

Strategic Ethical Active D (Traditional 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**

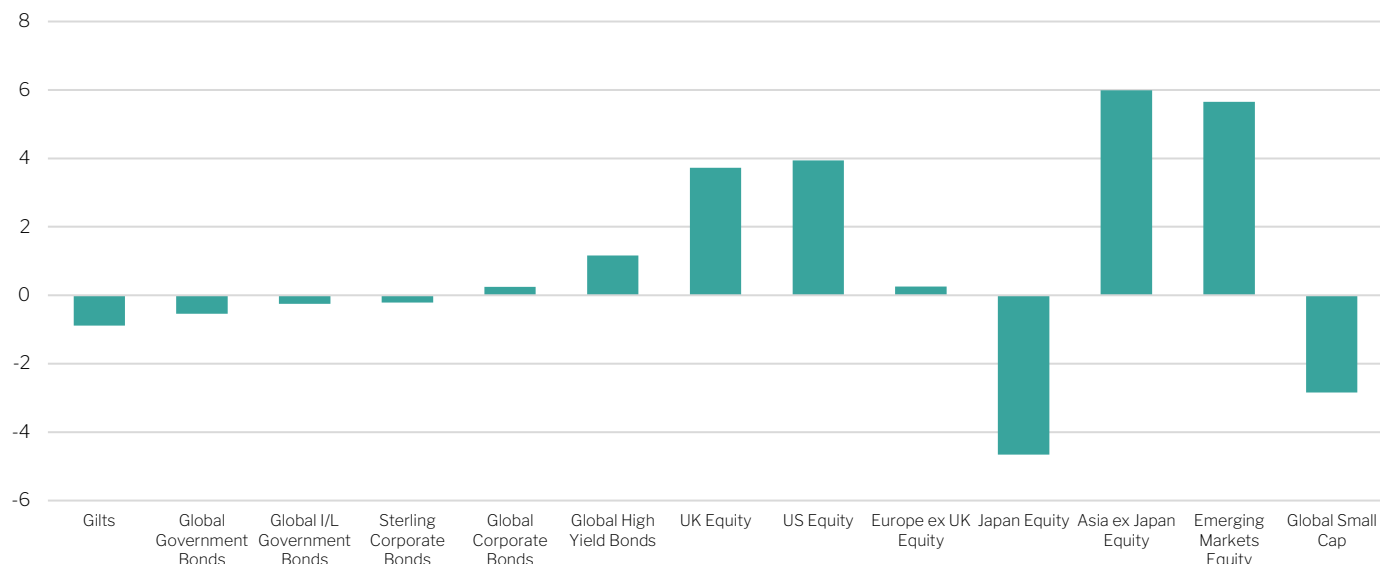
Voters are rallying, with elections taking place across the world.

- **Inflation continues its downward path**

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

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	0.88	2.06	7.25	2.12	6.20
IA Standard Money Market	1.29	2.60	5.44	8.81	9.61
Risk Grade 2	0.89	2.62	9.23	0.94	9.13
Risk Grade 3	1.06	3.36	10.54	1.07	12.32
Risk Grade 4	1.21	4.05	11.75	1.24	16.03
IA Mixed Investment 0-35% Shares	0.63	2.14	7.59	-2.46	5.57
Risk Grade 5	1.58	4.54	12.29	1.16	19.49
Risk Grade 6	1.81	5.11	12.90	1.53	23.39
IA Mixed Investment 20-60% Shares	1.14	3.65	9.38	2.83	15.20
Risk Grade 7	2.14	5.71	13.37	2.12	26.06
Risk Grade 8	2.61	6.27	13.21	3.70	30.08
IA Mixed Investment 40-85% Shares	1.67	5.91	11.82	7.19	25.58
Risk Grade 9	3.03	6.98	13.14	5.40	34.32
Risk Grade 10	3.43	7.71	13.11	7.19	38.82
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	6.49	-5.84	-0.60	2.98	3.69
IA Standard Money Market	4.74	1.28	-0.05	0.43	0.73
Risk Grade 2	7.72	-9.14	0.95	4.88	7.70
Risk Grade 3	8.57	-11.31	2.95	5.19	12.56
Risk Grade 4	9.30	-13.11	4.78	6.70	15.31
IA Mixed Investment 0-35% Shares	5.97	-10.87	2.84	3.90	8.70
Risk Grade 5	9.39	-14.21	6.83	8.04	17.26
Risk Grade 6	9.65	-15.11	8.92	9.37	19.05
IA Mixed Investment 20-60% Shares	6.81	-9.47	7.20	3.51	11.84
Risk Grade 7	9.71	-15.67	10.50	10.14	20.52
Risk Grade 8	9.30	-15.15	12.27	10.90	21.61
IA Mixed Investment 40-85% Shares	8.08	-10.04	10.94	5.32	15.78
Risk Grade 9	8.96	-14.66	13.99	11.65	22.36
Risk Grade 10	8.66	-14.20	15.77	12.41	22.70
IA Flexible Investment	7.08	-8.98	11.30	6.70	15.66

What worked and what didn't?

Flat fixed interest and stronger returns from equity meant all risk grades finished the quarter in positive territory, with relative outperformance from Emerging Markets meaning sequential alignment of returns were maintained.

Strong Q2 returns versus IA sectors for all portfolios (except Risk Grade 1), fed through into outperformance YTD and over a 1-year period for most risk grades. However, the struggles of 2022 (with economic conditions going against our biases towards quality/growth and small and mid-cap companies) are still reflected in the 3-year figures, with most risk grades still sitting below their respective sectors. 5-year figures are much more positive, with only Risk Grade 1 underperforming its IA peer group, and the other portfolios all comfortably outperforming their respective benchmarks.

Asset classes

-  All equity allocations achieved positive results, with our Emerging Markets/Asia-Pacific ex Japan allocation providing the highest return on an absolute basis, driven by its large exposure to strong-performing countries such as China, India and Taiwan.
-  Although fixed income markets were broadly flat, as rates remained unchanged, the majority of our corporate bond funds managed to outperform their benchmark.
-  Despite finishing up on an absolute basis, our UK equity allocation came-in below benchmark as value style investing outperformed growth (where the portfolios tend to lean).

Manager selection

A standout performer in Emerging Markets/Asia Pacific ex Japan was the Stewart Investors Asia Pacific Sustainability Fund, benefitting from its big overweight position in India. In Global Equities, Janus Henderson Global Sustainable Equity and CT Responsible Global Equity both outperformed thanks to their overweight tech exposure, and strong performances from top stocks such as Nvidia and ASML.

As covered, corporate bonds returns were muted over the quarter, but absolute positive returns (and relative outperformance) were generated from both the Rathbones Ethical Bond Fund and Aegon Ethical Corporate Bond Fund.

Both our Liontrust funds, UK Ethical and Sustainable Future Global Growth, underperformed their respective benchmarks, with the global fund finishing down on the quarter. This was predominantly due to their biases towards growth-style investing and small/mid-cap companies, both of which did poorly. Global Growth suffered from its relative lack of exposure to the Magnificent-7 or companies offering GLP-1 weight-loss drugs.

Fund changes

No fund changes were made in Q2.

Asset allocation (%)

Risk Grade	1	2	3	4	5	6	7	8	9	10
Managed Liquidity	70.00	47.00	35.00	24.00	14.00	6.00	0.00	0.00	0.00	0.00
UK Corporate Bonds	30.00	40.00	39.00	38.00	36.50	35.00	30.00	20.00	10.00	0.00
UK Equity	0.00	5.75	11.75	17.25	19.00	18.50	21.00	22.00	20.00	18.00
International Equity	0.00	7.25	14.25	20.75	23.00	28.00	31.50	33.00	37.25	42.00
Emerging Markets/Asia Pacific ex Japan Equity	0.00	0.00	0.00	0.00	7.50	12.50	17.50	25.00	32.75	40.00

OCF & Yield

Risk Grade	1	2	3	4	5	6	7	8	9	10
OCF (%)	0.19	0.32	0.40	0.47	0.55	0.62	0.68	0.72	0.76	0.80
Yield (%)	4.84	4.19	3.73	3.31	2.81	2.34	1.94	1.63	1.23	0.84

A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	2.02	3.49	3.12	-0.22	-8.83	-8.83
IA Standard Money Market	0.08	0.66	0.62	0.00	-0.08	-0.10
Risk Grade 2	4.01	5.45	5.10	-0.65	-12.80	-12.80
Risk Grade 3	5.41	6.98	6.99	-1.70	-15.20	-15.20
Risk Grade 4	6.74	8.38	8.59	-2.82	-17.18	-17.18
IA Mixed Investment 0-35 Shares	5.49	6.09	6.47	-2.37	-13.28	-13.28
Risk Grade 5	7.66	9.28	9.73	-3.69	-18.22	-18.22
Risk Grade 6	8.48	10.11	10.88	-4.41	-19.01	-19.01
IA Mixed Investment 20-60 Shares	6.23	6.89	8.36	-3.30	-12.14	-12.89
Risk Grade 7	9.31	10.81	11.62	-5.24	-19.35	-19.35
Risk Grade 8	9.70	11.02	12.09	-5.83	-18.33	-18.33
IA Mixed Investment 40-85 Shares	7.28	8.19	10.12	-4.39	-12.54	-15.41
Risk Grade 9	10.14	11.29	12.59	-6.39	-17.34	-17.34
Risk Grade 10	10.66	11.66	13.14	-6.95	-17.20	-17.41
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 new Sustainability Disclosure Requirements (SDR), looking at its impact on advisers and how Parmenion are adapting to new regulation changes.

Voting

In Q1 2024 the equity managers in the portfolio cast **746** votes across **66** 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 covered executive pay deemed excessive and board nominations that lacked sufficient independence.

Votes by support for management

For	95%
Against	5%
Abstain	0%

Fund manager engagement spotlight

Liontrust (UK Ethical Fund, 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.

Stewart Investors (Asia Pacific Sustainability Fund, Risk Grades 5-10)

Stewart held an investment competition through their ‘Future Asset’ industry initiative, which aims to inform girls in Scottish schools about the investment management industry, widen their talent pipeline and improve industry diversity. Since it was set-up in 2017, the initiative has grown massively, with Stewart having now engaged with over 1,800 pupils across 220 schools in Scotland.

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 D 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, 0.20% of this portfolio is invested in companies with revenue from nuclear power *above zero*.

Industry	Ethical Active D Risk Grade 6	Global Equities*
Adult Entertainment	0.00	0.00
Alcohol	0.00	1.30
Animal Testing	9.10	17.84
Abortive/Contraceptives/Stem Cell	5.20	8.43
Controversial Weapons	0.00	1.67
Fur & Speciality Leather	0.00	0.00
Gambling	0.08	0.26
GMO	0.00	0.09
Military Contracting	0.00	2.54
Nuclear	0.20	1.00
Palm Oil	0.00	0.03
Pesticides	0.00	0.18
Small Arms	0.00	1.03
Tobacco	0.00	0.99
Thermal Coal	0.06	1.24
Thermal Coal Power Generation	0.56	3.14
Oil & Gas Production	2.36	10.44
Oil & Gas Power Generation	2.43	7.24
Oil & Gas Products & Services	9.76	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.

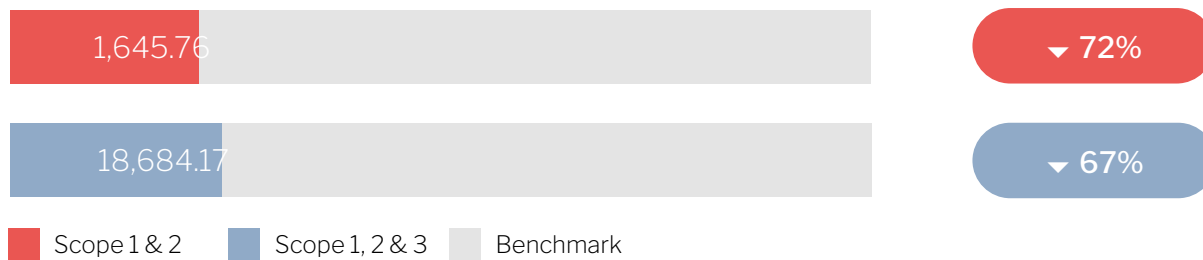
Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual exposure may differ by risk grade.

Carbon metrics

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

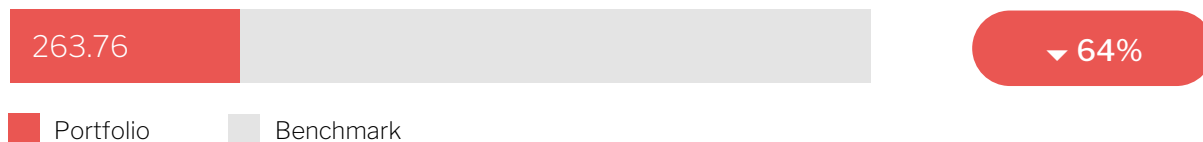
Carbon emissions

Tonnes CO₂



Carbon footprint

Tonnes CO₂ per \$1m invested



Weighted average carbon intensity

Tonnes CO₂ 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

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