Parmenion
Investment Management

Strategic Ethical Active A (Responsible Leaders)

Quarterly Update, Q1 2024


Simon Molica
Senior Investment Manager

Mollie Thornton
Senior Investment Manager

The big picture: Macro and Markets

In a nutshell

- **Equities outperform bonds in a very strong first quarter**

  Risk of a recession is put to one side by markets as they focus on the positives.

- **Bond yields trend back up**

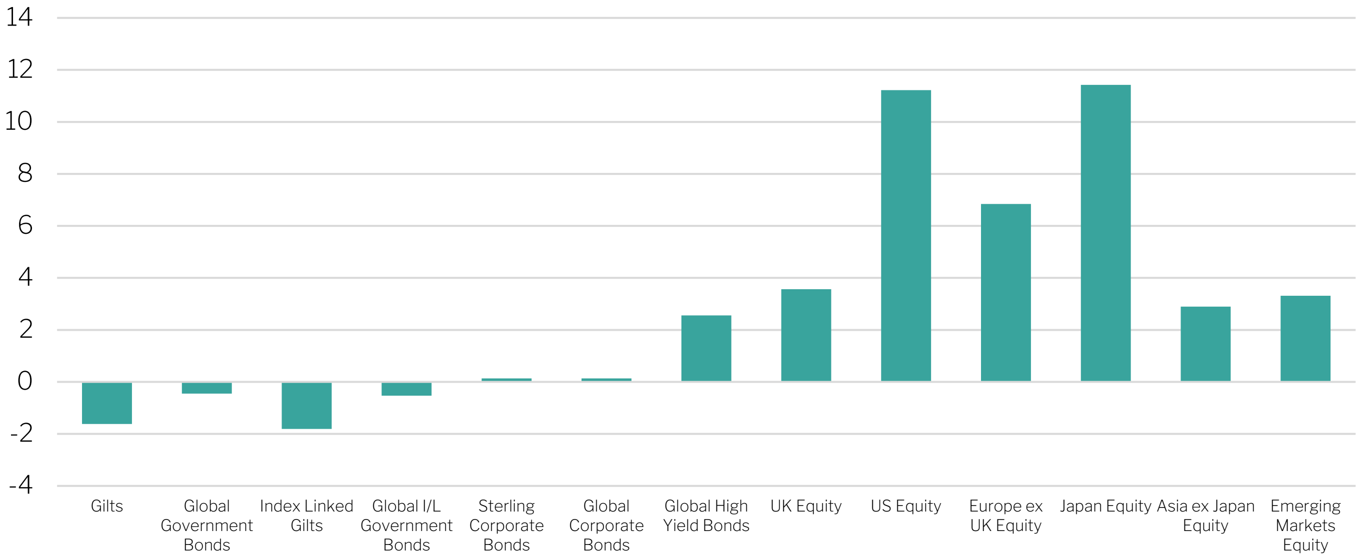
  After the sharp rally in Q4 last year, Government Bond yields move back to the 4% range as rate cuts are reevaluated.

- **"Magnificent Seven" are not all magnificent**

  As AI excitement continues, those stocks with more to benefit are being rewarded.

What's been happening in Q1?

Asset class returns (Q1 2024)



Risk assets led the way in Q1. With the prospect of a deep recession seemingly reduced, equity markets rewarded investors that avoided the allure of high interest rates.

Q4 last year captured the excitement around possible rate cuts, with yields coming in sharply following talk of lots (and lots) of cuts this year from the Fed. The market then spent Q1 digesting the overreaction and priced in something closer to reality. This saw yields move back up and 10yr government bonds settle at around 4%, creating a sort of 'V' shape over the last 6 months. This meant losses for bond holders, with the negative impact on capital values more than offsetting the income earned.

For credit investors, the picture was slightly different. The positive sentiment that pushed equities higher also meant credit spreads (a measure of how much you need to be paid to take on the risk of lending to a company) reduced, boosting returns. This offset rising yields, flattening returns for corporate bonds overall, and returning over 2% for high yield bonds.

In the US, the AI momentum continued which, alongside robust economic data, led the FTSE USA to double digit returns so far this year. There's also been a broadening of returns, and large differences in performance of the 'Magnificent Seven', which collectively contributed so much to returns last year.

Japan was the other standout performer. If it weren't for a weakening Yen, returns would've been higher still. The irony is that the Bank of Japan finally ended their negative interest rate policy, moving to a 0-0.1% window, slightly reducing their interest rate differential with other regions.

After a tough start to the year, several support measures and a change of tone from China gave the emerging markets a boost. Still lagging developed markets, but positive nonetheless. Whether there'll be more significant intervention to strengthen markets remains to be seen. Economic data has been steady recently, and sentiment appears to be turning. However, issues with the property sector will likely continue to be a strong headwind.

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.

	Q1	YTD	1 Year	3 Year	5 Year
Risk Grade 1	0.29	0.29	3.51	-3.07	0.63
IA Standard Money Market	**1.29**	**1.29**	**5.18**	**7.42**	**8.43**
Risk Grade 2	0.96	0.96	4.79	-4.10	1.92
Risk Grade 3	1.74	1.74	6.14	-1.12	8.90
Risk Grade 4	2.54	2.54	7.50	1.52	15.12
IA Mixed Investment 0-35% Shares	**1.50**	**1.50**	**5.85**	**-0.64**	**7.48**
Risk Grade 5	2.90	2.90	7.93	3.17	20.44
Risk Grade 6	3.54	3.54	8.81	4.54	25.81
IA Mixed Investment 20-60% Shares	**2.49**	**2.49**	**7.71**	**5.34**	**17.16**
Risk Grade 7	3.84	3.84	9.16	5.71	29.72
Risk Grade 8	4.29	4.29	9.67	7.49	34.20
IA Mixed Investment 40-85% Shares	**4.17**	**4.17**	**10.16**	**10.65**	**28.73**
Risk Grade 9	4.89	4.89	10.35	9.41	39.39
Risk Grade 10	5.57	5.57	11.28	12.35	45.35
IA Flexible Investment	**4.48**	**4.48**	**10.08**	**10.88**	**31.49**

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	4.44	-8.41	-0.24	3.14	3.39
IA Standard Money Market	**4.74**	**1.28**	**-0.05**	**0.43**	**0.73**
Risk Grade 2	5.72	-13.19	2.24	3.55	6.66
Risk Grade 3	6.54	-13.98	4.83	4.93	10.74
Risk Grade 4	7.31	-14.59	6.79	6.47	13.45
IA Mixed Investment 0-35% Shares	**5.97**	**-10.87**	**2.84**	**3.90**	**8.70**
Risk Grade 5	7.42	-14.63	8.77	7.75	15.57
Risk Grade 6	7.68	-14.87	10.18	9.18	17.93
IA Mixed Investment 20-60% Shares	**6.81**	**-9.47**	**7.20**	**3.51**	**11.84**
Risk Grade 7	7.76	-14.88	11.62	9.89	19.65
Risk Grade 8	7.91	-14.40	12.83	10.59	20.87
IA Mixed Investment 40-85% Shares	**8.08**	**-10.04**	**10.94**	**5.32**	**15.78**
Risk Grade 9	8.07	-14.03	13.85	11.87	22.21
Risk Grade 10	8.47	-13.35	15.43	12.56	23.03
IA Flexible Investment	**7.08**	**-8.98**	**11.30**	**6.70**	**15.66**

What worked and what didn't?

Positive sentiment translated into strong absolute returns across the Risk Grades in Q1, led by equities and corporate bonds. Though the rise in bond yields did mean some underperformance in government bonds.

On a relative basis, the majority of Risk Grades outperformed their respective IA sectors, although Risk Grades 1, 2 and 7 underperformed.

This is a similar story over a 12-month period, while over 3 years there is still some underperformance which is mainly attributed to the underperformance experienced in 2022. On a 5-year basis however the majority of risk grades are outperforming, other than risk grades 1 and 2. This is reflected in the discrete numbers, whereby the majority of underperformance can be seen within the 2022 period, while performance across the other calendar years is much stronger.

Asset classes

Within fixed income, Corporate Bonds delivered strong performance over the quarter - both on an absolute basis as credit spreads tightened, and a relative one versus the benchmark. This has mainly been driven by positive credit selection.

Global Equities delivered strong absolute performance given its overweight to the US market, although it did underperform its benchmark slightly.

Our equity exposures were all positive over the quarter, led by Global Equity with is exposure to the US market. However, in relative terms they were slightly behind their respective indices.

Government Bonds detracted, as rising bond yields translated into negative absolute and relative performance in both Gilts and Global Index Linked Bonds.

Similarly, within Diversified Alternatives, rising bond yields contributed to the negative performance over the quarter, which primarily affected the infrastructure exposures.

Manager selection

The main source of relative outperformance came from our Corporate Bond funds, where all three holdings outperformed over this period. Rathbone Ethical Bond was the standout performer. The fund has been dynamic in managing its duration position, as well as benefitting from strong credit selection, especially in its financial exposures.

While UK Equities underperformed slightly, Royal London Sustainable Leaders outperformed the index given its more core approach in addition to its technology exposures. Similarly, Global Equities marginally underperformed, however Federated Hermes Global Equity ESG outperformed given its more core approach.

Within Emerging Markets, Polar Capital Emerging Markets Stars delivered strong performance mainly due to stock selection, as well as exposures to Taiwan and Korea.

Our Global Equity funds all delivered returns over 8% in the 3 months, mainly driven by the rally in US equities. Federated Hermes Global Equity ESG was the lead performer, however Janus Henderson also delivered strong performance given its US and technology exposures (including Nvidia). It marginally underperformed the index, however, as it's still underweight technology versus the benchmark.

Allianz Gilt Yield underperformed its benchmark over the quarter, given its overweight duration positioning in a rising yield environment.

Within Diversified Alternatives, the main contributor to underperformance came from VT Gravis Clean Energy Income. The fund was impacted by rising gilt yields affecting the value of the cash flows in the underlying infrastructure investments. However, we do maintain a positive outlook for that sector over the long term given structural tailwinds.

Fund changes

Sell	Increase
EdenTree Responsible & Sustainable Sterling Bond	**Remaining funds**

Within Sterling Corporate Bonds, we sold the EdenTree Responsible and Sustainable Sterling Bond fund. The proceeds were consolidated into the three remaining holdings. This improved the 'Best Fit' nature of the asset class, and the long term risk adjusted return prospects.

Sell	Increase
CT Responsible UK Equity	**Remaining funds**

Our allocation to UK Equities has gradually reduced over time and we felt four funds weren't needed. So we sold the CT Responsible UK Equity fund and the proceeds were consolidated into the three remaining funds. This means we're placing higher conviction in these funds, and risk adjusted returns for the asset class should improve.

Sell	Increase
Federated Hermes Short-Term Sterling Prime	**Remaining funds**

Within Diversified Alternatives, we temporarily held the Federated Hermes Short Term Sterling Prime fund as a proxy cash holding after selling out of Property. After further analysis we felt comfortable with the existing holdings and reinvested the cash across the remaining funds in the asset class.

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
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 (%)	0.22	0.39	0.47	0.54	0.61	0.66	0.71	0.75	0.79	0.82
Yield (%)	4.48	3.67	3.29	2.93	2.56	2.20	1.93	1.61	1.20	0.80

A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	2.93	3.73	3.22	-0.92	-9.91	-9.91
IA Standard Money Market	**0.18**	**0.67**	**0.59**	**0.00**	**-0.08**	**-0.10**
Risk Grade 2	5.37	6.73	5.85	-2.59	-15.31	-15.31
Risk Grade 3	6.22	7.79	7.11	-3.30	-16.13	-16.13
Risk Grade 4	6.98	8.74	8.33	-3.87	-17.15	-17.15
IA Mixed Investment 0-35 Shares	**5.55**	**6.10**	**6.47**	**-2.69**	**-13.28**	**-13.28**
Risk Grade 5	7.49	9.18	9.19	-4.20	-17.23	-17.23
Risk Grade 6	7.84	9.61	10.12	-4.74	-17.49	-17.49
IA Mixed Investment 20-60 Shares	**6.34**	**6.97**	**8.42**	**-3.30**	**-12.14**	**-12.89**
Risk Grade 7	8.24	10.01	10.78	-5.21	-17.48	-17.48
Risk Grade 8	8.65	10.32	11.37	-5.71	-16.81	-16.81
IA Mixed Investment 40-85 Shares	**7.30**	**8.36**	**10.25**	**-4.39**	**-12.54**	**-15.41**
Risk Grade 9	9.05	10.70	12.09	-6.16	-16.59	-16.59
Risk Grade 10	9.51	11.18	12.73	-6.53	-16.21	-16.50
IA Flexible Investment	**7.03**	**8.04**	**10.13**	**-4.31**	**-11.20**	**-15.53**

Voting and engagement

Over the quarter, our Ethical Oversight Committee met to discuss their ongoing fund due diligence reviews and to assess the ethical/sustainable credentials of new funds being considered for the portfolios.

Committee members also had a detailed discussion around SDR and what it might mean for our own ethical mandates. Members of our investment team spent a day in London speaking to Ninety-One's sustainability specialists and portfolio managers on topics across ESG data integration, regulation, and their UK market outlook. They also caught up with the head of Responsible Investing at Columbia Threadneedle for an update on the team's expansion post BMO-merger and their extensive thematic engagement work.

Voting

In Q4 2023 the equity managers in the portfolio cast **1,396** votes across **109** 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	89%
Against	9%
Abstain	2%

Fund manager engagement spotlight

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

Since 2021, Stewart Investors have been leading a collaborative engagement effort to tackle the use of conflict-minerals in the semiconductor supply chain. This quarter Stewart engaged with 21 electronic and industrial companies on mineral traceability and successfully lobbied the Responsible Minerals Initiative (RMI), an influential trade body, to allow investors to become members. Stewart believes this membership will help investors develop a deeper understanding of mineral supply chains. Going forward, their focus is to establish an investor working group on the issue and encourage responsible certifications from suppliers.

Janus Henderson (Global Sustainable Equity Fund, Risk Grades 2-10)

Janus Henderson also engaged with ASML (Dutch semiconductor company) on ESG reporting, to help better understand how the company is preparing for increased EU regulatory reporting standards. Janus Henderson were pleased to see that ASML continue to be first movers in this regard and plan to report above the basic regulatory baseline. And while issues remain on Diversity and Inclusion reporting, given the Dutch government forbids the collection of data on ethnicity, this is expected to change in 2025.

Please note: Stewardship activity is reported with a lag, so comments refer to the previous quarter. In this case, Q4 2023.

Industry exposure

This table compares the exposure of Strategic Ethical Active Profile A Risk Grade 6 with an equivalent benchmark. Data sourced from Morningstar as of **31st March 2024**.

Industry	Ethical Active A Risk Grade 6	Benchmark*
Adult Entertainment	0.00	0.00
Alcohol	0.19	1.36
Animal Testing	13.82	17.83
Abortive/Contraceptives/Stem Cell	7.09	8.45
Controversial Weapons	0.21	1.55
Fur & Speciality Leather	0.00	0.00
Gambling	0.00	0.28
GMO	0.00	0.09
Military Contracting	0.11	2.35
Nuclear	0.53	1.08
Palm Oil	0.00	0.03
Pesticides	0.02	0.18
Small Arms	0.00	0.97
Thermal Coal	0.03	1.09
Tobacco	0.00	1.04

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.

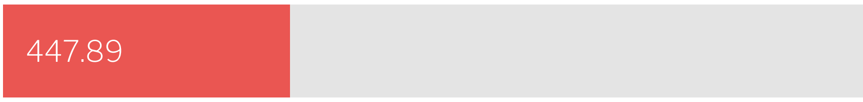
Carbon metrics

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

% below benchmark

Carbon footprint

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

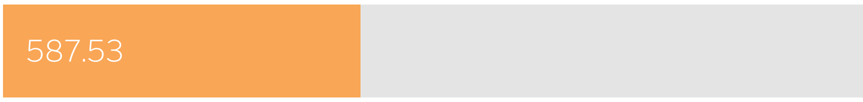


▼ 50.03%

Portfolio Benchmark

Weighted average carbon intensity

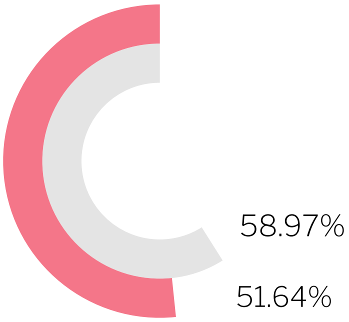
Tonnes of Scope 1, 2 and 3 CO_2 emission per £1m revenue



▼ 29.07%

Portfolio Benchmark

Data coverage



▼ 12.43%

Portfolio Benchmark

About this data

Based on the latest available data from Morningstar as of 31st March 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.

What's the outlook?

After such a strong start to the year, it's easy to get carried away. The narrative of a shallow (or avoided) recession and gradually reducing interest rates is a favourable one. So, whilst its likelihood has certainly increased - it isn't without risk.

Holding government bonds at a 4% yield offers an attractive way to hedge against this. If there's an equity market sell-off, we believe they'll provide positive performance to support client portfolios.

Inflation continues to fall in line with expectations, boosting both real wages across developed markets and the chances of rate cuts from around the middle of the year. The Bank of England have given the clearest guidance that they won't be waiting for inflation to hit 2% before making their move.

Small cap and emerging market equities offer investors access to strong potential returns at an attractive entry point. The same is true for UK equities, with many companies buying back shares in a sign that current price levels appear too low.

Time in the market continues to be a strong mantra to follow. The potential outcomes are wide, from avoiding a recession to a rate hike induced, delayed but deep recession (or anything in between). Predicting the near-term direction of markets is particularly hard in this environment, but backing the market over the long term is never in question.

Important information

- This document is 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 Profile A solution,
please get in touch.

Phone:
03300 945 900

Email:
mail@parmenion.co.uk

Parmenion
Investment Management

Registered office: Aurora, Counterslip, Bristol BS1 6BX.

Website: www.parmenion.co.uk