Parmenion
Investment Management

Strategic Ethical Active C (Ethical Leaders)

Quarterly Update, Q2 2024


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The big picture: Macro and Markets

In a nutshell

- **Risk assets continue to lead the way**

  Equities continue to outperform fixed interest and Emerging Markets maintain momentum.

- **Politics takes centre stage**

  Voters are rallying, with elections taking place across the world.

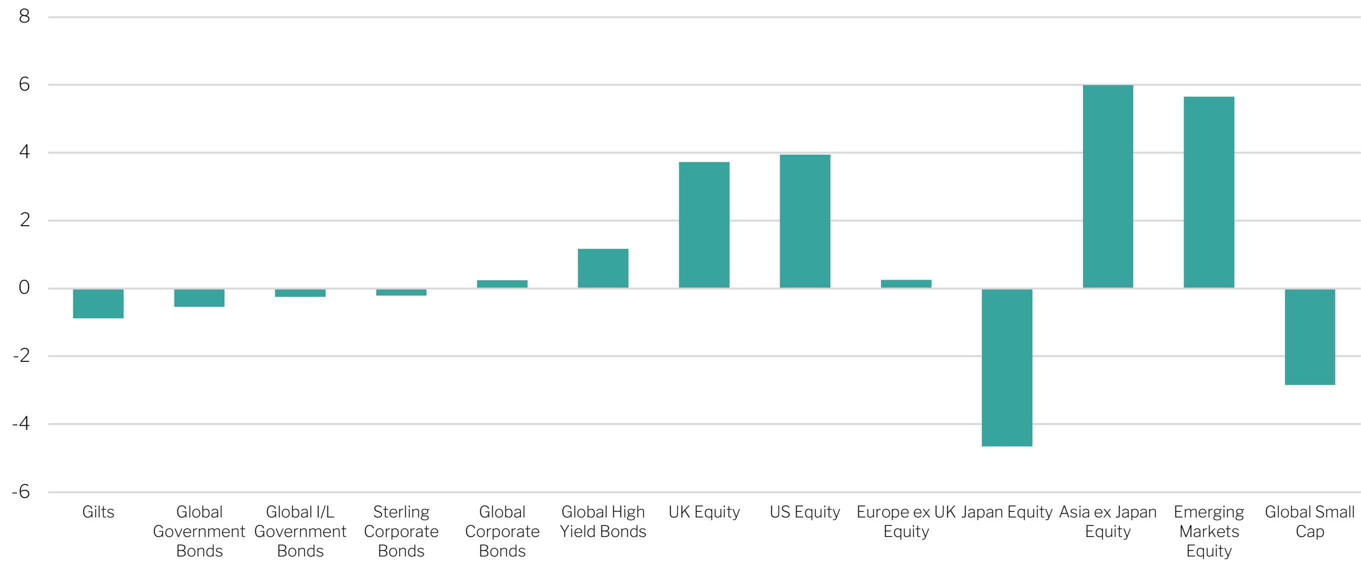
- **Inflation continues its downward path**

  The UK finally reached its 2% target but we’re still waiting for rate cuts.

For financial professionals only

What's been happening in Q2?

Asset class returns (Q2 2024)



Asia and Emerging Markets led the way in Q2, continuing their strong performance this year, while Fixed Interest returns were broadly flat with risk assets still providing the lion's share of returns.

Politics continues to dominate headlines, with campaigning and voting happening across the world. The US, UK, France, India, Mexico and South Africa have all had elections recently or are on the campaign trail. This means uncertainty for a large proportion of global markets. Though this hasn't materialised into any notable losses or volatility yet.

President Biden and Donald Trump had the first of their two presidential debates. Biden's performance was unanimously panned, though neither candidate shone. The lack of coherence from Biden has left many in his party wondering if it's not too late to put someone else forward. This combined with Trump being the first criminally convicted former president, makes all this somewhat of a circus.

Macron surprised everyone by calling an election after a poor showing in EU Parliamentary voting. A strong initial showing from the Rassemblement National (RN) party was surprisingly reversed in the second round of voting, following a left-wing coalition. A hung parliament now awaits.

AI mania continues to push Nvidia (and US equity indices) even higher, briefly overtaking Apple and Microsoft to become the world's most valuable company. Index concentration is extremely high which raises questions about diversification. How long the momentum can last is anyone's guess, but active fund managers will tell you it's a painful bet to be on the wrong side of.

Inflation continued to fall over the quarter. The UK hit its 2% target, although wage and services inflation remain elevated. This led the Bank of England to hold interest rates until at least August. The Fed is cautious not to cut rates too quickly - a recession is less concerning than the embarrassment of having to reverse course. The ECB has been on the front foot, taking their deposit rate down from 4% to 3.75%.

China announced support measures to revive the property sector and boost confidence amongst consumers. To hit its GDP growth targets, China needs its population to be spending not saving.

What does that mean for performance?

Cumulative Performance (%)

This table outlines the cumulative investment performance of this solution across various risk grades, versus their IA benchmark (please note that the IA benchmarks primarily consist of mainstream/non-ESG-specific funds).

	Q2	YTD	1 Year	3 Year	5 Year
Risk Grade 1	0.96	1.32	5.62	-2.81	0.90
IA Standard Money Market	**1.29**	**2.60**	**5.44**	**8.81**	**9.61**
Risk Grade 2	0.94	1.90	7.74	-5.22	1.06
Risk Grade 3	1.14	2.83	9.17	-3.43	6.76
Risk Grade 4	1.38	3.82	10.52	-1.86	11.84
IA Mixed Investment 0-35% Shares	**0.63**	**2.14**	**7.59**	**-2.46**	**5.57**
Risk Grade 5	1.81	4.60	11.04	-1.22	16.08
Risk Grade 6	2.15	5.56	11.73	-0.68	20.05
IA Mixed Investment 20-60% Shares	**1.14**	**3.65**	**9.38**	**2.83**	**15.20**
Risk Grade 7	2.46	6.16	12.08	-0.01	22.80
Risk Grade 8	2.87	6.99	12.41	1.23	26.33
IA Mixed Investment 40-85% Shares	**1.67**	**5.91**	**11.82**	**7.19**	**25.58**
Risk Grade 9	3.22	7.92	12.77	2.52	30.39
Risk Grade 10	3.47	8.81	13.28	4.72	35.36
IA Flexible Investment	**1.71**	**6.27**	**11.78**	**7.27**	**28.57**

Discrete Annual Performance (%)

This table outlines the discrete annual performance of this across various risk grades, versus their IA benchmark.

	2023	2022	2021	2020	2019
Risk Grade 1	4.51	-8.41	-0.40	3.22	3.47
IA Standard Money Market	**4.74**	**1.28**	**-0.05**	**0.43**	**0.73**
Risk Grade 2	5.92	-13.56	1.99	3.69	7.50
Risk Grade 3	6.80	-14.70	4.53	5.19	11.98
Risk Grade 4	7.63	-15.63	6.45	6.85	14.59
IA Mixed Investment 0-35% Shares	**5.97**	**-10.87**	**2.84**	**3.90**	**8.70**
Risk Grade 5	7.45	-16.02	8.50	8.22	16.61
Risk Grade 6	7.55	-16.54	9.96	9.74	18.37
IA Mixed Investment 20-60% Shares	**6.81**	**-9.47**	**7.20**	**3.51**	**11.84**
Risk Grade 7	7.44	-16.78	11.50	10.47	19.90
Risk Grade 8	7.28	-16.53	12.83	11.20	20.95
IA Mixed Investment 40-85% Shares	**8.08**	**-10.04**	**10.94**	**5.32**	**15.78**
Risk Grade 9	7.16	-16.39	13.95	12.52	21.77
Risk Grade 10	7.30	-15.94	15.67	13.24	22.09
IA Flexible Investment	**7.08**	**-8.98**	**11.30**	**6.70**	**15.66**

What worked and what didn't?

Equities continued to lead the way in Q2, broadening out from the US to include the UK and Emerging Markets. This led to positive performance on both an absolute and relative basis across the Risk Grades.

Year to date, performance is also strong with all Risk Grades outperforming other than Risk Grades 1 and 2 due to their gilt exposures. The improving outlook on inflation and interest rates sees the 1-year numbers in similarly positive territory. Over 3 years, numbers are still lagging because of the challenging environment in 2022, where rising interest rates took the portfolios growth and ethical style investing out of favour. However, over 5 years all Risk Grades are outperforming, except for Risk Grades 1 and 2 (due to gilt exposures), and Risk Grade 7 (which has 70% equity versus up to 85% in the sector, leading to a lag when equities outperform).

Asset classes

Except for Gilts, all asset classes were positive on an absolute basis through the second quarter.

UK and Emerging Market Equities led the way in absolute terms, while Diversified Alternatives also delivered strong absolute and relative performance due to the VT Gravis Clean Energy Income.

While Fixed Income returns were muted over the quarter, with rates remaining higher for longer and Equities driving returns, most of our active managers were able to deliver outperformance versus their respective benchmarks.

UK Gilts were a detractor, with interest rates remaining higher for longer and the added duration both negative contributors to returns.

There was some relative underperformance from our Equity exposures, although were positive in absolute terms.

Manager selection

Global Equities saw Janus Henderson Global Sustainable Equity and CT Responsible Global Equity outperform. Both funds have exposure to Nvidia (which has been the main beneficiary of the increasing interest in AI) and wider exposure to the US technology sector, which continues to perform strongly.

Our Emerging Markets funds were mixed, however Stewart Asia Pacific Sustainability's India allocation continued to be a positive for performance.

Within Diversified Alternatives, VT Gravis Clean Energy Income delivered very strong performance, mainly due to positive performance from US and Canadian listed renewable energy companies.

While Fixed Income was relatively muted over the quarter, both Rathbone Ethical Bond and EdenTree Responsible & Sustainable Sterling Bond managed to outperform within our Sterling Corporate Bond asset class.

While UK Equity was positive over the quarter, except for Montanaro UK Income our managers underperformed.

This is mainly due to larger cap, value stocks outperforming over this period, which our managers are underweight. However, their growth style bias and mid and small cap overweights came back into favour during June, with all 3 funds outperforming over the very short term.

Fund changes

Reduce	Buy
Emerging Markets/Asia Pacific ex Japan Equity	**Global Smaller Companies**

The annual review of our Strategic Asset Allocation has led to several changes.

To increase diversification and capture attractive long term valuation opportunities, we have introduced a new Global Smaller Companies asset class from the middle risk grades onwards.

To achieve this, we've introduced the Montanaro Better World fund to the portfolio and dialled down exposure to Asia Pacific ex Japan Equity and Emerging Markets. While we still remain positive on the long-term prospects for these markets, these changes help to improve the balance in the higher risk grades.

The Montanaro Better World fund has both a mid and small cap bias, with thematic exposure to environmental and social themes alongside ESG integration and engagement, aligning it with the objective of Profile C.

Asset allocation (%)

Risk Grade	1	2	3	4	5	6	7	8	9	10
Managed Liquidity	60.00	27.50	17.50	10.00	5.00	2.50	0.00	0.00	0.00	0.00
UK Gilts	13.75	19.00	16.50	13.50	10.50	7.25	5.25	2.75	1.00	0.00
Global Index Linked Government Bonds	7.25	10.25	9.00	7.25	5.75	4.00	2.75	1.50	0.50	0.00
UK Corporate Bonds	9.00	15.75	17.00	16.75	16.25	13.75	12.00	8.25	3.50	0.00
Diversified Alternatives	10.00	10.00	10.00	10.00	10.00	10.00	10.00	7.50	5.00	0.00
UK Equity	0.00	8.00	13.50	19.00	20.25	20.00	21.00	22.00	20.00	18.00
International Equity	0.00	9.50	16.50	23.50	24.75	30.00	31.50	33.00	37.25	42.00
Global Smaller Companies	0.00	0.00	0.00	0.00	1.50	2.50	3.50	5.00	6.50	8.00
Emerging Markets/Asia Pacific ex Japan Equity	0.00	0.00	0.00	0.00	6.00	10.00	14.00	20.00	26.25	32.00

OCF & Yield

Risk Grade	1	2	3	4	5	6	7	8	9	10
OCF (%)	0.22	0.39	0.46	0.53	0.59	0.64	0.68	0.72	0.75	0.78
Yield (%)	4.76	3.92	3.52	3.15	2.76	2.36	2.09	1.74	1.29	0.84

A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	2.84	3.79	3.26	-0.81	-9.91	-9.91
IA Standard Money Market	**0.08**	**0.66**	**0.62**	**0.00**	**-0.08**	**-0.10**
Risk Grade 2	5.76	7.01	6.05	-2.12	-15.76	-15.76
Risk Grade 3	6.97	8.23	7.40	-3.21	-17.01	-17.01
Risk Grade 4	8.10	9.34	8.70	-4.24	-18.41	-18.41
IA Mixed Investment 0-35 Shares	**5.49**	**6.09**	**6.47**	**-2.37**	**-13.28**	**-13.28**
Risk Grade 5	8.54	9.73	9.50	-4.85	-18.60	-18.60
Risk Grade 6	8.99	10.18	10.40	-5.43	-19.02	-19.02
IA Mixed Investment 20-60 Shares	**6.23**	**6.89**	**8.36**	**-3.30**	**-12.14**	**-12.89**
Risk Grade 7	9.36	10.58	11.01	-5.88	-19.44	-19.44
Risk Grade 8	9.67	10.84	11.55	-6.32	-19.33	-19.33
IA Mixed Investment 40-85 Shares	**7.28**	**8.19**	**10.12**	**-4.39**	**-12.54**	**-15.41**
Risk Grade 9	10.04	11.21	12.24	-6.74	-19.27	-19.27
Risk Grade 10	10.49	11.70	12.91	-7.10	-18.77	-18.77
IA Flexible Investment	**6.98**	**7.81**	**9.97**	**-4.31**	**-11.20**	**-15.53**

Voting and engagement

During the quarter, our ESG investment team spent a day meeting with Sarasin's responsible equity and bond fund managers following some key changes, alongside meeting their head of stewardship and a climate analyst who's been developing stress-tests for Sarasin's portfolios.

The team also caught up with Royal London's head of Responsible Investing and her vast team; including experts on data and reporting, regulation, stewardship and ESG research to better understand the value these resources are providing. In June, Ethical Oversight Committee member Julia Dreblow, together with our investment managers, held several webinars on SDR (Sustainability Disclosure Requirements), looking at its impact on advisers and how Parmenion are adapting to new regulation changes.

Voting

In Q2 2024 the equity managers in the portfolio cast **812** votes across **75** different companies, primarily around governance issues, but also incorporating environmental and social concerns. For more ESG focussed funds like the ones in this solution, you'd expect to see a high proportion of "For" votes.

Votes against management included proposals around the election of new directors and disagreements over remuneration plans.

Votes by support for management	
For	95%
Against	4.5%
Abstain	0.5%

Fund manager engagement spotlight

Liontrust (Sustainable Future UK Growth, Risk Grades 2-10)

Liontrust engaged with Smurfit Kappa, a paper-based packaging company, on biodiversity. As part of the Nature Action 100 industry group, Liontrust met Smurfit to discuss how they're thinking about biodiversity and its related risks. Liontrust were pleased to see Smurfit had already reviewed its biodiversity impact and had conducted a 'double materiality' assessment, not only looking at their impact on biodiversity, but how dependant the company itself was on nature. Following this analysis, Smurfit set several ESG-based goals, with performance against KPIs considered by the board twice yearly and executive remuneration tied to forestry-activity.

Montanaro (UK Income, Risk Grades 2-10)

Montanaro engaged with publishing house Bloomsbury on risk management in their supply chain, specifically around their printing operations in China. Concerns centred on the risk of forced labour and other social issues. However, Bloomsbury assured Montanaro that their Chinese suppliers are accredited by the Ethical Supply Chain Program and undergo independent annual audits, reflecting a commitment to ethical labour practices. Montanaro continues to monitor and support Bloomsbury's management of labour risks within their supply chain.

Please note: Stewardship activity is reported with a lag, so comments refer to the previous quarter. In this case, Q1 2024.

Industry exposure

This table compares the exposure of Strategic Ethical Active C Risk Grade 6 with global equities. Data sourced from Morningstar as of **30 June 2024**.

How to read this table:

The percentages show the weighting to companies in the solution with *any* revenue from each area, even if it's small. For example, 0.01% of this portfolio is invested in companies with revenue from alcohol *above zero*.

Industry	Ethical Active C Risk Grade 6	Benchmark*
Adult Entertainment	0.00	0.00
Alcohol	0.01	1.30
Animal Testing	9.96	17.84
Abortive/Contraceptives/Stem Cell	5.52	8.43
Controversial Weapons	0.00	1.67
Fur & Speciality Leather	0.00	0.00
Gambling	0.00	0.26
GMO	0.00	0.09
Military Contracting	0.19	2.54
Nuclear	0.00	1.00
Palm Oil	0.00	0.03
Pesticides	0.00	0.18
Small Arms	0.00	1.03
Tobacco	0.03	0.99
Thermal Coal	0.04	1.24
Thermal Coal Power Generation	0.20	3.14
Oil & Gas Production	1.69	10.44
Oil & Gas Power Generation	2.43	7.24
Oil & Gas Products & Services	11.55	14.26
Oil Sands Extraction	0.00	4.66
Arctic Oil & Gas Exploration	0.00	4.67

About this data

The Morningstar UK Moderately Aggressive Target Allocation category has been used as an equivalent benchmark.

Based on the latest available data from Morningstar, but there may be gaps or time lags in some of the information.

Please note animal testing includes all animal testing. That means pharmaceutical products, medical devices, biotechnology, non-pharmaceutical products like cosmetics, and chemicals like pesticides and food additives.

Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual exposure may differ by risk grade.

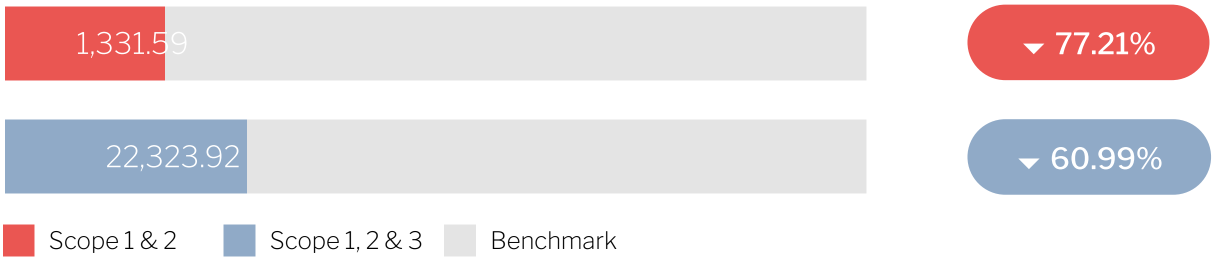
Carbon metrics

Data shown for Strategic Ethical Active C, Risk Grade 6 vs. Morningstar UK Moderately Adventurous Targeted Allocation Index.

Carbon emissions

Tonnes CO_2

% below benchmark



Carbon footprint

Tonnes Scope 1, 2 and 3 CO_2 emissions per £1m invested

Weighted average carbon intensity

Tonnes Scope 1, 2 and 3 CO_2 emissions per £1m revenue

Data coverage

About this data

Based on the latest available data from Morningstar as of May 2024. There may be gaps or time lags in some of the information. Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual carbon metrics may differ by risk grade. Further information can be found in our TCFD report.

What's the outlook?

As we move through the year, politics looks set to keep the limelight. The run up to the US Presidential election in November is sure to create some headlines, with potential ramifications for international trade and relations top of the agenda for markets.

The narrative for the US economy is more and more that a 'soft landing' is most likely, with markets priced as though it's a certainty.

We do see downside risk, like widening credit spreads or equities correcting. However, we still expect a shallow recession, with risk assets (particularly small cap) outperforming in the medium term.

Given the strong starting yields, we expect fixed interest to produce good, absolute performance regardless of how quickly interest rates might fall. We should also see the Bank of England cut rates next quarter, as long as inflation data is stable.

Finally, after years of post-Brexit uncertainty and all the changes at No.10, Kier Starmer's sizeable majority might actually mean the UK is a relative stable political option. The idea of a Prime Minister staying in power for a full term could provide a catalyst to the UK market. Given the extent of recent underperformance (even with the FTSE 100 reaching a new high), any boost to sentiment would be welcome. UK valuations remain cheap, emphasised by the level of interest in private equity – just look at Hargreaves Lansdown.

Important information

- This document for financial professionals only.
- Any news and/or views in this document are meant as general information and shouldn't be seen as financial advice, or a personal recommendation.
- Parmenion accepts no duty of care or liability for loss to any person acting or refraining from acting because of reading anything in this document.
- Past performance is not an indicator of future performance and investment returns can go down as well as up.
- All data sourced from FE fundinfo.

Get in touch

If you'd like to chat to us about our Strategic Ethical Active C solution, please get in touch.

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