

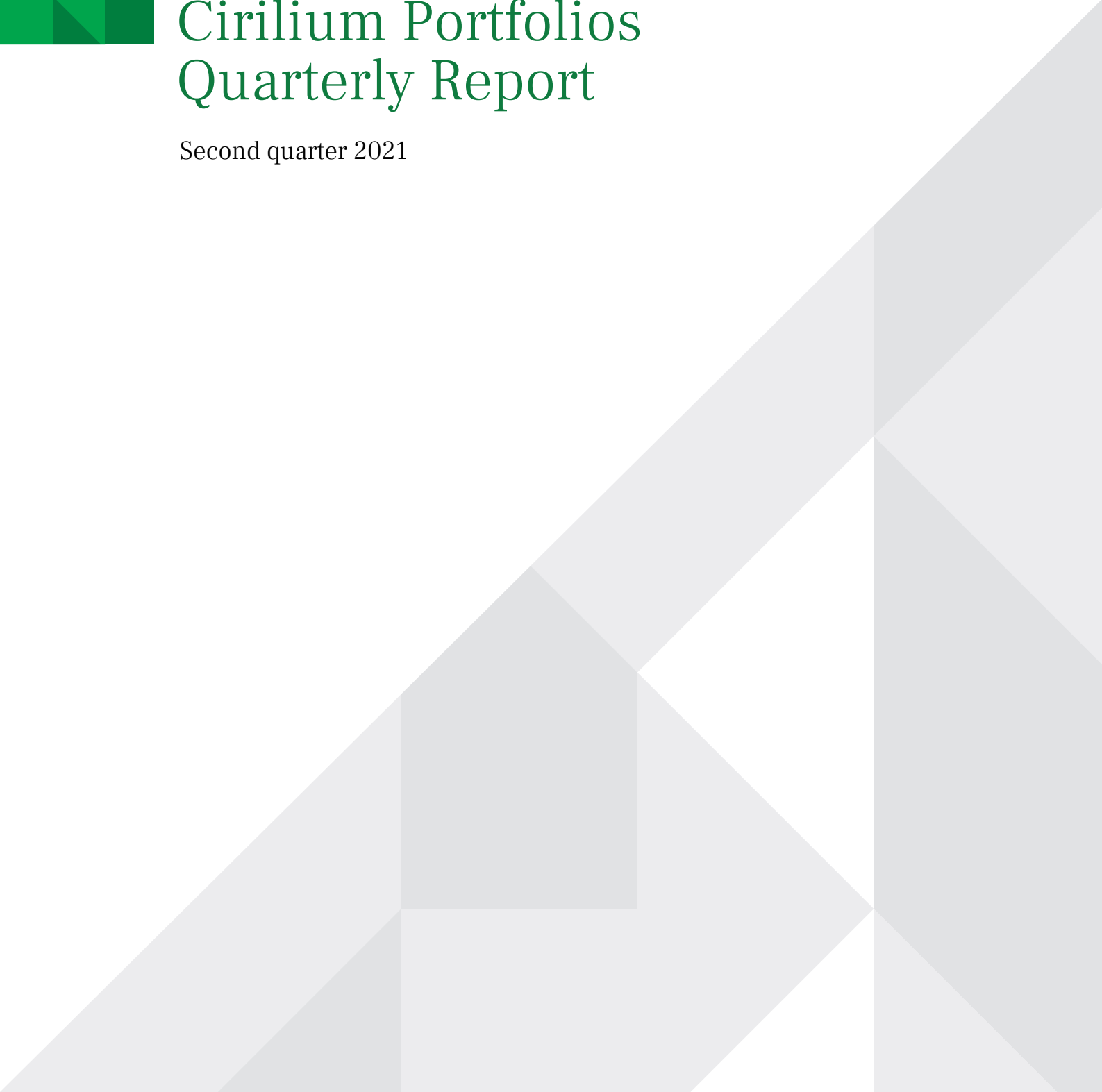
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Quilter
Investors



Cirilium Portfolios Quarterly Report

Second quarter 2021



A note from your portfolio managers



Paul
Craig



Hinesh
Patel

During the quarter, equity markets rose as vaccination campaigns accelerated in most developed economies, especially in Europe, which is now catching up with the UK and the US. By contrast, emerging economies continued to lag in the vaccination roll-out but, thankfully, cases remain very low in China and appear to have peaked in India.

Within equity markets, the S&P 500 index posted the strongest returns, thanks largely to a rebound in growth stocks, strong first quarter earnings growth and the prospect of still more fiscal stimulus. European stocks followed closely behind, supported by the re-opening of regional economies and strong global demand for European goods.

Within fixed-income markets, investors searched for yield and inflation hedges against a backdrop of low sovereign bond yields and higher inflation. Their search led them to emerging market debt, investment-grade and high-yield corporate bonds and inflation-linked government bonds, which all delivered gains. Nevertheless, developed market government bonds also delivered positive returns as their yields fell.

As the year has progressed, governments in most developed markets have continued to ease covid-related restrictions and activity levels have naturally picked up. Consequently, economic data has generally been strong, especially in the US, which posted annualised growth of 6.4% in the first quarter.

Although the eurozone economy contracted by 0.6% in the same period, leading economic indicators, such as purchasing managers' index (PMI) business surveys, have reached multi-year highs in many regions. These indicators point to a strong economic rebound having taken place in Europe in the second quarter.

However, the re-opening of economies and the quick rebound in activity that followed has fuelled inflation in some countries. In May, for example, the US consumer price index increased by 5% year-on-year, although some of the underlying details suggest that much of the rise may be temporary and due to unique challenges in specific business sectors.

While the US Federal Reserve (Fed) continues to characterise the inflation spike as "transitory", it has become slightly more 'hawkish' (meaning it's leaning towards increased interest rates) and it has acknowledged the time to discuss how and when to reduce monetary stimulus is on the horizon.

Just how transitory the recent moves in inflation prove to be is probably the biggest question facing investors right now.

Against this backdrop, the Cirilium Portfolios delivered the following returns: Cirilium Conservative 1.7%; Cirilium Balanced 3%; Cirilium Moderate 4.6%; Cirilium Dynamic 5.4%; Cirilium Adventurous 6.2%.

Key investment themes of the quarter:

- The vaccine roll-out and economic re-openings boosted global equity markets;
- Last quarter's rotation into 'value' areas of the market reversed with 'growth' stocks significantly outperforming;
- Yields fell in most government bond markets (meaning their prices rose) with higher-risk corporate bonds outperforming government markets;
- Sterling weakened against the euro but held onto gains against the US dollar;
- Oil prices hit a three-year high as demand for commodities picked up amid a spurt in global growth.

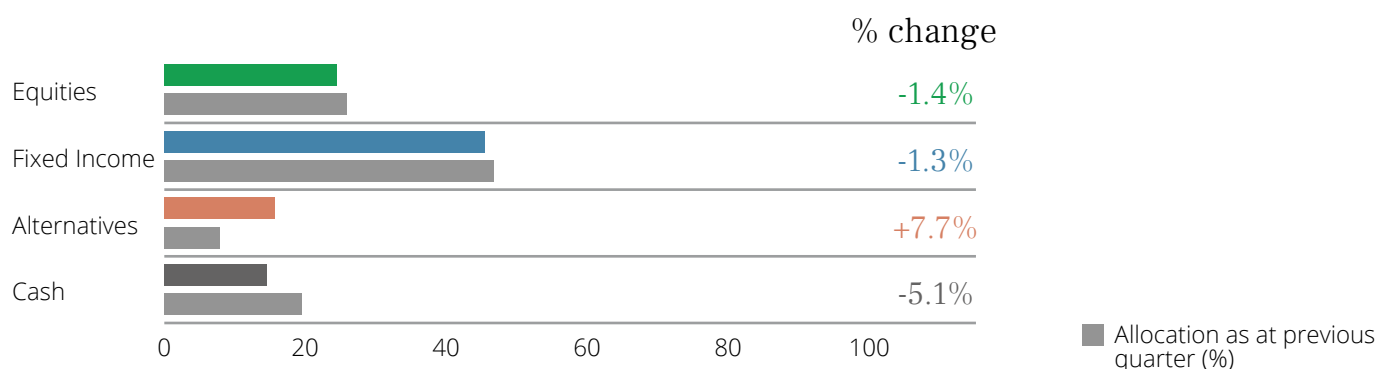
(All data in sterling terms and rounded to one decimal place.)

Regards,

Paul Craig
Hinesh Patel

Cirilium Conservative Portfolio investment summary

Cirilium Conservative Portfolio asset allocation breakdown



Cirilium Conservative Portfolio growth year by year

Holding	2020	2019	2018	2017	2016
Quilter Investors Cirilium Conservative Portfolio - A (GBP) Accumulation Shares	4.4%	7.1%	-5.3%	5.2%	12.9%
Quilter Investors Cirilium Conservative Portfolio - R (GBP) Accumulation Shares	5.1%	7.8%	-4.7%	5.8%	13.4%
IA Mixed Investment 0-35% Shares sector average	4.0%	8.8%	-3.4%	5.0%	9.1%

Cirilium Conservative Portfolio growth to month end

Holding	3 months	6 months	1 year	3 years	5 years	Since launch*	Launch date
Quilter Investors Cirilium Conservative Portfolio - A (GBP) Accumulation Shares	1.6%	1.4%	10.4%	9.0%	23.0%	46.3%	30/03/12
Quilter Investors Cirilium Conservative Portfolio - R (GBP) Accumulation Shares	1.7%	1.7%	11.1%	11.0%	26.5%	54.3%	30/03/12
IA Mixed Investment 0-35% Shares sector average	2.5%	1.7%	6.9%	11.7%	22.2%	48.5%	

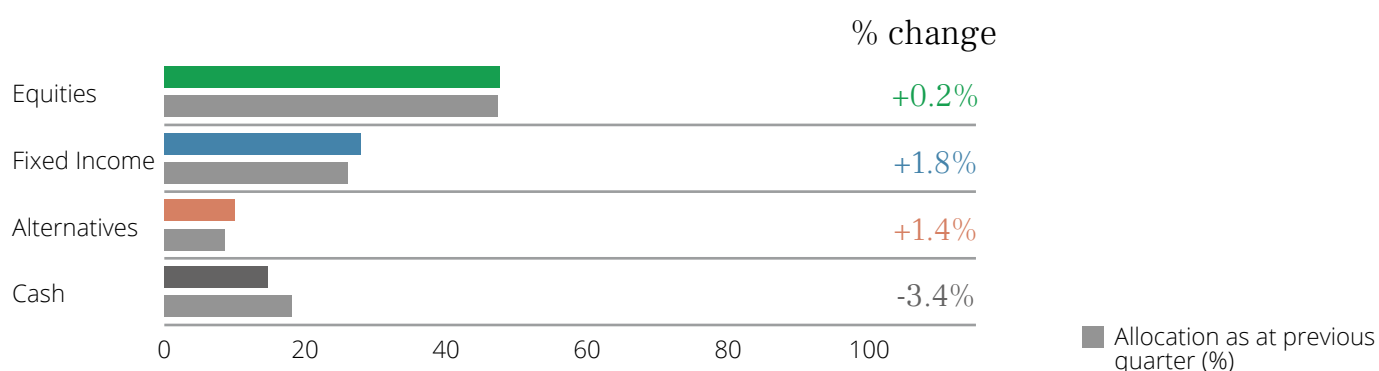
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Source: Quilter Investors as at 30 June 2021 unless otherwise stated. Total return, percentage growth, net of fees in pounds sterling. We have shown the performance of the portfolio against a performance comparator that is considered appropriate on the basis that the portfolio's equity exposure over time is expected to be similar to that of the average fund in this sector. Due to rounding and the use of derivatives (financial instruments that derive their values from underlying assets) the allocations may not add up to 100%.

Cirilium Balanced Portfolio investment summary

Cirilium Balanced Portfolio asset allocation breakdown



Cirilium Balanced Portfolio growth year by year

Holding	2020	2019	2018	2017	2016
Quilter Investors Cirilium Balanced Portfolio - A (GBP) Accumulation Shares	4.9%	11.0%	-7.5%	8.8%	14.8%
Quilter Investors Cirilium Balanced Portfolio - R (GBP) Accumulation Shares	5.5%	11.6%	-7.0%	9.5%	15.4%
IA Mixed Investment 20-60% Shares sector average	3.5%	12.1%	-5.1%	7.2%	10.6%

Cirilium Balanced Portfolio growth to month end

Holding	3 months	6 months	1 year	3 years	5 years	Since launch*	Launch date
Quilter Investors Cirilium Balanced Portfolio - A (GBP) Accumulation Shares	2.9%	3.8%	16.6%	13.2%	36.7%	114.9%	02/06/08
Quilter Investors Cirilium Balanced Portfolio - R (GBP) Accumulation Shares	3.0%	4.1%	17.3%	15.2%	40.9%	132.7%	02/06/08
IA Mixed Investment 20-60% Shares sector average	2.7%	3.6%	11.9%	14.5%	31.3%	85.0%	

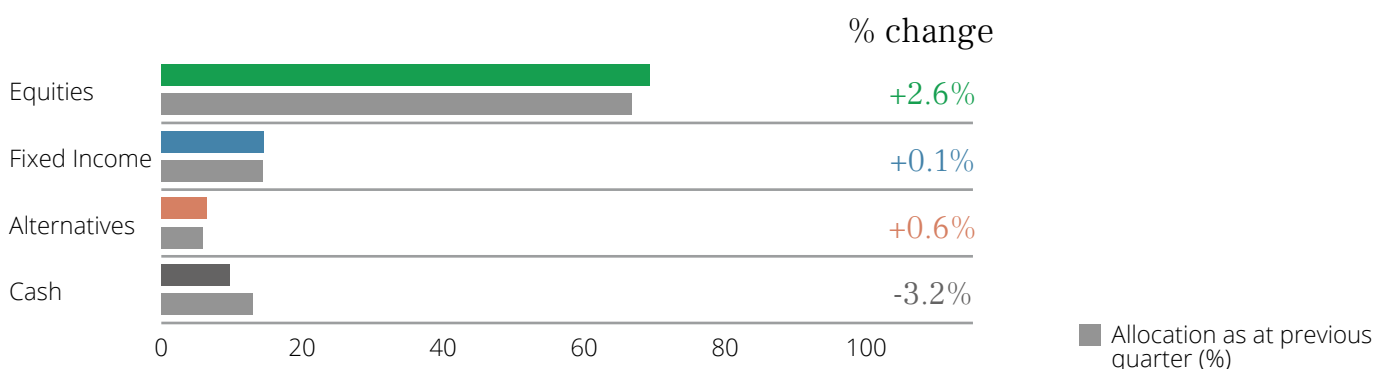
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Cirilium Moderate Portfolio investment summary

Cirilium Moderate Portfolio asset allocation breakdown



Cirilium Moderate Portfolio growth year by year

Holding	2020	2019	2018	2017	2016
Quilter Investors Cirilium Moderate Portfolio - A (GBP) Accumulation Shares	7.5%	14.1%	-9.7%	10.7%	17.3%
Quilter Investors Cirilium Moderate Portfolio - R (GBP) Accumulation Shares	7.2%	14.3%	-9.1%	11.6%	18.1%
IA Mixed Investment 40-85% Shares sector average	5.5%	15.9%	-6.1%	10.0%	13.3%

Cirilium Moderate Portfolio growth to month end

Holding	3 months	6 months	1 year	3 years	5 years	Since launch*	Launch date
Quilter Investors Cirilium Moderate Portfolio - A (GBP) Accumulation Shares	4.4%	6.0%	23.4%	19.0%	50.9%	163.2%	02/06/08
Quilter Investors Cirilium Moderate Portfolio - R (GBP) Accumulation Shares	4.6%	6.4%	23.8%	19.6%	54.0%	184.3%	02/06/08
IA Mixed Investment 40-85% Shares sector average	5.0%	6.7%	17.4%	21.9%	48.8%	116.5%	

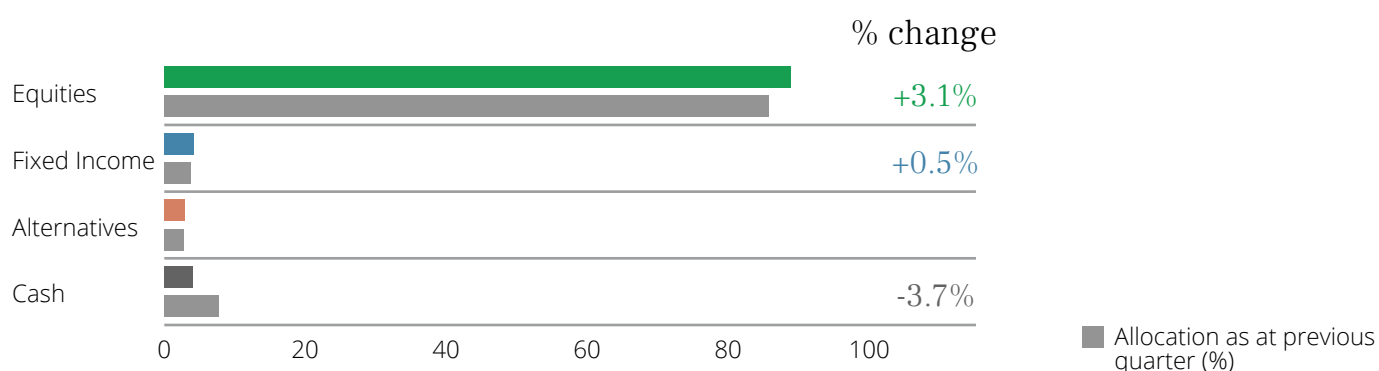
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Cirilium Dynamic Portfolio investment summary

Cirilium Dynamic Portfolio asset allocation breakdown



Cirilium Dynamic Portfolio growth year by year

Holding	2020	2019	2018	2017	2016
Quilter Investors Cirilium Dynamic Portfolio - A (GBP) Accumulation Shares	6.8%	16.4%	-11.7%	12.6%	18.1%
Quilter Investors Cirilium Dynamic Portfolio - R (GBP) Accumulation Shares	7.6%	17.2%	-11.0%	13.4%	18.9%
IA Flexible Investment sector average	7.0%	15.6%	-6.6%	11.1%	14.2%

Cirilium Dynamic Portfolio growth to month end

Holding	3 months	6 months	1 year	3 years	5 years	Since launch*	Launch date
Quilter Investors Cirilium Dynamic Portfolio - A (GBP) Accumulation Shares	5.2%	7.7%	28.4%	18.7%	56.7%	170.1%	02/06/08
Quilter Investors Cirilium Dynamic Portfolio - R (GBP) Accumulation Shares	5.4%	8.1%	29.3%	21.4%	62.6%	196.9%	02/06/08
IA Flexible Investment sector average	5.1%	7.5%	19.7%	23.7%	53.3%	113.5%	

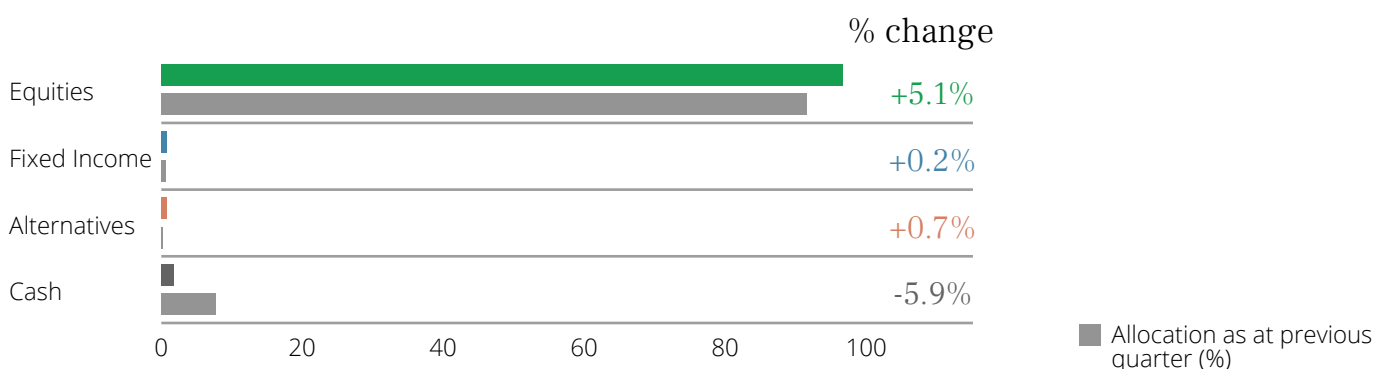
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Cirilium Adventurous Portfolio investment summary

Cirilium Adventurous Portfolio asset allocation breakdown



Cirilium Adventurous Portfolio growth year by year

Holding	2020	2019	2018	2017	2016
Quilter Investors Cirilium Adventurous Portfolio - A (GBP) Accumulation Shares	7.3%	14.3%	-10.2%		
Quilter Investors Cirilium Adventurous Portfolio - R (GBP) Accumulation Shares	8.1%	15.1%	-9.5%		
IA Flexible Investment sector average	7.0%	15.6%	-6.6%		

Cirilium Adventurous Portfolio growth to month end

Holding	3 months	6 months	1 year	3 years	5 years	Since launch*	Launch date
Quilter Investors Cirilium Adventurous Portfolio - A (GBP) Accumulation Shares	6.0%	9.3%	30.7%	19.9%		27.1%	01/06/17
Quilter Investors Cirilium Adventurous Portfolio - R (GBP) Accumulation Shares	6.2%	9.7%	31.7%	22.6%		31.0%	01/06/17
IA Flexible Investment sector average	5.1%	7.5%	19.7%	23.7%		29.3%	

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Holdings within the Cirilium Portfolios

Holding Name	Fund manager (where applicable)	Asset type	Cirilium Conservative Portfolio	Cirilium Balanced Portfolio	Cirilium Moderate Portfolio	Cirilium Dynamic Portfolio	Cirilium Adventurous Portfolio
EQUITY			24.47%	47.58%	69.24%	88.90%	96.65%
ASIA PACIFIC (INC JAPAN) EQUITY			4.84	9.00	9.85	11.86	12.41
BAILLIE GIFFORD JAPANESE INCOME AND GROWTH	BAILLIE GIFFORD	COLLECTIVE	1.47	1.92	1.88	2.34	2.76
BLACKROCK PACIFIC EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.00	0.00	0.00	0.00	0.81
FIDELITY ASIA PACIFIC OPPORTUNITIES	FIDELITY	COLLECTIVE	2.06	3.04	3.02	3.12	3.14
LIONTRUST JAPAN INSTITUTIONAL	LIONTRUST	COLLECTIVE	1.45	2.16	2.12	2.74	1.59
SCHRODER ASIAN TOTAL RETURN	SCHRODER	COLLECTIVE	0.00	1.02	0.00	0.00	0.00
SPARX JAPAN SUSTAINABLE EQUITY	SPARX	COLLECTIVE	0.00	0.00	1.60	1.96	2.81
TOPIX SEPTEMBER 2021		FUTURE	-0.14	-0.26	-0.36	-0.30	-0.29
USONIAN JAPAN VALUE	USONIAN	COLLECTIVE	0.00	1.13	1.58	2.00	1.59
EMERGING MARKETS EQUITY			0.50	1.92	5.64	6.54	8.43
FIDELITY CHINA CONSUMER FUND	FIDELITY	COLLECTIVE	0.00	0.00	2.02	3.09	4.56
MERIAN GLOBAL EMERGING MARKETS	MERIAN	COLLECTIVE	0.00	0.00	1.70	1.44	0.00
PACIFIC NOS EM EQUITY	NORTH OF SOUTH	COLLECTIVE	0.00	1.92	1.92	2.01	1.87
WELLS FARGO EM EQUITY INCOME	WELLS FARGO	COLLECTIVE	0.50	0.00	0.00	0.00	2.00
EUROPEAN EQUITY			4.34	7.16	10.30	12.88	10.83
EURO STOXX 50 (EUR) SEPTEMBER 21		FUTURE	-0.22	-0.37	-0.53	-0.44	-0.24
FP CRUX EUROPEAN	CRUX ASSET MANAGEMENT	COLLECTIVE	0.00	0.51	1.52	1.51	0.00
MITON EUROPEAN OPPORTUNITIES	MITON	COLLECTIVE	1.52	3.21	3.17	3.64	3.51
MONTANARO EUROPE INCOME	MONTANARO	COLLECTIVE	0.51	1.49	2.00	2.47	1.79
MONTANARO EUROPEAN MID-CAP	MONTANARO	COLLECTIVE	0.00	0.00	1.97	2.49	0.00
PREMIER MITON EUROPEAN SUSTAINABLE LEADERS FUND	PREMIER MITON	COLLECTIVE	0.55	0.54	0.53	1.04	1.02
SPDR EURO DIVIDEND ARISTOCRATS	STATE STREET	COLLECTIVE	2.00	1.77	1.65	2.17	4.74
GLOBAL EQUITY			3.18	7.34	10.19	13.44	16.02
INVESTEC GLOBAL SPECIAL SITUATIONS	INVESTEC	COLLECTIVE	0.46	0.98	0.97	1.42	1.44
JUPITER GLOBAL SUSTAINABLE EQUITIES FUND	JUPITER	COLLECTIVE	0.54	1.06	0.52	0.84	2.10
MONKS	BAILLIE GIFFORD	COLLECTIVE	0.00	0.00	0.00	2.61	2.53
MONTANARO BETTER WORLD FUND	MONTANARO	COLLECTIVE	0.00	1.40	1.82	1.93	1.58
POLAR AUTOMATION AND ARTIFICIAL INTELLIGENCE	POLAR CAPITAL	COLLECTIVE	0.00	1.10	2.18	2.82	3.17
REGNAN GLOBAL EQUITY IMPACT SOLUTIONS	JO HAMBRO	COLLECTIVE	0.54	0.52	0.51	0.72	2.08
SANDS GLOBAL LEADERS FUND	SANDS CAPITAL	COLLECTIVE	1.64	2.29	2.67	3.10	3.11
WELLS FARGO GLOBAL EQUITY	WELLS FARGO	COLLECTIVE	0.00	0.00	1.51	0.00	0.00

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Holdings within the Cirilium Portfolios

Holding Name	Fund manager (where applicable)	Asset type	Cirilium Conservative Portfolio	Cirilium Balanced Portfolio	Cirilium Moderate Portfolio	Cirilium Dynamic Portfolio	Cirilium Adventurous Portfolio
NORTH AMERICAN EQUITY			5.58	9.31	13.57	16.11	19.85
BERKSHIRE HATHAWAY B SHARES	BERKSHIRE HATHAWAY	COLLECTIVE	3.54	3.63	3.45	3.79	4.38
EMINI S&P 500 SEPTEMBER 21		FUTURE	-0.49	-0.88	-1.25	-1.02	-0.60
GRANAHAN US SMID SELECT	GRANAHAN	COLLECTIVE	0.00	1.66	4.08	5.11	4.76
MITON US OPPORTUNITIES	MITON	COLLECTIVE	2.53	3.77	3.69	4.02	3.84
MITON US SMALLER COMPANIES	MITON	COLLECTIVE	0.00	1.13	1.53	1.62	1.82
PERSHING SQUARE HOLDINGS	PERSHING SQUARE	COLLECTIVE	0.00	0.00	0.00	0.00	3.09
WELLS FARGO US SELECT EQUITY	WELLS FARGO	COLLECTIVE	0.00	0.00	2.08	2.59	2.56
PRIVATE EQUITY			0.00	1.30	3.14	7.64	10.69
EIH	SELF-MANAGED	COLLECTIVE	0.00	0.00	0.00	0.00	2.79
EUROVESTEC	SELF-MANAGED	COLLECTIVE	0.00	0.00	0.00	0.02	0.00
GRAPHITE ENTERPRISE	GRAPHITE	COLLECTIVE	0.00	0.00	0.40	0.00	0.00
HARBOURVEST GLOBAL PRIVATE EQUITY	HARBOURVEST	COLLECTIVE	0.00	1.01	2.22	3.29	2.12
PANTHEON INTERNATIONAL	PANTHEON	COLLECTIVE	0.00	0.00	0.00	3.54	4.42
RIVERSTONE ENERGY	RIVERSTONE	COLLECTIVE	0.00	0.29	0.52	0.79	1.36
UK EQUITY			6.02	11.54	16.54	20.42	18.43
BLACKROCK UK EQUITY TRACKER	BLACKROCK	COLLECTIVE	0.00	0.00	1.20	1.96	0.99
CAMBRIA AUTOMOBILES	SELF-MANAGED	COLLECTIVE	0.00	0.00	0.00	0.44	0.00
DIVERSE INCOME TRUST	MITON	COLLECTIVE	0.00	0.00	0.77	0.00	0.00
JO HAMBRO UK DYNAMIC	JO HAMBRO	COLLECTIVE	2.03	2.50	2.39	2.47	4.39
MERCANTILE INVESTMENT TRUST	JPMORGAN	COLLECTIVE	0.00	0.00	0.60	0.90	0.00
MITON UK VALUE OPPORTUNITIES	MITON	COLLECTIVE	1.01	1.99	3.48	4.26	2.96
MONTANARO UK INCOME	MONTANARO	COLLECTIVE	0.46	2.00	1.92	1.84	1.84
POLAR UK VALUE OPPORTUNITIES	POLAR CAPITAL	COLLECTIVE	0.00	1.00	1.43	1.45	0.00
QUILTER INVESTORS EQUITY 2 (INVESTEC)	INVESTEC	COLLECTIVE	2.51	2.94	3.52	4.51	4.25
RIVER & MERCANTILE UK DYNAMIC EQUITY	RIVER & MERCANTILE	COLLECTIVE	0.00	0.00	0.00	1.04	3.99
RIVER & MERCANTILE UK LONG TERM RECOVERY FUND	RIVER & MERCANTILE	COLLECTIVE	0.00	1.08	1.18	1.48	0.00
WOODFORD EQUITY INCOME	WOODFORD	COLLECTIVE	0.00	0.03	0.04	0.08	0.00
WOODFORD EQUITY INCOME	WOODFORD	COLLECTIVE	0.00	0.00	0.00	0.00	0.00
FIXED INCOME			45.40%	27.81%	14.53%	4.20%	0.76%
CORPORATE BONDS			12.72	6.42	3.85	0.92	0.76
HERMES UNCONSTRAINED CREDIT	HERMES	COLLECTIVE	4.60	3.49	1.93	0.00	0.00
PREMIER CORPORATE BOND BOND MONTHLY INCOME	PREMIER MITON	COLLECTIVE	5.17	0.00	0.00	0.00	0.00
PREMIER MITON FINANCIAL CAPITAL SECURITIES FUND		BOND	1.07	1.05	0.99	0.00	0.00

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Holdings within the Cirilium Portfolios

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FIXED INCOME (CONTINUED)							
RAVEN RUSSIAN 12% PREF	SELF-MANAGED	COLLECTIVE	0.86	0.87	0.93	0.92	0.76
WELLS FARGO - GLOBAL INVESTMENT GRADE CREDIT	WELLS FARGO	COLLECTIVE	1.03	1.01	0.00	0.00	0.00
EMERGING MARKET DEBT			0.12	1.10	0.95	0.00	0.00
INTER-AMERICAN DEVELOPMENT BANK 5.500% 23/08/21		BOND	0.12	0.11	0.00	0.00	0.00
WELLINGTON EMERGING MARKET LOCAL DEBT ADVANCED BETA		BOND	0.00	0.99	0.95	0.00	0.00
OTHER FIXED INCOME			32.56	20.29	9.73	3.28	0.00
1167 GLOBAL INCOME FUND		BOND	2.00	1.80	1.74	1.26	0.00
1167 GLOBAL TOTAL RETURN BOND	1167 CAPITAL	COLLECTIVE	2.96	0.96	0.00	0.00	0.00
ALLIANZ STRATEGIC BOND		BOND	7.60	3.94	1.70	0.00	0.00
AQR GLOBAL AGGREGATE BOND	AQR	COLLECTIVE	3.07	1.48	0.00	0.00	0.00
BIOPHARMA CREDIT	PHARMAKON CAPITAL	COLLECTIVE	0.00	0.00	0.20	0.00	0.00
BLACKSTONE GSO LOAN FINANCING	BLACKSTONE	COLLECTIVE	0.00	0.15	1.09	0.99	0.00
BROOKS GROUND RENT INCOME FUND	BROOKS MACDONALD	COLLECTIVE	0.66	0.00	0.00	0.00	0.00
EUROPEAN BK RECON & DEV FRN 20-20/NOV/25		BOND	1.02	1.00	0.50	0.00	0.00
EUROPEAN INVESTMENT BANK FRN JANUARY 2025		BOND	1.99	1.98	0.49	0.00	0.00
FAIR OAKS INCOME FUND	FAIR OAKS	COLLECTIVE	0.00	0.00	0.00	0.04	0.00
HENDERSON STRATEGIC BOND	HENDERSON	COLLECTIVE	5.11	3.99	1.95	0.00	0.00
HONEYCOMB INVESTMENT TRUST	HONEYCOMB	COLLECTIVE	1.06	1.23	1.08	0.99	0.00
PREMIER MITON MONTHLY INCOME		BOND	2.56	1.53	0.00	0.00	0.00
RM SECURED DIRECT LENDING PLC	RM CAPITAL	COLLECTIVE	0.42	0.45	0.00	0.00	0.00
WELLINGTON OPPORTUNISTIC FIXED INCOME		BOND	4.12	1.78	0.98	0.00	0.00
ALTERNATIVES			15.65%	9.94%	6.51%	2.84%	0.84%
CORPORATE BONDS			4.07	1.01	0.66	0.00	0.00
APQ GLOBAL 3.500% 30/09/24	APQ CAPITAL	BOND	0.00	0.00	0.00	0.00	0.00
JANUS HENDERSON INCOME ABSOLUTE RETURN BOND	JANUS HENDERSON	COLLECTIVE	4.07	1.01	0.66	0.00	0.00
OTHER ALTERNATIVE (INC HEDGE FUNDS)			6.08	5.77	4.75	1.82	0.00
APQ GLOBAL	APQ CAPITAL	COLLECTIVE	0.00	0.00	0.00	0.12	0.00
COOPER CREEK NORTH AMERICA LONG SHORT	COOPER CREEK PARTNERS	COLLECTIVE	0.00	0.53	0.82	0.87	0.00
CZ ABSOLUTE RETURN ALPHA	CZ	COLLECTIVE	0.00	0.50	0.82	0.00	0.00
LUMY SANDBAR EQUITY MARKET NEUTRAL	SANDBAR ASSET MANAGEMENT	COLLECTIVE	1.00	1.49	1.48	0.00	0.00

Continued on next page

Holdings within the Cirilium Portfolios

Holding Name	Fund manager (where applicable)	Asset type	Cirilium Conservative Portfolio	Cirilium Balanced Portfolio	Cirilium Moderate Portfolio	Cirilium Dynamic Portfolio	Cirilium Adventurous Portfolio
ALTERNATIVES (CONTINUED)							
MERIAN STRATEGIC ABSOLUTE RETURN BOND	MERIAN	COLLECTIVE	3.02	1.02	0.00	0.00	0.00
MYGALE EVENT DRIVEN	MYGALE	COLLECTIVE	1.05	1.24	0.66	0.00	0.00
TAGES ECKHARDT SYSTEMATIC SHORT TERM		BOND	1.00	0.98	0.97	0.83	0.00
OTHER FIXED INCOME			2.54	1.00	0.00	0.00	0.00
ALLIANZ FIXED INCOME MACRO FUND	ALLIANZ	COLLECTIVE	2.54	1.00	0.00	0.00	0.00
PROPERTY			2.97	2.16	1.09	1.02	0.84
AEW UK LONG LEASE REIT	AEW	COLLECTIVE	0.90	0.00	0.00	0.00	0.00
EDISTON PROPERTY	EDISTON	COLLECTIVE	0.80	0.45	0.00	0.00	0.00
IMPACT HEALTHCARE REIT (IHR)	CARNE GLOBAL	COLLECTIVE	1.26	1.07	0.74	0.00	0.00
INFRASTRUCTURE INDIA PLC	IIP	COLLECTIVE	0.00	0.00	0.00	0.00	0.00
NEXTENERGY SOLAR	NEXTENERGY CAPITAL	COLLECTIVE	0.00	0.36	0.00	0.00	0.00
RAVEN RUSSIA	SELF-MANAGED	COLLECTIVE	0.00	0.28	0.34	1.02	0.84
CASH			14.48%	14.67%	9.72%	4.06%	1.74%
CASH			14.48	14.67	9.72	4.06	1.74
TOTAL			100%	100%	100%	100%	100%

Source: Quilter Investors, as at 30 June 2021. Due to rounding and use of derivatives the allocations may not add up to 100%.

Markets in the second quarter of 2021

Life returning to normal, despite Delta concerns

Vaccination programmes continued apace during the second quarter of the year, albeit with added urgency as the emergence of the more virulent Delta variant saw new cases starting to rise once again.

News of more stimulus for the US economy also boosted markets, as President Joe Biden continued to make good on his campaign promises, this time to upgrade America's crumbling infrastructure.

However, inflation fears are beginning to stalk markets as economies have bounced back, fuelled by pent-up consumer demand and supply constraints. A spike in US inflation was especially notable; it hit 5% in May, while a smaller spike, to 2.1%, was seen in the UK.

Even so, investors were reassured by the US and European central banks, which both maintained that any spike in inflation resulting from ultra-loose monetary policy would be transitory.

In its June meeting, the Federal Reserve's Open Market Committee (FOMC) also confirmed that it will continue to increase its monthly purchases of Treasury and mortgage-backed securities until substantial further progress has been made toward the committee's maximum employment and price stability goals. The committee had previously made subdued references to the future need to start discussing 'tapering' – namely reducing its asset-purchase programme – implying that investors would have plenty of notice before any such moves were undertaken.

Meanwhile, markets continued to respond positively to the vaccine roll-out with commodity and energy prices performing especially strongly in the expectation of rising post-pandemic demand. Brent crude prices rose from \$63.52 per barrel at the end of March to over \$75 by the end of June – levels not seen since 2018.

Elsewhere, gold prices rallied early in the period but eased significantly in June thanks to the Federal Reserve's assurances that the spike in inflation – a key driver of gold prices – would be fleeting. Even so, the price of gold finished the quarter higher than where it started, as did the prices of industrial metals, reflecting the backdrop of strong economic growth.

In currency markets, sterling weakened against the euro and the Swiss franc but managed to hang on to gains made against the Japanese yen and US dollar.

Strong performance for equities (almost) across the board

Given the more bullish investor sentiment, most equity markets made strong progress over the second quarter with the MSCI World Index adding 7.8% over the period.

Companies in the US were especially strong performers. They led global markets thanks to an especially strong first quarter earnings season and the notable rotation back into growth stocks, which tend to dominate US equity markets. As a result, the MSCI USA Index gained 8.8% during the quarter.

Meanwhile, the MSCI World Growth Index added 10.8% over the quarter compared to a more meagre 4.8% from MSCI World Value Index, while larger company indices significantly outperformed smaller company indices.

European equities also made strong progress, with the MSCI Europe ex-UK Index gaining 8.1% as the vaccine roll-out gathered pace and was bolstered by stronger economic data.

In the UK, equity performance was more subdued as its so-called 'Freedom Day' was delayed by a month as cases of the Delta variant surged. Nevertheless, the FTSE 100 Index, which is dominated by companies geared to the global economy, gained 5.7%, while the more domestically-focused FTSE 250 Index of mid-cap stocks added 4.7%.

Emerging market equity returns were slightly more muted as the Delta variant took hold in India and elsewhere in Asia. Nevertheless, the MSCI Emerging Markets Index was up by 5% in the quarter while its largest constituent, China, saw gains of just 2.2% according to the MSCI China Index as policy tightening took hold and Chinese government regulators continued to ramp up their scrutiny of local technology companies.

Elsewhere, not even the prospect of the forthcoming Tokyo Olympics was enough to boost Japanese stocks as the country was forced to reimpose lockdown in a number of prefectures amid a rise in new coronavirus infections. Consequently, the MSCI Japan Index declined 0.4% over the quarter, despite making reasonable gains in June.

Bond investors seek out riskier assets

Ongoing support from central banks has taken more government bonds out of the market and this helped yields to fall during the second quarter (meaning their prices rose) after the steep rises seen in the previous quarter. As a result, the Bloomberg Barclays Global Aggregate Government - Treasuries Index (GBP Hedged) was up by 0.6% during the quarter, with both US Treasuries and UK gilts delivering low single-digit gains to sterling investors.

Rising investor risk appetite in the face of falling government bond yields helped to drive interest in higher-risk corporate bonds (issued by companies), which outperformed. As such, the Bloomberg Barclays Global Aggregate - Corporate Index (GBP Hedged) gained 2.4% while the Bloomberg Barclays Global High Yield Index (GBP Hedged) rose 2.9%.

Nevertheless, the FOMC meeting in June suggested a significant shift in the outlook for US interest rates as growth, employment and inflation data have improved much faster than anticipated even just three months ago.

The Federal Reserve committee, on balance are biased to two rate hikes in 2023, up from zero three months previously. This had the impact of bond yields falling (bond prices rising) at longer maturities. There is ongoing debate on whether technical factors such as quantitative easing and investor position exacerbated the moves.

Understanding 'value' and 'growth'

In general terms, 'value investment' approaches target those companies regarded as looking cheap relative to the value of their assets (also known as their 'intrinsic' or 'book' value). Value stocks tend to be either well-established but unloved businesses, which often offer high levels of dividend, or alternatively companies whose share prices have fallen materially, often due to perceived issues with the company's business model or operating environment.

Good examples of value stocks include banks, oil and mining, utility and industrial companies although any company whose valuation is below the market average is generally regarded as a 'value stock'.

Meanwhile, 'growth investing' is more focused on capital growth than on collecting dividends. Growth stocks tend to be more dynamic companies whose earnings are expected to increase faster than those of other companies in their industry sector or the broader market. They tend to pay limited dividends as they are busy reinvesting their profits in growing their businesses.

Growth stocks are most commonly found in the technology sector with companies like the 'FAANGs' the most prominent example of recent years. Other 'cyclical' areas (meaning companies most impacted by the economic cycle) such as consumer goods, leisure and travel or the automobile sector often contain 'growth' stocks. The same is true of areas like biotech.

Ultimately, any company with a disruptive business model, ground-breaking new technology or an irresistible new line of consumer goods can find itself classified as a 'growth' stock if its earnings growth starts to outpace those of the broader market.

(All data in sterling terms and rounded to one decimal place.)

Performance analysis

The Cirilium Portfolios enjoyed another strong quarter of returns with their diversification across asset classes, investment styles and geographical regions all contributing positively to performance. Even so, equities provided the lion's share of returns during the quarter.

At a regional level, returns were more evenly distributed across developed markets than in the previous quarter, partly reflecting the general bias towards growth stocks which, collectively, performed very well in the second quarter.

Equity fund performance in the period

Within the equity portfolio, the Montanaro European Mid-Cap Fund was the strongest performer, closely followed by the Wells Fargo US Select Equity Fund and the Montanaro UK Income Fund.

Elsewhere, the portfolios also benefited from the strong performance of the Granahan US Small and Mid-Cap (SMID) Select Fund and the Sands Global Leaders Fund. Diversification, great managers and patience were certainly the key ingredients during a choppy quarter.

In contrast, Japan's sluggish vaccination roll-out weighed on the performance of the local equity market, with three of the five weakest performers during the quarter being Japanese funds. This illustrates the benefits of diversification.

Japan has lagged recently due to the local resurgence of the coronavirus and ongoing political uncertainty; but it's a traditional global cyclical play with, historically, a positive correlation to bond yields and the direction of economic data. In addition, Japanese valuations appear attractive and investor positioning looks light. We expect the recent surge in infections to soon peak, which could help the Japanese market rebound as it did for the UK, Europe and the US.

Further, from a portfolio construction perspective we expect diversification benefits from the yen and ongoing corporate reforms alongside cheaper valuations to provide incremental returns over the medium term.

Elsewhere in Asia, policy tightening and regulatory concerns weighed on the performance of Chinese stocks. However, in the context of our portfolios the only notable impact was the lacklustre performance of the Fidelity China Consumer Fund.

Performance of fixed-income and alternative funds in the quarter

Within fixed interest, investment returns were far more muted although Blackstone GSO Loan Financing and Raven Russian Property preference shares delivered 'equity-like' performance.

In addition, our specialist fixed-income managers also performed well, including the Henderson Strategic Bond, the Premier Miton Financial Securities and the Wellington Emerging Market Local Debt Advanced Beta funds.

Within alternatives, it was a strong quarter for our listed private equity managers such as HarbourVest and Riverstone Energy. In addition, the US long/short hedge fund manager Cooper Creek also enjoyed a strong quarter. However, not all our long/short managers were positive. The CZ Absolute Return Alpha and the Lumy Sandbar Equity Market Neutral fund were both down on the quarter, highlighting large dispersions in stock names, which should be a favourable sign for stock pickers going forward.

Portfolio activity

Changes to the portfolios were more restrained in the second quarter than in the first and noticeably more evenly balanced between purchases and sales. We continued to add to our 'quality' value exposures while reducing risk across the board, especially in the lower-risk portfolios.

We also introduced three new environmental, social and governance (ESG) strategies to the portfolios.

Elsewhere, we trimmed our exposure to closed-end funds where share price improvements had helped to reduce the discount to net asset value (NAV) and to those alternatives and fixed-income holdings that had performed well last year.

As a result, the level of cash held in the Cirilium Conservative, Balanced and Moderate Portfolios increased slightly. We are reluctant holders of cash in an environment of building inflationary pressures, but we are willing to be patient given the potential for capital loss from fixed-income markets outweighs the low level of yields currently on offer.

Changes to the equity portfolio

Activity	Fund name	Rationale
New	Jupiter Global Sustainable Equities Fund	The first quarter's pull back in 'growth' style investing presented a timely opportunity to increase exposure to this secular theme, at a time when the political momentum in this area has never been stronger. While the fund's manager, Abbie Llewellyn-Waters, is new to us, we were attracted to the strength of the investment process and the quality of management evident.
New	Regnan Global Equity Impact Solutions Fund	We bought this fund as we are well acquainted with its manager, Tim Crockford, who previously managed the Federated Hermes Europe ex UK Equity Fund, which we held across all the Cirilium Portfolios at the time.
New	Premier Miton European Sustainable Leaders Fund	We were attracted to this fund as it boasts Carlos Moreno and Thomas Brown as its managers. The pair are the multi-award winning managers behind the Premier Miton European Opportunities Fund, which has always been a serial outperformer for the Cirilium Portfolios.
Sold	BlackRock UK Equity Tracker Fund	We switched out of this holding preferring instead to trust this part of our UK equity allocation to the two actively managed funds below. As a result, neither the Conservative nor the Balanced portfolio now holds any passive investments.
Increased	JO Hambro UK Dynamic Fund	This was one of two existing actively managed UK portfolio holdings that we decided to increase using the proceeds from the sale of the BlackRock UK Equity Tracker fund. This was done in the belief that with the 'easy' gains having been made by index tracking funds, active managers are now better positioned to make the most of the opportunities presented by the UK equity market.
Increased	Quilter Investors Equity 2 Fund (managed by Ninety-One)	This was one of two existing actively managed UK portfolio holdings that we decided to increase using the proceeds from the sale of the BlackRock UK Equity Tracker fund. This was done in the belief that with the 'easy' gains having been made by index tracking funds, active managers are now better positioned to make the most of the opportunities presented by the UK equity market.

Other changes to the equity portfolio in the second quarter

We trimmed your holdings in these funds: We trimmed several investment trust holdings, taking profits after recent strong performance and reducing total risk in the portfolio at the same time. Examples included Fidelity Special Values, Mercantile and the Montanaro European Smaller Companies.

Elsewhere, we reduced our Asia and emerging markets exposure by trimming holdings such as the Blackrock Emerging Markets Equity and Pacific Equity tracker funds, the Fidelity Asia Pacific Opportunities and the Pacific North of South Emerging Market Equity funds.

We also took some profits from other growth and small/mid-cap funds such as Granahan US SMID Select and Premier Miton US Smaller Companies.

Changes to the fixed-income and alternatives portfolios

Activity	Fund name	Rationale
New	Wells Fargo Global Investment Grade Credit Fund	We switched our existing holding in the Wells Fargo US Investment Grade Credit Fund into this global investment-grade corporate bond portfolio run by the same manager as the global diversification is attractive given the US is possibly closer to raising interest rates than many other regions. The portfolio offers bottom-up global credit exposure with a focus on quality and carbon/climate transition issues.
Removed	Wells Fargo US Investment Grade Credit Fund	We removed this holding and recycled the proceeds into the above holding which offers global diversification within investment-grade corporate bonds.

Investment outlook

The combination of a strong first half of the year for equity markets together with the prospect of economic growth slowing from the current frenetic pace may result in a summer 'siesta' for equity market returns. Even so, the outlook for the second half of the year still looks bright.

As the bounce from pent-up consumer spending fades, the hope is for government and business spending to pick up the slack. And while the spread of the Delta variant (and possibility other new variants) is a potential concern – as it could slow the full re-opening of economies – the increasing number of cases has not so far led to significantly higher hospital admissions in the UK, which could be seen as the 'litmus test' for other countries.

The financial, economic and public health balancing act required for the remainder of the year may make for a bumpier ride for financial markets, but we still believe that equity markets can continue their upward trajectory as consumers and businesses return to some semblance of normality.

In the meantime, inflation worries are likely to be a key contributor to market jitters but it will take a lot of bad news to shift central banks towards a more rapid withdrawal of the 'easy money' they've provided thus far.

However, we're not expecting either economic growth or inflation to maintain their heady levels for an extended period, so equities should continue to provide an attractive investment in an environment of modestly rising inflation.

That said, investors will need to be selective as not all companies will be able to pass on today's higher input prices to consumers and/or offset rising costs with rising sales. Diversification across regions, market capitalisations and styles should provide a solid foundation to benefit from the ongoing cyclical upswing while retaining exposure to longer-term secular themes.



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Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

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