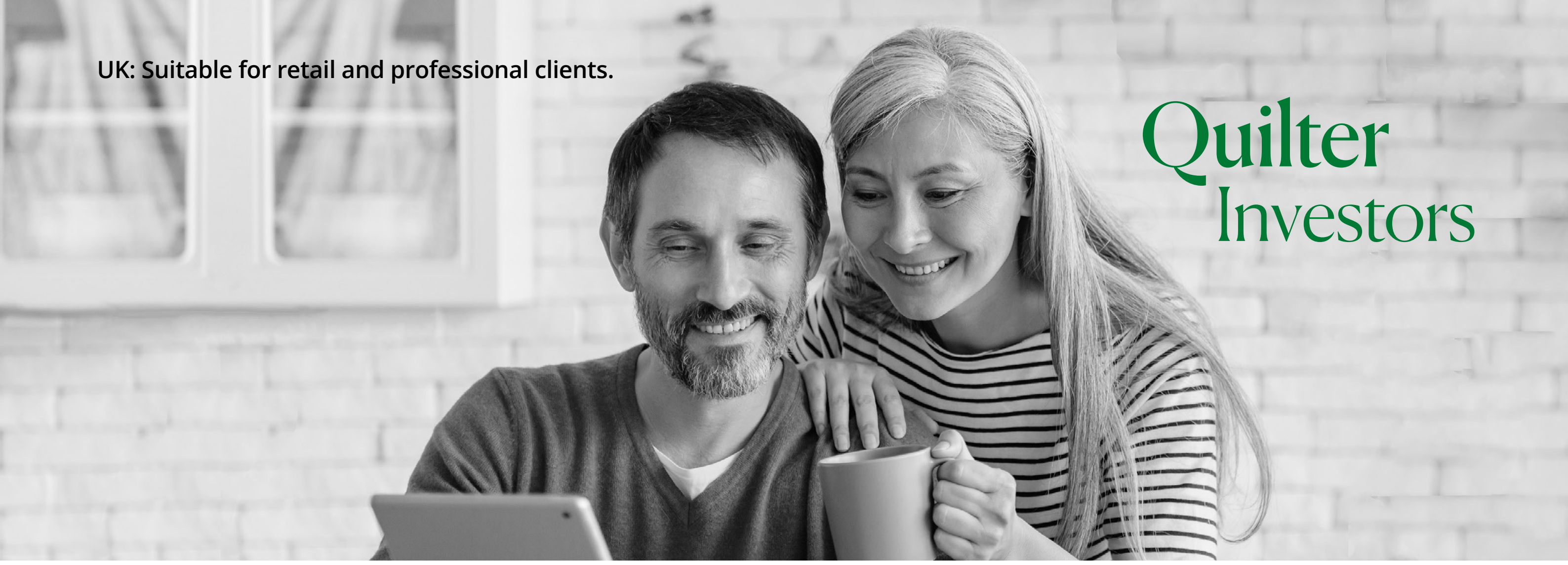

Cirilium Blend Portfolios

Monthly commentary – Review of October 2022

Marcus Brookes
Chief Investment Officer

Our market summary

Most regional equity markets bounced back in October after a difficult few months, especially UK, US, and European equities. The MSCI World Index rose 4.9% over the month, although a stronger pound proved a headwind to overseas investments, particularly those in emerging markets. Central banks continued to increase interest rates as inflation showed little sign of softening, although investors now believe the US Federal Reserve (the Fed) will take its foot off the pedal in 2023.

Overseas investments are typically exposed to changes in exchange rates. If the currency of the investment rises compared to sterling, this adds to returns. However, if the currency of the investment falls compared to sterling, this reduces returns.

Equity markets

US equity markets rebounded in October posting strong gains amid rising expectations that the Fed may pause its rate hikes in 2023. Economic data out of the US was also positive and showed the economy overcame inflationary headwinds to grow at an annual rate of 2.6% in the third quarter. The MSCI USA Index shook off disappointing financial results from some of the tech giants, including Meta (Facebook) and Amazon, to climb 4.7%.

The European Central Bank (ECB) increased interest rates by 0.75% in October, as euro area annual inflation was forecast to come in at 10.7%, up from 9.9% the previous month. Inflation remained elevated largely due to energy prices, which have stayed high as the war in Ukraine continues. In Italy, the government stepped in to regulate gas and electricity prices, triggering market volatility. However, robust company profits announced in the month helped the MSCI Europe ex UK Index end the month up 4.3%.

UK equity markets stabilised in the second half of October, with the FTSE All Share Index up 3.1% over the month. However, there was no let-up in inflation in the UK, which, under pressure from rising food and fuel prices. exceeded market expectations to rise to 10.1%. Political uncertainty continued with, firstly, the departure of Chancellor Kwasi Kwarteng, replaced by Jeremy Hunt, who reversed all the tax cuts proposed in September. This was followed by the resignation of Liz Truss, after just 44 days as Prime Minister, who was succeeded by Rishi Sunak.

Chinese equities fell sharply during the month, with the MSCI China index down 19.3% and bringing other emerging markets down with it – the MSCI Emerging Markets Index fell 6.0. The market selloff in China was prompted by President Xi's move to shore up support from his allies at the annual congress, in order to secure a third term in power. Markets also reacted to the news there would be no relaxation in China's zero-covid policy. There was a late rally in Brazilian stocks after it was confirmed Lula had clinched victory from Jair Bolsonaro to become president.

Fixed income

Fixed income markets were in flux in October as rising energy and food prices added to inflationary pressures, although the Bank of England's (BoE) intervention in September helped calm UK bond markets significantly. UK gilts (UK government bonds) continued to stabilise and were buoyed by the appointment of Rishi Sunak as Prime Minister, with ICE BofA Gilt Index up 3.3% over the month. However, the ICE BofA US Treasury Index (a measure of US government bonds) fell 1.5%, as bond markets began pricing in the Fed's next 0.75% rate hike.

Sacha Chorley
Portfolio Manager

Ian Jensen-Humphreys
Portfolio Manager

Performance review

The Cirilium Blend Portfolios delivered modest losses in October varying from 0.1% for the Cirilium Conservative Blend Portfolio to 0.4% for the Cirilium Adventurous Blend Portfolio.

Performance summary (%)

	Cumulative performance					*Discrete calendar year performance*	
	1 month	*YTD*	*1 year*	*3 year*	*Since launch*	*2021*	*2020*
Cirilium Conservative Blend	**-0.1**	**-8.7**	**-8.3**	**-1.2**	**-0.9**	**0.6**	**6.1**
IA Mixed 0-35% Shares	0.6	-11.8	-11.1	-4.7	-4.7	2.6	4.0
Cirilium Balanced Blend	**-0.3**	**-8.0**	**-7.2**	**3.8**	**4.1**	**4.9**	**5.1**
IA Mixed 20-60% Shares	0.6	-11.8	-10.7	-0.6	-0.9	6.3	3.5
Cirilium Moderate Blend	**-0.3**	**-8.1**	**-6.8**	**8.7**	**8.7**	**8.6**	**5.4**
IA Mixed 40-85% Shares	0.6	-12.2	-10.6	6.5	5.4	11.2	5.5
Cirilium Dynamic Blend	**-0.3**	**-9.4**	**-7.7**	**11.2**	**10.4**	**11.9**	**5.3**
IA Flexible	0.3	-11.3	-10.1	9.6	8.3	11.4	7.0
Cirilium Adventurous Blend	**-0.4**	**-11.2**	**-9.3**	**10.7**	**9.4**	**13.3**	**5.1**
IA Flexible	0.3	-11.3	-10.1	9.6	8.3	11.4	7.0

Source: Quilter Investors as at 31 October 2022. 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

Value managers outperform

Our top-performing holdings over the month all have a value tilt to their management style. For example, the NinetyOne Global Special Situations Fund rallied 8.9% following strong gains for many companies in its portfolio including its largest holding, McKesson Corp. The company is a distributor of pharmaceutical products and a supplier of healthcare technology which rallied more than 14% in October in anticipation of strong profits.

UK managers outperform

The UK active managers in the portfolios all outperformed their benchmarks during October, aided by the tailwind of better returns from small and medium sized companies. These businesses are more domestically focussed than the large-cap international companies, so their share prices were more sensitive to the improvement in sentiment over the UK's economic situation once Rishi Sunak became Prime Minister.

Chinese equities decline

Our managers with the greatest exposure to Chinese companies struggled most in October, following the negative market reaction to the Chinese Communist Party Congress and China's zero-covid policy. The Fidelity China Consumer Fund fell nearly 22% while broader emerging market managers all suffered due to China being the largest weight in the regional benchmark index with the Blackrock Emerging Market Index Fund down 7.9%.

'Growth' stocks derive their value from the rate at which they're expected to grow their future earnings. 'Value' stocks have low share prices relative to their intrinsic value and tend to pay more generous dividends than growth stocks.

How our fixed income holdings performed

Fixed-income markets muted in October

Most of our fixed-income holdings were reassuringly stable following the heightened volatility seen so far this year. The one positive exception was the iShares UK Index Linked Gilt ETF, which rallied 7.5% in October as the gilt market calmed with the new prime minister and chancellor seeking to reverse many of the initiatives from September's 'mini-budget'.

We added this fund to the portfolios during the market panic in late September and since then it has gained over 20%.

How our alternative holdings performed

Positive returns from alternatives

In aggregate, the alternatives holdings delivered small gains in October. The standout was the Cooper Creek North American Long-Short Equity Fund, which gained 5.5%, bringing its year-to-date performance to 30%. Meanwhile, the Lyxor US$ 10-year Inflation Expectations ETF rose 3.3%, reflecting the persistence of high US inflation. The Brevan Howard Absolute Return Government Bond Fund also delivered a positive return and has gained 2.9% since it was added to the portfolios in early September. Meanwhile, the Sandbar Global Equity Market Neutral Fund lost 1.9% as the macro-driven environment proved unfavourable for its company-specific investment process.

A long/short fund is a hedge fund strategy based on buying, or 'going long', on stocks or bonds that are expected to rise in value and 'selling short' stocks or bonds that are expected to fall in value.

Portfolio activity

The main change to the portfolios in October was the removal of our hard currency emerging market bonds in preference for high-yield bond exposure. This resulted in the sale of the Vanguard US$ Emerging Markets Government Bond ETF and adding to the Federated Hermes Unconstrained Bond Fund and the Premier Miton Financial Capital Securities Fund. The Federated Hermes fund has previously been held in portfolios as a preferred way to access higher-yielding bonds in a risk-controlled framework, while the Premier Miton fund gives exposure to banks which, in the managers' view, are offering good value with strong capital buffers and disciplined lending to date. There was one addition to the alternatives holdings, the newly-launched Neuberger Berman Event Driven Fund, which focuses on profiting from corporate activity such as mergers or IPOs.

Emerging market bonds are issued by the governments of emerging market countries or the companies therein. They can be issued in local currencies or in 'hard' currencies such as the US dollar, the euro, or sterling.

Investment outlook

We remain cautiously optimistic on the outlook for investment markets, and we continue to prefer equities over bonds. The portfolios are slightly overweight to equities relative to their strategic asset allocation (SAA). Providing the economic outlook remains the same we intend to add further to our exposure in the event of short-term market weakness. Our cash and alternatives exposures also remain high, primarily reflecting the low long-term expectations for bond market returns. The main risk to the outlook would be weakness in corporate earnings, in particular an outright decline in broad corporate profits, which would lead us to reassess our positioning.

Our strategic asset allocation (SAA) is the long-term model of how much of each portfolio should be invested in different asset classes such as equities, bonds, alternatives, and cash. The portfolio managers can make tactical changes to increase or decrease the asset allocation depending on their own views and research.

1. US economy set for 'soft landing'

Recent economic data releases have been consistent with our central view that we're likely to see a 'soft landing' for the US economy amid the Federal Reserve's efforts to bring US inflation back down to more palatable levels. Meanwhile, US consumers remain resilient with ongoing job creation and robust US wage growth of around 6% a year. We believe this will enable US companies to continue growing their earnings, which will support both US and global equity markets.

A soft landing is the goal of a central bank when it seeks to raise interest rates just enough to stop an economy from overheating and experiencing high inflation, without causing a severe economic downturn.

2. UK and European economies still struggling

The eurozone and the UK economies currently look a lot less robust than the US economy; both are straddled with weaker economic growth and a greater sensitivity to higher energy prices. Meanwhile, UK inflation is already at record levels and expected to go still higher. This makes the likelihood of a recession in the UK and Europe far higher, putting further pressure on already strained government finances.

3. Interest rates have room to rise further

The persistence of high inflation is driving central banks to raise benchmark interest rates, despite the clear slowdown in economic growth. However, their focus is primarily on inflation control for the time being and this means that the risks to bonds are now more finely balanced than earlier in the year given the higher current yields (meaning their prices are lower).

Thank you for investing with us

Keep an eye out for your next Cirilium Blend Portfolios monthly commentary in December.

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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QI 26016/29/2265/November 22/SK20795

Approved date: 24/11/2022, Review date: 24/11/2023