# Quarter Two Review

Your guide to the markets and the Ethical Portfolios

Investment solutions to suit all risk profiles

ProfessionalAdviser
PA AWARDS 2024
FINALIST
Best Discretionary Fund Manager

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PA AWARDS 2023
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Best Discretionary Fund Manager

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PA AWARDS 2022
FINALIST
Best Discretionary Fund Manager

Professional Adviser
AWARDS 2021
FINALIST
Best Model Portfolio Service

INVESTMENT WEEK
SPECIALIST INVESTMENT AWARDS 2020
WINNER
Best Specialist Multi-Asset Group of the Year

money marketing AWARDS 19
WINNER
BEST DISCRETIONARY FUND MANAGER

# Contents

## Our ethical range of model portfolios

Our Ethical Model Portfolio range is designed to do two things: to provide you with a good return and, equally important, to ensure your money is invested taking into account ethical considerations.

When a client chooses to take an ethical investment approach, it is essential to have a clear mandate, so that investors can understand how you are managing this increasingly more complex area of investing. There is no silver bullet for Ethical investing, with many different, and often conflicting, approaches and styles.

In order to deliver both an appropriate risk adjusted return, and a portfolio that delivers good outcomes, it is important not to be pigeon-holed into one single investment style within the ethical arena.

We have an extremely thorough due diligence process for our ethical funds, which is the same rigorous process for all of our investment solutions. In addition, we want to ensure that the funds, the fund managers, and the fund groups are all committed to ethical investing and not simply providing a green rhetoric to take advantage of a growing trend. Greenwashing will not be tolerated.

Within the Ethical range of model portfolios, we manage three risk profiles, Cautious, Balanced and Growth. These are constructed to follow the Strategic Asset Allocation (SAA), for their given risk profile. The SAA is regularly assessed and formally reviewed at least every five years where changes are made if relevant and appropriate.

The Ethical products are a distinct offering which means the composition may differ from our non-Ethical mandates.  The same level of care, due diligence and research is conducted across all of our product offering.

The Ethical mandates are mostly likely to differ versus a non-Ethical mandate within the regional equity allocation or the sub-asset classes within Fixed Income. The Ethical mandates are constructed to have all of the underlying investment managers signed up to the Principles for Responsible Investing (PRI), so that the portfolio can be mapped across to the UN's Social Development Goals (UN SDG's). There are many markets where this is difficult to achieve such as in emerging markets, where there may be more reliance on old heavy industry and fossil fuels and questions over labour rights. It becomes very difficult to marry the PRI's principles to these regions at their current point in the development cycle, but this may change with time.

From a sector perspective there could also be differences between non-ethical products such as areas like tobacco, fossil fuels and industries that are seen as heavy polluters, all of which could be excluded. In summary, asset allocation at the strategic level will match a non-ethical mandate, but the regional and sector positions could possibly differ, potentially leading to differences in the risk and return profile of the Ethical mandates compared to non-ethical mandates.

It is important that you understand the structural constraints that investing ethically can have.  Whereas the Ethical Model Portfolio will be suitably and appropriately diversified, there will be geographical areas of investment that are excluded, and certain sectors could have higher concentrations.  On a comparative basis, this may mean having a lower level of diversification than a non-ethical portfolio.

Our process, shown as a step diagram, is on the following page.

**Strategic Asset Allocation**

Our long-term view on which all our investment solutions are based upon. These are adjusted to consider that certain asset classes do not currently have any suitable ethical investment choices.

**Tactical Asset Allocation**

Our current views on which asset classes offer the best returns and which are challenged in the short term. Due to the nature of ethical investing, it is not always possible to replicate the precise allocations, as certain asset classes will be unavailable to us.

**Portfolio Construction**

Building the Ethical model portfolios, covering risk profiles 1 through to 9. Where certain asset classes are unavailable, we increase those that are; while this may not fully replicate our Tactical Asset Allocation, the broad equity content will be the same.

**Ethical Research**

We want fund groups to be signed up to the UN's Principles for Responsible Investment, and their funds mapped across to the UN's Sustainable Development Goals.

**Fund Research**

Researching the very best funds within all the sectors that offer ethical propositions and adhere to our criteria above. We aim for an unconstrained approach to ethical investing, looking to blend ESG, sustainability, stewardship, and exclusion styles.

## What we are aiming to achieve

As we have already identified, there is no clear description or style for investing ethically and for each individual investor, the term means something different and personal. What we endeavour to achieve through our Ethical Model Portfolios, is to provide investors with two key answers:

- Is my investment being managed with an ethical mandate?
- What good is my investment doing for the world?

The Investment Association's Responsible Investment Definitions are excellent in helping you to understand what is meant by different methods of ethical investing.

### Stewardship

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Examples of stewardship would include setting clear expectations, oversight of assets, engaging with issuers and voting.

### ESG Integration

ESG Integration is the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions. Examples of ESG integration include statement of commitment and firm-wide policies.

### Exclusions

Exclusions prohibit certain investments from a firm, fund, or portfolio. These may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of sector, business activity, products, or revenue stream, as well as company or jurisdictions. Examples of exclusion include ethical, value-based, or religious exclusions.

### Sustainability Focus

Sustainability Focus is an investment approach that selects and includes investments based on their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcomes. Examples of sustainability focus include sustainability themed, positive tilts and best in class.

### Impact Investing

Impact Investing covers investments made with the intention to generate positive, measurable, social, and environmental impact, alongside a financial return. Examples of Impact Investing include social bond funds and private impact investing.

We have always built appropriately diversified portfolios, utilising all asset classes available and including differing investment styles. Our ethical proposition is no different. We have built three portfolios using the same guidelines and, included an additional layer which is known as Ethical Diversification.

This quarterly review will deliver those two objectives.  The first part will look at how we have delivered the return within the level of risk that you have taken; this will include commentary on the current economic and market conditions.  The second part will look at how your money is being used to do good; including a description of the UN's Sustainable Development Goals, and how these relate to the underlying investments within the Ethical model portfolio range.  We will include relevant news pieces relating specifically to ethical investing, as well as case studies of some of the underlying companies that you are indirectly invested with.

This will show you that the Ethical model portfolio range delivers on our two core objectives: providing you with a good return and in turn, ensuring your money is invested taking into account ethical considerations.

# Performance summary

Below is an overview of how each Model Portfolio has performed over the last quarter, one year, three years, five years, since launch and it's annualised return.

We also provide details of how a typical cash account and the FTSE 100 Index have performed so you can compare your Portfolio's performance against these common alternative forms of investment.

| | | QTR | 1YR | 3YR | 5YR | LAUNCH | ANNUALISED |
|---|---|---|---|---|---|---|---|
| Ethical Cautious | Portfolio | 0.6% | 7.9% | -2.1% | 12.6% | 33.8% | 3.2% |
| Ethical Balanced | Portfolio | 0.9% | 9.7% | 0.4% | 21.1% | 53.5% | 4.8% |
| Ethical Growth | Portfolio | 1.5% | 12.5% | 4.5% | 32.0% | 74.7% | 6.3% |
| CPI | | 0.7% | 1.8% | 20.3% | 24.1% | 74.1% | 2.9% |
| IA Mixed Investment 20-60% | | 1.1% | 9.4% | 2.8% | 15.2% | 129.2% | 4.3% |
| IA Mixed Investment 40-85% | | 1.7% | 11.8% | 7.2% | 25.6% | 216.6% | 6.0% |
| IA Flexible Investment | | 1.7% | 11.8% | 7.3% | 28.6% | 229.4% | 6.3% |
| Cash - FE Interest 0.5% | | 0.1% | 0.5% | 1.5% | 2.5% | 10.3% | 0.5% |
| Inflation UK Retail Price | | 0.9% | 2.7% | 27.1% | 33.4% | 104.9% | 3.7% |
| FTSE 100 Index | | 3.7% | 12.8% | 30.2% | 32.4% | 265.1% | 6.8% |

The Investment Association (IA) monitors around 4,000 funds in the UK and are classified to the IA sectors. The sectors provide a way to divide these funds into broad groups, so investors and advisers can compare funds in one or more sectors.

UK CPI is for Risk Profiles 01 to 03, IA Mixed Investment 20-60% Shares is for Risk Profile 04 to 06, IA Mixed Investment 40-85% Shares is for Risk Profiles 07 to 09 and IA Flexible Investment is for Risk Profile 10.

Comparators for clients to use against three key levels of comparison: cash, inflation and the core UK stock market.

Notes: Due to rounding, relative performance may not correspond exactly with its constituent components above.

# Performance commentary



## Market

Equity markets recorded robust returns between April and June, following on from a strong first quarter. The MSCI All Country World Index of global equities was up +2.9% in GBP terms, however there was a large degree of variety between the global equity markets in which we are invested. Similar to the first quarter of this year, the US equity market recorded strong returns of +4.2% in GBP terms, but again this rally was led by an increasingly narrow set of already expensive technology related names. The Momentum and Growth styles dominated returns again, and despite the strong returns mentioned by the market cap weighted S&P 500 index above, the equally-weighted index of the same set of equities was actually down -2.7% for the quarter, illustrating the extraordinary narrowness of the rally.

After a strong first quarter, Japanese Equities were weak in Q2. The local market return was up +1.8% in Japanese Yen, but ongoing weakness in the currency translated this into a -4.3% return for GBP investors. Global Emerging Market Equities did however rebound over the quarter and returned +5.0% in GBP terms as measured by the MSCI Emerging Market Index. This was boosted by a revival of the Chinese market which was up +7.1%.

Fixed Income returns were less exciting over the quarter, with the Bloomberg Global Aggregate Index of high quality global bonds returning just +0.1% in GBP hedged terms. Global government bond yields broadly did a round-trip over the quarter before ending close to flat as markets awaited further evidence that the disinflationary trends were robust. Lower quality, high yield bonds returned +1.3% for the quarter, but are now trading close to historically expensive levels. Chinese government bonds continued to provide excellent diversification and rallied +2.7% for the quarter as economic growth there remained weak

## Equities

Our Tactical Asset Allocation in equities was flat for the quarter as the strong performance from our overweight to the UK equity market was offset by our overweight to Japanese markets which struggled over the quarter due to weakness in the Yen. Our underweight to Continental European markets was flat in terms of impact for the quarter.

In the context of the diverse equity market returns highlighted previously, the managers who outperformed in this environment were also highly variable. Our US large-cap growth exposures, in the form of the Alliance Bernstein American Fund and Loomis Sayles US Equity Leaders outperformed as the continued strong performance of a narrow set of names in this space drove overall market returns. In the Far East, the Nikko Japan Value Fund and the Baillie Gifford Pacific Fund also generated modest outperformance while operating very different investment styles.

A clear underperformance was observable over the quarter from equity strategies which focused further down the market cap spectrum, given the extraordinary outperformance of a narrow set of large cap names relative to everything else. These included managers such as the Pzena Global Value Fund, the Neuberger Berman US Small Cap Intrinsic Value Fund and the Baillie Gifford Global Discovery Fund. While their returns were eclipsed by large cap names, the absolute returns of these managers were only moderately negative over the quarter and we continue to think they offer compelling and diversified sources of future returns.

## Fixed Income

Within the Fund's fixed income component, the stand-out performer this month was our exposure to Chinese Government Bonds via the UBS China Bond Fund. This returned +2.3% as the Chinese economy continues to be weak. The Chinese economy faces multiple challenges as consumer balance sheets remain impaired from the recent property market crash, and it has been unable to export its way to prosperity as it has in the past. Coupled with this, demographics continue to deteriorate as the working age population shrinks. Chinese government bonds have proven to be a fantastic diversifier vs traditional developed market government bonds. Other successful managers within Fixed Income over the quarter include the MAN GLG High Yield Opportunities Fund which is run by Mike Scott. While we have reduced exposure to this Fund as the asset class has become rather expensive, Mike has continued to generate steady outperformance from his idiosyncratic security selection.

One component of Fixed Income which underperformed over the quarter was the Eaton Vance Local Emerging Market Debt Fund, which invests in the government bonds of emerging and frontier economies which are denominated in that country's currency (rather than, for example the US Dollar). This was driven by a weakening in EM currencies in June. The Fund is managed by a very experienced team with a long record of strong outperformance, and is generating a yield of over 14.5% for a portfolio which is 50% investment grade rated debt. We think this could be an excellent source of returns in years to come as it has been in the past.

## Property, Real Assets & Absolute Return

These "liquid diversifiers" within your portfolio are designed to generate positive returns while being unconnected to wider Equity or Fixed Income markets and hence provide maximum diversification without any illiquidity risks. Our equally weighted blend of three Absolute Return managers had another strong quarter, returning +2.2%. This was led by the Fulcrum Thematic Equity Market Neutral Fund which saw continued strong performance from their positioning around weight loss drug treatments as well as their global technology and "AI" exposures. The other components of our blend, namely the Pacific G10 Macro Rates Fund and the Sanlam Multi Strategy Fund also recorded decent returns of +2.2% and +1.6% respectively, allowing the blend to generate strong and steady returns from a variety of sources.

A manager from our Property & Real Assets asset class which was a slight drag on performance this quarter was the AQR Managed Futures Fund, which was down -0.9% following a very strong first quarter of 2024. We continue to really like the diverse sources of return this strategy provides, as it tends to capitalise on the propensity for markets to under-react to new information and the establishment of new trends.

## Key Portfolio Changes

### Sales

There were no new sales in Q2024.

### Buys

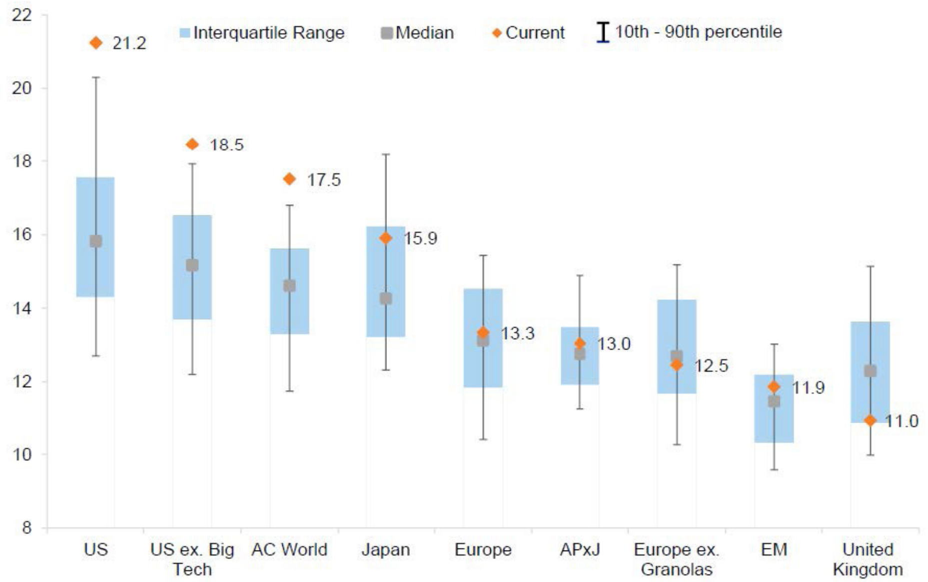
**Nomura Japan Sustainable Equity Core**

**Stewart Investors Global Emerging Markets Leaders**

## Market outlook

Certain global equity indices are trading at valuations that, by the standards of the last 20 years, are undoubtedly elevated. Investors are having to pay an unusually high price for every pound of profits that companies are expected to generate in the coming year, what's known as a forward Price/Earnings ratio. Currently this ratio is over 21x in the US, way above its long term average of 16x. This is being heavily influenced by an increasingly narrow group of big US technology companies, although even excluding those, overall US valuations are at the very top of their historical range (see below).

**12 Month Forward Price/Earnings Ratios – Last 20 Years (Source BNY Mellon)**




**Equities**

One market where this is certainly not the case is the UK equity market. At the overall index level you are only having to pay 11x forward earnings, almost half the price you pay for a pound of profits in the US. In addition, the UK equity index is also providing you with a dividend yield of around 4%, which is more than double that of the US market.

Based upon the exceptional investment opportunities available in the UK equity market today, we are tactically overweight to UK equities.

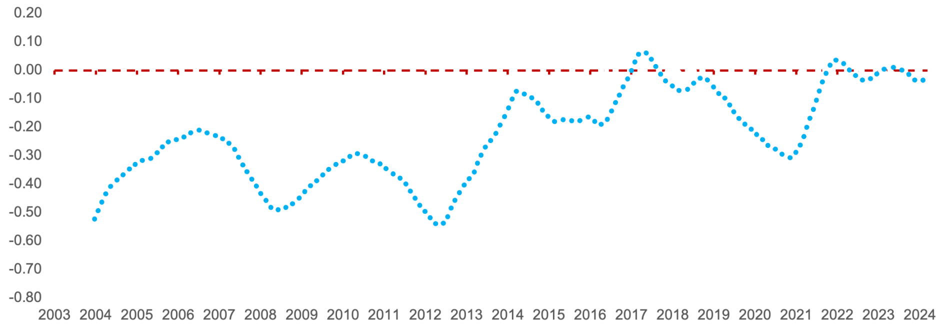
Although retail sentiment towards UK equities remains downbeat, corporates are starting to take advantage of this valuation discrepancy. Depressed share prices have prompted a surge in Mergers & Acquisitions in the UK with $77bn of deals announced this year to end May, compared with just $25bn for the whole of 2023 (Source: Polar/Numis).

That said, the largest buyer of UK equities in 2024 has actually been UK companies themselves, with a continuous stream of announced share buybacks. This is companies using their profits to buy their own undervalued shares, thereby increasing future Earnings (profit) Per Share for the remaining shareholders. Given share prices tend to follow earnings over time, this is a promising sign for future UK equity returns.

**The Role of Alternative Assets**

A characteristic of markets over recent years has been the increased correlation between global equity and bond markets. This effectively means they are increasingly moving in a similar direction. Over the preceding decades, investors had been used to bonds and equities exhibiting negative correlation, with bonds typically providing protection in the form of positive returns in times of equity market stress. However, as the chart below demonstrates, since 2021 the diversification benefits of holding bonds alongside equities has been much less reliable.

**12 Month Correlation of MSCI All Country World Index and Bloomberg Global Treasury Index (Source Refinitiv, YOU Asset Management)**




This is unlikely to be a permanent feature and is partly to do with the recent move to a higher interest rate regime. However, we are currently sitting at a point where both equity and bond markets are generally responding positively when there is more confidence that rates will be coming down, and both responding negatively when there is more fear that rates will have to stay higher for longer.

Within the Active Model Portfolio Service, not only do we diversify our fixed income component into other less correlated segments of global fixed income markets, we also do not solely rely on bonds to provide diversification versus equities. That is why from risk profile 01 to 09, we include further diversifying allocations to Absolute Return Strategies and within risk profile 01 to 08 to some more inflation-sensitive strategies within Property & Real Assets.

We have carefully selected three very differentiated Absolute Return Strategies in portfolios adopting strategies that are designed to provide an attractive positive return over time, and importantly, when the three managers are blended together, to deliver that return in a pattern that is not driven by the direction of equity or fixed income markets.

We also have an allocation to Property & Real Assets. These are funds that adopt strategies that have embedded within them some inflation sensitivity. Examples of this in the model portfolios include commodities, global listed infrastructure assets and a Trend Following strategy that has historically delivered positive returns when inflation has trended upwards, as it did very successfully in the most recent bout of inflation.

We consider these alternative and highly differentiated sources of return will continue to represent a valuable source of additional diversification alongside bonds in an ever uncertain macroeconomic environment.

# Inspired by our clients

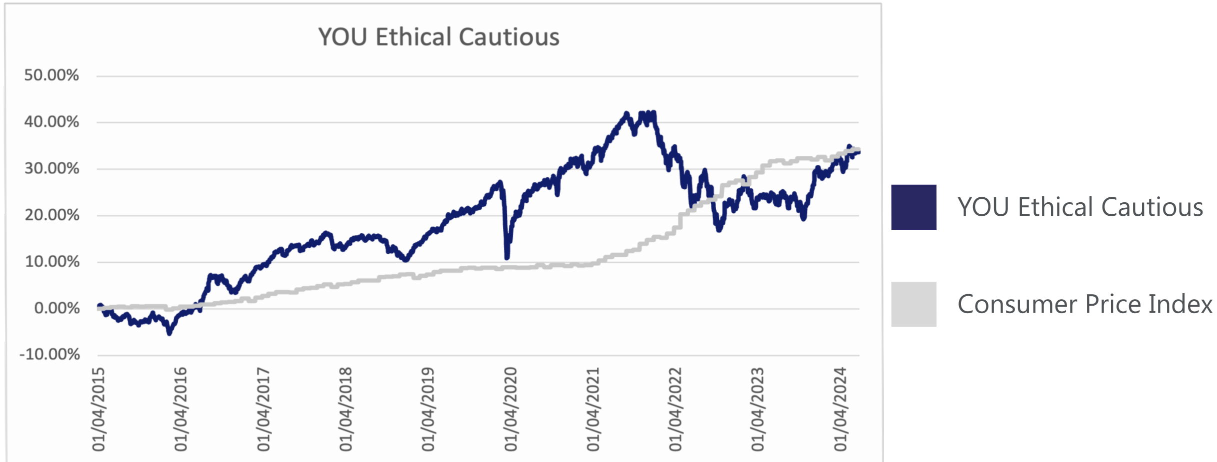
# Portfolio holdings

| Fund | Allocation |
|---|---|
| Cash | 5.0% |
| Cash | 5.0% |
| Fixed Income | 48.0% |
| JPM Global Bond Opportunities Sustainable | 18.0% |
| PIMCO Global Bond ESG | 15.0% |
| Robeco SAM Global SDG Credits IH | 15.0% |
| Property & Real Assets | 17.0% |
| Schroder Global Cities Real Estate | 8.5% |
| ClearBridge Global Infrastructure Income | 8.5% |
| UK Equity | 8.3% |
| Janus Henderson UK Responsible Income | 4.1% |
| Royal London Sustainable Leaders Trust | 4.2% |
| Europe Ex-UK Equity | 4.1% |
| River & Mercantile European | 4.1% |
| Japanese Equity | 5.4% |
| Nomura Japan Sustainable Equity Core | 5.4% |
| Global Emerging Market Equity | 5.5% |
| Stewart Investors Global Emerging Markets Leaders | 5.5% |
| Global Developed Market Equity | 6.7% |
| Brown Advisory Global Leaders Sustainable | 2.0% |
| Janus Henderson Global Sustainable Equity | 2.7% |
| Schroder Global Sustainable Value Equity | 2.0% |
| | 100% |

This Portfolio invests mainly in Cash and Fixed Interest and is suitable for investors who wish to protect their capital with a minimal amount of risk.

| | | QTR | 1YR | 3YR | 5YR | LAUNCH | ANNUALISED |
|---|---|---|---|---|---|---|---|
| Ethical Cautious | Portfolio | 0.6% | 7.9% | -2.1% | 12.6% | 33.8% | 3.2% |

YOU Ethical Cautious




| Asset Class | Strategic (%) | Tactical (%) |
|---|---|---|
| Cash | 5 | 5 |
| Fixed Income | 48 | 48 |
| Property & Real Assets | 17 | 17 |
| Absolute Return | - | - |
| UK Equity | 6.9 | 8.3 |
| US Equity | - | - |
| Europe ex-UK Equity | 6.2 | 4.1 |
| Japanese Equity | 4.7 | 5.4 |
| Global Emerging Market Equity | 5.5 | 5.5 |
| Global Developed Market Equity | 6.7 | 6.7 |

Ethical Balanced Portfolio

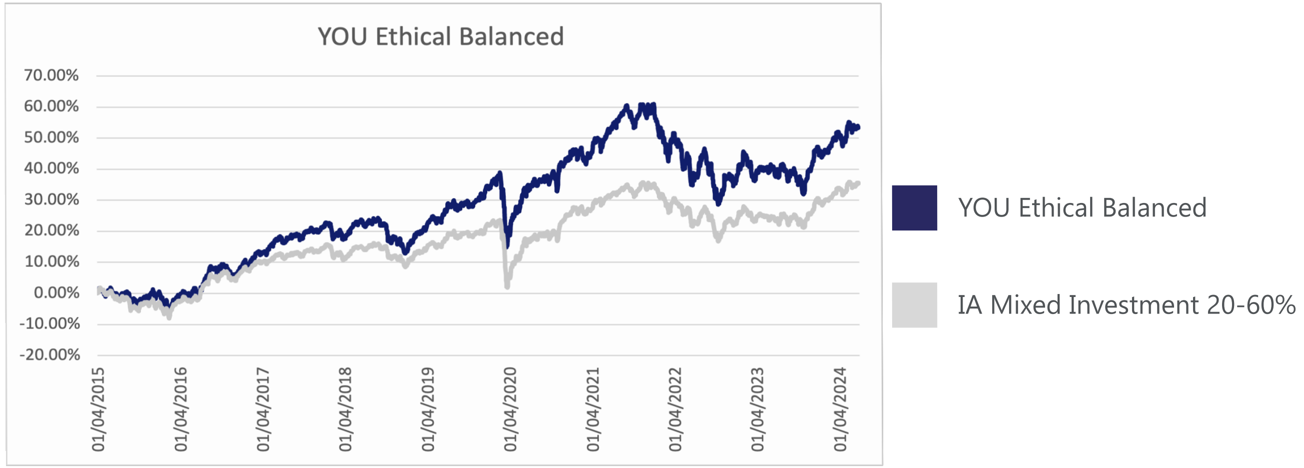
| Fund | Allocation |
|---|---|
| Cash | 2.0% |
| Cash | 2.0% |
| Fixed Income | 31% |
| JPM Global Bond Opportunities Sustainable | 7.0% |
| PIMCO Global Bond ESG | 12.0% |
| Robeco SAM Global SDG Credits IH | 12.0% |
| Property & Real Assets | 17.0% |
| Schroder Global Cities Real Estate | 8.5% |
| ClearBridge Global Infrastructure Income | 8.5% |
| UK Equity | 13.9% |
| Royal London Sustainable Leaders Trust | 7.0% |
| Janus Henderson UK Responsible Income | 6.9% |
| Europe Ex-UK Equity | 6.9% |
| River & Mercantile European | 6.9% |
| Japanese Equity | 9.0% |
| Nomura Japan Sustainable Equity Core | 9.0% |
| Global Emerging Market Equity | 9.1% |
| Stewart Investors Global Emerging Markets Leaders | 9.1% |
| Global Developed Market Equity | 11.1% |
| Janus Henderson Global Sustainable Equity | 4.4% |
| Brown Advisory Global Leaders Sustainable | 3.4% |
| Schroder Global Sustainable Value Equity | 3.3% |
| | 100% |

## Portfolio holdings

Invests in a moderate amount of Fixed Interest, with a greater proportion in Equities and Property. It is suitable for investors who wish to increase the chances of reasonable returns and still protect capital, if possible.

| | | QTR | 1YR | 3YR | 5YR | LAUNCH | ANNUALISED |
|---|---|---|---|---|---|---|---|
| Ethical Balanced | Portfolio | 0.9% | 9.7% | 0.4% | 21.1% | 53.5% | 4.8% |

YOU Ethical Balanced




| Asset Class | Strategic (%) | Tactical (%) |
|---|---|---|
| Cash | 2 | 2 |
| Fixed Income | 31 | 31 |
| Property & Real Assets | 17 | 17 |
| Absolute Return | - | - |
| UK Equity | 11.6 | 13.9 |
| US Equity | - | - |
| Europe ex-UK Equity | 10.3 | 6.9 |
| Japanese Equity | 7.9 | 9 |
| Global Emerging Market Equity | 9.1 | 9.1 |
| Global Developed Market Equity | 11.1 | 11.1 |

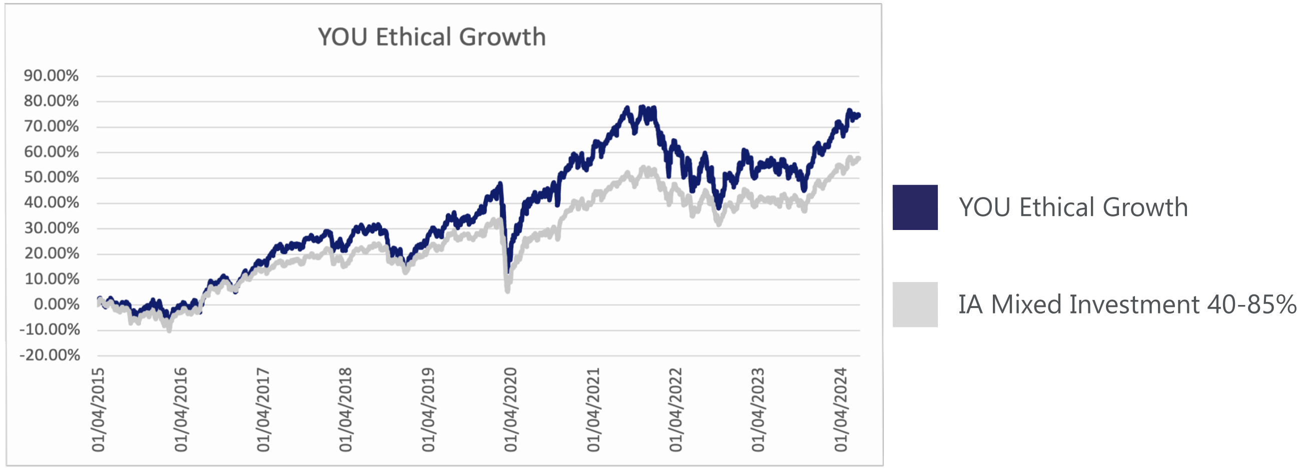
| Fund | Allocation |
|---|---|
| Cash | 2.0% |
| Cash | 2.0% |
| Fixed Income | 10.0% |
| PIMCO Global Bond ESG | 5.0% |
| Robeco SAM Global SDG Credits IH | 5.0% |
| Property & Real Assets | 8.0% |
| Schroder Global Cities Real Estate | 4.0% |
| ClearBridge Global Infrastructure Income | 4.0% |
| UK Equity | 22.2% |
| Royal London Sustainable Leaders Trust | 11.1% |
| Janus Henderson UK Responsible Income | 11.1% |
| Europe Ex-UK Equity | 11.0% |
| River & Mercantile European | 11.0% |
| Japanese Equity | 14.5% |
| Nomura Japan Sustainable Equity Core | 14.5% |
| Global Emerging Market Equity | 14.6% |
| Stewart Investors Global Emerging Markets Leaders | 14.6% |
| Global Developed Market Equity | 17.7% |
| Janus Henderson Global Sustainable Equity | 7.1% |
| Brown Advisory Global Leaders Sustainable | 5.3% |
| Schroder Global Sustainable Value Equity | 5.3% |
| | 100% |

# Portfolio holdings

This Portfolio invests mainly in Equities and some specialist Equities in order to obtain diversification. It is suitable for investors who are prepared to take some investment risk to improve long-term returns, where these are more important than capital protection.

| | | QTR | 1YR | 3YR | 5YR | LAUNCH | ANNUALISED |
|---|---|---|---|---|---|---|---|
| Ethical Growth | Portfolio | 1.5% | 12.5% | 4.5% | 32.0% | 74.7% | 6.3% |

## YOU Ethical Growth




| Asset Class | Strategic (%) | Tactical (%) |
|---|---|---|
| Cash | 2 | 2 |
| Fixed Income | 10 | 10 |
| Property & Real Assets | 8 | 8 |
| Absolute Return | - | - |
| UK Equity | 18.5 | 22.2 |
| US Equity | - | - |
| Europe ex-UK Equity | 16.4 | 11 |
| Japanese Equity | 12.7 | 14.5 |
| Global Emerging Market Equity | 14.6 | 14.6 |
| Global Developed Market Equity | 17.8 | 17.7 |

# Ethical Manager Changes

## Global Emerging Markets

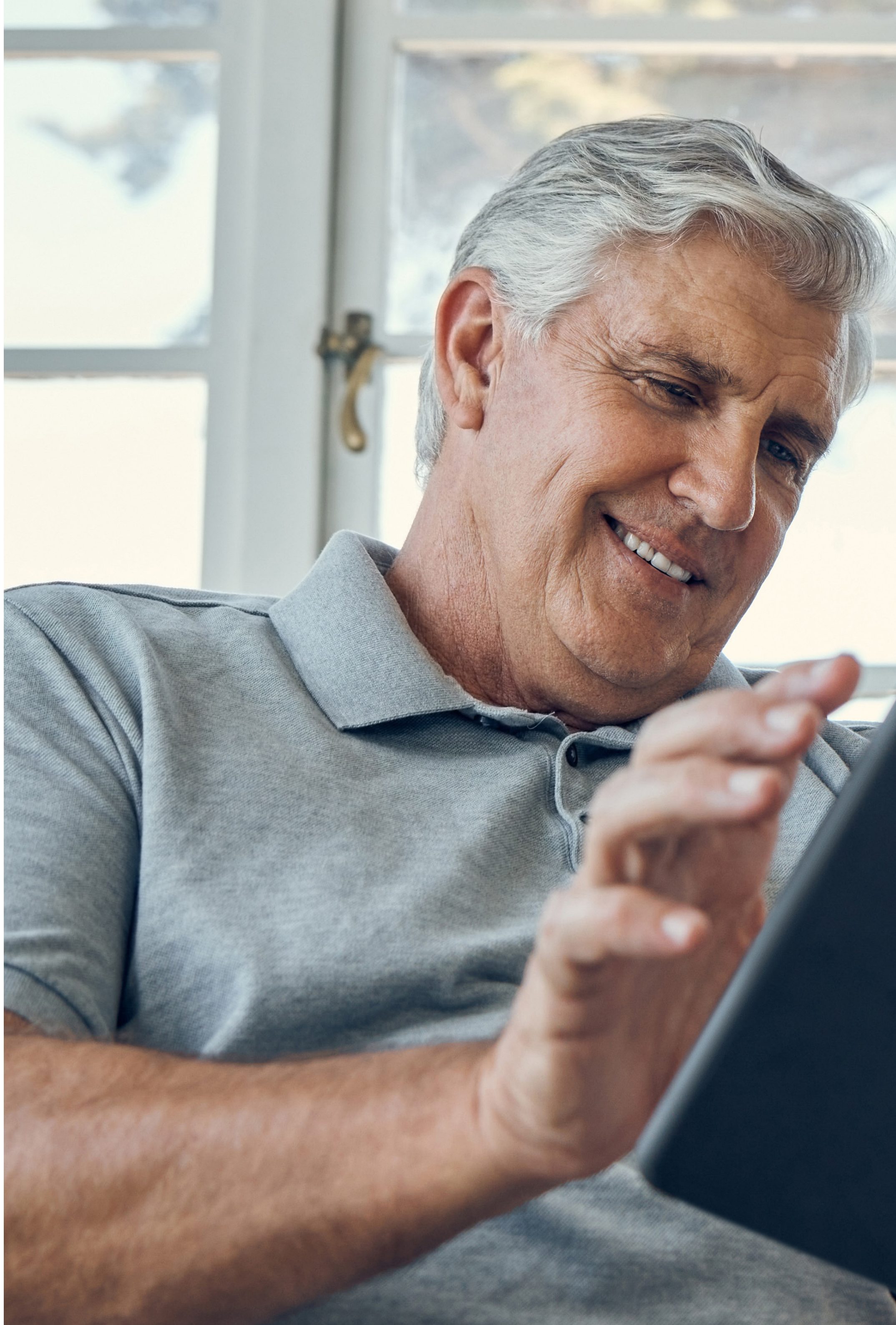
### Buying: Stewart Investors Global Emerging Markets Leaders

- Historically, we have not had an allocaion to the Global Emerging Markets asset class within Ethical MPS due to the limited availability of suitable products. Now, with the ability to allocate through Stewart Investors' fund, we can bring additional regional and currency diversification benefits to the portfolio.
- Both the fund and the firm boast robust sustainable credentials, and this has been core to their strategy for many years. The firm exclusively offers SFDR Article 9 funds, reflecting their commitment to sustainable investment objectives. Their philosophy centres on investing in companies that contribute to a more sustainable future.
- The fund emphasises a strong long-term and quality-focused approach, with a keen focus on capital preservation to mitigate downside risks.
- In the context of Emerging Markets, their sustainability-focused approach positions them to select higher-quality companies poised for long-term growth in a sustainable future. They undertake robust engagement with underlying companies which we believe to be crucial in Emerging Markets.

## Japanese Markets

### Buying: Nomura Asset Management Japan Sustainable Equity Core

- Historically, we have not had an allocation to Japanese Equities within Ethical MPS due to the limited availability of suitable products. Now, with the ability to allocate through Nomura's fund, we can bring additional regional and currency diversification benefits to the portfolio.
- There are few, if any, sustainable core funds available in the market, making Nomura's Sustainable Core Fund an attractive option and the strategy leverages the successful investment platform of Nomura's $8bn Active Core Strategy.
- The fund is SFDR Article 9, which means that the product embodies a strong commitmemnt to sustainability, and incorporates a thorough sustainability process. In addition, UN SDG evaluation is embedded into the process and reported on. The fund applies exclusions, including controversial weapons, fossil fuels, and tobacco, eleminating the most negative rated companies in the investment universe.



# Investment insights

## The importance of starting and staying invested

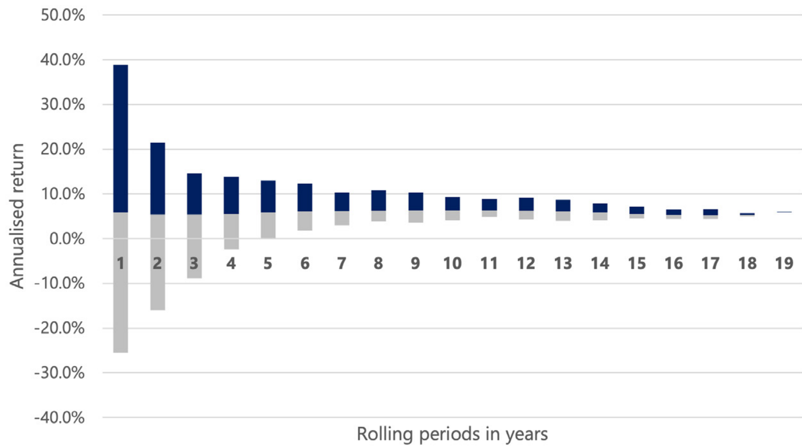
Staying invested is a crucial part of any successful investment strategy. Once you are on your investment journey the decision to stay invested can be easier, especially when you have confidence in your portfolio. Starting is often the biggest hurdle because it is human nature to try and 'time the markets' particularly when the current geopolitical noise is amplified by the media.

Last quarter we wrote about the extraordinary power of compound growth and although the growth may initially seem modest, the longer you stay invested the potential for greater returns increases. In order for investors to potentially benefit from this power of compound growth they have to start investing and the best time to start is now.

This is not because we think now is a perfect entry point for investors, but the sooner you can start the investment journey, the sooner you can benefit from compounding growth and longer-term returns.

**The key realisation is that as long as you are investing for the long-term, it does not necessarily matter what the returns in the first few years are.**

In the chart below we show the actual returns from our Active MPS portfolio that has 50% invested in equities; it is the equivalent of our Multi-Asset Blend Balanced Fund..




The track record goes back 19 years and shows the annualised returns that were delivered over the different rolling periods. The key learning point is the dispersion in the early years is significant. Looking at one year periods, the dispersion is large, ranging from almost +40% to -25%. This highlights the pitfalls of investing over short-term periods, where returns are highly volatile. For example, the worst one-year period was from end of March 2007 to end of March 2008. While the best one-year period was from end of April 2008 to end of April 2009, just a year after the worst.

However, the longer you invest for, the narrower the dispersions become. Over five year rolling periods you have had no negative outcomes; even if you did invest at the worst possible time in 2007 and stayed invested, five years later you were no longer under water.

Look forward ten years and the gap between the top and bottom is small, which leads us to the conclusion that it does not matter when you start investing, the key is to start and then stay invested. The longer you stay invested the closer you get to the average rolling returns, which is the point where the blue and grey bars meet; the average is also fairly consistent over all the rolling time periods. It is also important to ensure that you are appropriately invested in a global diversified, multi-asset investment strategy.

The longest rolling periods for actual performance is currently 19 years and we celebrate our 20th year of running clients' money in November 2024. This reminds us of the Chinese proverb that we believe encapsulates this particular investment insight:

> **"The best time to plant a tree was 20 years ago. The second best time is now."**

If you are currently invested, then stay invested. If you are not invested, then start now, and begin your journey to securing you best financial life.

**If there are any investment topics that you would like us to feature in this section of the Quarterly Report, we would love to hear from you at Marketing@YOU-Asset.co.uk**

# YOU Asset Management Team

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Investment Operations Associate

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## How is your money doing good?

We are focused on ensuring that you receive appropriately risk managed returns from your portfolio.  We are equally motivated in providing evidence that your money is being used for good. That is what our Ethical model portfolios are aiming to deliver: appropriate returns that are making the world a better place.

We have already shown how the Ethical model portfolios have performed over the past quarter, and over longer time periods.  This section is now dedicated on showing and educating you, how the Ethical model portfolios are invested to improve the world and its population.  We look to ensure that the underlying funds are signed up to the UN Principles for Responsible Investing (PRI) and that the underlying companies they invest in can be mapped across to the UN Sustainable Develop Goals (SDG).

### UN Principles for Responsible Investing

The six Principles for Responsible Investing (PRI) are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.  In signing up for the PRI, a fund group publicly commits to adopt and implement the Principles, and to align its investment activities with the broader interests of society.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

## UN Sustainable Development Goals

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. All of the 17 goals are connected, which means that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.

Through the pledge to Leave No One Behind, countries have committed to fast-track progress for those furthest behind first. That is why the SDGs are designed to bring the world to several life-changing 'zeros', including zero poverty, hunger, AIDS and discrimination against women and girls. Everyone is needed to reach these ambitious targets. The creativity, knowhow, technology, and financial resources from all of society is necessary to achieve the SDGs in every context. While fund groups can sign up to the PRI, they cannot sign up to the SDGs, as this is for countries. However, the companies which they invest will look to work towards these goals, as through these we can map across to the SGDs and show what good your money is being used for.

- 103 countries have agreed to integrate the SDGs into their national planning.
- Over 100 requests have been received from governments to enhance their Nationally Determined Contributions, which are at the heart of The Paris Agreement to reduce national emissions and adapt to climate change.
- Over 100 countries have agreed to support youth empowerment for sustainable development.


End poverty in all its forms everywhere.

Millions of people around the world lack the basic resources to enjoy a decent life. Goal 1 will make sure that everyone has access to food, shelter, clothing, healthcare, and education, so they can fully participate in society.


End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

While there is food available to feed everyone, so many people, including children, still do not have enough food to eat. Goal 2 focuses on addressing poor agricultural practices, food waste and environment degradation to ensure no one goes hungry.


Ensure healthy lives and promote well-being for all at all ages.

When people are in good health, societies prosper. While a lot has been done to reduce the impact of HIV/AIDS, malaria and other diseases in recent years, real progress can only be achieved when everyone, including women and children, have access to good healthcare.


Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Access to education can help lift people out of poverty, bring a deeper understanding of the world around us and provide better opportunities for everyone, including girls. This goal is all about ensuring everyone has access to learn no matter who they are or where they are.


Achieve gender equality and empower all women and girls.

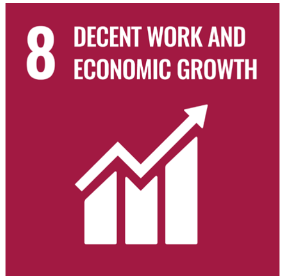
Women and girls still suffer discrimination and violence and that is half of the world's population. This goal is about achieving gender quality, through equal access to education, healthcare and decent work, can only benefit societies.


Ensure availability and sustainable management of water and sanitation for all.

There are billions of people all over the world without access to clean water and toilets, a human right that many of us take for granted. Water scarcity and inadequate sanitation has a huge cost, not least of all the number of people, especially children, that die from diseases every year.


Ensure access to affordable, reliable, sustainable, and modern energy for all.

We cannot only talk about providing affordable and reliable energy to the billions who still rely on wood and charcoal for cooking and heating. This goal also underscores the need for clean and renewable energy to help combat climate change.




Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all.

With global unemployment on the rise, we need to find ways to create more jobs that not only provide decent pay but stimulate the economy and provide equal opportunities for both men and women while protecting the environment.

## 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

In simple terms, this goal states that in order for a society to grow, it should encourage industries that bring opportunities to everyone while protecting the environment. These industries must also be supported by resilient infrastructure such as reliable transport as well as by technological innovation.

## 10 REDUCED INEQUALITIES

Reduce inequality within and among countries.

For real improvements in a society, everyone needs to have the access to opportunities that will let them grow as individuals. But this is not the case in many places where people face discrimination because of their gender, disability status, ethnic or racial group, or background. This goal seeks to make sure everyone everywhere has a chance to live a healthy and happy life.

## 11 SUSTAINABLE CITIES AND COMMUNITIES

Make cities and human settlements inclusive, safe, resilient, and sustainable.

Cities are lively hubs for ideas, commerce, culture, science, productivity and much more. But they face many challenges such as pollution, lack of basic services for many citizens, and declining infrastructure. Our cities and villages need to be clean and safe, with good housing and basic services like water and electricity. They also need clean transport systems and green areas that everyone can enjoy.

## 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns.

This goal wants to make us think twice about the things we use, the waste we create, and how that impacts our planet. Changing our behaviour towards more sustainable actions such as recycling really makes a difference when everyone, that includes individuals, companies, and governments, contributes. There are many little things you can do to achieve this goal.


Take urgent action to combat climate change and its impacts.

Our climate has always been changing, but in the past 200 years the changes have been more extreme because of human activity.  Climate change is now affecting every country on every continent and the poorest and most vulnerable people are being affect the most.  This goal is about finding solutions like renewable energy and clean technologies to fix climate change.  But it will take actions from governments, the private sector and civil society organisations to make a significant impact.


Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.

This goal is about protecting the oceans, seas, and all of its species, as they provide food, medicines, and biofuels, as well as jobs for millions of people.  Keeping oceans healthy also helps us address climate change.


Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

We are all part of the global ecosystem. This goal is about making sure that we stop all the things that threaten our global home.  This includes deforestation, land degradation, and loss of animal and plant species.


Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels.

Too many people experience war and violence.  This goal is about finding ways to make sure everyone lives in a peaceful society, where they can have access to justice, and do not have to live in fear.

## 17 PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

To make all the goals a reality will require the participation of everyone. That includes governments, the private sector, civil society organisations, and individual people. It is about joining forces and partnering, so the goals can be achieved faster.

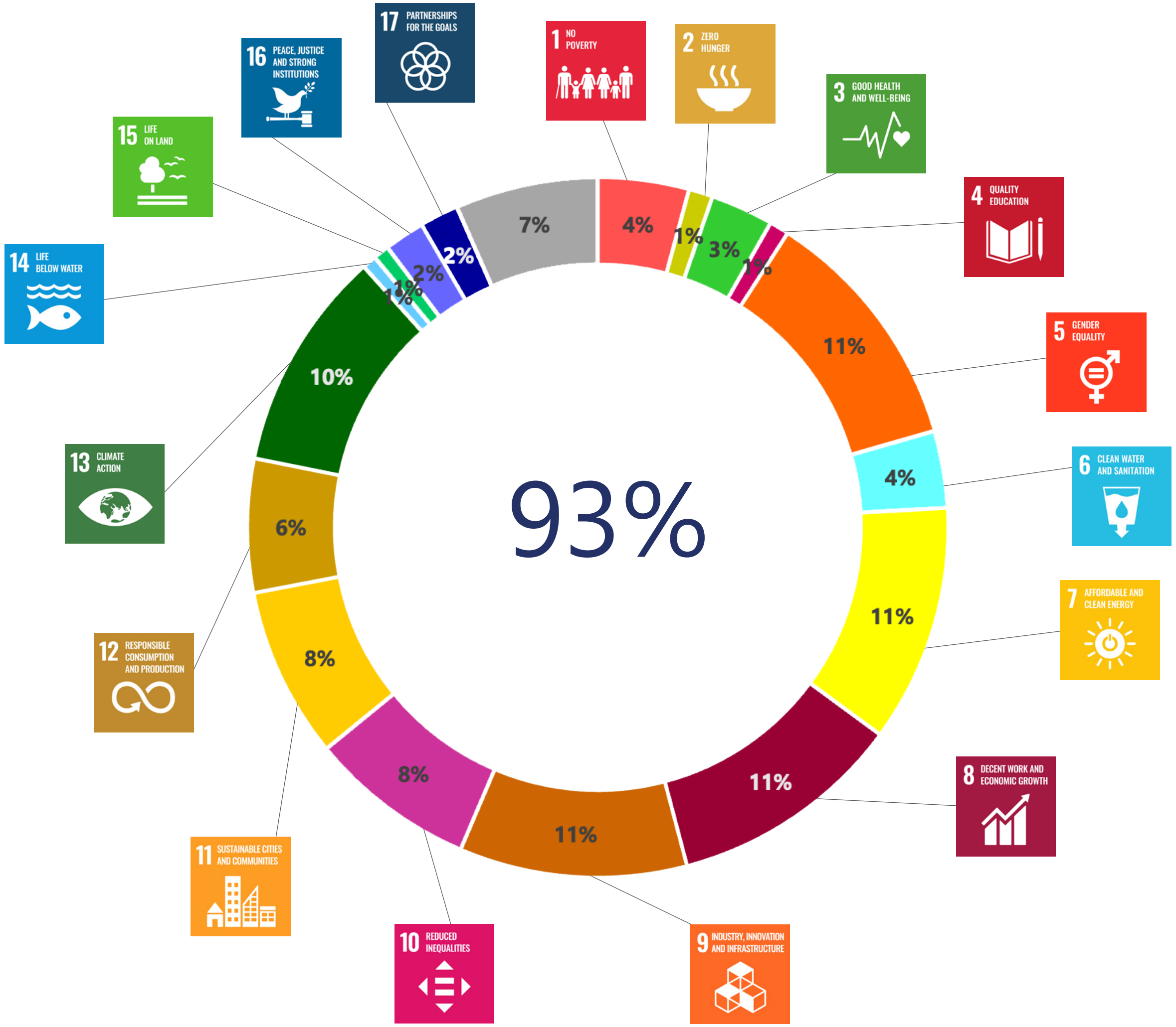
## Mapping across to the UN's Sustainable Development Goals – Ethical Cautious

Our cautious model portfolio within the Ethical range can be mapped across to the UN Sustainable Development Goals, through the underlying investments with the individual funds that make up the portfolio.

95% of the portfolio can be directly mapped to the 17 goals, as of 31st March 2024. This clearly shows how your money is being used for good and aligns with the future wellbeing of the planet and its inhabitants.

The portion of your portfolio that does not directly align to the UN Sustainable Development Goals is still being invested ethically, it just contains companies that do not directly align with one of the individual goals.

The mapping across to the UN Sustainable Development Goals will be updated at least every six months, or when significant changes are made to the underlying funds.



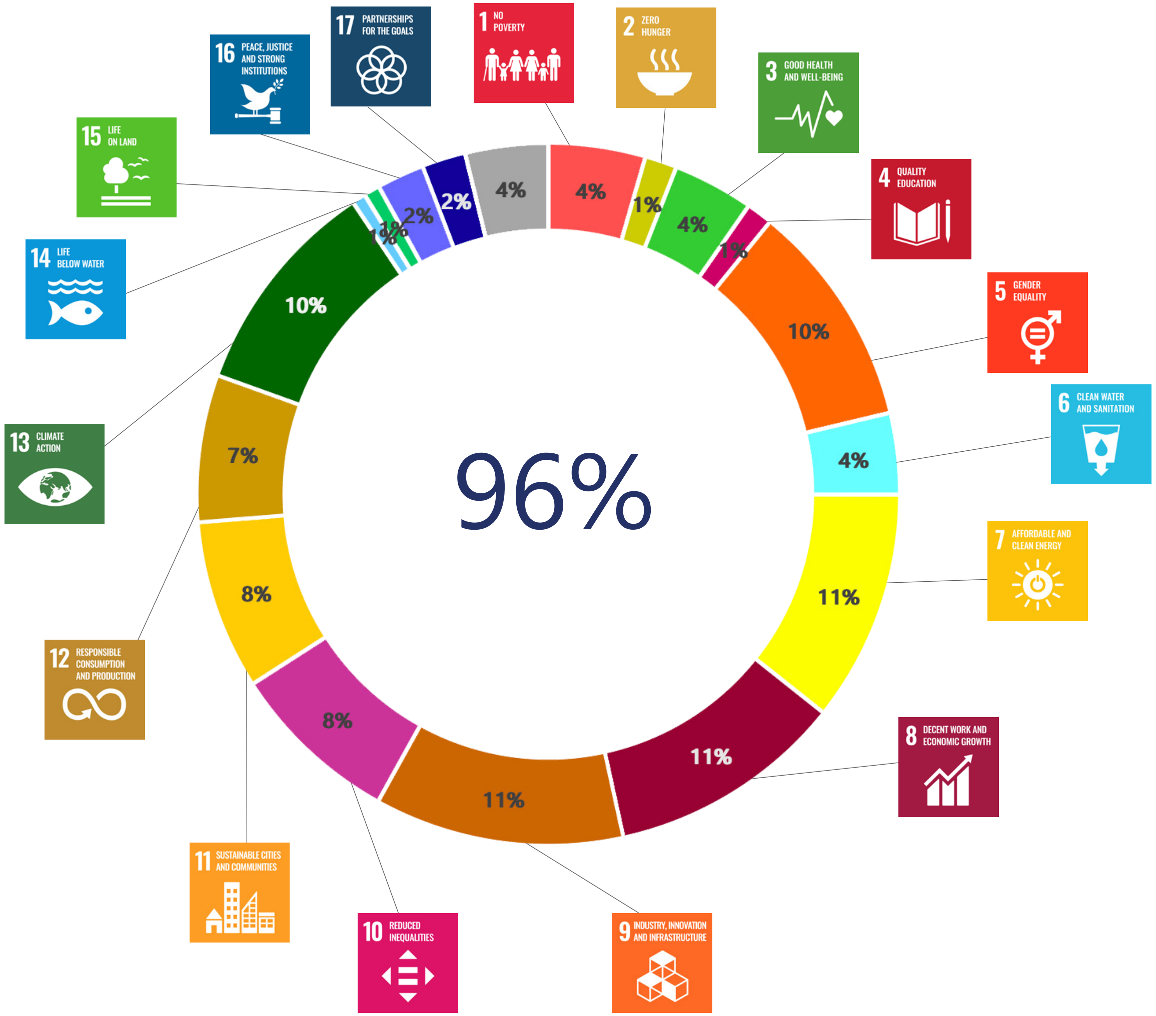
# Mapping across to the UN's Sustainable Development Goals – Ethical Balanced

Our balanced model portfolio within the Ethical range can be mapped across to the UN Sustainable Development Goals, through the underlying investments with the individual funds that make up the portfolio.

98% of the portfolio can be directly mapped to the 17 goals, as of 31st March 2024. This clearly shows how your money is being used for good and aligns with the future wellbeing of the planet and its inhabitants.

The portion of your portfolio that does not directly align to the UN Sustainable Development Goals is still being invested ethically, it just contains companies that do not directly align with one of the individual goals.

The mapping across to the UN Sustainable Development Goals will be updated at least every six months, or when significant changes are made to the underlying funds.



# Mapping across to the UN's Sustainable Development Goals – Ethical Growth

Our growth model portfolio within the Ethical range can be mapped across to the UN Sustainable Development Goals, through the underlying investments with the individual funds that make up the portfolio.

99% of the portfolio can be directly mapped to the 17 goals, as of 31st March 2024. This clearly shows how your money is being used for good and aligns with the future wellbeing of the planet and its inhabitants.

The portion of your portfolio that does not directly align to the UN Sustainable Development Goals is still being invested ethically, it just contains companies that do not directly align with one of the individual goals.

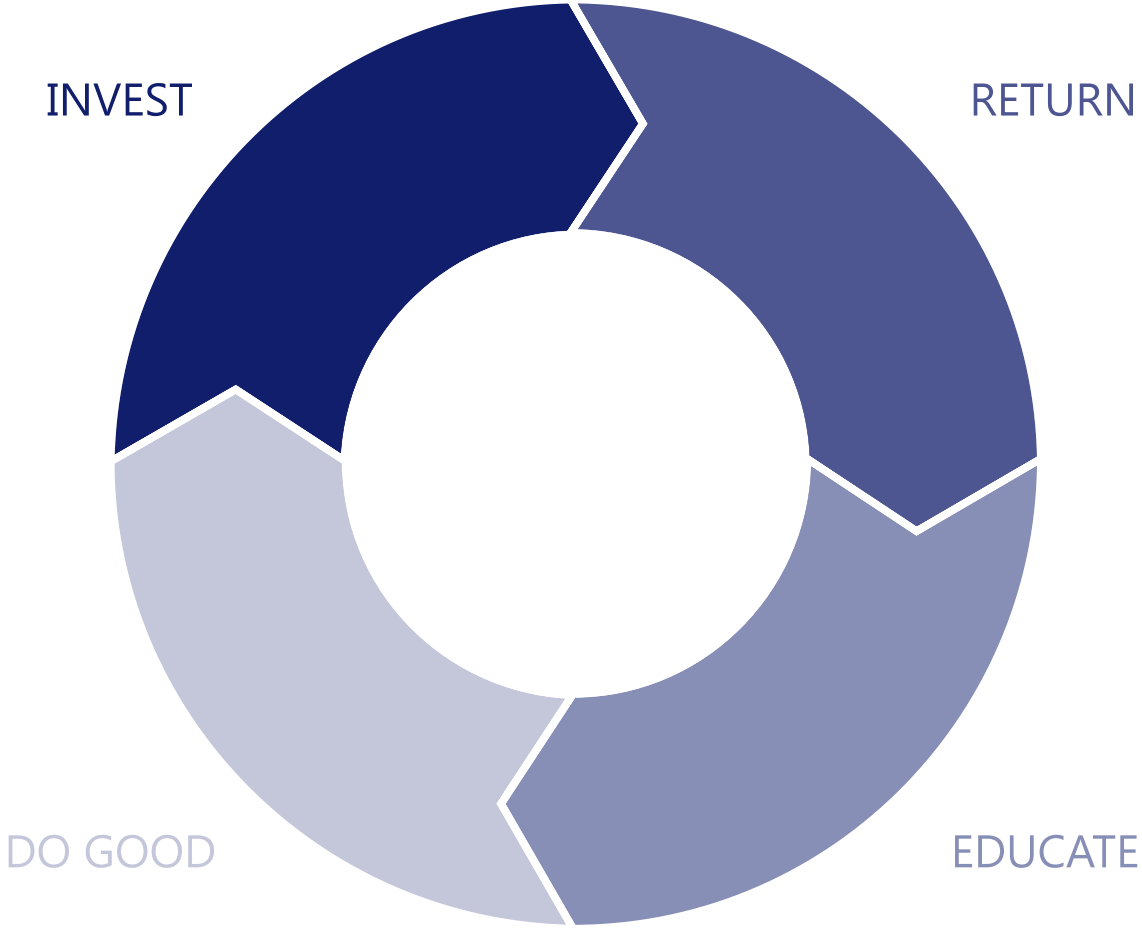
The mapping across to the UN Sustainable Development Goals will be updated at least every six months, or when significant changes are made to the underlying funds.

## Invest, return, educate and do good

Now that you understand the robust framework, we implement for our Ethical model portfolios and how the Cautious, Balanced and Growth will map across to the UN's Sustainable Development Goals, we will look at our regular educational part of the quarterly review. This is where we give you a closer look at the numbers behind the goals, the stories in the news and some of the companies that you may be invested with.

- Ethical issues in the news.
- Case studies of the some of the companies that you are invested in.
- The UN's Sustainable Development Goals in focus.

Our commitment to you, is to provide a suitable product for you to invest ethically, to provide an appropriate return for the level of risk being taken, to further educate you on the issues and news stories that could affect your investment and show how your money is doing good for the world.



## Ethical issues in the news

On 3 May, the High Court in London ruled the UK government's Carbon Budget Delivery Plan (CBDP) unlawful. This decision follows the government's attempt to update its net zero strategy, after the High Court previously found the 2021 strategy inadequate. The ruling deals a setback to the UK as it pursues its journey towards Net Zero.

The CBDP, set out on 30 March 2023, was intended to assist the UK in meeting its legally binding climate goals. It outlined proposals and policies aimed at staying within greenhouse gas (GHG) emissions limits through three five-yearly carbon budgets, up to 2037. Grant Shapps, the then Secretary of State for Energy Security and Net Zero, approved the plan under the Climate Change Act 2008.

However, critical deficiencies were identified in the plan. The CBDP's success relied on the full implementation of all proposed policies. Nevertheless, Mr Justice Shelton, the judge presiding, deemed this assumption unrealistic and found that the government had neglected to consider potential shortfalls or provide "risk tables" assessing the likelihood of success. Additionally, the plan was criticised as "vague and unquantified", relying excessively on future technologies.

In response to the ruling, the government must now devise a revised plan within 12 months. The updated plan must clearly outline how the UK intends to fulfil its legally binding carbon budgets and emissions reduction targets. Given the impending election, this responsibility will fall to the incoming government. It represents an opportunity for the new administration to demonstrate its commitment to achieving emissions targets in a logical, transparent, and evidence-based manner, thereby testing their dedication to addressing climate change.

This ruling highlights the critical role of the judicial system in holding the government accountable for its climate commitments. It ensures that ambitious targets are not only set but are also realistically achievable based on robust evidence and planning. As the UK charts its course towards a sustainable future, transparent and credible policymaking remains crucial. Time will reveal whether the new government, is up to the challenge.

The High Court's decision underscores the complex legal challenges facing the UK government as it strives to meet its carbon reduction commitments. Despite these hurdles, innovative solutions are emerging that could support the transition to a low-carbon economy. In June 2022, within the YOU Multi-Asset Blend Funds, we introduced the SparkChange Physical Carbon strategy, which invests in European Union Carbon Allowances (EUAs). This strategy involves purchasing physical EUAs, thereby directly removing them from the system and preventing their use by polluters, resulting in a direct positive environmental impact. The restriction in the supply of EUAs through physical purchase means that polluters must compete for a reduced supply, potentially driving up prices. This increase in cost makes it prohibitively expensive for polluters to use fossil fuels, incentivising a switch to clean energy.

## Companies that you are invested in: Zero Hunger

This quarter, our primary focus is on Goal 2 – Zero Hunger, one of the United Nations' Sustainable Development Goals (SDGs). We will examine several investments held within Ethical MPS that align with this goal and contribute to the targets of Zero Hunger.

Vitasoy is a Hong Kong-based multinational company known for its beverages and food products. Founded in 1940 by Dr. K.S. Lo, Vitasoy initially focused on providing affordable and nutritious soy milk to the local population. Over the years, the company has expanded its product range to include various plant-based beverages, tofu, and other food items. Vitasoy operates in multiple markets, with a strong presence in Asia, including Mainland China, Hong Kong, Macau, Australia, Singapore, and the Philippines, and has also extended its reach to North America and Europe.

The stock is part of the Stewart Investors Global Emerging Market Leaders Fund.

Vitasoy contributes to SDG 2 in several ways. Firstly, the company provides affordable, nutritious plant-based products. In 2022/23, 85% of their products met their high nutrition criteria, with a target to reach 90% by 2025/26. Vitasoy's Nutrition Criteria, developed in 2021 from established international health authority dietary guidelines, guides product development to expand their range of tasty and affordable plant-based offerings. These products are lower in saturated fats, salts, and sugars, and high in nutrients such as fibre, vitamins B2, B12, and D, protein, and calcium.

Their subsidiary, Vitaland Services, operates tuck shops in Hong Kong primary and secondary schools. They offer students healthier choices, including fresh fruits and various healthy snacks, and provide dietician support to create balanced menus. These educational initiatives help communities understand the importance of balanced diets and the role of plant-based foods in achieving this balance.

Vitasoy emphasises sustainable farming practices for sourcing its raw materials, such as non-GMO soybeans. This supports agricultural sustainability and helps maintain a stable food supply. Additionally, Vitasoy collaborates with various non-profit organisations and participates in food donation programmes to support underprivileged communities. These efforts aim to alleviate hunger and improve food security.

Description automatically generatedAhold Delhaize is a Dutch-Belgian food retail group and one of the world's largest food retail organisations. The company owns 21 local brands that operate 7,716 stores across 10 countries. Their brands are dedicated to helping customers eat well, save time, and live better. The company is held within Schroder's Global Sustainable Value Equity fund, forming part of your global equity allocation. Ahold Delhaize has a significant impact on their ability to contribute to SDG 2 as they are directly involved in the provision of food products to consumers, determining the cost, accessibility, and quality of the products they sell.

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Through their brands, Ahold Delhaize aims to make healthier eating commonplace by making fresh, nutritious, and delicious food available and affordable for all. Their local brands facilitate healthy eating through a broad range of products, including affordable nutritious choices, product recipes, support services, and transparent labelling. Engaging activities are also employed to make healthier food more appealing and enjoyable. Local brands run various initiatives to ensure customers have access to high-quality, nutritious products at affordable prices.

For example, at their Delhaize brand in Belgium, healthier choices are integrated into the customer loyalty programme, "SuperPlus". One benefit of SuperPlus is the Nutri-Boost programme, which gives customers who spend a minimum amount per month a 10% discount on fresh products such as vegetables, fruit, bread, and refrigerated items.

Over the past few years, inflation and supply chain shortages have pushed food prices up, and the lingering effects of higher food prices are still being felt today. Ahold Delhaize's local brands' longstanding commitment to building strong, long-term relationships with suppliers helps them keep shelves stocked even in challenging times. In addition, the local brands have been agile in expanding their high-quality own-brand products at affordable prices and have swiftly passed on price reductions where possible. One example of a brand keeping daily grocery shopping affordable is Delhaize Belgium, which continues to guarantee the purchasing power of customers through its Little Lions initiative. This initiative has put 1,000 basic own-brand products in the spotlight, highlighting their competitive prices.

## UN's Sustainable Development Goals in Focus – No.2 – Zero Hunger

Each quarter, we explore a different Sustainable Development Goal (SDG), examining its significant facts and figures and highlighting why it is a critical issue that affects us all. Goal 2 focuses on "Zero Hunger." Its primary objective is to end hunger, achieve food security, improve nutrition, and promote sustainable agriculture.

This goal highlights the necessity of addressing food insecurity, malnutrition, and the resilience and sustainability of food systems. It calls for the promotion of agricultural practices that boost productivity, protect ecosystems, and enhance the ability to withstand climate-related shocks and natural disasters.

The global issue of hunger and food insecurity has shown an alarming increase since 2015, exacerbated by factors such as the pandemic, conflict, climate change, and deepening inequalities. By 2022, approximately 735 million people – or 9.2% of the world's population – were in a state of chronic hunger, a significant rise from 2019. Furthermore, around 2.4 billion people faced moderate to severe food insecurity, meaning they lacked regular access to sufficient and nutritious food. This number represented an increase of 391 million people compared to 2019.

Combating hunger is closely interconnected with various other Sustainable Development Goals. Hunger and malnutrition remain substantial barriers to sustainable development, trapping individuals in a cycle of poverty and poor health. Malnourished individuals are less productive, more prone to disease, and often unable to improve their livelihoods. Achieving food security and proper nutrition leads to better health outcomes, increased educational opportunities, and higher economic productivity. By eliminating hunger, societies can realise their full potential, paving the way for a more equitable and prosperous world.

The persistent rise in hunger and food insecurity demands immediate attention and coordinated global efforts. If current trends continue, it is projected that over 600 million people will continue to face hunger in 2030, highlighting the immense challenge of ending hunger. Factors such as conflict, climate shocks, rising living costs, civil insecurity, and declining food production contribute to food scarcity and high food prices.

There are, however, positive developments. Initiatives to promote sustainable agriculture and enhance food systems have shown promising results. Investments in innovative agricultural practices, support for smallholder farmers, and expanded social protection programmes have been crucial in the fight against hunger. In 2022, global public expenditures reached $36 trillion, of which $749 billion went towards agriculture—an all-time high. Agriculture represented 2.1% of total government expenditure, reflecting a robust commitment to achieving zero hunger.

**Important information**

The Ethical Portfolios one to ten were launched in April 2015, and merged to form Ethical Cautious, Ethical Balance & Ethical Growth in January 2020, have their performance metrics updated to 31st June 2024, based on their composition as of 1st July 2024. It's crucial to understand that past performance does not predict future returns, and the value of investments can change, potentially resulting in not recovering the initial investment.

Investment performance is subject to fluctuations due to changes in currency rates and market conditions, especially for funds invested in international markets or different currencies. The Investment Asset Allocation Committee may adjust asset allocations in response to market evaluations, which could affect portfolio performance. Also, performance figures may not align with individual experiences if there were changes in portfolio investment during the quarter.

Be aware that inflation can impact the future value of capital, and investments focused on specific sectors or regions are generally riskier. Additionally, investments in emerging markets or smaller companies are subject to higher volatility and risks. Lastly, the performance of funds can vary significantly based on the timing of investment switches.

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