Quilter Investors

Cilirium Blend: built for your peace of mind

Suitable for professional and retail clients.

Multiple studies of investor behaviour have shown how the emotions around financial losses are often more severe than the positivity felt about gains.

To delve deeper into this interesting topic, we sat down with Mark Pittaccio, a behavioural economist with more than 35 years of experience. We also spoke to Andy Miller, Lead Investment Director at Quilter, to take a look at how the Cirilium Blend Portfolios are managed to help navigate these negative emotional reactions and provide a smoother investment journey for investors like you.

To aid in your understanding, definitions for the terms that appear underlined overleaf are hyperlinked to our online investment glossary.

Mark, what drives the financial decisions that people make?

Mark: No one ever made a decision because of a number – they make decisions based on their own vision for the future and the hope for what the returns on their investments will give them. So, the risk of loss isn't a risk to a number, it is a risk to that vision, which can impact their decisions.

What does that mean for investors?

Mark: There is an assumption that investors act rationally. Often, this isn't true. About 35 years ago, a psychologist called Daniel Kahneman showed that emotionally, the negative impact from losses far outweighs the positive impact from gains.

Alongside this, people tend to anchor to a particular reference point, which is often the most recent value of their investment. Any loss relative to their reference point can be viewed very negatively, even if the overall investment journey has been positive.

What else can affect people's investment decisions?

Mark: The prevailing market environment can also affect people's risk appetite. When markets are rising and media reports are positive, people can become risk seekers. When markets fall and it seems that the world is 'going to hell in a handcart', people can become risk avoiders.

This can lead to what is referred to as herd behaviour, where investors chase returns in a rising market and sell when values begin to fall sharply. Investors not employing a financial adviser find it hard to cut out the noise and sell as a result, realising losses. They tend to regret this at a later point in time when values recover and their investments fail to capture this increase in value .

Human mental biases such as loss aversion, anchoring, and herding may have helped with the evolution of our species, but can be unhelpful in navigating uncertainty along a long-term investment journey.

Can investments be managed to take these biases into account?

Mark: I think the answer to this question is yes if portfolio managers follow an investment process that aims to protect values when markets or certain sectors are falling sharply in value. Often this can lead to a smoother investment journey.

There is an assumption that people act rationally. Often, we don't... emotionally, the negative impact from losses far outweighs the positive impact from gains.

Mark Pittaccio BA (Hons), MSc, CFP, IMC, Behavioural Economist

Andy, how have the Cirilium Blend Portfolios been designed with this in mind?

Andy: When it comes to investing, the journey for investors is often as important to as the outcome. As a result, the Cirilium Blend Portfolios are managed to help ease their anxiety and ensure customers can have confidence in the investment solution their adviser has recommended.

Andy Miller
Lead Investment Director

How are they managed to achieve this?

Andy: The portfolios combine both active and passive management across all asset classes to provide a diversified, risk-targeted investment solution to help investors achieve their financial goals.

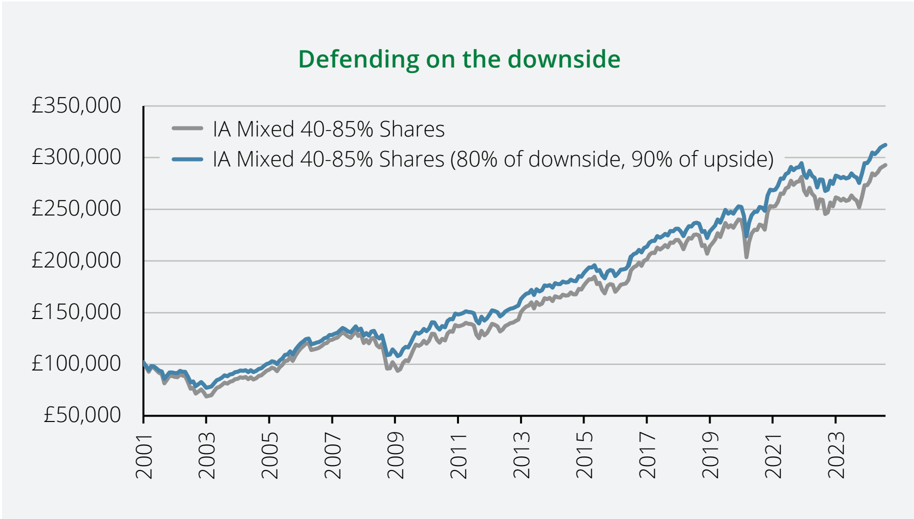
By investing in passive funds, as well as active ones, the portfolios can capture the returns passives can provide when markets are buoyant, in a cost-effective way. The active funds then provide the added diversification that can allow for a wider range of return opportunities and help protect values when markets are falling.

How important is protecting the portfolios against losses?

Andy: For your investment portfolio, defending against drops in the market is just as important as maximising returns when markets are going up.

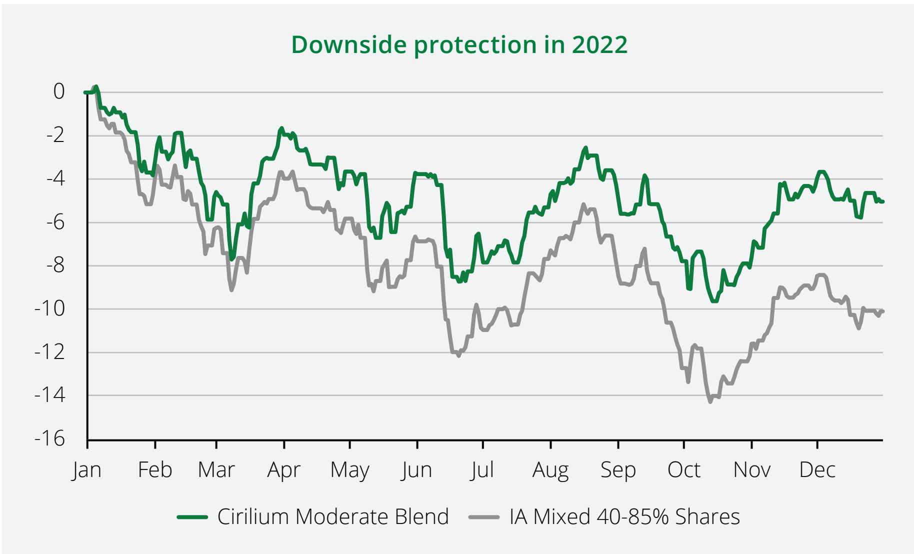
Let's take an example £100,000 invested into the IA Mixed Investment 40-85% Shares sector at the start of the 21st century. You can't invest in the sector average itself, but it shows the general direction of travel of a multi-asset fund.

That investment would now be worth just under £293,000 (as at end of August 2024). However, as the chart to the right shows, if your investment only returned 80% of that sector's losses in negative months, and 90% of the returns in positive ones, you would have more than £312,000. This would leave you over £19,000 better off, despite your investment lagging in the positive months.



How is this reflected in the Cirilium Blend Portfolios?

Andy: Over the five years since the Cirilium Blend Portfolios were launched, investors have experienced some significant events that have created enormous uncertainty. Arguably the most challenging was in 2022, when rising interest rates and soaring inflation triggered the worst year for bond investments in history. During this time, the portfolio managers made some important decisions to diversify the portfolios to navigate the risk of bond investments falling in value. By investing more of the portfolio allocation into index-linked bonds, commodities, and alternatives, the portfolios outperformed their respective comparators (as shown using the Cirilium Moderate Blend Portfolio as an example in the chart to the right).



Sources for charts: Quilter Investors/Morningstar, September 2024. The Cirilium Moderate Blend performance is total return, percentage growth, net of fees of the U1 (GBP) accumulation shares over period 31 December 2021 to 31 December 2022.

How else do the Cirilium Blend Portfolios help defend against losses?

Andy: The portfolios have exposure to more defensive sectors such as healthcare. Defensive sectors tend to do well regardless of the state of the stock market, adding a layer of defence to the portfolios.

The final part of the portfolio managers' downside defence strategy has been through the careful selection of different active fund managers who can help tilt the portfolios to capture certain styles at different times.

This wide investment toolkit is vital in delivering an investment solution that gives investors peace of mind. The results since launch reflect the value of having a portfolio that targets the appropriate level of investment risk, whilst having one eye on defending investment values, as much as trying to capture the upside of markets. We believe this best-of-both-worlds approach is a compelling reason to invest in the Cirilium Blend Portfolios.

Performance summary: Cirilium Moderate Blend Portfolio

	Discrete annual performance to end of August				
	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Cirilium Moderate Blend	**10.6**	**3.0**	**-3.0**	**15.6**	**2.2**
IA Mixed 40-85%	12.5	0.4	-6.6	17.9	1.3

Source: Quilter Investors as at 30 August 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) accumulation shares. The Cirilium Blend Portfolios launched on 26 July 2019.

Important information

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments may go down as well as up and investors may not get back the amount originally invested.

There are also other risks shown below of which investors should be aware. For more information on these risks, investors should read the key investor information document(s) (KIID(s)).

The portfolios are denominated in one currency, but may hold assets denominated in other currencies, which means exchange rate changes may cause the value of investments to rise or fall. The portfolios may invest in a range of assets such as bonds, equities (company shares), and other investment funds. This means the portfolios will be subject to the collective risks of those investments and, in the case of other investment funds, the collective risks of those investment funds as well as their underlying investments. The portfolios deduct the charges from the capital of the portfolios, which means there is the potential for capital erosion if insufficient capital growth achieved to cover the charges. The portfolios may use derivatives, which means there may be a higher level of risk. The portfolios may invest more than 15% in cash, which could reduce returns in rising markets and reduce losses in falling markets. The portfolios may hold investments that may be more difficult to sell, which may affect the ability of investors to withdraw their money. The portfolios invest in emerging markets, which may be more volatile than investments in developed markets.

Quilter Investors Cirilium Conservative Blend Portfolio, Quilter Investors Cirilium Balanced Blend Portfolio, Quilter Investors Cirilium Moderate Blend Portfolio, Quilter Investors Cirilium Dynamic Blend Portfolio, and Quilter Investors Cirilium Adventurous Blend Portfolio are sub-funds of Quilter Investors Cirilium OEIC, an investment company with variable capital incorporated in England and Wales.

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