

# Strategic Active

Quarterly Update, Q1 2025



**Harry Garrett**  
Head of Investment

## The big picture: Macro and Markets

### In a nutshell

- **Trump causes confusion and contempt with tariff policy**

Aiming to bring production to the US, a chaotic list of tariffs has been announced, altered, threatened and inconsistently implemented.

- **Rotation away from US equities**

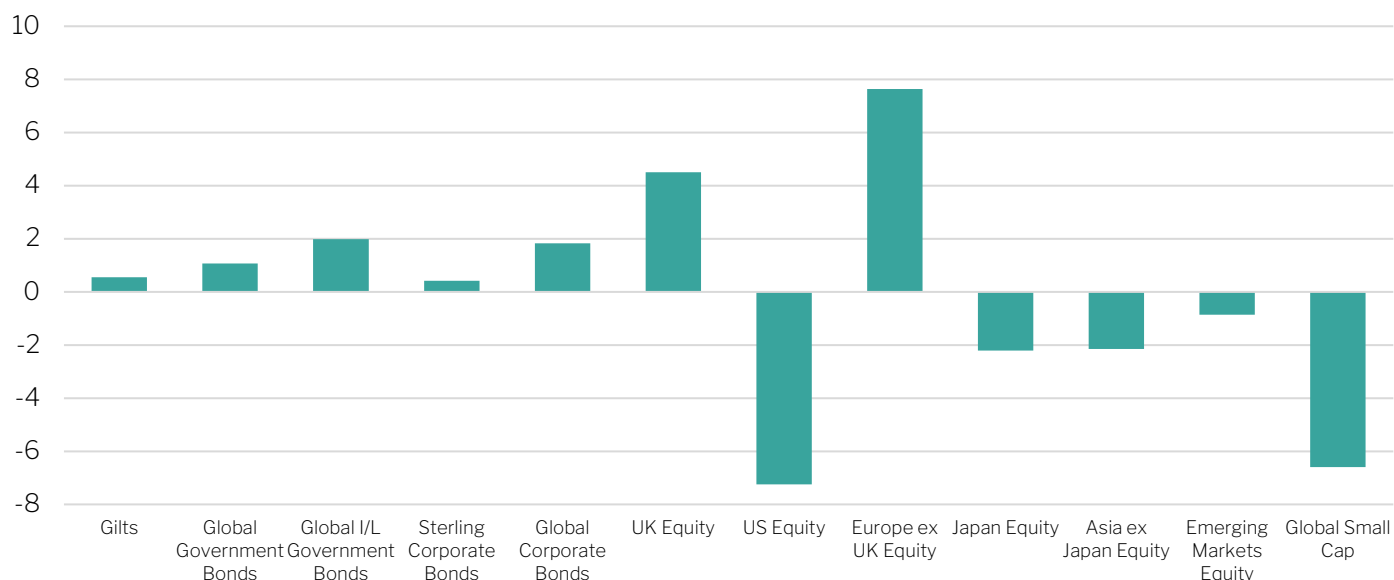
From leader to laggard: the US equity market has had a remarkable reversal of fortunes this year. Instead, investors are now looking to Europe.

- **Central banks continue to cautiously cut rates**

Expectations for interest rate cuts have cooled somewhat. The trajectory is still downwards – albeit at a slower pace as inflation persists.

# What's been happening in Q1?

## Asset class returns (Q1 2025)



The first quarter of 2025 has seen one of the biggest relative underperformances from the US in recent history. After such a strong couple of years, the magnitude of the reversal is quite astounding - especially given the initial euphoria following Trump's election victory.

Billed as pro-growth, anti-regulation and "good for business", so far markets haven't played out quite as expected since Trump took office. US equities - backed by an already superior economic growth trajectory - were expected to continue leading, with small caps set to benefit from tax cuts and domestic policy support, and cryptocurrency expected to gain legitimacy and integration. Instead, shorting the "Trump trade" would've been the better play, with pretty much the opposite occurring.

Why? Constant backtracking and policy U-turns have created major uncertainty. Much of what's been announced so far doesn't just hurt America's trading partners - it also damages the US, too. Ironically, Trump's hard stance, particularly on defence spending, has galvanised other nations. Germany has amended its rules around debt and is now pursuing fiscal expansion - spurring sentiment and returns for European equities, with money flowing into the region from the US.

Another blow to hit the US market - heavily weighted towards tech and AI - was the emergence of DeepSeek, a Chinese AI model built at a fraction of the cost of peers and using lower grade chips. Serving as a wakeup call for US tech firms in the race for AI dominance, it's raised a familiar question about massive spending and limited payback.

While Chinese tech has shown clear progress, the wider economy is yet to demonstrate clear sustainable improvement. However, Xi Jinping's recent meetings with private sector business leaders signal clear support for both economic growth and stock market performance.

Central banks continued to reduce rates in Q1, continuing the journey that began in 2024. Easing monetary policy to support growth is being balanced against the risk of fanning inflation and hurting households - none of which is made any easier by the constant and unpredictable tariff back-and-forth.

# 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	1.07	1.07	3.97	5.88	6.43
<b>IA Standard Money Market</b>	<b>1.16</b>	<b>1.16</b>	<b>5.07</b>	<b>12.93</b>	<b>13.21</b>
Risk Grade 2	0.44	0.44	2.94	3.07	9.39
Risk Grade 3	-0.03	-0.03	2.66	4.60	14.93
Risk Grade 4	-0.46	-0.46	2.45	7.65	25.90
<b>IA Mixed Investment 0-35% Shares</b>	<b>0.44</b>	<b>0.44</b>	<b>3.33</b>	<b>2.87</b>	<b>15.08</b>
Risk Grade 5	-0.84	-0.84	2.31	7.67	31.63
Risk Grade 6	-1.23	-1.23	2.15	8.12	38.12
<b>IA Mixed Investment 20-60% Shares</b>	<b>0.21</b>	<b>0.21</b>	<b>3.71</b>	<b>6.35</b>	<b>30.92</b>
Risk Grade 7	-1.52	-1.52	2.03	8.38	46.69
Risk Grade 8	-1.93	-1.93	1.88	8.14	53.81
<b>IA Mixed Investment 40-85% Shares</b>	<b>-1.21</b>	<b>-1.21</b>	<b>3.35</b>	<b>8.67</b>	<b>44.58</b>
Risk Grade 9	-2.47	-2.47	1.51	7.45	55.68
Risk Grade 10	-3.07	-3.07	1.03	5.39	61.04
<b>IA Flexible Investment</b>	<b>-1.67</b>	<b>-1.67</b>	<b>2.98</b>	<b>8.80</b>	<b>47.42</b>

## Discrete Annual Performance (%)

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


	2024	2023	2022	2021	2020
Risk Grade 1	3.58	4.86	-4.61	-0.14	1.78
<b>IA Standard Money Market</b>	<b>5.21</b>	<b>4.74</b>	<b>1.28</b>	<b>-0.05</b>	<b>0.43</b>
Risk Grade 2	3.74	6.38	-9.80	2.27	4.38
Risk Grade 3	4.63	7.34	-9.95	3.83	4.73
Risk Grade 4	5.57	8.22	-8.00	7.24	3.39
<b>IA Mixed Investment 0-35% Shares</b>	<b>4.42</b>	<b>5.97</b>	<b>-10.87</b>	<b>2.84</b>	<b>3.90</b>
Risk Grade 5	6.13	7.85	-7.76	9.47	3.68
Risk Grade 6	6.95	7.94	-7.93	11.31	4.78
<b>IA Mixed Investment 20-60% Shares</b>	<b>6.07</b>	<b>6.81</b>	<b>-9.47</b>	<b>7.20</b>	<b>3.51</b>
Risk Grade 7	7.39	7.68	-7.40	13.98	5.20
Risk Grade 8	7.99	7.29	-7.35	15.97	6.75
<b>IA Mixed Investment 40-85% Shares</b>	<b>8.98</b>	<b>8.08</b>	<b>-10.04</b>	<b>10.94</b>	<b>5.32</b>
Risk Grade 9	8.68	7.09	-8.24	16.35	7.99
Risk Grade 10	9.32	7.13	-11.10	17.01	12.96
<b>IA Flexible Investment</b>	<b>9.42</b>	<b>7.08</b>	<b>-8.98</b>	<b>11.30</b>	<b>6.70</b>

# What worked and what didn't?


A tough start to the year for portfolios. Equities underperformed Bonds and this led to higher risk models underperforming lower risk models. Longer-term performance is still positive, however, with models following the sequential alignment as you would expect.

Most models underperformed their benchmark over the quarter, with a slightly higher equity content acting as a headwind through a volatile period for markets. However, for most risk grades, performance relative to benchmark remains favourable over three and five years. The last few years have been tough for fully active portfolios, through a period of strong momentum which has benefitted passive, index tracking products.


## Asset classes



Europe ex-UK returned nearly 8% over the quarter, comfortably outperforming all other asset classes. After a tough 2024, this marks a strong reversal for a region where many investors previously saw only bad news. While economic growth is still expected to be low and the threat of US tariffs remains, there are catalysts for improvement. Key among these is German fiscal policy, with a shift in government attitude towards debt – and being less reliant on the US – creating scope to boost spending.



Overall, it was a solid quarter for Fixed Interest. Both Government and Corporate Bonds delivered positive returns, helping to offset losses in the equity space. Alongside consistent income generation, this remains a key reason for using Fixed Interest within a multi-asset portfolio. With yields still high and interest rates unlikely to fall by much this year, we believe the asset class is well placed to continue performing.



After a stellar couple of years, US equities have lagged behind other markets so far this year – particularly when compared to Europe. A weakening dollar has played a part in this, contributing around 3% of the 7% loss. The solution is positioned underweight to the region which helped minimise some of the losses for clients.

Global Smaller Companies, which the US makes up around 70%, have also struggled this year. Portfolios have been positioned overweight, based on good valuations and US domestic support through tax cuts and deregulation. This hasn't played out yet, but we believe this thesis still holds, and therefore continue to hold the position.

## Manager selection

Morant Wright Nippon Yield has kept up its strong performance into 2025, beating the market by 5% in Q1 and delivering an impressive 35% return over the last three years. The fund focuses on smaller, more domestically orientated companies, which have been less affected by the new US tariffs. Plus, a number of companies in the portfolio raised their dividends, giving overall returns a nice boost.

Lazard Emerging Markets also had a strong start to 2025, outperforming the MSCI Emerging Markets benchmark in Q1. January was a standout month, with the fund's underweight allocation to India (in line with its value focused approach), strong stock picks in India and Taiwan, and positive selections across sectors like financials, industrials, information technology and materials.

The Janus Henderson Absolute Return fund roughly matched cash performance this quarter. The fund's net long exposure worked in its favour, especially as markets performed strongly early in the quarter. The long positions in financials and healthcare sectors added value, with the financials sector benefitting from the "high-for-longer" yield narrative. However, the short positions slightly dragged on returns.

In fixed income, while the Blackrock Corporate Bond Fund only managed to eke out a small positive return on an absolute basis, but did outperform its benchmark. This was thanks to strong security selection, with the fund maintaining its defensive overweights in utilities and financials while gradually lowering its long duration position.

Liontrust Special Situations started the quarter reasonably well, but fell back amid broader market concerns, ending down almost 5%. Large-cap outperformance, especially among the banking sector, worked against the fund, with the FTSE All Share outperforming it by 9% over the quarter. Renishaw and Kainos were hit hardest, due to cyclical weakness in many of their industrial markets.

Premier Miton European Opportunities underperformed this quarter. The market saw a strong rally, led by aerospace and defence companies boosted by plans for European re-armament, along with solid performances from banks and utilities. However, the fund has limited exposure to these sectors, and is designed to provide exposure to smaller, faster growing companies, particularly in technology and healthcare – areas that were out of favour over the past three months.

## Fund changes

### Strategic Asset Allocation Amendments

Whilst Japanese equity was once seen as a low risk, low return asset class, structural reforms have increased both risk and return in recent years, and we expect this trend to continue. As a result, we decided to increase exposure at middle to higher risk grades. Given the overlap of Emerging Market and Asia Pacific ex-Japan equity exposure, we reduced the latter at middle to higher risk grades to improve diversification.

Similarly, to enhance diversification at lower to middle risk grades we trimmed our relatively large allocations to UK equity and added to developed market exposure. In particular we've aligned UK equity and US equity exposure at risk grades up to and including Risk Grade 6.

### Share class conversions (various funds)

We converted to cheaper share classes in a number of funds, with the aim of reducing charges for clients. Working with a range of fund management groups, our scale and strength of relationships have enabled us to negotiate and secure access to share classes with lower charges.

## 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	6.75	11.75	16.50	17.75	20.00	21.00	22.00	20.00	18.00
US Equity	0.00	6.75	11.75	16.50	17.75	20.00	21.25	22.75	26.00	30.00
Europe ex UK Equity	0.00	2.00	3.50	5.25	5.75	6.25	6.75	7.00	8.00	9.00
Japan Equity	0.00	2.00	3.00	4.25	4.50	5.00	5.25	5.75	6.50	7.00
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	0.75	1.25	1.75	2.50	3.25	4.00
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 (%)	0.25	0.40	0.47	0.53	0.59	0.63	0.66	0.69	0.70	0.71
Yield (%)	4.31	3.44	3.06	2.73	2.46	2.24	2.07	1.91	1.68	1.45

## A view on risk

	Volatility (%)			Max Drawdown (%)		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Risk Grade 1	1.40	2.79	2.26	-0.42	-4.29	-5.57
<b>IA Standard Money Market</b>	<b>0.12</b>	<b>0.47</b>	<b>0.67</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.10</b>
Risk Grade 2	3.27	5.53	4.76	-1.04	-8.78	-11.52
Risk Grade 3	4.23	6.46	5.65	-1.81	-9.25	-12.28
Risk Grade 4	5.18	7.14	6.51	-2.74	-8.41	-10.98
<b>IA Mixed Investment 0-35 Shares</b>	<b>3.54</b>	<b>6.00</b>	<b>5.63</b>	<b>-1.31</b>	<b>-9.51</b>	<b>-13.28</b>
Risk Grade 5	5.54	7.54	7.11	-3.34	-8.32	-10.85
Risk Grade 6	6.04	7.95	7.77	-4.02	-8.51	-11.17
<b>IA Mixed Investment 20-60 Shares</b>	<b>4.21</b>	<b>6.74</b>	<b>6.85</b>	<b>-2.13</b>	<b>-9.09</b>	<b>-12.14</b>
Risk Grade 7	6.37	8.25	8.55	-4.49	-8.20	-10.68
Risk Grade 8	6.78	8.58	9.24	-5.11	-8.10	-10.54
<b>IA Mixed Investment 40-85 Shares</b>	<b>6.03</b>	<b>7.92</b>	<b>8.51</b>	<b>-4.38</b>	<b>-9.20</b>	<b>-12.54</b>
Risk Grade 9	7.34	9.05	9.84	-5.87	-8.60	-11.40
Risk Grade 10	8.07	9.89	11.17	-6.70	-10.66	-14.45
<b>IA Flexible Investment</b>	<b>6.44</b>	<b>7.64</b>	<b>8.39</b>	<b>-5.06</b>	<b>-7.86</b>	<b>-11.20</b>

## What's the outlook?

There's been a big shift in the global world order. The US is turning increasingly inward, while structural changes in Europe's fiscal policies are raising the prospect of faster long-term growth and improved productivity.

For investors, this opens up opportunity – but as always, execution is everything. Markets will have their twists and turns. Staying disciplined and nimble is vital, as is maintaining diversification and avoiding crowded trades.

Switch off from the political noise, keep your focus on the long-term and the power of compounding will help you progress towards your financial goals.

## 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 Active 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](http://www.parmenion.co.uk)

Parmenion Investment Management is a trading name of Parmenion Capital Partners LLP, which is authorised and regulated by the Financial Conduct Authority. FCA Number 462085.

Registered in England and Wales OC322243.