Quilter Investors

Cirilium Portfolios

Monthly commentary – Review of May 2024

Marcus Brookes
Chief Investment Officer

Our market summary

Global equities gained 2.4% in May. Growth stocks strongly outperformed value stocks over the period with developed markets well ahead of emerging markets. These delivered small losses, despite China making a modest gain. Although the likely timing of US interest-rate cuts was pushed back again, markets continued to anticipate rate cuts with Europe outperforming other regions thanks partly to expectations of a June rate cut. Meanwhile, US Treasuries and UK gilts delivered modest gains while corporate bonds outperformed.

In order to aid your understanding, the underlined terms are hyperlinked to definitions in our online investment glossary.

Equity markets

US equities rebounded from April's losses to gain 3% in another strong month for growth stocks as better-than-expected first quarter earnings across a number of sectors boosted the market. The Magnificent Seven mega-cap stocks were also prominent amid ongoing investor appetite for AI-related stocks. The top sectors were information technology, utilities, and communication services while energy stocks trailed as oil prices weakened.

Europe was the top performing regional equity market. It gained 3.7% as corporate profits generally surprised, and the economy improved. Thanks to the widely-anticipated June rate cut from the European Central Bank (ECB), interest-rate sensitive areas such as real estate and utilities outperformed, as did financial stocks. As in the US, falling oil prices hit European energy stocks while several major luxury goods and automakers also struggled.

UK equities trailed those of other developed markets with a return of 2.4% but UK smaller companies jumped 5.7% due to record levels of bid activity from overseas investors. Amid news of positive GDP growth in the first quarter, UK financial and industrial stocks were the top performers despite UK CPI inflation disappointing. It declined to 2.3% in April, which further pushed out the expected timing for the first Bank of England rate cut.

Emerging markets declined 1.1%, despite Chinese equities making a modest 0.7% gain. Egypt was the top performer with the Czech Republic, Colombia, Chile, Peru, and Turkey all posting gains. Taiwan also outperformed thanks to its heavy tech sector weighting. Elections impacted South Africa, Mexico and India. Korea and Brazil also trailed while Greece and Thailand suffered losses alongside Middle East markets, which declined in line with the oil price.

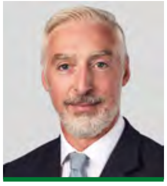
Fixed income

Despite the lack of progress in containing US inflation to target levels, which pushed expectations of rate cuts further back into the year, the rejection of the need for further US rate hikes by Federal Reserve Chairman, Jay Powell, was sufficient for US Treasuries to rally 1.5% over the month. Meanwhile, UK gilts added 0.8%, despite selling-off late in the period as UK inflation numbers disappointed. Sterling corporate bonds gained 1%.

Source: Quilter Investors as at 31 May 2024. Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index; developed market equities by the MSCI World Index; US equities by the MSCI USA Index; European equities by the MSCI Europe ex UK Index; UK equities by the MSCI United Kingdom All Cap Index; UK smaller companies by the MSCI United Kingdom Small Cap Index; emerging markets by the MSCI Emerging Markets Index; US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK government bonds by the ICE BofA UK Gilt Index; and sterling-denominated corporate bonds by the ICE BofA Sterling Corporate Index.

Performance review

In May, the Cirilium Portfolios delivered modest gains that were generally in line with their Investment Association (IA) performance comparators. Returns ranged from a 0.6% gain for the Cirilium Conservative Portfolio to a 1.1% gain for the Cirilium Adventurous Portfolio. Equities outperformed bonds, buoyed by strong corporate earnings, particularly from US tech companies, although all developed markets showed strength.

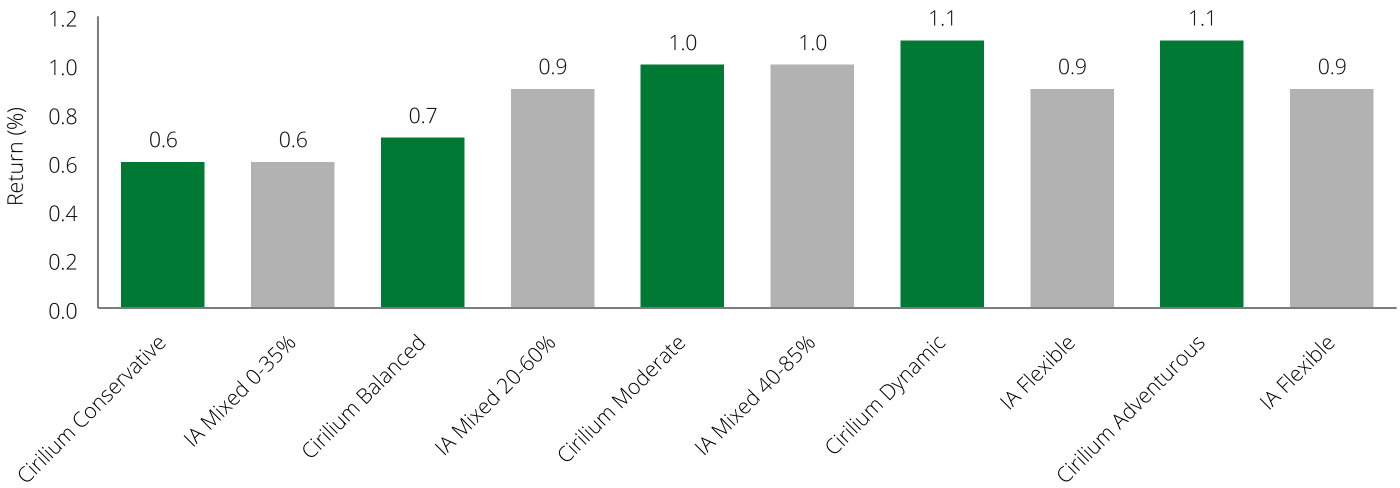


Ian Jensen-Humphreys
Portfolio Manager

Sacha Chorley
Portfolio Manager

CJ Cowan
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of May*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*
Cirilium Conservative	**0.6**	**0.3**	**3.1**	**-6.9**	**2.3**	**42.9**	**3.1**	**-4.5**	**-5.4**	**12.5**	**-2.3**
IA Mixed 0-35% Shares	0.6	1.0	6.2	-2.1	6.7	44.1	6.2	-4.1	-3.9	7.2	1.6
Cirilium Balanced	**0.7**	**2.1**	**6.0**	**-1.9**	**11.6**	**125.3**	**6.0**	**-2.8**	**-4.8**	**18.2**	**-3.7**
IA Mixed 20-60% Shares	0.9	2.7	8.5	2.3	15.5	88.2	8.5	-3.1	-2.7	12.9	0.0
Cirilium Moderate	**1.0**	**4.1**	**8.6**	**0.8**	**19.8**	**180.5**	**8.6**	**-2.0**	**-5.3**	**23.8**	**-4.0**
IA Mixed 40-85% Shares	1.0	4.5	10.6	7.8	28.0	128.9	10.6	-1.6	-0.9	17.1	1.4
Cirilium Dynamic	**1.1**	**6.1**	**11.0**	**1.7**	**24.4**	**194.5**	**11.0**	**-2.3**	**-6.2**	**28.9**	**-5.2**
IA Flexible	0.9	4.9	10.6	8.0	31.3	126.3	10.6	-1.0	-1.3	19.8	1.5
Cirilium Adventurous	**1.1**	**6.0**	**11.7**	**3.2**	**26.1**	**32.0**	**11.7**	**-2.2**	**-5.6**	**31.3**	**-6.9**
IA Flexible	0.9	4.9	10.6	8.0	31.3	37.1	10.6	-1.0	-1.3	19.8	1.5

Source: Quilter Investors as at 31 May 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the R (GBP) accumulation shares. The Cirilium Conservative Portfolio launched on 30 March 2012, the Cirilium Balanced Portfolio, the Cirilium Moderate Portfolio, and the Cirilium Dynamic Portfolio launched on 2 June 2008, and the Cirilium Adventurous Portfolio launched on 1 June 2017.

How our equity holdings performed

UK smaller companies outperform

Our holdings in managers that focus on smaller UK companies added value over the month, helped by some strong economic data showing improvement in manufacturing and industrial production. We saw gains of 6.1% for the Montanaro UK Income Fund and 4.3% for the River and Mercantile UK Recovery Fund.

Japanese holdings struggle amid yen volatility

In contrast to the UK, our Japanese equity managers struggled somewhat in an environment characterised by uncertainty in the Japanese yen exchange rate, which can impact the profits of exporters that typically have costs in yen but revenues in US dollars and euros. This led to a small gain of 0.2% for the Baillie Gifford Japanese Income Growth Fund, and a loss of 1.6% for the M&G Japan Fund.

Strong European returns

Our European managers delivered strong returns in May, with the Premier Miton European Opportunities Fund adding 6.4% following strong earnings from healthcare holdings in the fund. The M&G European Strategic Value Fund continued its strong recent performance. It gained 3.7% over the month to deliver an overall gain of nearly 14% in the first five months of the year, aided by strong stock selection with a value bias.

How our fixed-income holdings performed

Muted returns from fixed income

Our fixed-income holdings slightly outperformed cash over the month, a period in which interest rates largely remained unchanged. Credit spreads tightened slightly, boosting the returns of bonds issued by companies relative to bonds issued by governments. Notable performance came from the Wellington Opportunistic Fixed Income Fund and the Premier Miton Financials Capital Securities Fund, both of which returned around 1.5% as they took advantage of improved sentiment following some softer than expected US inflation data releases.

How our alternative holdings performed

Positive returns from alternatives

Overall, our alternatives holdings delivered positive returns in May. Eight positions made ground while our remaining five holdings fell. The best performance came from Impact Healthcare, an investment trust that owns and leases care homes around the UK. The trust's share price gained 4.9% as long-term interest rates stabilised, reducing concerns about the negative impact from previously rising interest-rate levels. Meanwhile, the Cooper Creek Partners North America Long Short Equity Fund also delivered notable gains.

Portfolio activity

The main asset allocation change within the portfolios was a reduction in our tilt towards the healthcare sector where we halved our exposure to the AB International Health Care Portfolio from 3% to around 1.5% by month-end. We are still optimistic on the long-term demographic tailwinds that should support robust earnings growth in the healthcare sector for a number of years, but in the shorter term the sector faces some tactical headwinds with earnings volatility as well as, unsurprisingly, trailing returns in the strong market rally seen over the past six months. We reinvested the proceeds back into our preferred regional managers to maintain the same overall equity exposure.

Investment outlook

As we pass through spring into a, so far, damp summer, it's worth stepping back to assess the broad investment environment, in particular, the amount of risk we think it appropriate to take in the portfolios at the moment. We are currently slightly optimistic on equity markets and, as a result, are slightly overweight relative to the neutral positions of our strategic asset allocation. Below we share the conclusions we've drawn based on our VTEC (valuations, technicals, economics, and corporates) approach to investment and market analysis.

1. Neutral on valuations (V) and sentiment and positioning positive for technicals (T)

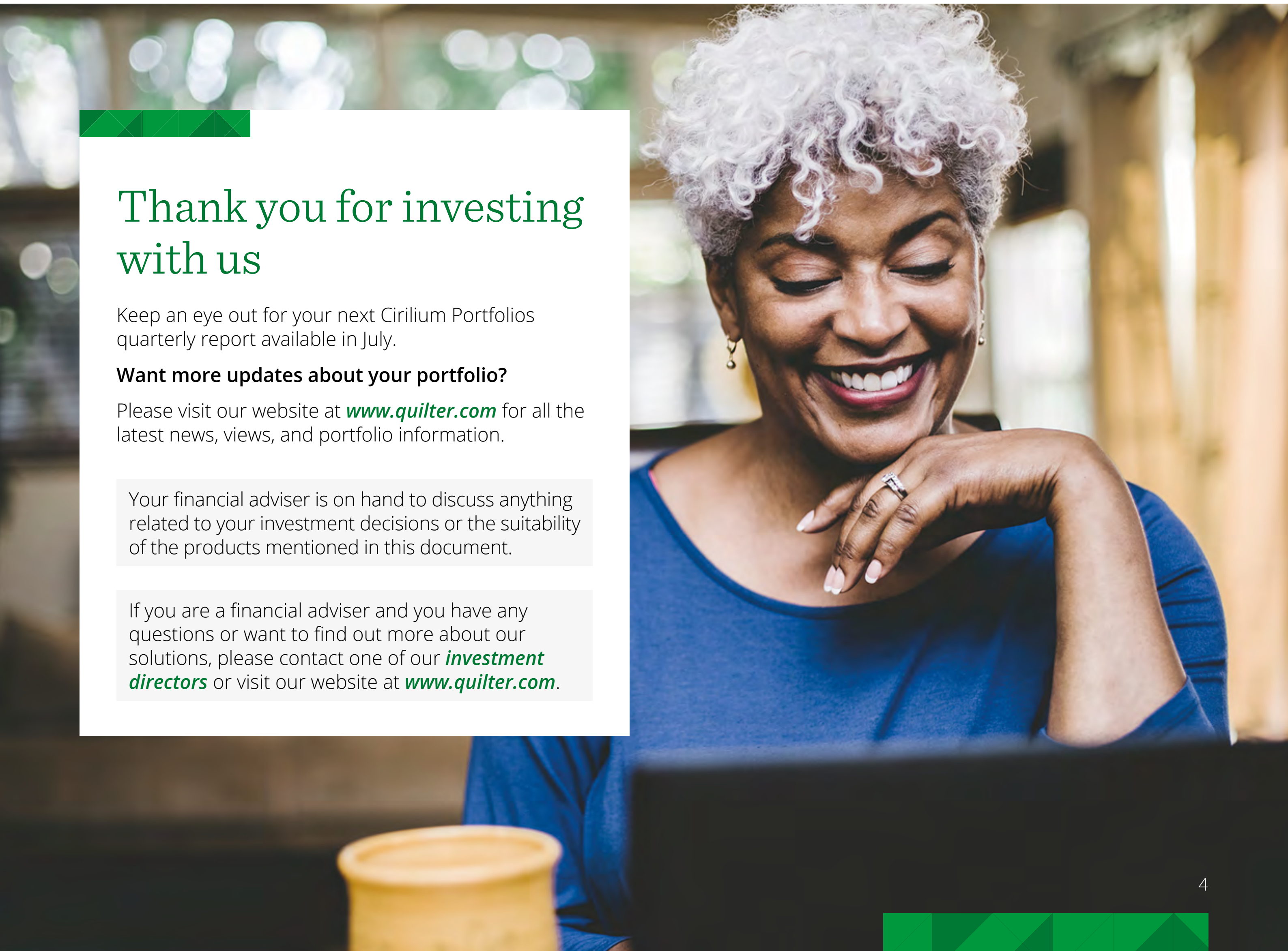
Valuations vary depending on the regional focus. We see stocks as expensive in North America, fairly priced in Japan, and cheap elsewhere, particularly in Europe and the UK. Overall, the blended valuation is relatively close to where we see neutral levels. Looking at technical factors, equity markets have clearly been in an uptrend for the past six months with positive momentum, while positioning data suggest investors aren't too stretched to add further to their holdings.

2. Neutral on economics (E) and muted earnings growth for corporates (C)

Economic data has been benign this year with continued economic growth and falling inflation. However, the trend is one of weakening, rather than strengthening, growth. Meanwhile, persistent inflation is reducing the likelihood of supportive rate cuts from central banks. At the global level, while corporate profits have resumed a growth trajectory after a lacklustre 2023, only AI-related stocks really impress, while broader corporate profit growth remains anaemic.

3. Where next?

The most likely catalyst for us to increase our equity weighting would be an improvement in corporate profit growth and, more specifically, a broadening out of that growth from the tech sector to others. This would be more supportive of robust investor returns. Conversely, an increase in inflation, accompanied by weak growth, would be problematic for risk appetite and leave central banks with little room to ease interest rates. This would make us turn more cautious.



Thank you for investing with us

Keep an eye out for your next Cirilium Portfolios quarterly report available in July.

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.

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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)).

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