

Strategic Passive ESG

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**

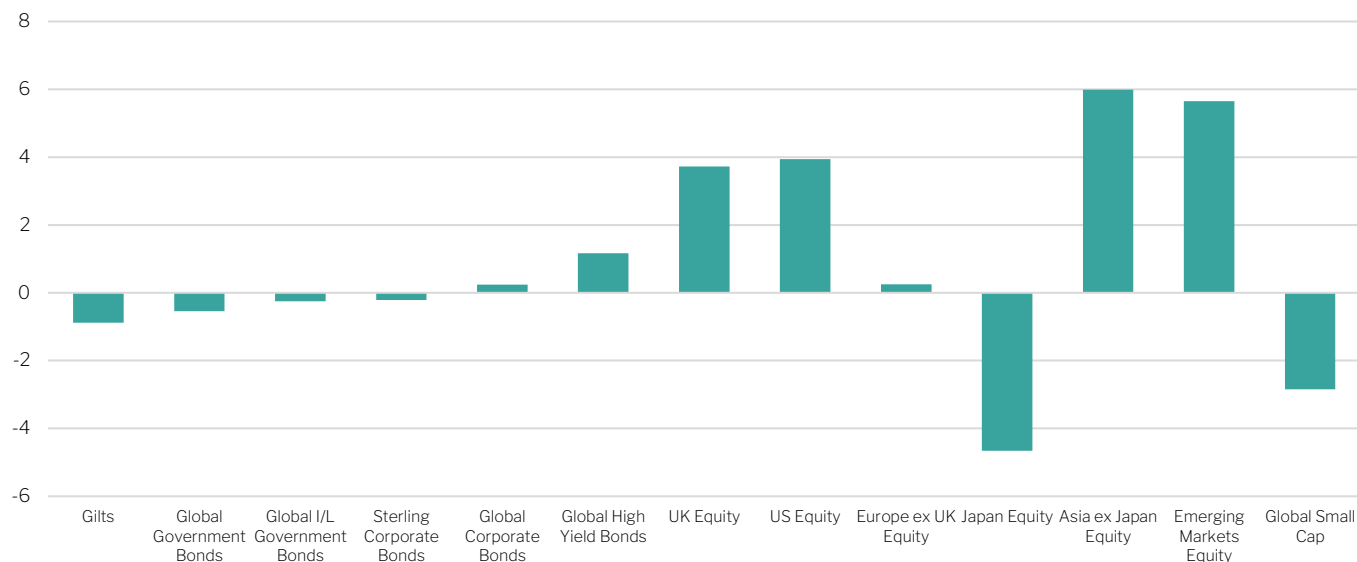
Voters are rallying, with elections taking place across the world.

- **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	0.72	1.38	5.02	-	-
IA Standard Money Market	1.29	2.60	5.44	8.81	9.61
Risk Grade 2	0.46	1.78	6.22	-	-
Risk Grade 3	0.49	2.53	7.39	-	-
Risk Grade 4	0.50	3.16	8.34	-	-
IA Mixed Investment 0-35% Shares	0.63	2.14	7.59	-2.46	5.57
Risk Grade 5	0.55	3.32	8.46	-	-
Risk Grade 6	0.56	3.75	9.02	-	-
IA Mixed Investment 20-60% Shares	1.14	3.65	9.38	2.83	15.20
Risk Grade 7	0.64	4.02	9.26	-	-
Risk Grade 8	0.75	4.30	9.44	-	-
IA Mixed Investment 40-85% Shares	1.67	5.91	11.82	7.19	25.58
Risk Grade 9	0.80	4.63	9.70	-	-
Risk Grade 10	0.83	4.89	9.93	-	-
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	5.23	-	-	-	-
IA Standard Money Market	4.74	1.28	-0.05	0.43	0.73
Risk Grade 2	6.94	-	-	-	-
Risk Grade 3	8.17	-	-	-	-
Risk Grade 4	9.23	-	-	-	-
IA Mixed Investment 0-35% Shares	5.97	-10.87	2.84	3.90	8.70
Risk Grade 5	9.06	-	-	-	-
Risk Grade 6	9.40	-	-	-	-
IA Mixed Investment 20-60% Shares	6.81	-9.47	7.20	3.51	11.84
Risk Grade 7	9.41	-	-	-	-
Risk Grade 8	9.04	-	-	-	-
IA Mixed Investment 40-85% Shares	8.08	-10.04	10.94	5.32	15.78
Risk Grade 9	8.97	-	-	-	-
Risk Grade 10	8.97	-	-	-	-
IA Flexible Investment	7.08	-8.98	11.30	6.70	15.66

What worked and what didn't?

A broadly flat bond market and a mixed performance from equities didn't stop all risk grades finishing the quarter in positive territory.

Small gains in European and UK equities pushed the performance of middle risk grades above that of lower risk grades which are predominantly invested in fixed interest. While strong Emerging Market equity performance was helpful for higher risk grades, it was partly offset by weak returns for Asia ex Japan equities over the quarter. Portfolios lagged their benchmarks over the quarter, which fed into the 1-year numbers. This comes after all portfolios outperformed their IA sectors in 2023.

Asset classes

Emerging Market equities were the best performer over the quarter, with returns driven mainly by the biggest countries within the index, with China, Taiwan, and India performing well.

UK markets were also positive, while our European ESG indices outperformed their mainstream counterparts as they benefited from select tech and healthcare stock overweights.

Bond yields were range bound over the quarter and the UK 10 gilt yield ultimately ended the quarter slightly above where it started. This led to marginally negative returns, despite still high absolute yields.

Although still finishing in negative territory, our Japanese ESG index outperformed its mainstream counterpart. While Japanese market performance was generally strong over the quarter, Sterling returns suffered as the Yen weakened.

Despite mainstream US markets performing well, our ESG indices were held back by their underweight positions in mega-cap tech stocks. Similarly, ESG focused Asia Pacific ex Japan indices underperformed versus their mainstream counterparts.

Fund changes

Following the strategic asset allocation changes made in Q1, no further adjustments to asset allocation, or fund selection, were made to the solution in Q2.

We will be carrying out of half yearly passive due diligence in July using data to the end of Q2 and will produce a report on our findings in due course.

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
Global Government Bonds	13.50	19.00	16.50	13.25	10.50	7.00	5.25	3.00	1.00	0.00
Global Index Linked Government Bonds	7.50	10.50	9.00	7.25	5.50	4.00	2.75	1.50	0.50	0.00
UK Corporate Bonds	4.50	7.75	8.50	8.50	8.25	7.00	6.00	4.00	1.75	0.00
Global Strategic Bonds	4.50	7.75	8.50	8.50	8.25	7.00	6.00	4.00	1.75	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	20.00	20.00	21.00	22.00	20.00	18.00
US Equity	0.00	5.50	10.25	14.75	16.00	19.75	21.00	22.50	26.00	30.00
Europe ex UK Equity	0.00	2.00	3.25	5.00	5.25	6.50	7.00	7.50	8.75	10.00
Japan Equity	0.00	2.00	3.00	3.75	3.75	3.75	3.50	3.00	2.50	2.00
Global Smaller Companies	0.00	0.00	0.00	0.00	1.50	2.50	3.50	5.00	6.50	8.00
Asia Pacific ex Japan Equity	0.00	0.00	0.00	0.00	1.50	2.50	3.50	5.00	6.50	8.00
Emerging Markets	0.00	0.00	0.00	0.00	4.50	7.50	10.50	15.00	19.75	24.00

OCF & Yield

Risk Grade	1	2	3	4	5	6	7	8	9	10
OCF (%)	0.09	0.13	0.15	0.16	0.17	0.18	0.19	0.20	0.21	0.21
Yield (%)	4.33	3.29	2.79	2.40	2.10	1.78	1.54	1.38	1.20	1.02

A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	2.54	-	-	-0.52	-	-
IA Standard Money Market	0.08	0.66	0.62	0.00	-0.08	-0.10
Risk Grade 2	5.14	-	-	-2.61	-	-
Risk Grade 3	6.45	-	-	-3.73	-	-
Risk Grade 4	7.53	-	-	-4.62	-	-
IA Mixed Investment 0-35 Shares	5.49	6.09	6.47	-2.37	-13.28	-13.28
Risk Grade 5	8.22	-	-	-5.39	-	-
Risk Grade 6	8.95	-	-	-6.03	-	-
IA Mixed Investment 20-60 Shares	6.23	6.89	8.36	-3.30	-12.14	-12.89
Risk Grade 7	9.59	-	-	-6.63	-	-
Risk Grade 8	10.05	-	-	-7.06	-	-
IA Mixed Investment 40-85 Shares	7.28	8.19	10.12	-4.39	-12.54	-15.41
Risk Grade 9	10.54	-	-	-7.43	-	-
Risk Grade 10	10.96	-	-	-7.68	-	-
IA Flexible Investment	6.98	7.81	9.97	-4.31	-11.20	-15.53

Industry exposure

This table compares the exposure of Strategic Passive ESG 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, 0.09% of this portfolio is invested in companies with revenue from nuclear power *above zero*.

Industry	Passive ESG Risk Grade 6	Global Equities*
Adult Entertainment	0.00	0.00
Alcohol	0.04	1.30
Animal Testing	16.33	17.84
Abortive/Contraceptives/Stem Cell	8.21	8.43
Controversial Weapons	0.17	1.67
Fur & Speciality Leather	0.00	0.00
Gambling	0.00	0.26
GMO	0.01	0.09
Military Contracting	0.09	2.54
Nuclear	0.09	1.00
Palm Oil	0.05	0.03
Pesticides	0.07	0.18
Small Arms	0.11	1.03
Tobacco	0.16	0.99
Thermal Coal	0.01	1.24
Thermal Coal Power Generation	0.11	3.14
Oil & Gas Production	1.45	10.44
Oil & Gas Power Generation	0.69	7.24
Oil & Gas Products & Services	11.42	14.26
Oil Sands Extraction	0.00	4.66
Arctic Oil & Gas Exploration	0.04	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.

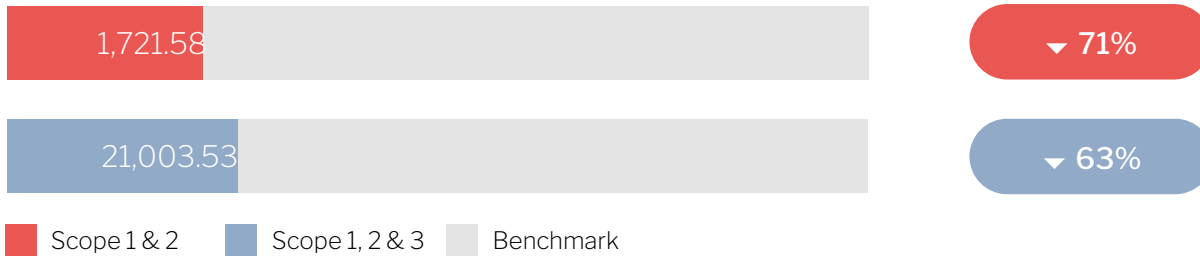
Risk Grade 6 is shown for illustration because it invests in all asset classes and funds used in the solution, actual exposure may differ by risk grade.

Carbon metrics

Data shown for Strategic Passive ESG, 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

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- 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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