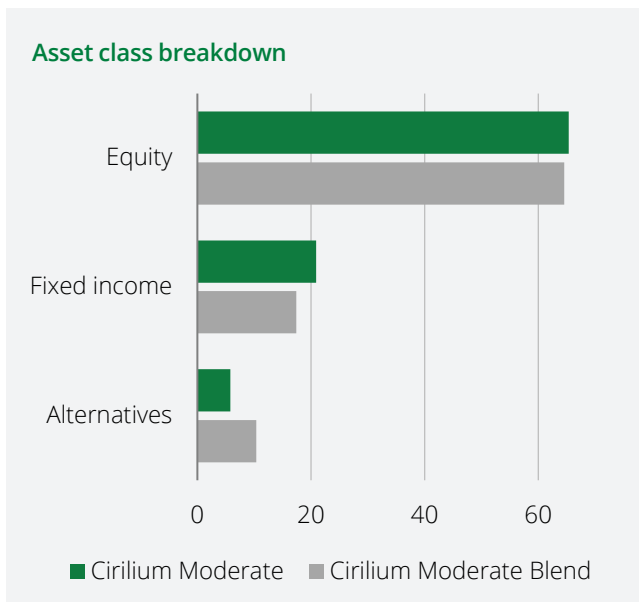
We favour this fund as its process focuses on companies that show strong cashflow generation from their investments. This tends to highlight higher-quality businesses that are further up the market-cap spectrum with strong barriers to entry into their respective sectors. Such businesses tend to deliver sustainable returns through varying market cycles and therefore offer better downside defence than other growth-style managers.

Healthcare

Elsewhere, we also continued to implement a thematic overweight to the **healthcare sector**, which mirrors the highly successful position we hold in the Cirilium Blend Portfolios.

We continue to like the defensive characteristics of this sector, especially in today’s volatile markets. Meanwhile, the sector’s long-term structural dynamics make it attractive from an earnings growth perspective. Consequently, healthcare is a core holding for the Cirilium Blend Portfolios.”

Current portfolio positioning

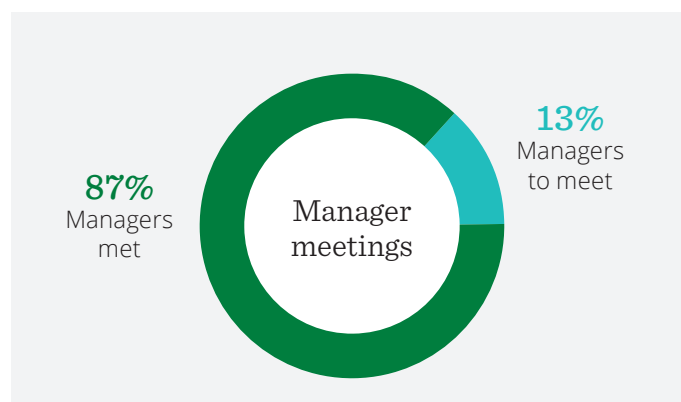


What progress have you made aligning the manager and style tilts within the portfolios?

“We’ve previously highlighted that the third step in our process, namely ensuring the line-up of underlying managers is exactly as we would like for a long-term, high-quality growth portfolio, would take the most time.

By the end of February, we had met with **54** of the managers who are within the orbit of this process. This equates to around **87%** of the total number of managers we’re scheduled to meet.

Throughout February we continued to progress the transition. So far, the 54 manager meetings we’ve undertaken have resulted in trading decisions for 22 holdings. Each of these has been carefully calibrated to move us closer to our target tactical allocations.”



February trades

“As part of our intention to implement a tactical overweight to the healthcare sector, we added a new position in the AllianceBernstein International Health Care Fund. This is a fund we’ve held for some time in the Cirilium Blend Portfolios and it has rewarded our investors with consistent, lower-risk outperformance.

We especially like this fund’s approach, which is focused on quality businesses that show strong year-on-year profitability and avoids those smaller players gambling on a technological or scientific breakthrough. Again, this ‘quality growth’ approach tends to lead to better downside defence in a sector that is defensive by nature; it also allows the manager to deliver strong positive returns over the long term.

Elsewhere, we added a new position in the Quilter Investors Global Equity Value Fund, which is managed by Redwheel. This helped to increase the overall value exposure in the Cirilium Portfolios and reduced our overweight to growth companies.

Redwheel is another manager we hold in the Cirilium Blend Portfolios and it’s also held in the Quilter WealthSelect Portfolios. Consequently, we have a very close working knowledge of the manager, Nick Clay, who we’ve followed for a number of years and we have a high level of conviction in what he and his team at Redwheel can deliver.

The team’s value-driven investment process focuses on quality businesses that have a high return on capital invested, rather than the more traditional metric of higher dividends, an approach prevalent in many other value-oriented funds.

This means the strategy demonstrates good downside defence in risk-off market phases but tends to outperform other value managers when value stocks are in the ascendancy.”

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