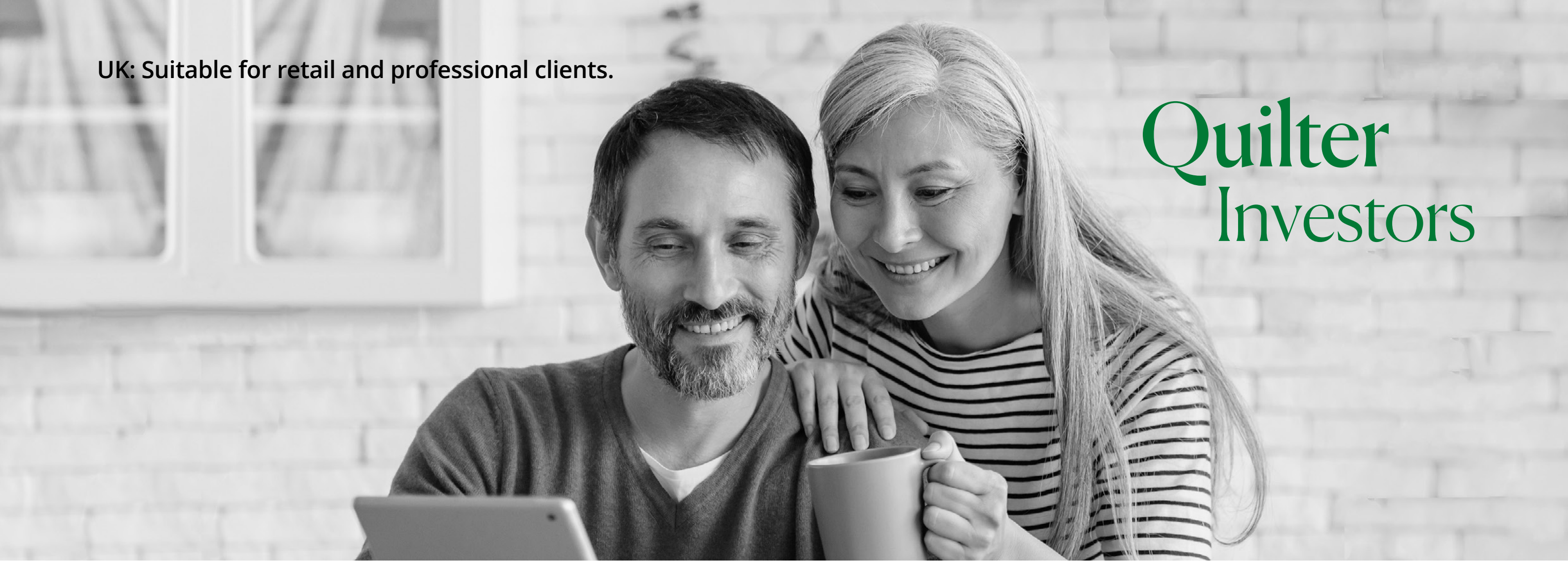
UK: Suitable for retail and professional clients.



Quilter Investors

Cirilium Blend Portfolios

Monthly commentary – Review of February 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Although all asset classes made gains in January, it was a different story in February with only UK and European equities making progress. All other regional equity markets declined as did government and corporate (issued by companies) bonds. While the latest data showed inflation to be slowing, any hopes of a swift easing in interest rates were dashed by the central banks. Despite headline inflation visibly waning, central bank policymakers cautioned that interest rates are likely to head higher than expected.

Equity markets

US equities (company shares) were down 0.7% over the month. The US Federal Reserve (Fed) raised interest rates by 0.25% while acknowledging that inflation appeared to be slowing. The Fed also indicated that rate rises would continue in the short term and that its 'terminal rate' (the peak in US rates) may be higher than originally hoped. At a sector level, technology stocks were more resilient than of late, while energy stocks were weaker.

European stock markets were once again positive with European equities up 0.8% in February. The European Central Bank (ECB) raised interest rates by 0.5% as inflation remained high in certain parts of the bloc. Even so, economic data for the continent continued to deliver positive surprises with most commentators expecting less encouraging numbers due to the region's proximity to the Ukraine war and its reliance on Russian oil and gas.

The UK was the top performing regional market gaining 1.5%. News that the UK had narrowly avoided recession in the last quarter of 2022 helped the FTSE 100 Index to a new all-time high. Energy, healthcare, and telecoms companies outperformed, partly due to the strength of the US dollar, while some more domestically-focused stocks also benefited. Meanwhile, the Bank of England raised interest rates by 0.25%.

After a positive start to the year, emerging market equities fell 4.9% in February. This was in large part due to negative investor sentiment surrounding China, following its 'spy balloon' debacle which, once again, raised tensions with the US. Chinese equities fell by 8.9% during the month. India and Poland were two of the stronger performers, while Brazil continued to stall.

Fixed income

Global bond prices fell (meaning their yields rose) in February as markets re-evaluated the outlook for interest rates. Following more interest-rate hikes and guidance from central banks, markets grappled with the prospect of interest rates remaining higher for longer. This saw US Treasuries (US government bonds) fall by 1.3% while gilts (UK government bonds) lost 3.4%. European bond markets performed better on the back of improving economic data.

Total return, percentage growth in pounds sterling. Each return figure is represented by an appropriate market index.

Sacha Chorley
Portfolio Manager

Ian Jensen-Humphreys
Portfolio Manager

Performance review

The Cirilium Blend Portfolios delivered top quartile performance relative to their respective Investment Association (IA) fund sector peer groups, with returns ranging from a modest decline of 0.8% for the Cirilium Conservative Blend Portfolio to a 1% gain for the Cirilium Adventurous Blend Portfolio. While relative performance benefitted from our underweight to bonds, a greater contribution came from our manager selection with most of our underlying equity fund holdings outperforming their peers. Overall, our fixed-income holdings lost ground with corporate bonds declining less than government bonds as interest rates rose. Meanwhile, our alternatives holdings added to performance, especially our 'carry' strategies.

'Carry strategies seek regular, low-risk returns regardless of market direction. 'Carry trades' try to exploit differences in future pricing points, interest rates or currencies.

Performance summary (%)

	Cumulative performance					*Discrete annual performance*		
	1 month	*YTD*	*1 year*	*3 year*	*Since launch*	*28 Feb 22 - 28 Feb 23*	*28 Feb 21 - 28 Feb 22*	*28 Feb 20 - 28 Feb 21*
Cirilium Conservative Blend	**-0.8**	**1.3**	**-2.9**	**1.2**	**2.2**	**-2.9**	**-1.7**	**6.1**
IA Mixed 0-35% Shares	-1.2	1.4	-5.6	-1.9	-1.7	-5.6	0.4	3.5
Cirilium Balanced Blend	**0.0**	**2.8**	**0.9**	**9.7**	**9.8**	**0.9**	**0.7**	**8.0**
IA Mixed 20-60% Shares	-0.8	2.2	-3.0	5.0	3.7	-3.0	1.6	6.6
Cirilium Moderate Blend	**0.4**	**4.0**	**3.8**	**18.3**	**16.8**	**3.8**	**2.4**	**11.3**
IA Mixed 40-85% Shares	-0.3	3.1	-1.1	14.3	11.2	-1.1	4.2	10.9
Cirilium Dynamic Blend	**0.8**	**5.1**	**5.3**	**23.9**	**20.6**	**5.3**	**3.6**	**13.6**
IA Flexible	-0.7	2.8	-0.2	17.2	14.0	-0.2	3.7	13.4
Cirilium Adventurous Blend	**1.0**	**5.8**	**5.5**	**24.9**	**21.0**	**5.5**	**3.7**	**14.1**
IA Flexible	-0.7	2.8	-0.2	17.2	14.0	-0.2	3.7	13.4

Source: Quilter Investors as at 28 February 2023. Total return, percentage growth, net of fees of the U1 Acc share class rounded to one decimal place. The Cirilium Blend Portfolios launched on 26 July 2019.

How our equity holdings performed

Underlying managers outperform

Most of our underlying managers, irrespective of region or investment style, outperformed their respective benchmarks helping to soften losses in several areas. The biggest contributions came from our more defensive, 'higher-quality' equity managers; the Quilter Investors Global Equity Value Fund outperformed its benchmark by 0.9% while the higher-growth Premier Miton European Opportunities Fund outperformed its benchmark by 1.1%.

UK and Europe outperform the US

Both UK and European markets outperformed their transatlantic cousins over the month. Thanks to its defensive characteristics and the tailwind provided for many of its largest companies by a strengthening US dollar, the UK was the top performing equity market. Although our UK holdings delivered much greater returns, overall our chosen US equity managers outperformed more than our UK managers while our European managers outperformed the most.

With around 75% of earnings from the UK's FTSE 100 Index coming from overseas, a period of US dollar strength is highly supportive for the UK's largest companies, many of which pay their dividends in US dollars.

Healthcare underwhelms

Our overweight to the healthcare sector was a small detractor from returns as the sector fared worse than broader equity markets due largely to the impact of rising interest rates. The global healthcare sector declined 2.5% in February while the MSCI World Index fell just 0.7%. Even so, our higher-quality equity manager AllianceBernstein outperformed the sector by 0.7% over the month, which helped to mitigate losses.

When a fund is 'overweight', it holds a larger position in a particular stock, sector, or region than the stock market index or strategic asset allocation (SAA) portfolio model against which it's benchmarked. 'Underweight' means the opposite.

How our fixed-income holdings performed

Rising interest rates hurt bond holdings

Fixed-income markets struggled over the period as unexpectedly strong economic data triggered a market re-pricing of interest-rate expectations. In the US, markets are now expecting interest rates to be above 5% in a year's time; at the end of January, the same expectation was for 4.5%. Given this, bond yields generally rose (meaning their prices fell) which delivered losses for our fixed-income holdings. Our underweight to government bonds helped to mitigate such losses, as did the outperformance of our high-yield bond exposures in funds, such as the Premier Miton Financial Capital Securities Fund, as high-yield bonds tend to be less sensitive to interest-rate moves.

How our alternative holdings performed

Alternatives 'carry' the day

The alternatives allocation within the Cirilium Blend Portfolios made a positive contribution to returns over the month with the best performance coming from our 'carry' strategies. The CMCI Commodity Carry ETF was the best performer with a gain of 3%. Returns from our long/short equity managers were more mixed. The Cooper Creek North America Long Short Fund added 0.9% while the Sandbar Global Equity Market Neutral Fund declined a modest 0.1%. Meanwhile, our inflation-linked strategies struggled; the Wisdom Tree Enhanced Commodity ETF was down nearly 4% over the month.

Inflation-linked strategies aim to deliver returns that rise in line with inflation. Such strategies include commodities-based approaches as well as 'real assets' such as infrastructure or property strategies.

Portfolio activity

We reviewed many of our tactical tilts (where we are either underweight or overweight on a sector or market) in February and acted in two instances. In the first, we tempered our cautious optimism as we saw corporate earnings deteriorate. Combined with the substantial rally seen since October of last year, this led us to cut the equity exposure in the lower-risk portfolios by selling down some of our passive equity fund holdings.

In tandem with this, our review of the high-yield bond market identified that the investment case had strengthened – particularly in the case of a 'muddle-through' economic outcome (which is now looking increasingly likely). Consequently, we topped up our existing high-yield exposures in the Federated Hermes Unconstrained Credit and the Premier Miton Financial Capital Securities funds.

Investment outlook

After our stance of cautious optimism through 2022, we have turned slightly more pessimistic as some of the data in the corporate world is indicating lower earnings; this typically means weaker share price returns on a forward-looking basis. However, some economic data remain surprisingly resilient.

Currently, we're focusing on the three key questions below to help us adjust the portfolios to deliver the best outcomes for our investors in the coming months.

1. Are activity levels peaking?

The labour market in the US remains remarkably robust with healthy wage growth supporting consumption; similar pictures can be seen in most major economies. However, there are weaker signs from economic activity surveys, weaker business demand for industrial goods and increasing corporate layoffs. Our base case is now for a gradual slowdown after the high economic growth rates of 2021, but we're also watching for signs of something potentially more harmful.

2. How quickly will inflation fall?

Many of the factors that drove inflation to the highs we saw in 2022 are unwinding. For example, freight costs and many commodity prices have fallen back to the levels we saw prior to the Russian invasion of Ukraine. However, 'stickier' components, such as housing or services costs, are continuing to rise. This leads us to believe that interest rates will go still higher before they start to relent.

3. When will companies return to growth?

The latest earnings season showed a decline in aggregate corporate earnings, which is a signal for weaker forward returns. As we progress through the months ahead, we will be looking for signs that corporate earnings are once again on the up, regardless of whether this comes from increased revenue, due to stronger demand, or through the stout defence of company margins.

Earnings seasons are quarterly. They are the periods when listed companies release their financial data including information on company revenues, sales, profits, and margins as well as more granular details of the underlying business, its liabilities and its forecasts for future revenue growth (***find out more***).

Thank you for investing with us

Keep an eye out for your Cirilium Blend Portfolios quarterly report in April.

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 3700, email us at ***enquiries@quilter.com***, or visit our website at ***www.quilter.com***.

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