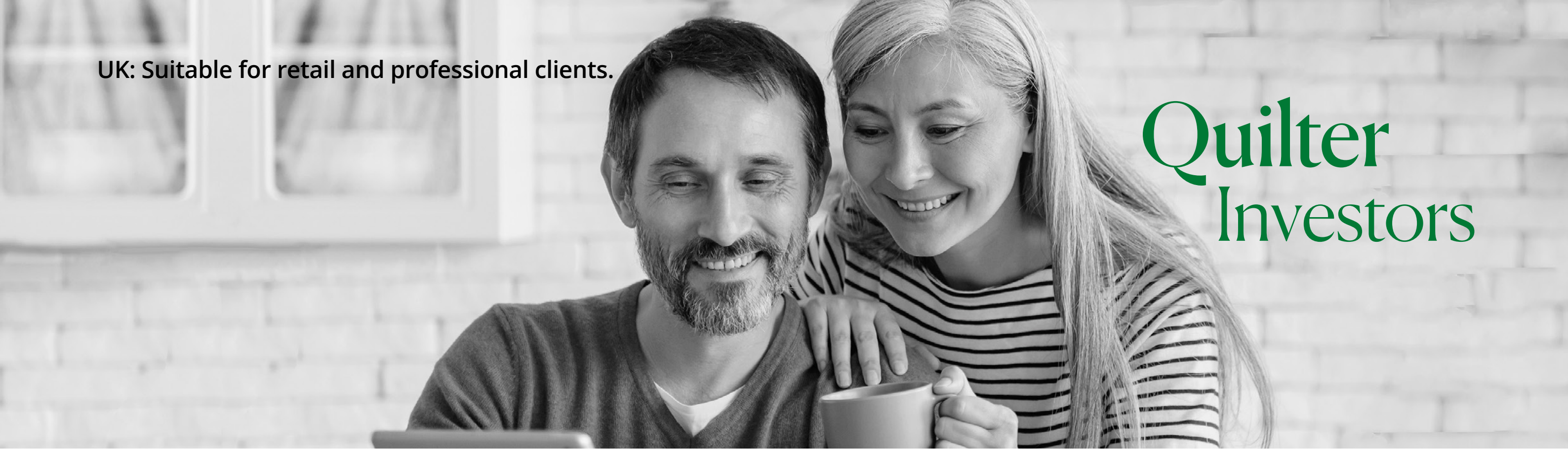
UK: Suitable for retail and professional clients.



Quilter Investors

Cirilium Portfolios

Monthly commentary – Review of August 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Global equity markets retreated 0.8% in August with both developed and emerging equity markets in decline. This was partially due to the ongoing economic slowdown in China and its knock-on effects for global manufacturing sectors. Meanwhile, uncertainty as to the direction of US interest rates soured investor sentiment with rate-sensitive sectors such as technology and consumer staples being especially impacted.

Equity markets

Conjecture over the direction of monetary policy weighed heavily on US equities in August which led to a 0.2% decline. Markets had assumed that the US Federal Reserve's (Fed) monetary tightening cycle had climaxed in July, but minutes released from the meeting highlighted a mix of opinions from within the Fed, casting doubt over the immediate direction of interest rates. As a result, technology stocks tumbled and dragged markets lower.

A mixed bag of eurozone economic data saw European equities fall by 2.5% in August. Annual inflation figures were resilient, although core inflation, which omits food and energy prices, fell. Meanwhile, business activity figures reached a 33-month low. This left the European Central Bank with much to consider ahead of next month's interest-rate decision meeting. The energy and real-estate sectors were the region's two bright spots, with both making gains.

Increasingly negative economic data and market sentiment impacted UK equities, leading to a 2.5% loss. Inflation remained stubbornly high, with the Bank of England (BoE) moving to increase interest rates once again. UK interest rates rose to 5.25% with the BoE warning that rates may need to stay higher for longer to bring inflation back to its target range of 2%. The UK energy sector was the only outlier; it delivered a positive gain in August.

Egypt, Hungary, and Turkey were the only positive contributors in what was a challenging month for emerging market economies. Negative sentiment stemming from China's economic malaise and the potential ramifications of US interest rates remaining higher delivered a 4.7% drop to emerging market equities. China's disappointing 're-opening' and its imploding domestic property sector had a heavy impact; Chinese equities were down by 7.6%.

Fixed income

In a notable development, the credit rating agency Fitch downgraded the US from Triple-A, the highest rating, to Double A+. Fitch cited the nation's increasing debt and an "erosion of governance" as its key rationale. The US announced ambitious borrowing plans in August which sparked a brief rise in US Treasuries (US government bonds) before they retreated to deliver a loss of 0.6%. Meanwhile, UK gilts (UK government bonds) fell by 0.5% with UK corporate bonds (issued by companies) down by 0.2%.

Source: Quilter Investors as at 31 August 2023. 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 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; emerging markets by the MSCI EM (Emerging Markets) Index; US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK gilts by the ICE BofA UK Gilt Index; and UK corporate bonds by the ICE BofA Sterling Corporate Index.

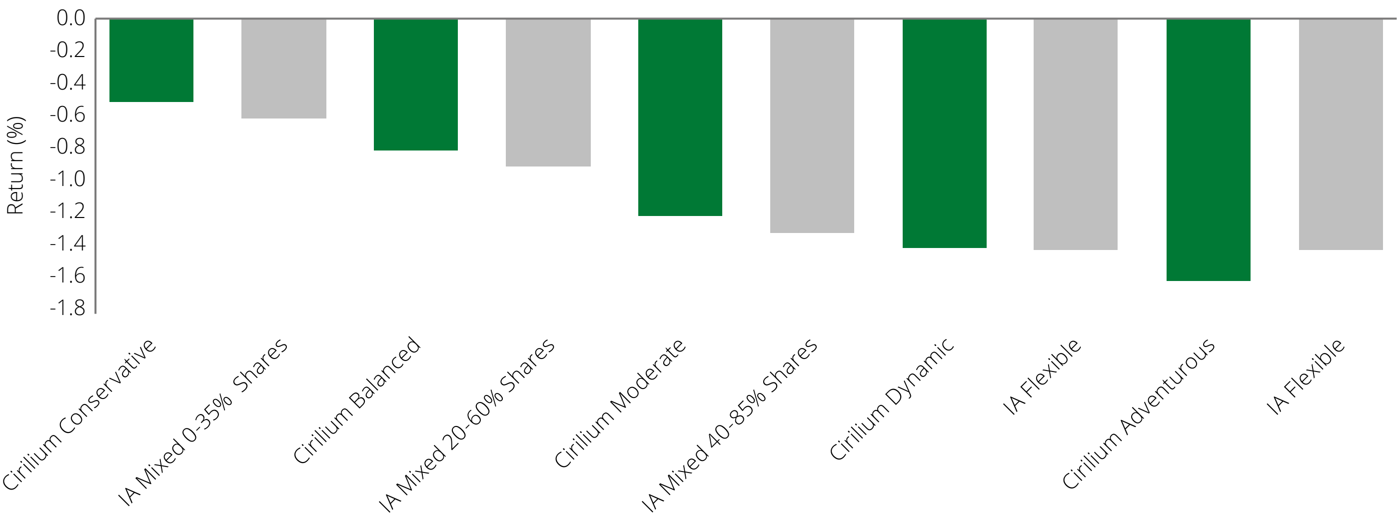
Sacha Chorley
Portfolio Manager

Ian Jensen-Humphreys
Portfolio Manager

Performance review

The Cirilium Portfolios suffered losses ranging from 0.5% for the Cirilium Conservative Portfolio to 1.6% for the Cirilium Adventurous Portfolio. Equity markets struggled due to renewed weakness in Chinese economic data which underlined its anaemic post-covid recovery alongside increased fears that interest rates would stay higher for longer than anticipated due to persistent inflation. This naturally impacted the higher-risk Cirilium Portfolios which have greater equity exposure.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of August*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*	*2018 - 2019*
Cirilium Conservative	**-0.5**	**-0.3**	**-2.4**	**-4.0**	**-1.6**	**37.7**	**-2.4**	**-9.4**	**8.6**	**1.6**	**0.9**
IA Mixed 0-35% Shares	-0.6	1.1	-1.3	-3.0	1.7	35.9	-1.3	-8.2	7.1	0.6	4.2
Cirilium Balanced	**-0.8**	**1.3**	**-1.2**	**3.5**	**3.6**	**111.9**	**-1.2**	**-9.1**	**15.3**	**0.0**	**0.1**
IA Mixed 20-60% Shares	-0.9	1.7	-0.3	3.7	6.8	74.5	-0.3	-7.2	12.1	0.0	3.1
Cirilium Moderate	**-1.2**	**1.6**	**-0.9**	**8.0**	**6.5**	**157.6**	**-0.9**	**-10.0**	**21.1**	**0.5**	**-1.9**
IA Mixed 40-85% Shares	-1.3	2.9	0.4	10.6	15.3	108.6	0.4	-6.6	17.9	1.3	3.0
Cirilium Dynamic	**-1.4**	**1.5**	**-1.0**	**10.8**	**6.2**	**165.0**	**-1.0**	**-11.7**	**26.7**	**0.2**	**-4.3**
IA Flexible	-1.4	2.6	0.4	12.6	17.3	106.2	0.4	-6.1	19.4	2.2	1.9
Cirilium Adventurous	**-1.6**	**2.1**	**-1.2**	**13.9**	**7.9**	**18.5**	**-1.2**	**-10.3**	**28.6**	**-0.2**	**-5.1**
IA Flexible	-1.4	2.6	0.4	12.6	17.3	25.0	0.4	-6.1	19.4	2.2	1.9

Source: Quilter Investors as at 31 August 2023. 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

Global specialist funds outperform

Our top performing holdings were mostly specialist managers. The AB International Health Care Portfolio gained 1.8%, due to resilient performance by the sector and outperformance from the manager. Meanwhile, Pantheon International, a private equity investment trust, rallied 5.7% following strong results including a commitment to an enlarged share buyback programme that should be positive for the trust's net asset value (NAV).

The net asset value (NAV) of an investment trust is the total value of its underlying holdings, less its liabilities. A trust's NAV can be more than, or less than, the value of its quoted shares.

China: a headwind for emerging markets

The renewed weakness of China's economy, and its policymakers' apparent unwillingness to intervene, undermined Asian equity markets in August. This was reflected in the performance of the Fidelity China Consumer Fund, which fell 6.2%, while the Pacific North of South Emerging Market All Cap Fund fell 3.9%. Despite their negative absolute returns, both holdings still managed to outperform their respective regional benchmarks.

Liontrust outperform tough UK market

The UK equity market continued to struggle as investors worried over the state of the economy amid persistent high inflation and sharply increasing borrowing costs. Consequently, by remaining broadly flat over the month, the Liontrust UK Growth Fund delivered strong outperformance that was especially notable given the economic sensitivity of some of its more domestically-oriented holdings.

How our fixed-income holdings performed

Fixed-income portfolio flat as interest rates stabilise

Our fixed-income holdings delivered muted returns in August as benchmark interest rates stabilised somewhat following sharp rises in prior months. Our non-traditional fixed-income holdings, such as the Janus Henderson Asset Backed Securities Fund and the Wellington Emerging Local Debt Advanced Beta Fund, both delivered small gains. The weakest holding was Blackstone Loan Financing (held in the Cirilium Moderate and Dynamic Portfolios); this fell sharply on news of an extraordinary general meeting that could lead to a vote to wind up the company.

How our alternative holdings performed

Positive returns from diverse sources

The alternatives portfolios generated positive gains. Returns were largely manager-specific, rather than the result of a top-down theme. The best performance came from Ediston Property (held in the Cirilium Conservative and Balanced Portfolios) which rallied over 10% on speculation that the board's strategy review would lead to a sale of the portfolio. At the same time, the Cooper Creek North America ***Long-Short*** Equity Fund continued its recent fine performance by rallying a further 5.2%, with share price declines in the fund's '***short***' positions driving returns.

Portfolio activity

We continued to focus on transitioning the portfolios to their preferred exposures. By the end of August, we had mostly completed the equity portfolio transition. The latest change being the addition of the M&G European Strategic Value Fund to help balance the portfolios' existing European growth-tilted holdings. We also continued to build positions in some equity investment trusts, namely the JP Morgan Emerging Markets, Fidelity European, and the JP Morgan American investment trusts. We also completed the disposal of the Sands Global Leaders, River & Mercantile Global Sustainable Opportunities, and the Premier Miton European Sustainable Leaders funds. Within the alternatives holdings we continued to build positions in the Sandbar Global Equity Market Neutral Fund and the UBS CMCI Commodity Carry UCITS ETF.

Investment outlook

The global economy has continued on a trajectory that implies a 'soft landing' or 'muddle through' environment: growth is slowing (but not too severely) while inflation is falling, but slower than most of us would like. Consequently, we don't see many compelling opportunities at current market levels, where valuations are neutral and profit growth uncertain. Therefore, we are positioned fairly cautiously, close to our ***strategic asset allocation*** (SAA), with high cash weightings. Meanwhile, the notable absence of consensus as to likely market direction accounts for why many markets remain range-bound (where the price stays between a specific high price and a low price).

1. Can US consumers stay fit?

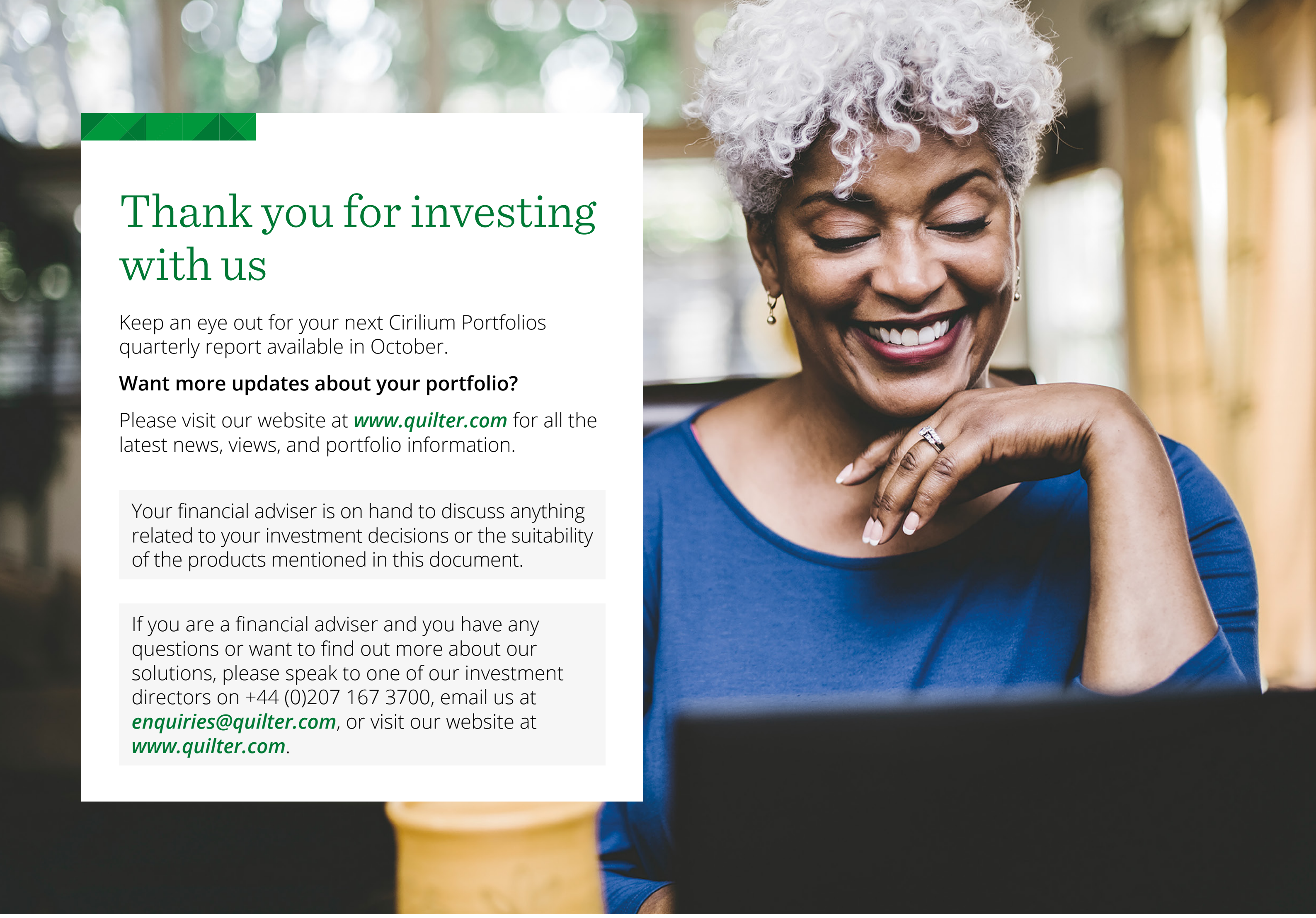
We see the US economy as being the marginal driver of global growth. This means that much will depend on US consumer confidence. The scorecard here is increasingly mixed: while US unemployment remains extremely low and job creation and wage growth are robust, especially for lower-income workers, savings rates are falling while loan and credit card defaults are rising, suggesting that many US consumers are living beyond their means.

2. Murky outlook for corporate profits

Company profits have stalled as revenue increases have been swallowed up by rising commodity and wage costs. One reason for optimism is the pick-up in capital expenditure as companies invest in reworking supply chains and 'onshoring' manufacturing. This should lead to more efficient processes, improved productivity, and more domestic jobs. However, we've yet to see the full impact of higher interest rates feeding into company financing costs.

3. 'Good news' still 'bad news' for markets

We're continuing to see an unusual paradigm where good economic data triggers a short-term sell-off in equity and bond markets due to fears it will force central banks to keep interest rates higher for longer. This will make life harder for consumers and companies, but we think it's better to be worried about too much growth, rather than too little. The counter is that greater overheating today could mean even higher rates and a harder, more painful landing in the future.



Thank you for investing with us

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

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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